The Mortgage Corporation

Federal Home Loan Mortgage Corporation

Mortgage Participation Certificates

September 14, 1981

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 programs may be obtained by contacting the Mortgage Corporation. (See pages 22-25.)

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 SEPTEMBER 14, 1981

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 page 23.
Interest	Passed through monthly at the Certificate Rate. See "Interest and Principal Payments", pages 27-28, and "Group Factors", pages 26-27.
Principal	Passed through monthly. See "Interest and Principal Payments", pages 27-28, and "Group Factors", pages 26-27.
Prepayment Fees	Passed through when and if received as additional income over and above interest at the Certificate Rate. See page 27.
Guarantees	The Mortgage Corporation unconditionally guarantees the timely payment of interest at the Certificate Rate and the collection of principal. See "Guarantees", page 28.
Remittances	One itemized check per month containing principal, interest and prepayment fees is normally mailed so as to be received by 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	$25,000, $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 33.
Secondary Market	Certain securities dealers make a market in PCs. The Mortgage Corporation may also repurchase PCs. See "Secondary Market", page 31.

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 26-27. 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.

The Mortgage Corporation believes that the maintenance of a reasonable level of profit is necessary to the accomplishment of its statutory objectives. At particular points in time, however, its activities and operations may not be conducted primarily with a view toward generating profits over the short term. 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.

The Board of Directors has authorized FHLMC to seek legislation that would, if enacted by Congress, accomplish significant changes in FHLMC's structure and operations, and enable the Corporation to engage in additional activities relating to the secondary market. As proposed by FHLMC, this legislation would result in a conversion of the Corporation's non-voting capital stock to voting common stock and would provide authority for distribution of voting stock to the shareholders of the various Federal Home Loan Banks. The Corporation also would have authority to require the purchase of Corporation securities by its seller/services and to sell common stock to the public. The three members of the Federal Home Loan Bank Board would remain as members of the Corporation's Board of Directors. Over time, a majority of the Board of Directors would be elected by the common stockholders. In addition, the Corporation's ability to rely upon borrowings from the Federal Home Loan Bank System to finance a portion of its activities would be substantially reduced. Enactment of this proposed legislation could result in all or a portion of the Corporation's income becoming subject to federal income taxation. The proposed legislation has not yet been introduced in Congress and no representation can be made concerning the timing and form of any legislation which may be enacted.

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 7-20.

The principal office of the Mortgage Corporation is located at 1776 G Street, N.W., P.O. Box 37248, Washington, D.C. 20013 (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 PRICE AND YIELD INFORMATION

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 three years in the period ended December 31, 1980, have been examined by Arthur Andersen & Co., independent public accountants, whose report thereon is included elsewhere herein. The statements of income and retained earnings for the six month periods ended June 30, 1981, and June 30, 1980, not examined by independent public accountants, reflect, in the opinion of management of the Corporation, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results of operations for such periods. These statements should be read in conjunction with the financial statements and related notes appearing elsewhere in this Offering Circular.

	Six Months Ended June 30,		Year Ended December 31,		
	1981	1980	1980	1979	1978
	(Unaudited)		(000 omitted)		
Income from total portfolio:					
Interest and discount on mortgage loans, net of servicing fees	$273,908	$206,520	$438,657	$324,271	$235,393
Interest on temporary cash investments	4,254	14,913	31,678	42,660	44,693
Management and guarantee fee	14,421	12,488	22,717	17,631	13,595
	292,583	233,921	493,052	384,562	293,681
Interest and related expenses:					
Long-term debt expense	201,093	154,897	336,941	266,880	232,393
Short-term debt expense	60,955	43,004	79,585	44,685	10,085
	262,048	197,901	416,526	311,565	242,478
Net interest margin on portfolio	30,535	36,020	76,526	72,997	51,203
Provision for uninsured principal losses	7,788	11,370	22,758	19,724	12,874
Administrative expenses	13,987	11,828	26,098	19,434	14,279
Other income, net	(1,065)	(2,488)	(5,916)	(1,771)	(1,341)
	20,710	20,710	42,940	37,387	25,812
Net income	9,825	15,310	33,586	35,610	25,391
Retained earnings at the beginning of the period	21,226	37,640	37,640	27,030	76,639
Dividends paid	—	(50,000)	(50,000)	—	—
Transfer to capital in excess of par value	—	—	—	(25,000)	(75,000)
Retained earnings at the end of the period	$ 31,051	$ 2,950	$ 21,226	$ 37,640	$ 27,030

The Notes to Financial Statements on pages 37 through 44 are an integral part of these statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENTS OF INCOME

The Mortgage Corporation's total income for the six months ended June 30, 1981, and June 30, 1980, was $293.6 million and $236.4 million, respectively. During the six months ended June 30, 1981, as compared to the six months ended June 30, 1980, the Corporation's total interest income and total interest expense increased due to the growth in size of the Corporation's retained mortgage portfolio from $4.0 billion to $5.2 billion, as well as a commensurate increase in the size of its related borrowings.

Net income as of June 30, 1981, and June 30, 1980, was $9.8 million and $15.3 million, respectively. This decrease was partially attributable to the guarantees made under the Corporation's Guaranteed Mortgage Certificate ("GMC") sales program. Mortgages sold under the GMC program have repaid less rapidly than anticipated under the specified schedule of minimum annual principal reductions which the Corporation guarantees to GMC holders. The high cost of financing this difference between actual GMC principal collections and principal payments made to GMC holders during the period had a negative impact on earnings. Net income also decreased due to an increase in the portion of the retained mortgage portfolio financed with short-term debt along with the increased cost of such financing.

The decrease in net income was partially offset by two factors. As of January 1, 1981, the Corporation lowered its rates for providing for uninsured principal losses and the effect of this change in estimate resulted in an improvement in earnings of approximately $4.1 million between the two periods. (See "Summary of Significant Accounting Policies" in Notes to Financial Statements, page 37). In addition, high short-term interest rates produced an improvement in earnings from investments of principal and interest collections held for future disbursement to Mortgage Participation Certificate ("PC") and GMC investors.

Net income for 1980 totaled $33.6 million compared to $35.6 million earned in 1979. The decrease in net income resulted primarily from the high cost of funds in the money markets in combination with the increase in the portion of the portfolio financed short-term. The decrease in earnings was partially offset by an improvement in earnings from investments of principal and interest collections held for future disbursement to PC and GMC investors without a corresponding increase in the cost of financing.

The Corporation's total income from its investment portfolio for the year ended December 31, 1980, was $493.1 million compared to $384.6 million for the previous year. The Corporation's total interest income and total interest expense increased due to the growth of the retained mortgage portfolio from $4.1 billion at December 31, 1979, to $5.1 billion at December 31, 1980, and the increase in the level of interest rates experienced during 1980.

The Corporation's net income for 1979 was $35.6 million as compared to $25.4 million 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 $15.1 billion at December 31, 1978, to $19.4 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.

Selected Financial Data

Set forth below is selected financial data for the six months ended June 30, 1981, and for each of the five years in the period ended December 31, 1980.

	Six Months Ended June 30, 1981	Year Ended December 31,				
		1980	1979	1978	1977	1976
	(Unaudited)	(000 omitted)				
Total assets	$5,787,452	$5,478,394	$4,648,066	$3,697,126	$3,503,315	$4,831,534
Total liabilities	5,356,401	5,057,168	4,260,426	3,345,096	3,326,676	4,675,558
Total subordinated borrowings and stockholders' equity	431,051	421,226	387,640	352,030	176,639	155,976
Net income	9,825	33,586	35,610	25,391	20,663	14,161

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 20-22. 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. 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.

On June 20, 1980, FHLMC paid a dividend of $500 per share on its capital stock, producing an aggregate dividend of $50 million. The Board of Directors has not established a policy on the payment of future dividends. Therefore, the likelihood and timing of future dividend payments is uncertain. On June 20, 1980, FHLMC sold to the holders of its common stock, the Federal Home Loan Banks, subordinated capital debentures in the aggregate principal amount of $50 million. These non-transferable debentures are payable on June 20, 1987.

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 agency or instrumentality thereof.) These purchase and sale programs are described below.

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".

	Six Months Ended June 30, 1981	Year Ended December 31, 1980	1979	1978	1977	1976
		(000 omitted)				
Commitments and Contracts:						
FHA/VA	$ —	$ —	$ 1,000	$ 30,560	$ 29,464	$ 17,651
Conventional mortgages	1,722,383	3,417,917	4,831,469	6,507,959	4,756,039	1,358,154
Forward programs (A)	93,705	438,133	708,704	972,485	715,805	102,175
Total	$1,816,088	$3,856,050	$5,541,173	$7,511,004	$5,501,308	$1,477,980
Purchases:						
FHA/VA	$ —	$ 1,006	$ —	$ 40,495	$ 19,795	$ 21,243
Conventional mortgages	1,218,651	3,688,760	5,715,953	6,483,428	4,104,269	1,107,630
Total	$1,218,651	$3,689,766	$5,715,953	$6,523,923	$4,124,064	$1,128,873

(A) Mortgage commitments under the forward programs are for commitment periods of up to 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 first lien conventional residential mortgages and interests in such mortgages.

1. *Statutory restrictions.* All such 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 not purchase a conventional mortgage if the outstanding principal balance at the time of purchase exceeds 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 a conventional mortgage 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 June 30, 1981, FHLMC had purchased approximately $1.037 billion aggregate principal amount of mortgages more than one year old which represents approximately 3.9% 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 limitation established by FHLMC for single family mortgages is $98,500 for mortgages having loan-to-value ratios not in excess of 95%. The limitation for two family dwellings is $126,000 for mortgages having loan-to-value ratios not in excess of 95%. For three and four family dwellings with loan-to-value ratios not in excess of 90%, FHLMC has established limitations of $152,000 and $189,000, respectively. These limitations are increased by 50% 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.

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 single-unit cooperative loans until such a 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.

Approximately 73% of all active sellers from whom mortgages have been acquired by FHLMC have been Federal Home Loan Bank members. As of June 30, 1981, approximately 84% 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 generally purchases conventional home (1-4 family) 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. 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 June 30, 1981, 18 mortgage insurers were approved as insurers whose insurance was eligible under FHLMC purchase programs. Approximately 44.7% of all mortgages purchased by FHLMC for the five year period ending June 30, 1981, 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. These procedures, including mortgage documentation, may differ based on FHLMC's experience with the eligible seller, the loan-to-value ratio and the seasoning of the mortgages. Any of FHLMC's credit, appraisal and underwriting guidelines and procedures are subject to change at any time and at FHLMC's sole discretion so long as the guidelines and procedures as modified continue to be prudent. As of June 30, 1981, and during 1980, 1979, 1978, 1977 and 1976, approximately 4.8%, 7.5%, 7.3%, 7.8%, 9.0%, and 7.7%, 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 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 monitors servicers' performance through periodic and special reports required to be filed with FHLMC. 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. Any of FHLMC's servicing policies and procedures are subject to change at any time and at 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 27-28.

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", page 28.

A recent FHLMC Sellers' Guide revision permits mortgage originators to add a call option rider i.e., a provision allowing the lender to demand full payment of principal at a specified date, to the mortgage or deed of trust. The seller to FHLMC of such a mortgage warrants that the call option will not be exercised without the Corporation's prior written approval. The Corporation makes no representation regarding whether it might approve the exercise of a call option at some future date.

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.

The Corporation also purchases conventional first lien mortgages as to which secondary or individualized financing arrangements are involved. These arrangements can include plans such as short term, junior lien mortgages with features such as the absence of regular amortization of principal, deferred interest and/or principal payments at maturity or contributions to the downpayment of the home purchaser by the developer, the previous owner or a third party investor. Individualized interest payment arrangements, commonly referred to as "buydown" arrangements, are also permitted under certain limited conditions. With respect to any such individualized financing arrangements, FHLMC purchases the first mortgage only where the entire arrangement meets applicable FHLMC credit, appraisal and underwriting guidelines.

Pilot Purchase Programs

1. *Home Improvement and Energy Conservation Loans.* FHLMC began a pilot program in January, 1981, to purchase secured home improvement and secured energy conservation loans under its Home Improvement Loan ("HIL") Pilot Program. Under the program, FHLMC purchases only secured loans, which need not be first liens, but which must meet the eligibility criteria established by FHLMC, including the credit, appraisal and underwriting guidelines and specified "total financing to value" ratio and maximum loan amount requirements. The program began in January, 1981, and 18 months thereafter, FHLMC will evaluate the effectiveness of the program and establish its future direction.

2. *Adjustable Rate Mortgages.* FHLMC has developed standards to purchase adjustable rate mortgages ("ARMS") under a pilot purchase program. Eligible for purchase under this program are first lien mortgages which may adjust the interest rate and payment annually, subject to the movement of the Federal Home Loan Bank Board's Mortgage Contract Rate for Previously Occupied Homes. Annual changes in the interest rate and the resulting monthly payment may be unrestricted or limited to two percentage points per adjustment period.

The present ARM pilot program began in July, 1981, and will be continually evaluated for effectiveness through 1982. The Corporation is also considering the development of additional adjustable rate purchase mortgage programs.

Special Placement Program

In August, 1981, FHLMC announced the pilot phase of a Special Placement Program, Guarantor Phase I (the "Program"). This Program is designed to permit mortgage originators to sell to the Corporation larger blocks of mortgages, including mortgages having below-market coupon rates and greater seasoning than are typically purchased by the Corporation, in exchange for PCs representing interest in the same or substantially similar mortgages. The Corporation expects to purchase from sellers at par a minimum of $10 million and a maximum of $150 million unpaid principal balance of conventional home mortgages having coupon rates within specified parameters and sell to them interests in the PC groups formed from those mortgages. The Corporation expects that the design of the Program will continue to undergo adaptation at least through the spring of 1982.

The composition of PC groups formed under the Program may differ from PC groups otherwise formed by FHLMC. Such differences may include an increased concentration in mortgages originated and serviced by a single seller, an increased geographic concentration of the real properties securing the mortgages, the seasoning of the mortgages and range of mortgage coupon rates, and the nature of the mortgage documentation requirements. PCs created under the Program will bear a Group Number having the prefix "18." If a PC group is composed solely of mortgages purchased from one seller, the identity of the seller will be stated on FHLMC's list of group factors for PC groups. See "Group Factors," pages 26-27. Certain PCs created under the Special Placement Program may be issued in denominations other than those generally available in order to assure that the amount of mortgages purchased and PCs sold are identical. See "Ordering and Settlement", pages 24-25.

In order to evaluate its capability to perform a high volume of transactions under the Program and to establish program characteristics, the Corporation has been conducting a series of test transactions. As of June 30, 1981, the Corporation had entered into seven mortgage purchase agreements having an aggregate volume of approximately $1 billion. The Corporation anticipates that its aggregate 1981 volume of transactions under the Program will be approximately $2-$5 billion.

Sales Programs

As of June 30, 1981 and December 31, 1980, FHLMC had sold or had contracted to sell $21.2 billion and $19.7 billion, respectively, original principal balance of Mortgage Participation Certificates ("PCs") substantially similar to the PCs offered hereby. As of June 30, 1981 and December 31, 1980, the unpaid balances of outstanding PCs sold were approximately $15.6 billion and $14.8 billion, respectively.

As of June 30, 1981, FHLMC had sold $3.0 billion, initial principal amount of Guaranteed Mortgage Certificates ("GMCs"). FHLMC has not sold GMCs since the year ended December 31, 1979. 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 June 30, 1981, and December 31, 1980, the unpaid balances of outstanding GMCs were approximately $2.1 and $2.2 billion, respectively.

At June 30, 1981, and December 31, 1980, FHLMC had accumulated a reserve of $72.6 million and $65 million, 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.

	Six Months Ended June 30, 1981	Year Ended December 31, 1980	1979	1978	1977	1976
			(000 omitted)			
Contracts:						
PCs						
Mandatory programs	$1,480,000	$2,120,100	$3,303,200	$4,937,800	$3,990,400	$1,121,000
Optional programs	82,300	305,200	575,100	692,600	844,000	335,200
GMCs	—	—	750,000	700,000	600,000	400,000
Total	$1,562,300	$2,425,300	$4,628,300	$6,330,400	$5,434,400	$1,856,200
Settlements:						
PCs	$1,001,774	$2,526,018	$3,795,630	$5,711,768	$4,057,421	$ 960,126
GMCs	—	—	750,000	700,000	600,000	400,000
Total	$1,001,774	$2,526,018	$4,545,630	$6,411,768	$4,657,421	$1,360,126

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 and 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", page 29), 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 37 and 38. 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 primarily 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 mortgages sold under PC and GMC sales programs, and shows the percentage of the portfolio funded by PC sales, GMC sales, and debt as of June 30, 1981, and at the end of each of the previous five years.

As of	PCs	GMCs	Debt
June 30, 1981	67.96%	9.05%	22.99%
December 31, 1980	67.15%	9.89%	22.96%
December 31, 1979	66.72%	12.36%	20.92%
December 31, 1978	67.20%	12.34%	20.46%
December 31, 1977	53.91%	13.52%	32.57%
December 31, 1976	32.09%	14.61%	53.30%

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 rising inflation, 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. Further, if the Corporation chose to continue financing mortgage purchases through its PC and GMC programs in order to strengthen the long-term effectiveness of those programs, charges against the Corporation's portfolio valuation allowance could result. A $7.4 million charge for the third quarter of 1980 did occur. See "Portfolio Valuation Allowance" in Notes to Financial Statements, page 39. Finally, 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

The Effective Income and Financing Rates table on page 16 reflects the spreads achieved on the portion of the Corporation's mortgage portfolio financed with long-term securities, the portion financed on a short-term basis, and the composite spread on the total portfolio. The table is necessarily based upon estimates of the rates at which the Corporation can invest portfolio cash flows pending disbursements to PC and GMC investors and the average weighted life of the underlying mortgages for the purposes of amortization of purchase and sale discount. The table does not reflect earnings the Corporation may achieve from investment of capital representing shareholders' equity. While the table provides an indication of spreads on the Corporation's mortgage portfolio, it does not represent a complete analysis of the Corporation's financial activities or the results of the Corporation's operations.

The Corporation's composite spread represents the weighted average spread on each of its funding alternatives, *i.e.*, PCs, GMCs, and debt, both long-term and short-term. The specific mortgages selected for funding by each of the alternatives will determine the spread achieved by use of that funding method. The manner in which the Corporation selected mortgages for inclusion in PC pools contributed to the decline in the spread on PCs outstanding from December 31, 1976, through December 31, 1979, but caused an offsetting increase in the spread on the Corporation's unsold portfolio.

The spread on the portfolio financed on a long-term basis increased from 29 basis points at year end 1979 to 32 basis points at year end 1980 to 33 basis points as of June 30, 1981. The spread on the portfolio financed short-term decreased from a negative 185 basis points at year end 1979 to a negative 320 basis points at year end 1980 and increased to a negative 260 basis points as of June 30, 1981.

The Corporation's composite spread declined to 13 basis points at June 30, 1981, from 16 basis points at December 31, 1980 and 20 basis at December 30, 1979. These declines have been 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 of financing mortgage purchases currently on a short-term basis with the intention of refinancing them at more favorable rates in the future.

The following table reflects commitments to purchase mortgages which FHLMC accepted and commitments to sell PCs, and the weighted average effective income rate and the weighted average effective cost* for the periods ended June 30, 1981, and December 31, 1980. The table also reflects outstanding commitments as of June 30, 1981.

COMMITMENTS

For the Period Ended	Purchase	Average Income Rate	Sell	Average Cost
	(billions)		(billions)	
June 30, 1981	$ .8	15.92%	$ .6	15.88%
December 31, 1980	$3.9	13.49%	$2.4	13.23%
Outstanding at June 30, 1981	$ .3	16.66%	$ .2	16.19%

In addition to these commitments, during the six months ended June 30, 1981, the Corporation committed to purchase approximately $1 billion of mortgages and sell a corresponding amount of PCs under the Special Placement Program. The Corporation will earn a 25 basis point interest margin on these transactions exclusive of income earned on mortgage collections pending disbursement to PC investors. See "Special Placement Program," page 12.

Between December 31, 1980, and June 30, 1981, the amount of the Corporation's retained mortgage portfolio financed by debt obligations which are scheduled to mature within one year increased by approximately $650 million. Management expects that approximately $1.4 billion of the total $1.684 billion in short and long-term debt maturing within the next year will be refinanced. If extremely high interest rates continue and the Corporation refinances these mortgage purchases at current market levels, the composite spread on the Corporation's total mortgage portfolio, including PC and GMC sales, would be severely affected.

On September 1, 1981, the Corporation's Board of Directors authorized the future, periodic issuances of direct debt obligations. Under this authority, the Corporation intends to issue intermediate term debentures and short-term discount notes, and largely replace Federal Home Loan Bank and repurchase agreement borrowings. In addition, the Corporation has established lines of credit, in an aggregate amount of slightly less than $200 million, with various commercial banks. The Corporation could borrow on an unsecured basis under the various lines of credit on one business day's notice. Management expects that these borrowing alternatives will increase financing flexibility.

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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 17. If actual mortgage repayment or reinvestment rates vary from these assumptions, the average effective cost will also vary. See "Maturity and Average Weighted Life", page 29.

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.

Effective Income and Financing Rates

	June 30, 1981		December 31, 1980		December 31, 1979		December 31, 1978		December 31, 1977		December 31, 1976	
	Principal	Yield	Principal	Yield	Principal	Yield	Principal	Yield	Principal	Yield	Principal	Yield
	(000 omitted)	(%)	(000 omitted)	(%)	(000 omitted)	(%)	(000 omitted)	(%)	(000 omitted)	(%)	(000 omitted)	(%)
Portfolio financed/sold through securities maturing after one year:												
Retained mortgage loans:	$ 3,561,143		$ 4,021,796		$ 3,177,556		$ 2,739,239		$ 2,626,217		$2,501,074	
Effective interest income....		11.06		10.92		10.07		9.20		8.56		8.45
Effective borrowing cost....		9.50		9.46		8.45		7.96		7.85		8.01
Net spread..................		1.56		1.46		1.62		1.24		.71		.44
Mortgage Participation Certificates:	$15,575,864		$14,785,234		$12,921,979		$10,152,259		$ 5,408,323		$1,900,136	
Effective interest income....		10.21		10.00		9.46		8.99		8.63		8.46
Certificate rate		9.80		9.59		9.04		8.53		8.10		8.04
Gross interest margin.		.41		.41		.42		.46		.53		.42
Discount amortization expense..............................		.36		.37		.44		.46		.37		.13
Net interest margin....		.05		.04		(.02)		.00		.16		.29
Guaranteed Mortgage Certificates:	$ 2,072,500		$ 2,177,000		$ 2,394,000		$ 1,864,500		$ 1,356,400		$ 865,200	
Effective interest income....		9.73		9.73		9.72		9.12		8.76		8.78
Certificate rate		9.38		9.36		9.35		8.68		8.37		8.51
Gross interest margin.		.35		.37		.37		.44		.39		.27
Discount amortization expense..............................		.15		.16		.17		.18		.07		.04
Net interest margin....		.20		.21		.20		.26		.32		.23
Weighted average yields on retained mortgage loans, Mortgage Participation Certificates and Guaranteed Mortgage Certificates:	$21,209,507		$20,984,030		$18,493,535		$14,755,998		$ 9,390,940		$5,266,410	
Effective interest income....		10.31		10.14		9.60		9.05		8.63		8.51
Effective certificate rate and borrowing cost........		9.98		9.82		9.31		8.78		8.29		8.16
Net spread— securities maturing after one year..........		.33		.32		.29		.27		.34		.35
Portfolio financed by debt maturing within one year:												
Retained mortgage loans:.........	$ 1,683,653		$ 1,034,560		$ 874,065		$ 351,705		$ 640,752		$ 655,233	
Effective interest income....		11.06		10.92		10.07		9.20		8.56		8.45
Effective borrowing cost....		13.66		14.12		11.92		8.04		8.12		7.55
Net spread— securities maturing within one year.......		(2.60)		(3.20)		(1.85)		1.16		.44		.90
Total portfolio/Composite spread....................................	$22,893,160	.13	$22,018,590	.16	$19,367,600	.20	$15,107,703	.28	$10,031,692	.34	$5,921,643	.41

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 41-43.

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 37-38.

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 of principal, 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 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 on related borrowings.

The tables below set forth the maturities of FHLMC's Notes and Bonds Payable and Capital Debentures as of June 30, 1981.

Notes and Bonds Payable

Maturity	Amounts (000 omitted)	Maturity	Amounts (000 omitted)
1981	$1,287,153	1985	$659,369
1982	$ 503,619	1986	$274,455
1983	$ 608,227	1987-1991	$272,500
1984	$ 513,717	1992-1996	$458,525
		1997	$450,000

Capital Debentures

Maturity	Amounts (000 omitted)
1987	$ 50,000
1988	$ 150,000

See "Notes and Bonds Payable" and "Subordinated Capital Debentures" in Notes to Financial Statements, pages 41-43.

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 June 30, 1981, December 31, 1980 and 1979 (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,			
	June 30, 1981						1980		1979	
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	$ 2,127	.20%	$ 238,171	1.09%	$ 240,298	1.05%	$ 218,361	1.00%	$ 115,265	.60%
New York	13,704	1.27	448,250	2.06	461,954	2.02	394,854	1.80	266,856	1.39
Pittsburgh	8,089	.75	177,981	.82	186,070	.81	164,335	.75	140,306	.73
Atlanta	135,866	12.61	3,023,998	13.90	3,159,864	13.84	3,031,770	13.82	2,618,853	13.62
Indianapolis	43,765	4.06	711,503	3.27	755,268	3.31	758,812	3.46	703,957	3.66
Chicago	82,881	7.69	1,031,914	4.74	1,114,795	4.88	1,117,094	5.09	982,310	5.11
Des Moines	61,938	5.75	308,784	1.42	370,722	1.62	375,163	1.71	358,768	1.87
Little Rock	142,485	13.22	1,503,406	6.91	1,645,891	7.21	1,588,949	7.24	1,518,841	7.90
Denver	95,901	8.90	1,387,903	6.38	1,483,804	6.50	1,487,466	6.78	1,498,751	7.79
Los Angeles	395,052	36.66	10,950,662	50.33	11,345,714	49.68	10,739,970	48.97	9,012,876	46.86
Seattle	95,790	8.89	1,976,690	9.08	2,072,480	9.08	2,057,648	9.38	2,014,931	10.47
Total	$1,077,598	100.00%	$21,759,262	100.00%	$22,836,860	100.00%	$21,934,422	100.00%	$19,231,714	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

Delinquencies, defaults and foreclosures on mortgages are in some measure related to the age of the mortgages and to general economic conditions, particularly the unemployment rate. The relative contribution of mortgage age and general economic conditions to the trend in delinquency and foreclosure rates may vary greatly among mortgage portfolios. Delinquencies, defaults and foreclosures occur with greater frequency in the second through the fifth years of a mortgage's life. A large percentage of the conventional mortgages in FHLMC's portfolio is currently in this age range. Historically, delinquencies, defaults and foreclosures do not reach their peak until sometime after maximum unemployment rates occur in an economic cycle.

Set forth below is certain information concerning FHLMC's delinquency, default and foreclosure experience with its mortgage portfolio, including those mortgages which FHLMC has sold but to which FHLMC has guaranteed payment of principal and interest.

Conventional Mortgages (a)

	Number of Delinquent Payments			Foreclosures approved and in process
As of	One	Two	Three or More	
June 30, 1981	13,139 (2.38%)	2,629 (0.48%)	1,317 (0.24%)	1,408 (0.25%)
December 31, 1980	13,610 (2.54%)	2,731 (0.51%)	1,303 (0.24%)	1,060 (0.20%)
December 31, 1979	11,116 (2.29%)	2,053 (0.42%)	916 (0.19%)	577 (0.12%)
December 31, 1978	7,973 (2.02%)	1,343 (0.34%)	489 (0.12%)	358 (0.09%)
December 31, 1977	5,132 (1.84%)	794 (0.28%)	354 (0.13%)	222 (0.08%)
December 31, 1976	3,600 (1.83%)	656 (0.33%)	267 (0.14%)	181 (0.09%)

(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	One	Two	Three or More	
June 30, 1981	2,674 (4.67%)	603 (1.05%)	255 (0.44%)	171 (0.30%)
December 31, 1980	3,132 (5.41%)	717 (1.24%)	353 (0.61%)	181 (0.31%)
December 31, 1979	3,430 (5.68%)	755 (1.25%)	298 (0.49%)	147 (0.24%)
December 31, 1978	3,750 (5.63%)	821 (1.23%)	353 (0.53%)	175 (0.26%)
December 31, 1977	4,161 (5.66%)	900 (1.22%)	382 (0.52%)	280 (0.32%)
December 31, 1976	4,507 (5.39%)	972 (1.16%)	483 (0.58%)	396 (0.47%)

(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 many mortgages placed in foreclosure are 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.

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 June 30, 1981, experienced losses (net of gains) of $730,001 on conventional home (1-4 family) mortgages and $4,065,000 on conventional multi-family mortgages. During this period, there were 1,542 foreclosures of conventional home mortgages and eight foreclosures of conventional multi-family mortgages, with unpaid principal balances of $44,848,093 and $8,447,000, respectively, which resulted in FHLMC's acquisition of the real property securing the mortgage. As of June 30, 1981, and December 31, 1980, the amount of real estate owned by FHLMC resulting from foreclosures of conventional home mortgages was $10.4 million and $7.9 million, respectively. This increase is due to an increase in both the number of properties owned and the length of the holding period between acquisition and sale of the properties.

The table below sets forth principal losses (net of gains) for the period ended June 30, 1981, and for each of the five years in the period ended December 31, 1980, with respect to property acquired by FHLMC at foreclosure.

For the Period Ended	Single-Family	Multi-Family	Total
June 30, 1981	$ 69,229	$ —	$ 69,229
December 31, 1980	144,075	—	144,075
December 31, 1979	190,579	—	190,579
December 31, 1978	187,316	—	187,316
December 31, 1977	65,703	—	65,703
December 31, 1976	51,400	3,011,600	3,063,000

As of June 30, 1981, FHLMC had $72.6 million 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
Richard T. Pratt	44	1981	Chairman of Board of Directors
Andrew A. DiPrete	51	1979	Director
Philip R. Brinkerhoff	38	1973	President—Chief Executive Officer
Henry L. Judy	41	1975	Executive Vice President and General Counsel
Richard A. Mackey	38	1971	Executive Vice President—Chief Administrative Officer
Michael C. Rush	37	1978	Executive Vice President—Chief Financial Officer
William R. Thomas, Jr.	52	1970	Executive Vice President—Chief Operating Officer
Frederick T. Alt	34	1980	Vice President—Controller
Mary Bruce Batte	35	1978	Vice President—Congressional and Governmental Relations
William T. Bings	36	1972	Vice President—General Auditor
George F. Border	53	1980	Vice President—Corporate Information Resources
William H. Boyle	38	1979	Vice President—Corporate Planning and Development
Michael F. Coffey	34	1974	Vice President—Marketing
Edward S. Elles, Jr.	34	1975	Vice President—Economic and Financial Research and Development

Russell E. Gray, Jr.	35	1978	Vice President—Human Resources
Donald G. Hill	51	1975	Vice President—Communications
Maud Mater	34	1976	Vice President—Deputy General Counsel-Corporate Secretary
Marcia Myerberg	36	1979	Vice President—Treasurer
Leady W. Seale, Jr.	58	1972	Vice President—Mortgage Operations

Mr. Pratt is Chairman and Mr. DiPrete is a member of the Federal Home Loan Bank Board. Their terms expire in 1985 and 1983, respectively. There is one vacancy on the Federal Home Loan Bank Board and when filled the new member will become a director of FHLMC. Mr. Pratt was appointed Chairman of the Federal Home Loan Bank Board on April 13, 1981. From 1970 to 1979, Mr. Pratt served as Public Interest Director and a member of the Executive Board of the Federal Home Loan Bank of Seattle. Since 1970, Mr. Pratt has served as President of Richard T. Pratt Associates, Inc. He has also been a partner with the firm of Johnson, Pratt and Stewart since 1975. Additionally, Mr. Pratt taught at the University of Utah in Salt Lake City for 15 years and has served as a Professor in the Graduate School of Business since 1973. Prior to June, 1979, Mr. DiPrete was a partner in the Providence, Rhode Island law firm of Tillinghast, Collins & Graham.

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. Henry L. Judy has been Executive Vice President and General Counsel since January, 1981. He was Senior Vice President and General Counsel of FHLMC from 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. 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. 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. 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.

Frederick T. Alt became Vice President—Controller in November, 1980. Prior to his affiliation with FHLMC, he was Vice President and Controller of United Services Life Insurance Company, Washington, D.C. Mr. Alt was an officer of United Services Life between 1974 and November, 1980. 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. William T. Bings has been Vice President—General Auditor since September, 1980. He was Regional Vice President—Administration for the Corporation's Northeast Office from August, 1975, and has been affiliated with FHLMC since August, 1972. Prior to his affiliation with FHLMC, Mr. Bings was Controller of American Federal Savings and Loan Association, Washington, D.C. George F. Border became Vice President—Corporate Information Resources in October, 1980. Prior to his affiliation with FHLMC, he served as Executive Vice President for the Christian Broadcasting Network, Inc. in Virginia Beach, Virginia, from August, 1978 through October, 1980. He was Director of Data Processing for the Copperweld Information Systems in Pittsburgh, Pennsylvania from November, 1977, through August, 1978, and Data Processing Manager for the Wheeling-Pittsburgh Steel Corporation in Wheeling, West Virginia, from December, 1974, through November, 1977. 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. Michael F. Coffey became Vice President—Marketing in August, 1980. He was

Director of Marketing Development from October, 1978, and Director of Retail Sales from February, 1977. Prior to his affiliation with FHLMC, Mr. Coffey was residential loan manager with the First Federal Savings and Loan Association of New York. Edward S. Elles, Jr. has been Vice President—Economic and Financial Research and Development since January, 1981. He was 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. 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. Maud Mater became Vice President—Deputy General Counsel—Corporate Secretary in January, 1981. She was Deputy General Counsel from January, 1979, and has been affiliated with FHLMC since January, 1976, first as Assistant General Counsel and later as Associate General Counsel. Prior to her affiliation with FHLMC, she was with the Federal Home Loan Bank Board as staff attorney. Marcia Myerberg became Vice President—Treasurer in September, 1981. From November 1979 to September 1981 she was Assistant Treasurer. Prior to her affiliation with FHLMC, she served as Director of Cash Management at Carolina Power and Light in Raleigh, North Carolina. Leady W. Seale, Jr. has been Vice President—Mortgage Operations since January, 1981. He was Vice President—Appraisal and Underwriting from 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 June 30, 1981, FHLMC had 516 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 agency or instrumentality of the United States.

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 PCs are governed by the terms of the FHLMC Mortgage Participation Certificate Agreement, Series 700 (September, 1981), 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 $25,000, $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 as identified to the PC group at the time of the first remittance. See "The Mortgages", pages 25-26.

PCs are designed to qualify for federal income tax treatment accorded certain investments in obligations secured by real property. See "Tax Status", pages 31-32.

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, the purchaser will be notified prior to the date of settlement. 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 by agreeing 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 24-25. 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 are paid under the optional delivery program. The specific amount of the fee will be stated in the confirmation of the order mailed to the purchaser. See "Ordering and Settlement", pages 24-25. 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. 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. If the Mortgage Corporation elects to complete the sale by delivering the entire principal balance of the PC subject to the contract, such 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 ordinary 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 face amount of the PC on the trade date. Such deposit must be received within five business days of the trade date. See "Ordering and Settlement", pages 24-25. 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", page 29. 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 27-28. 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 in face amounts of $25,000, $100,000, $200,000, $500,000, $1,000,000 and $5,000,000. PCs in other denominations ("odd-lot PCs") may be issued in connection with the Corporation's Special Placement Program, Guarantor Phase I. See "Special Placement Program," page 12. 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 26-27. 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 accepted, a purchaser will be asked which particular delivery program is desired, 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. Payment for PCs is due on the date of settlement.

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 between 1,000 and 3,000 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 original unpaid principal balance of the home mortgage loans comprising the Mortgages will be flexible payment mortgages. No adjustable rate mortgages ("ARMS") or home improvement loans ("HILs") will be included in mortgages comprising PCs sold under this Offering Circular.

The composition of the Mortgages in any PC with respect to geographic concentration, seller/servicer concentration, age, coupon rate of the mortgages and other factors will depend on the composition of the unsold portion of the Mortgage Corporation's mortgage portfolio at any particular time. The Corporation makes no representations on these subjects with respect to the particular composition of the Mortgages represented by an individual PC.

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 18. Further, a particular PC may represent undivided interests in Mortgages which are located in a single Geographic Area Designation or in a single state.

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 may be 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, the Mortgages represented by PCs may reflect a significant degree of geographic concentration. 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 18.

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 Mortgages are first liens which have been purchased by the Mortgage Corporation pursuant to its various conventional mortgage purchase programs and have the general characteristics described under the Mortgage Corporation's purchase programs. See "Purchase Programs", pages 7-12, and "Special Placement Program," page 12. 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 interest 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 10-11.

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 27-28. 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 a 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.

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 prepayment 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 30-31. The first remittance check to a registered holder of a PC will be mailed so as to be received normally by 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 mailed monthly to the registered holder so as to be received normally by 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 seller 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 26-27.

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 10-11.

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, the age of a mortgage and other factors may influence prepayments and/or forbearance with respect to the Mortgages. See "The Mortgages", pages 25-26 and "PC Principal Payment Experience", page 30. 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 prepayment 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 prepayment patterns of mortgages included in PC groups will produce an average weighted life of between 6 and 8 years. See "PC Principal Payment Experience", page 30. 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 132 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 August 31, 1981. 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 25-26. 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. The prepayment of PCs may be influenced by a variety of economic, social, geographic, demographic, financial and other factors. Among these are unemployment rates, personal income levels, and the age distribution of the mortgages in the PC group—all of which bear on delinquency and foreclosure experience. Other factors include rates of new home construction and turnover of existing homes, population mobility and differentials between current mortgage interest rates and the coupon rates of the mortgages in the PC group—all of which have an impact on the level of home refinancings. Inflation and fluctuations in interest rates may also affect prepayments through their impact on the frequency with which borrowers assume existing mortgages or use second lien loans or other types of individualized financing arrangements. See "Variations in Programs", pages 11-12. 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 10-11. 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:

Deliver to:	Mail to:
Chemical Bank 55 Water Street Corporate Tellers Window #22 Room #234 New York, New York	Chemical Bank Corporate Trust Department Post Office Box 25983 Church Street Station New York, New York 10249 Attn: MBS Department

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

The Mortgage Corporation may sell and repurchase PCs in the secondary market. Certain security dealers make a market in 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 the 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 prices may contact the Mortgage Corporation and the security 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 at the underlying coupon interest rates, 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", page 23.

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).

Regulatory Constraints

Certain regulatory authorities including the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Government National Mortgage Association and the National Credit Union Administration have adopted rules and guidelines and promulgated regulations relating to the purchase of PCs or the treatment of PCs for regulatory purposes. Any financial institution which is subject to the jurisdiction of these agencies or others with similar authority should review their rules, guidelines, and regulations prior to purchasing PCs.

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.

PC Qualification Under Economic Recovery Tax Act of 1981

The Economic Recovery Tax Act of 1981 ("the Act"), enacted by Congress and signed into law by the President on August 13, 1981, authorizes certain financial institutions to issue tax-exempt savings certificates, commonly referred to as "All-Saver's Certificates", provided that at least 75 percent of the face amount of those certificates or 75 percent of the institution's qualified net savings shall thereafter be invested in "qualified residential financing." Title III, Section 128(d)(3)(G) of the Act specifies that Federal Home Loan Mortgage Corporation securities, including PCs, are included within the definition of "qualified residential financing."

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.

Pursuant to FHLBB Memoranda R-49 and R-49-1, the Federal Home Loan Bank Board has taken the position that no loss need be taken for regulatory accounting purposes on sales of mortgages or interests in mortgages in exchange for PCs backed by the same or substantially identical mortgages.

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.

A recent opinion issued by the Federal Home Loan Bank Board stated that obligations issued or guaranteed by the Federal Home Loan Mortgage Corporation are eligible collateral for use by savings and loan associations engaging in retail repurchase agreements.

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.

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

Management is responsible for the integrity of the financial data reported by the Mortgage Corporation. To fulfill this responsibility, financial statements and reporting data are prepared using generally accepted accounting principles appropriate for the circumstances, and consequently, include amounts based on management's best estimates and judgment. Financial information elsewhere in this Offering Circular is consistent with the financial statements.

To gather and control financial data, the Corporation maintains a system of policies, procedures and controls designed to provide reasonable assurances that assets are safeguarded and accounting records are reliable. The Corporation's Internal Audit Department monitors compliance with established policies and procedures and evaluates the Corporation's internal controls. The Internal Audit Department is independent of activities reviewed.

Arthur Andersen & Co., independent public accountants, performs a separate independent examination of the Corporation's financial statements for the purpose of determining that the statements are presented fairly in accordance with generally accepted accounting principles consistently applied.

Both Arthur Andersen & Co. and the Internal Audit Department had full and free access to the Board of Directors.

Michael C. Rush
Executive Vice President—
Chief Financial Officer

Frederick T. Alt
Vice President—Controller

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, 1980, and 1979, and the related statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1980. 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, 1980, and 1979, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1980, all in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

1666 K Street, N.W.,
Washington, D. C.,
February 12, 1981.

FINANCIAL STATEMENTS

FEDERAL HOME LOAN MORTGAGE CORPORATION

BALANCE SHEETS

ASSETS

	June 30, 1981	December 31, 1980
	(Unaudited) (000 omitted)	
Mortgage loans, at unpaid principal balances:		
Insured by Federal Housing Administration (FHA) or guaranteed by Veterans Administration (VA)	$1,066,173	$1,089,645
Participation in conventional mortgages	3,274,555	3,216,747
Conventional mortgages	904,068	749,964
	5,244,796	5,056,356
Less—Unamortized mortgage purchase discount	54,991	50,606
—Portfolio valuation allowance	8,986	9,000
Total mortgage loans	5,180,819	4,996,750
Cash and temporary cash investments	127,923	19,332
Accrued interest receivable	50,574	48,313
Accounts receivable and other assets	194,694	176,487
Real estate owned and claims against FHA/VA	10,789	8,212
Unamortized mortgage sales discount and debt expense	222,653	229,300
	$5,787,452	$5,478,394

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 1981	December 31, 1980
Notes and bonds payable:		
Due within one year	$1,683,653	$1,034,560
Due after one year	3,343,912	3,651,937
	5,027,565	4,686,497
Other liabilities:		
Accrued interest	107,573	99,597
Accounts payable and other accrued expenses	1,527	2,168
Principal and interest due to Mortgage Participation Certificate investors	147,163	203,906
	5,283,828	4,992,168
Reserve for uninsured principal losses	72,573	65,000
Contingencies:		
Mortgage Participation and Guaranteed Mortgage Certificates	17,648,364	16,962,234
Less—Underlying mortgage loans sold	17,648,364	16,962,234
	—	—
Subordinated borrowings and stockholders' equity:		
Subordinated Capital Debentures	200,000	200,000
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	100,000
Retained earnings	31,051	21,226
	231,051	221,226
Total subordinated borrowings and stockholders' equity	431,051	421,226
	$5,787,452	$5,478,394

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

FEDERAL HOME LOAN MORTGAGE CORPORATION

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Six Months Ended June 30,		Year Ended December 31,		
	1981	1980	1980	1979	1978
	(Unaudited)		(000 omitted)		
Funds Provided:					
Net income	$ 9,825	$ 15,310	$ 33,586	$ 35,610	$ 25,391
Charges (credits) to income not affecting funds:					
Amortization of mortgage purchase discount	(4,192)	(3,905)	(7,891)	(8,103)	(9,021)
Amortization of mortgage sales discount and debt expense	17,372	17,518	34,843	31,889	22,350
Provision for losses	7,788	11,370	22,758	19,724	12,874
Funds provided from operations	30,793	40,293	83,296	79,120	51,594
Mortgage loan principal repayments	70,390	97,309	208,548	234,631	291,130
Proceeds from issuance of notes and bonds, net of debt expense	99,825	449,335	1,048,337	648,723	448,855
Mortgage loans sold:					
Mortgage Participation Certificates, net of repurchases	992,162	1,295,600	2,485,373	3,747,943	5,585,393
Guaranteed Mortgage Certificates	—	—	—	744,000	693,850
Increase (decrease) in short-term notes	261,341	(178,962)	(78,098)	591,910	20,551
Total funds provided	$1,454,511	$1,703,575	$3,747,456	$6,046,327	$7,091,373
Funds Applied:					
Mortgage loans purchased, net of discount	$1,207,785	$1,338,925	$3,667,736	$5,697,854	$6,510,711
Dividends paid	—	50,000	50,000	—	—
Notes and bonds retired	23,425	129,417	215,083	326,122	368,006
Increase (decrease) in cash and temporary cash investments	108,592	97,834	(213,923)	(101,596)	213,661
Other items	114,709	87,399	28,560	123,947	(1,005)
Total funds applied	$1,454,511	$1,703,575	$3,747,456	$6,046,327	$7,091,373

The accompanying notes are an integral part of these statements.

FEDERAL HOME LOAN MORTGAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Information, insofar as it relates to the six months ended June 30, 1981, has not been examined by independent public accountants.)

Summary of Significant Accounting Policies

The Federal Home Loan Mortgage Corporation ("the Corporation") is a federally chartered corporation whose capital stock consists solely of non-voting common stock held by the twelve Federal Home Loan Banks.

Accounting for Mortgage Loan Sales

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.

As of January 1, 1981, the Corporation prospectively revised its estimates for providing for uninsured principal losses. This change increased income for the first six months of 1981 by approximately $4.1 million.

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.

Amortization of Debt Expense

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

(Information, insofar as it relates to the six months ended June 30, 1981, has not been examined by independent public accountants.)

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 $15.6 billion and $14.8 billion at June 30, 1981, and December 31, 1980, respectively. Based on the Corporation's limited experience, management believes that the weighted average life of the conventional mortgage loans purchased by the Corporation ranges between six and eight years. At June 30, 1981, the weighted average remaining term to maturity of the related mortgage loans was 27 years. At June 30, 1981, and December 31, 1980, the effective interest income rate to the Corporation over that payable to the PC investor was .41%, at both dates. After giving effect to the amortization of deferred charges, the net interest margin was .05% and .04%, 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 June 30, 1981, such optional repurchase dates range from March 15, 1990, to September 15, 2004. At June 30, 1981, and December 31, 1980, outstanding GMCs totaled $2.1 billion and $2.2 billion, respectively, and the effective interest income rate to the Corporation over that payable to the GMC investor was .35% and .37%, respectively. After giving effect to the amortization of deferred charges, the net interest margin was .20% and .21%, 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 $17.6 billion and $17.0 billion at June 30, 1981, and December 31, 1980, 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 $56 million at June 30, 1981, and $84 million at December 31, 1980. In management's opinion, the $72.6 million reserve for uninsured principal losses is adequate to absorb any losses anticipated at June 30, 1981. In addition, a gross interest margin of $338 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 June 30, 1981. 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.

(Information, insofar as it relates to the six months ended June 30, 1981, has not been examined by independent public accountants.)

Reserve for Uninsured Principal Losses

An analysis of the reserve for uninsured principal losses for the six months ended June 30, 1981 and the year ended December 31, 1980, follows:

	June 30, 1981	December 31, 1980
	(000 omitted)	
Balance, beginning of period	$65,000	$50,000
Provision reflected in current earnings	7,788	15,358
Uninsured principal losses	(215)	(358)
Balance, end of period	$72,573	$65,000

Mortgage Loans

As of June 30, 1981, and December 31, 1980, the effective net yields on retained mortgage loans, adjusted to semiannual yield equivalent and adjusted for the effect of discount amortizations, less servicing fees, were as follows:

	June 30, 1981	December 31, 1980
FHA/VA mortgages	7.99%	8.02%
Participation in conventional mortgages	11.62%	11.62%
Conventional mortgages	12.61%	12.11%

Portfolio Valuation Allowance

An analysis of the portfolio valuation allowance for the six months ended June 30, 1981 and the year ended December 31, 1980, follows:

	June 30, 1981	December 31, 1980
	(000 omitted)	
Balance, beginning of period	$9,000	$9,000
Provision charged to current earnings	-0-	7,400
Loss on sales of mortgage loans	(14)	(7,400)
Balance, end of period	$8,986	$9,000

(Information, insofar as it relates to the six months ended June 30, 1981, has not been examined by independent public accountants.)

Commitments

The table below indicates for mandatory and forward/optional programs, the outstanding commitments to purchase mortgages and sell PCs. Outstanding commitments to buy mortgages and sell PCs in the amount of approximately $650 million under the Special Placement Pilot Program, Guarantor Phase I are not included in the table below. The Corporation will earn a 25 basis point interest margin on these transactions exclusive of income earned on mortgage collections pending disbursement to PC investors.

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 forward commitment program 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.

	June 30, 1981		December 31, 1980	
	Average Effective Income Rate*	Amount	Average Effective Income Rate*	Amount
		(000 omitted)		(000 omitted)
Conventional mortgages:				
Home	16.71%	$190,137	14.85%	$230,047
Multi-family	18.09	382	14.90	21,874
Forward programs	16.60	127,758	14.76	194,665
Commitments to purchase		$318,277		$446,586

Commitments to Sell

The Corporation's PCs are continuously offered for sale under both mandatory and optional delivery programs. Delivery periods range from seven to 150 days under the mandatory program. Settlements occur a minimum of 270 days from the date of contract where delivery is at the Corporation's option.

	June 30, 1981		December 31, 1980	
	Average Effective Rate Payable To Investor*	Amount	Average Effective Rate Payable To Investor*	Amount
		(000 omitted)		(000 omitted)
Mandatory	16.48%	$ 78,500	14.65%	$142,100
Optional	16.05	148,300	14.39	181,800
Commitments to sell		$226,800		$323,900

* 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.

(Information, insofar as it relates to the six months ended June 30, 1981, has not been examined by independent public accountants.)

Notes and Bonds Payable

A summary of notes and bonds payable is as follows:

		June 30, 1981		December 31, 1980	
	Maturity	Effective Interest Rate	Balance	Effective Interest Rate	Balance
			(000 omitted)		(000 omitted)
Due within one year:					
Mortgage securities sold under agreements to repurchase		18.04%	$ 700,000	17.94%	$ 516,000
Advances from Federal Home Loan Bank (pass-through of short-term discount notes)		13.55	191,550	12.61	103,950
Notes payable to GMC Trust		14.62	41,059	17.88	48,166
Current portion of long-term debt		9.55	751,044	8.68	366,444
Total due within one year		13.66	1,683,653	14.12	1,034,560
Due after one year:					
Bond payable to bank	1986	7.75	15,026	7.75	15,026
Notes to Federal Home Loan Bank (pass-through of Consolidated Federal Home Loan Bank Obligations)					
	1982	11.93	100,000	10.68	490,000
	1983	11.91	600,000	11.91	600,000
	1984	10.41	500,000	9.54	400,000
	1985	8.32	640,000	8.32	640,000
	1986	9.93	250,000	9.93	250,000
	1987	11.13	200,000	11.13	200,000
	1983/1993	7.41	400,000	7.41	400,000
	1987/1997	7.91	300,000	7.91	300,000
			2,990,000		3,280,000
Mortgage-Backed Bonds	1985	5.30	3,461	5.30	3,461
	1983/1995	8.68	90,025	8.68	91,025
	1984/1996	7.81	95,400	7.81	112,425
	1982/1997	7.25	150,000	7.25	150,000
			338,886		356,911
Total due after one year		9.47	3,343,912	9.43	3,651,937
Notes and Bonds Payable		10.87	$5,027,565	10.47	$4,686,497

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

Scheduled principal payments for all notes and bonds payable for the period ended December 31, 1981 and each of the next five calendar years are as follows:

	(000 omitted)
1981	$1,287,153
1982	$ 503,619
1983	$ 608,227
1984	$ 513,717
1985	$ 659,369
1986	$ 274,455

Mortgage Securities Sold Under Agreements to Repurchase. Repurchase agreement programs have maturities ranging up to one year. The agreements outstanding at June 30, 1981 provide for the sale and repurchase of $742 million of PCs 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 sheets.

Notes Payable to GMC Trust. The notes payable to GMC Trust are collateralized by $75 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 $1,044,000 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 $300 million of these notes to a Federal Home Loan Bank maturing in 1982, $600 million maturing in 1983, $200 million maturing in 1984, $400 million maturing in 1985, $250 million maturing in 1986, and $200 million maturing in 1987, 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 $1.950 billion 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. All Mortgage-Backed Bonds are guaranteed as to principal and interest by Government National Mortgage Association (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 June 30, 1981 and December 31, 1980, Trust assets of approximately $600 million and $650 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

Subordinated capital debenture issues at June 30, 1981, and December 31, 1980 consisted of:

	June 30, 1981		December 31, 1980	
Maturity	Effective Interest Rate	Balance	Effective Interest Rate	Balance
		(000 omitted)		(000 omitted)
1987	11.50%	$ 50,000	11.50%	$ 50,000
1988	9.41	150,000	9.41	150,000
		$200,000		$200,000

(Information, insofar as it relates to the six months ended June 30, 1981, has not been examined by independent public accountants.)

The debentures are subordinated to all obligations and liabilities of the Corporation, including obligations of others that the Corporation has guaranteed, whether existing at the date of issuance or thereafter incurred or created. The $50 million debentures which were issued to the Federal Home Loan Banks on June 20, 1980 are also subordinated to the $150 million debentures.

Supplemental Information on the Effects of Inflation (Unaudited)

The Financial Accounting Standards Board (FASB) has issued a statement requiring that corporations provide supplementary financial information concerning the effects of inflation on operations. Such disclosures include, among other things, the effect of a rise in the general price level on the purchasing power of the dollar and the price changes in the net monetary assets of the corporation.

Since a financial institution does not maintain inventories or have significant investments in plant and equipment, the effect on net income of constant dollar and current cost adjustments to non-monetary items, as required by the statement, is not material.

The following table compares selected financial data as reported in nominal, or historical dollars with such data stated in average 1980 dollars as adjusted by the average Consumer Price Index for all Urban Consumers.

Calculation of the purchasing power loss on net monetary assets is based upon the concept that money and claims to receive or obligations to pay sums of money, the amount of which is fixed or determinable without reference to future prices of specific goods or services, decline in value as the general price level rises due to inflation. Because the Corporation's net monetary assets are approximately equivalent to its stockholders' equity, the purchasing power losses shown below indicate the loss in value of stockholders' equity caused by inflation. A more accurate indication of the rate of return on average equity is obtained after considering the adverse effect of inflation on net assets as shown below.

Financial Data Adjusted for Effects of Inflation

	Year Ended December 31,				
	1980	1979	1978	1977	1976
			(000 omitted)		
Net Assets at year end:					
As reported	$221,226	$237,640	$202,030	$176,639	$155,976
As adjusted	211,295	255,109	245,742	234,253	220,854
Return on Average Equity:					
As reported	14.7%	16.2%	13.4%	12.4%	9.5%
As adjusted	2.6	3.7	4.8	5.9	4.8
Loss from Decline in Purchasing Power of Net Monetary Assets	$ 27,562	$ 31,071	$ 20,590	$ 14,340	$ 10,112
Average Consumer Price Index for all Urban Consumers (1967 = 100.0)	246.8	217.4	195.4	181.5	170.5

NOTES TO FINANCIAL STATEMENTS—Concluded

(Information, insofar as it relates to the six months ended June 30, 1981, has not been examined by independent public accountants.)

Quarterly Results of Operations (Unaudited)

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

	1981		1980				1979			
	1st	2nd	1st	2nd	3rd	4th	1st	2nd	3rd	4th
					(000 omitted)					
Interest and discount on mortgage loans, net of servicing fees	$135,480	$138,428	$103,030	$103,490	$106,170	$125,967	$73,056	$75,661	$81,937	$93,617
Interest on temporary cash investments	1,919	2,335	8,341	6,572	7,020	9,745	8,464	10,477	11,124	12,595
Management and guarantee fee	8,439	5,982	6,798	5,690	6,858	3,371	4,504	3,997	4,221	4,909
	145,838	146,745	118,169	115,752	120,048	139,083	86,024	90,135	97,282	111,121
Interest on borrowings and related costs	129,410	132,638	99,157	98,744	100,600	118,025	68,776	74,021	77,084	91,684
Net interest margin on portfolio	16,428	14,107	19,012	17,008	19,448	21,058	17,248	16,114	20,198	19,437
Other expenses, net	9,545	11,165	9,448	11,262	10,109	12,121	8,102	7,850	8,830	12,605
Net income	$ 6,883	$ 2,942	$ 9,564	$ 5,746	$ 9,339	$ 8,937	$ 9,146	$ 8,264	$11,368	$ 6,832

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 (i) forbearance affecting any of the Whole Loans, Participations or Residual Participations comprising the Mortgages, or (ii) payment under FHLMC's guarantee of collection of principal after a mortgagor default as described in Section 4.09(b) above.

ARTICLE V

The PCs

Section 5.01. Denominations; Execution. PCs shall be issued in denominations of $25,000, $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:

Deliver to:	**Mail to:**
Chemical Bank	Chemical Bank
55 Water Street	Corporate Trust Department
Corporate Tellers	Post Office Box 25983
Window #22	Church Street Station
Room #234	New York, New York 10249
New York, New York	Attn: MBS Department

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 court having jurisdiction in the premises shall enter a decree or order for relief in respect of FHLMC in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, sequestrator (or similar official) of FHLMC or for all or substantially all of its property, or ordering the winding up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days; or

(e) FHLMC shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of FHLMC or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or FHLMC shall fail generally to pay its debts 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 covenanted 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.

Section 7.11. Notice and Demand. Any notice, demand or other communication which by any provision of this Agreement is required or permitted to be given or served to or upon any Holder may be given or served in writing by deposit thereof postage prepaid in the United States mail addressed to such Holder at his address as shown on the register of PC holders maintained by FHLMC or its designated agent. Such notice, demand or other communication to or upon a Holder shall be deemed to have been sufficiently given or made, for all purposes, upon mailing.

Any notice, demand or other communication which by any provision of this Agreement is required or permitted to be given or served to or upon FHLMC shall be given or served in a writing addressed (until another address is published by FHLMC) as follows: Federal Home Loan Mortgage Corporation, 1776 G Street, N.W., P.O. Box 37248, Washington, D.C. 20013, Attention: Vice President—Treasurer.

Such notice, demand or other communication to or upon FHLMC shall be deemed to have been sufficiently given or made only upon actual receipt of the writing by FHLMC.

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.

(September, 1981)

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	8th Year
7.19%	17-028 ($ 26.7)(c)	4.77%							
7.53%	17-021 ($ 30.0)(c)	7.45%	13.07%	16.21%					
7.66%	17-001 ($175.4)	2.98%	7.25%	15.01%	25.21%	38.04%	46.77%	52.12%	54.80%
7.79%	16-002 ($ 17.5)	7.99%	17.84%	25.48%	32.68%	40.14%	56.76%	61.07%	63.06%
7.82%	16-004 ($ 38.3)	5.46%	10.03%	19.67%	31.32%	42.79%	51.00%	55.27%	57.90%
7.85%	16-001 ($113.3)	7.15%	16.43%	22.65%	32.90%	40.88%	48.77%	53.80%	56.34%
7.87%	16-003 ($101.2)	5.10%	10.98%	18.64%	27.39%	39.05%	46.82%	51.84%	54.54%
7.92%	16-006 ($ 50.0)	6.38%	12.79%	24.14%	36.76%	45.81%	50.90%	54.85%	
7.95%	16-005 ($249.7)	6.29%	13.64%	22.86%	34.10%	42.90%	49.42%	54.29%	57.23%
8.01%	16-020 ($ 94.4)	15.09%	27.18%	34.59%	38.65%				
8.04%	16-014 ($ 99.0)	10.75%	23.37%	31.74%	37.61%	40.96%			
8.06%	17-007 ($108.6)	13.97%	25.52%	32.60%	36.03%				
8.48%	16-021 ($111.3)	12.79%	25.26%	34.31%	38.60%				
8.48%	17-008 ($100.0)	10.93%	23.40%	31.19%	35.17%				
8.50%	17-003 ($191.8)	10.29%	23.92%	34.12%	40.34%	43.45%			
8.58%	16-012 ($111.2)	13.83%	28.15%	39.09%	46.38%	49.91%			
8.62%	16-008 ($118.6)	7.85%	22.18%	33.62%	41.69%	46.01%	48.86%		
8.63%	17-009 ($202.0)	17.04%	30.60%	39.08%	42.83%				
8.65%	16-011 ($100.0)	12.59%	27.03%	39.76%	46.86%	50.74%			
8.70%	16-009 ($109.3)	8.72%	22.33%	34.44%	43.25%	48.38%	51.41%		
8.75%	17-002 ($ 99.8)	10.20%	24.94%	35.50%	42.54%	45.48%			
8.75%	17-011 ($155.8)	19.10%	31.39%	38.54%	41.83%				
8.75%	17-012 ($201.9)	15.04%	27.89%	34.69%	38.10%				
8.75%	17-013 ($203.0)	15.94%	28.63%	37.24%	41.41%				
8.77%	16-022 ($200.7)	12.52%	23.75%	30.45%	33.65%				
8.77%	17-010 ($ 20.0)(c)	17.63%	36.46%	42.43%	47.53%				
8.89%	17-020 ($101.8)	6.52%	11.15%	13.78%					
8.90%	16-013 ($ 20.0)(c)	9.66%	26.35%	41.07%	46.44%	49.88%			
8.90%	16-023 ($201.0)	10.01%	21.84%	29.15%	31.82%				
8.94%	16-024 ($257.0)	9.78%	21.51%	28.31%	31.64%				
8.94%	16-035 ($100.9)	8.14%	16.99%	21.14%					
8.95%	16-025 ($107.5)	10.86%	23.14%	28.13%	30.47%				
8.95%	16-027 ($100.0)	11.67%	22.98%	27.51%					
8.98%	16-037 ($101.7)	7.90%	17.19%	21.15%					
8.98%	17-014 ($204.3)	16.57%	27.48%	34.90%	38.55%				
8.99%	16-039 ($163.9)	8.83%	16.45%	20.51%					
8.99%	17-015 ($101.8)	8.46%	18.88%	26.40%	29.35%				
9.01%	16-026 ($308.0)	13.24%	25.50%	29.95%					
9.01%	16-031 ($306.9)	9.74%	19.99%	23.82%					
9.01%	16-036 ($156.2)	10.06%	19.95%	23.55%					
9.03%	16-015 ($133.0)	10.17%	24.96%	35.15%	40.08%	42.94%			

(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 1980. The coupon rates on some underlying mortgages may be less than the Certificate Rate. See "Purchase Programs—Purchase Prices", page 10, and "The Mortgages", pages 25-26.

(b) Group number digits (000001) and (000000) omitted; ($-) indicates the initial principal balance of the group in millions including residual participations from other PC groups.

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

Mortgage Yields (a)	Groups (b)	Cumulative Principal Payments 1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year
9.03%	16-032 ($202.7)	9.93%	19.03%	23.78%					
9.03%	16-034 ($200.6)	7.58%	15.96%	19.80%					
9.04%	16-028 ($296.0)	11.23%	22.31%	25.98%					
9.04%	16-033 ($300.9)	8.74%	18.23%	22.24%					
9.05%	17-018 ($126.7)	7.67%	15.28%	18.29%					
9.06%	16-038 ($175.8)	8.87%	17.12%	20.74%					
9.08%	16-030 ($201.2)	13.37%	24.36%	28.87%					
9.10%	16-016 ($151.4)	14.39%	29.50%	37.47%	42.05%	45.01%			
9.11%	16-029 ($237.8)	12.79%	23.53%	28.71%					
9.12%	16-041 ($108.4)	8.77%	15.87%	19.68%					
9.12%	17-016 ($120.5)	12.16%	24.28%	30.94%	35.00%				
9.13%	16-040 ($202.4)	9.47%	16.21%	19.47%					
9.16%	16-042 ($152.9)	8.35%	15.83%	19.44%					
9.17%	16-019 ($100.6)	16.81%	31.12%	40.17%	43.34%				
9.17%	17-017 ($125.0)	11.46%	22.22%	28.01%	32.16%				
9.19%	16-044 ($103.7)	8.34%	14.08%	17.39%					
9.19%	17-019 ($100.0)	9.93%	19.26%	22.57%					
9.20%	16-043 ($157.3)	9.57%	15.54%	19.34%					
9.24%	16-045 ($176.7)	7.53%	14.85%	18.09%					
9.30%	17-022 ($102.2)	8.14%	15.87%	20.02%					
9.31%	16-010 ($103.3)	12.27%	29.61%	43.27%	51.60%	54.76%	57.64%		
9.34%	16-017 ($ 11.0)(c)	15.92%	35.19%	46.30%	52.14%				
9.35%	16-046 ($204.9)	6.78%	13.69%	17.13%					
9.40%	16-047 ($105.4)	6.22%	12.05%	15.49%					
9.45%	16-007 ($112.8)	13.32%	29.93%	44.51%	54.77%	60.28%	63.33%		
9.46%	16-048 ($232.4)	5.73%	11.12%	14.10%					
9.46%	17-006 ($102.2)	15.87%	28.96%	39.05%	43.33%				
9.47%	16-049 ($103.9)	5.01%	9.82%	12.46%					
9.47%	16-050 ($136.3)	6.14%	11.45%	14.70%					
9.52%	16-053 ($102.5)	5.77%	11.08%	14.51%					
9.55%	16-051 ($104.6)	4.60%	10.21%	12.86%					
9.55%	16-052 ($107.5)	5.66%	9.56%	12.96%					
9.64%	16-055 ($171.8)	5.44%	10.54%	13.77%					
9.65%	17-004 ($ 4.0)(c)	14.80%	29.88%	44.74%	52.13%				
9.68%	16-054 ($188.6)	4.98%	10.96%	13.50%					
9.68%	16-083 ($102.6)	2.38%	4.93%						
9.70%	16-057 ($106.2)	4.94%	9.54%	12.94%					
9.73%	16-059 ($107.6)	5.04%	9.32%						
9.80%	16-056 ($256.2)	5.21%	9.09%						
9.80%	16-058 ($273.0)	5.05%	8.85%						
9.81%	16-061 ($107.3)	3.29%	6.03%						
9.83%	16-066 ($132.0)	5.03%	9.30%						
9.85%	16-062 ($160.4)	4.85%	9.37%						
9.85%	16-073 ($109.6)	5.18%	8.64%						
9.86%	16-060 ($102.7)	4.37%	7.79%						

(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 1980. The coupon rates on some underlying mortgages may be less than the Certificate Rate. See "Purchase Programs—Purchase Prices", page 10, and "The Mortgages", pages 25-26.

(b) Group number digits (000001) and (000000) omitted; ($-) indicates the initial principal balance of the group in millions including residual participations from other PC groups.

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

Mortgage Yields (a)	Groups (b)	Cumulative Principal Payments 1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year
9.86%	16-064 ($182.5)	4.54%	8.01%						
9.86%	16-065 ($102.6)	4.99%	8.90%						
9.87%	16-072 ($216.2)	5.77%	9.92%						
9.88%	16-063 ($287.0)	4.67%	8.32%						
9.88%	16-075 ($128.2)	5.27%	8.48%						
9.89%	16-067 ($104.2)	4.21%	8.58%						
9.90%	16-068 ($108.5)	5.66%	8.51%						
9.90%	16-070 ($105.4)	4.52%	7.48%						
9.93%	16-069 ($106.9)	4.93%	8.20%						
9.94%	16-071 ($ 60.8)	8.07%	11.44%						
9.97%	16-074 ($275.9)	5.31%	8.55%						
10.00%	16-077 ($107.0)	4.32%	8.54%						
10.03%	16-076 ($123.0)	4.95%	9.21%						
10.07%	16-078 ($170.4)	5.15%	7.75%						
10.23%	16-079 ($126.4)	4.53%	7.75%						
10.40%	16-080 ($108.1)	4.06%	7.45%						
10.44%	16-082 ($121.0)	4.30%	7.15%						
10.47%	16-081 ($112.0)	3.76%	6.26%						
10.57%	16-085 ($105.6)	3.49%	6.65%						
10.60%	16-084 ($391.1)	3.94%	7.03%						
10.64%	16-086 ($106.8)	3.14%							
10.64%	16-089 ($120.9)	2.49%							
10.65%	16-092 ($230.3)	2.25%							
10.74%	16-087 ($106.5)	2.91%							
10.74%	16-090 ($106.9)	2.59%							
10.76%	16-088 ($124.8)	2.74%							
10.80%	16-095 ($124.2)	2.79%							
10.84%	16-091 ($103.8)	2.65%							
10.93%	16-094 ($101.3)	2.75%							
10.98%	17-026 ($100.7)	2.49%							
11.03%	16-093 ($121.6)	2.04%							
11.08%	16-096 ($117.3)	2.35%							
11.13%	17-024 ($100.8)	2.56%							
11.14%	16-099 ($101.5)	2.97%							
11.15%	17-030 ($100.0)	2.92%							
11.19%	16-097 ($101.4)	3.40%							
11.22%	16-098 ($ 39.6)	2.91%							
11.25%	17-023 ($101.4)	3.38%							
11.25%	17-027 ($174.4)	3.13%							
11.28%	17-033 ($100.0)	3.03%							
11.33%	17-025 ($122.4)	4.21%							
11.67%	17-032 ($100.0)	3.26%							
12.79%	17-029 ($255.6)	5.03%							
12.85%	17-035 ($139.1)	3.94%							
12.94%	17-031 ($128.6)	4.74%							
13.34%	17-034 ($231.1)	5.79%							

(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 1980. The coupon rates on some underlying mortgages may be less than the Certificate Rate. See "Purchase Programs—Purchase Prices", page 10, and "The Mortgages", pages 25-26.

(b) Group number digits (000001) and (000000) omitted; ($-) indicates the initial principal balance of the group in millions including residual participations from other PC groups.

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