



**Mortgage  
Participation  
Certificates**

November 1, 1977

# **Federal Home Loan Mortgage Corporation**

## **OFFERING CIRCULAR**

**FOR**

## **MORTGAGE PARTICIPATION CERTIFICATES**

**(Guaranteed)**

Sales of Mortgage Participation Certificates are conducted by the Federal Home Loan Mortgage Corporation on a continuous basis. Terms of current offerings may be obtained by contacting The Mortgage Corporation. (See page 4).

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.

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**OFFERING CIRCULAR DATED NOVEMBER 1, 1977**

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No salesman, dealer, 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 (sometimes referred to as "PCs") and is qualified in its entirety by the detailed information found elsewhere herein.

### PCs OFFERED

The PCs.....	The PCs represent undivided interests in specified first lien residential conventional mortgages in groups aggregating approximately \$100 to \$200 million underwritten and owned by The Mortgage Corporation. Fees are paid to purchasers under certain programs as described below.
Interest .....	Passed through monthly at the Certificate Rate.
Principal.....	Passed through monthly, as collected.
Prepayment Fees .....	Passed through when and if received as additional income over and above interest at the Certificate Rate.
Guarantees.....	The Mortgage Corporation unconditionally guarantees the timely payment of interest at the Certificate Rate and collection of principal as described below.
Remittances .....	One itemized check per month containing principal, interest and prepayment fees is normally mailed five calendar days prior to the fifteenth day of each month. A purchaser of a PC will receive his first remittance on or before the fifteenth day of the second month following the month in which the purchaser becomes a registered holder of the PC on the books and records of The Mortgage Corporation.
Denominations and Registration.....	\$100,000, \$200,000, \$500,000 and \$1,000,000; 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.....	For institutions the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation, PCs are to be reported to the Federal Home Loan Bank Board in the asset classification "Mortgages, participations, or mortgage-backed securities insured or guaranteed by an agency or instrumentality of the U.S.", and PCs current with respect to guaranteed principal and interest payments are not "scheduled items", notwithstanding the performance of any underlying loan; for federally chartered savings and loan associations, PCs are exempt from all percent of assets lending limitations.
Secondary Market.....	Certain securities dealers and The Mortgage Corporation make a market in PCs.

The Mortgage Corporation guarantees to each registered holder of a PC the timely payment of interest accruing at the applicable Certificate Rate on the unpaid principal balance outstanding on the Mortgages (hereinafter defined) to the extent of such holder's percentage of participation therein. 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 percentage of participation therein. The PCs are not guaranteed by the United States or by any of the Federal Home Loan Banks and do not constitute a debt or obligation of the United States or any Federal Home Loan Bank.

## PC SALES PROGRAMS

The Mortgage Corporation continuously offers PCs. PCs are sold pursuant to the following mandatory and optional delivery sales programs:

<u>Type of Delivery Contract</u>	<u>Number of Days From Date of Contract to Settlement Date</u>	<u>Fee Paid by The Mortgage Corporation</u>
Mandatory .....	7-29	None
Mandatory .....	30-59	.250%
Mandatory .....	60-89	.500%
Mandatory .....	90-119	.625%
Mandatory .....	120 or more	.750%
Optional (delivery in whole or part at the option of The Mortgage Corporation) ..	120 or more	.750%

All fees paid to purchasers on mandatory delivery contracts are based upon the unpaid principal balance of the PC at the time of the contract to purchase multiplied by the applicable fee expressed as a percentage. All fees paid to purchasers on optional delivery contracts are based upon the principal balance of PCs which the purchaser has committed to purchase multiplied by the applicable fee expressed as a percentage. Upon request by the purchaser, fees will be paid to qualified purchasers (see page 6) within five business days of receipt by The Mortgage Corporation of an executed confirmation of purchase or commitment to purchase. In all other cases, fees will be credited against the amount due to The Mortgage Corporation at settlement.

## PRICE AND YIELD INFORMATION

The price at which PCs are offered may be at a discount, at par, or at a premium depending upon current market conditions and the Certificate Rate of the PC. All yields are quoted by The Mortgage Corporation based upon an assumed 30 year maturity and an assumed 12 year prepayment. See "Description of Mortgage Participation Certificates, Maturity and Average Weighted Life" below. The yield quoted includes the increase in yield resulting from the payment of any fee.

Daily price and yield information can be obtained from The Mortgage Corporation (outside Washington, D.C. telephone 800-424-9403; in Washington, D.C. telephone 634-7100).

## FEDERAL HOME LOAN MORTGAGE CORPORATION

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

While The Mortgage Corporation believes that the maintenance of a reasonable level of profit is necessary to the accomplishment of its statutory objectives, its activities and operations are not necessarily conducted with a view toward making or maximizing profits. By action of the Congress and the President, the FHLMC Act and other Federal legislation bearing on The Mortgage Corporation can be amended in a fashion that could materially affect the scope and results of The Mortgage Corporation's activities and operations. For a more complete description of The Mortgage Corporation and its activities, see "The Mortgage Corporation—History and Business."

The principal office of The Mortgage Corporation is located at 311 First Street, N.W., Washington, D.C. 20001 (telephone 202-624-7000). It has established five regions for administrative purposes, with offices located at 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.

## 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 and identified on the books and records of The Mortgage Corporation. A conventional mortgage is a mortgage which does not have the benefit of any guaranty or insurance by or other obligation of the United States or any state, or any agency or instrumentality thereof.

The Mortgage Corporation periodically forms groups of whole loans and/or participations in connection with its continuing PC Sales Programs. These groups are formed as the volume of The Mortgage Corporation's sales of PCs may require; The Mortgage Corporation in its sole discretion determines which PC will be delivered pursuant to a purchase contract in the event that PCs applicable to more than one group are available for purchase. Each group of whole loans and/or participations is identified on the books and records of The Mortgage Corporation; the aggregate of the undivided interests in any such group represented by the PCs pertaining to that group is referred to herein as the "Mortgages."

The PCs are governed by the terms of the FHLMC Mortgage Participation Certificate Agreement, Series 500 (Revised June, 1977), which is included in this Offering Circular as an exhibit and to which reference is made for a complete description of the purchaser's rights and The Mortgage Corporation's obligations with respect to the PCs.

PCs are issued in fully registered form only, in original unpaid principal balances of \$100,000, \$200,000, \$500,000 and \$1,000,000. The principal balance of the PC contracted or committed to be purchased may be less than the face amount of the PC as reflected on the PC Certificate as a result of principal payments on the Mortgages made between the date of formation of the group of Mortgages and the date of the purchase contract. In addition, the purchase amount of a PC to be paid at settlement may be either more or less than the principal balance of the PC purchased, as described below under "Ordering and Settlement."

PCs are designed to qualify for federal income tax treatment accorded certain investments in obligations secured by real property as described below under "Tax Status."

### PC Sales Programs

The Mortgage Corporation currently offers PCs pursuant to the mandatory and optional delivery sales programs described below:

*Mandatory Delivery Contracts.* Purchasers may 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 date of the contract. No fee is paid by The Mortgage Corporation.

(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 date of the contract. The Mortgage Corporation will pay the purchaser a fee of  $\frac{1}{4}$  of 1%.

(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 date of the contract. The Mortgage Corporation will pay the purchaser a fee of  $\frac{1}{2}$  of 1%.

(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 date of the contract. The Mortgage Corporation will pay the purchaser a fee of  $\frac{2}{3}$  of 1%.

(5) Purchasers agree with The Mortgage Corporation upon a settlement date at least one hundred twenty (120) days from the date of the contract. The Mortgage Corporation will pay the purchaser a fee of  $\frac{3}{4}$  of 1%.

*Optional Delivery Contracts.* Purchasers may commit to purchase PCs at a mutually agreeable settlement date at least one hundred twenty (120) days from the date of the commitment. The Mortgage Corporation will pay the purchaser a fee of  $\frac{3}{4}$  of 1%. The Mortgage Corporation, at its option, may complete the sale of PCs under the optional delivery contracts by delivering either the entire principal amount subject to the commitment or any portion thereof on the settlement date agreed upon with the purchaser. In the event that a purchase will be consummated, notice will be mailed to the purchaser at least five business days before the settlement date. Such notice will specify the principal amount of PCs to be delivered and the amount due at settlement.

Settlements for purchases of PCs are held on any business day as 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 at the time the contract to purchase or the commitment contract is made. Neither the mandatory delivery contracts nor the optional delivery commitments may be assigned or transferred by purchasers without the prior written consent of The Mortgage Corporation.

*Fees.* Fees vary (as described above) from program to program depending upon whether delivery is mandatory or optional and the agreed settlement date. The fees payable by The Mortgage Corporation for mandatory delivery contracts are determined by multiplying the unpaid principal balance of the PC at the time of the contract to purchase by the applicable fee expressed as a percentage. For example, if the fee for the applicable mandatory delivery program is  $\frac{3}{4}$  of 1%, and the unpaid principal balance of the PC at the time of the contract to purchase is \$99,696.38, the fee would be \$747.72. The fees payable by The Mortgage Corporation for optional delivery contracts are determined by multiplying the principal balance of PCs committed to be purchased by the applicable fee expressed as a percentage, which is presently  $\frac{3}{4}$  of 1%. For example, if the principal balance of the PC committed to be purchased is \$100,000, the fee would be \$750.00.

If the purchaser's ability to consummate the purchase is satisfactory to The Mortgage Corporation, any fee due the purchaser under either the mandatory or the optional delivery program will, if so requested by the purchaser, be mailed by The Mortgage Corporation to the purchaser within five business days following receipt of a confirmation duly executed by the purchaser. In all other cases, the amount of the fee will be subtracted at settlement from the amount due The Mortgage Corporation from the purchaser, or in the case of the optional delivery program, if The Mortgage Corporation elects not to complete the sale, the fee will be mailed to the purchaser at the agreed upon settlement date.

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 original unpaid principal balance of the PC contracted or committed to be purchased. A confirmation of the transaction will not be mailed to a purchaser until the deposit is received by The Mortgage Corporation, which deposit must be received within 5 business days. See "Ordering and Settlement" below. 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.

*Federal Tax Consequences of Fees.* A fee received by a purchaser under the mandatory delivery programs or by a prospective purchaser under the optional delivery program is not income for Federal income tax purposes at the time of receipt. In the case of the mandatory delivery programs, and in the case

of the optional delivery program if The Mortgage Corporation elects to complete the sale by delivering the entire principal amount of the PC subject to the commitment, the fee will be an offset against the selling price in determining cost basis in each mortgage and will be an element in the computation of discount or premium for Federal income tax purposes. If The Mortgage Corporation does not exercise, in whole or in part, its election to complete the sale under the 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 percent of gross income test of Temporary Treasury Regulation §402.1-2(c)(3)(i) classifying an organization as a "domestic building and loan association." If The Mortgage Corporation elects to complete the sale under the optional delivery program by delivering less than the entire principal amount of the PC subject to the commitment, the offset against the selling price, as described above, may be limited to that portion of the fee which is allocable to the principal amount of the PC delivered, in which case the remaining portion of the fee would constitute income or gain as described in the preceding sentence.

**Federal Home Loan Bank Board Treatment of Fees.** The Federal Home Loan Bank Board has advised The Mortgage Corporation that, with respect to PC purchasers the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation, fees received under either the mandatory delivery programs or the optional delivery program are to be reported as acquisition credits and may be taken into income immediately.

**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.

The terms upon which PCs are offered for sale are subject to change by The Mortgage Corporation without notice to prospective purchasers and all offers to purchase PCs are subject to acceptance by The Mortgage Corporation. See "Ordering and Settlement" below.

#### **Price and Yield Information**

The Certificate Rate shown on the face of PCs 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 and may also vary depending upon The Mortgage Corporation's assessment of current and future economic and mortgage market conditions. The yield quoted by The Mortgage Corporation includes the increase in yield resulting from the payment of any fee.

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" below. Yields are quoted also 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" below. 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. The yield tables assume the maximum possible 75-day delay mentioned above.

Price and yield quotations are available from The Mortgage Corporation (outside Washington D.C. telephone 800-424-9403; in Washington D.C. telephone 642-7100).

#### **Ordering and Settlement**

At the time the order is placed, the purchaser will be asked the particular program desired, the principal balance of PCs to be purchased, the denominations in which certificates should be issued (PCs are available only in original unpaid principal balances of \$100,000, \$200,000, \$500,000 and \$1,000,000), the settlement date proposed and the purchaser's federal tax identification number. Orders to purchase or to commit to purchase PCs are accepted or rejected by The Mortgage Corporation the day on which the order is received; the purchase or commitment contract is deemed to have been made, if the order is accepted, as of the date of acceptance.

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

The purchase amount of a PC to be paid at settlement may be more or less than the principal balance of the PC purchased because the PC has been purchased at a premium or at a discount. The purchase amount of a PC to be paid at settlement may also be less than the principal balance of the PC purchased because of principal payments made with respect to the Mortgages prior to the settlement date. Interest and principal payments made with respect to the Mortgages between the contract or commitment date and the settlement date are for the account of and are retained by The Mortgage Corporation. 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 the mandatory delivery, 7 to 29 day settlement program. In the latter case, if settlement is scheduled for no more than 10 days from the date of the contract, notification of the exact amount due at settlement is mailed with the confirmation of the purchaser's order. Mortgage Participation Certificates are not mailed or otherwise delivered to purchasers until The Mortgage Corporation has received the purchase amount for the PC.

### **Distribution Arrangements**

PCs can be purchased from The Mortgage Corporation or through a selected group of securities dealers acting as the Corporation's agents, at the price established by The Mortgage Corporation. The Mortgage Corporation may pay a sales concession to such dealers on a negotiated basis. If a PC is purchased through a dealer, the dealers are required, as The Mortgage Corporation's agents, to confirm the sales to the purchasers, to notify purchasers of settlement dates and amounts, and to otherwise communicate and deal with purchasers within the time limits set forth in this Offering Circular applicable to sales of PCs directly effected by The Mortgage Corporation.

### **The Mortgages**

Each PC represents undivided interests in a group of Mortgages identified on the books and records of The Mortgage Corporation, having an original aggregate unpaid principal balance ranging from approximately \$100 to \$200 million and comprised of from 2,000 to 5,000 residential mortgages. At least 95% of the aggregate principal balance of the Mortgages will consist of home mortgage loans (1-4 family) and no more than 5% will consist of multi-family loans. Interest payable on the Mortgages to The Mortgage Corporation shall be equal to or greater than the interest payable at 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 accordingly are, with the likely exception of broad geographic diversity, of the same general type, quality and characteristics as described under "History and Business—Purchase Programs." A particular PC is likely to represent undivided interests in Mortgages which have a geographic mix which is different than, and a degree of geographic concentration which is greater than, The Mortgage Corporation's mortgage portfolio as described below under "History and Business—Geographic Distribution of Mortgage Portfolio." Due to the composition of the unsold portion of The Mortgage Corporation's mortgage portfolio at any particular time, and due to its policy of selling the mortgages it purchases as soon as possible, a particular PC is likely to represent undivided interests in Mortgages which are serviced by seller/servicers located in a single Geographic Area Designation or in a single state. See pages 23-24.

It is the 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 and sells relatively high volumes of PCs in areas that are mortgage capital surplus areas. In accordance with the Corporation's statutory goals,

this process helps to produce national equilibrium effects in the availability of mortgage funds and in mortgage rates. Accordingly, purchasers of PCs should normally expect a significant degree of geographic concentration in the Mortgages represented by PCs. The area of geographic concentration may alter as national or regional economic developments cause changes in areas of capital deficit and surplus. At the present time, the Corporation's purchases are heavily weighted toward states covered by the Los Angeles geographic area designation. See page 24.

The Mortgages are comprised of 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 which represent undivided interests in conventional mortgages. The participation certificates are held by The Mortgage Corporation, but the original mortgage notes and original mortgages with respect to participations are held by the sellers, and the original mortgages are recorded in the names of the sellers. The sellers of these whole loans and participations 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.

#### **Interest and Principal Payments**

PC holders receive a pro rata share of the interest received by The Mortgage Corporation on the Mortgages at the Certificate Rate on the unpaid principal balance of the Mortgages. Interest accrues on the PCs from the first day of the month in which settlement for a 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 settlement must be paid by the purchaser to The Mortgage Corporation at settlement.

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.

Holders of PCs also receive their pro rata share of all principal payments on the Mortgages received by The Mortgage Corporation, including monthly amortization payments, prepayments of principal and principal received by virtue of condemnation, insurance proceeds or foreclosure, as well as a pro rata share of all prepayment fees collected with respect to the Mortgages. These prepayment fees, if any, represent additional income to the PC holder over and above interest at the Certificate Rate.

The FHLMC Mortgage Participation Certificate 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 received by The Mortgage Corporation and interest to the extent of Certificate Rate, on or before the first day of the second month following the month in which such payments are to be made by the mortgagors. This Agreement further provides that The Mortgage Corporation shall remit any other sums, such as prepayments, prepayment fees and foreclosure and liquidation proceeds, no later than the first day of the second month following the month in which such funds 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 mails to each registered holder of PCs one check per month regardless of the number of PCs held or when such PCs were purchased. The first remittance check to the purchaser of a PC will normally be posted five calendar days prior to the fifteenth day of the second month following the month in which the purchaser became a registered holder of the PC on the books and records of The Mortgage Corporation. Thereafter, checks will be posted monthly to the registered holder normally five calendar days prior to the fifteenth day of each month. The principal, interest and prepayment fees (if any) attributable to each specific PC are itemized on a statement accompanying the check. Checks will be mailed to the addresses of the registered holders entitled thereto as the same shall appear in the register of PCs.

The impact upon the rate of return applicable to a PC caused by the above described delay in the receipt by a holder of a PC of the remittance check is taken into account in the yield quoted by The Mortgage Corporation, *i.e.*, the yield quoted includes an appropriate adjustment for the delay involved.

## **Guarantees**

The Mortgage Corporation guarantees to each registered holder of a PC the timely payment of interest accruing at the applicable Certificate Rate on the unpaid principal balance outstanding on the Mortgages to the extent of such holder's percentage of participation therein. 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 percentage of participation therein. For purposes of 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 no event 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.

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 of the Federal Home Loan Banks and do not constitute a debt or obligation of the United States or any Federal Home Loan Bank.

## **Transfers and Exchanges**

Mortgage Participation Certificates are sold in fully registered form only and are freely transferable. 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 548), which may be obtained from The Mortgage Corporation, from any dealer in PCs or from the co-transfer agent for PCs, Manufacturers Hanover Trust Company, New York, New York. 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 either of the addresses stated below or to such other address as is subsequently designated by FHLMC for receipt of transfers of PCs:

Registrar of PCs  
Federal Home Loan Mortgage  
Corporation  
311 First Street, N.W.  
Washington, D.C. 20001

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

The Mortgage Corporation and its designated agent maintain a register of the holders of PCs. The Mortgage Corporation makes payments of principal, interest or any other payments in respect of a PC only to the registered holder of a PC as his name and address appears on the PC register. Transfers 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.

## **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 maturity of an investment is the point at which

the last payment is due to the PC investor. The average weighted life of an investment is dependent upon the amount of principal returned periodically. Historical data applicable to pools of Federal Housing Administration insured single family mortgages indicates 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 the yield quotations with respect to PCs. A twelve year prepayment assumption is used in generally accepted yield tables and is the common mortgage industry norm for quoting yields.

General economic conditions, mortgage market interest rates and other factors will influence prepayments and/or forbearance with respect to the Mortgages. Since the life of the Mortgages can be influenced by such factors, the actual average weighted life of a PC may be greater or less than the twelve year weighted life described above. The limited experience of The Mortgage Corporation indicates that the average weighted life of a PC will be less than 12 years. See table set forth below under "PC Principal Payment Experience." 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.

#### PC Principal Payment Experience

The following table sets forth with respect to twenty-one groups of participations and/or whole loans the cumulative percentage of the original principal balance of the applicable PCs which had been paid to holders at the end of various yearly intervals. The table includes all PCs sold by The Mortgage Corporation since December 1, 1972. The groups of participations and/or whole loans listed below do not necessarily have the same characteristics with regard to geographic concentration and home mortgage/multifamily mix as the Mortgages which will be applicable to the PCs offered hereby. See "The Mortgages" above.

Mortgage Yield (a)	Groups (b)	Cumulative Monthly Principal Payments (c)			
		1st Year	2nd Year	3rd Year	4th Year
7.25-7.28%	16-002 (\$17.6)	3.46%	8.01%	15.96%	25.89%
	17-001 (\$175)				
7.500%	16-001 (\$112.9)	6.13%	13.71%	20.65%	30.15%
	16-003 (\$101.2)				
7.68-7.89%	17-006 (\$102.2)	14.95%	NA	NA	NA
	16-020 (\$94.4)				
	17-007 (\$108.6)				
7.750%	16-004 (\$38.3)	5.79%	11.32%	21.79%	NA
	16-006 (\$50.9)				
8.09-8.125%	16-014 (\$99.0)	10.82%	NA	NA	NA
	17-003 (\$191.8)				
8.375%	17-002 (\$99.8)	10.20%	NA	NA	NA
	16-011 (\$100.0)				
8.50-8.58%	16-012 (\$111.2)	12.93%	NA	NA	NA
	16-013 (\$20.0)				
	16-015 (\$133.0)				
8.71-8.87%	16-016 (\$151.4)	13.56%	NA	NA	NA
	16-019 (\$100.6)				
	16-008 (\$118.6)				
8.86%	16-008 (\$118.6)	7.85%	22.2%	NA	NA
9.0-9.125%	16-009 (\$109.4)	10.45%	25.87%	NA	NA
	16-010 (\$103.4)				
10.0%	16-007 (\$112.8)	13.32%	29.95%	44.51%	NA

(a) Initial weighted average interest rate of the whole loans and participations in the group, net of servicing fee retained by seller, which fee does not exceed .375%. See "Purchase Programs—Purchase Prices," page 19.

(b) Group number digits (000001) and (000000) omitted; (\$-) indicates the initial principal balance of the group in millions. Groups are listed in the order of rates as shown under "Mortgage Yield."

(c) The weighted average of the cumulative percentage of the initial principal amount of the applicable PC paid to holders by the end of the year indicated.

Given the relatively short duration 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 above. However, interest rates which are sufficiently in excess of current market rates for newly originated mortgages may induce mortgagors to seek to refinance their mortgages; accordingly, groups of mortgages with mortgage yields in excess of current market rates may experience more rapid prepayment than groups of mortgages with weighted average interest rates less than current market rates. Prepayment of PCs also may be influenced by factors such as population mobility, general economic conditions, and inflation in housing prices compelling buyers of homes to obtain new mortgages rather than assume existing mortgages. 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 payments and prepayments which is greater than or less than the range shown in the table above.

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

Based on published Revenue Rulings of the Internal Revenue Service:

(A) A PC held by a "domestic building and loan association" within the meaning of Section 7701(a)(19) of the Code is considered as representing "loans secured by an interest in real property" within the meaning of Section 7701(a)(19)(C)(v) of the Code. A PC is also considered as representing "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) The special rules of Section 1232 of the Code will be applicable to a PC holder's proportionate share of any mortgages which are obligations of corporations if, and to the extent that, the other conditions for the application of the Section are met.

(D) 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; a real estate investment trust which owns a PC is considered as owning "real estate assets" as that phrase is used in Section 856(c)(5)(A) of the Code.

(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) exceeds interest at the coupon rate of the mortgage will be characterized as "discount".

(F) 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".

In computing discount or premium with respect to a mortgage as stated above the allocable portion of the fee, if any, received by the purchaser under a mandatory or optional delivery program and offset against the selling price of the PC must be taken into account as an offset against the selling price of the mortgage. With respect to certain other federal income tax aspects of fees received by purchasers in connection with the optional or mandatory delivery programs, see "Description of Mortgage Participation Certificates—PC Sales Programs, Federal Tax Consequences of Fees."

### **Secondary Market**

Certain securities dealers and The Mortgage Corporation make a market in PCs. Information concerning The Mortgage Corporation's secondary market is available from The Mortgage Corporation (telephone 800-424-9403). There will be a spread between The Mortgage Corporation's bid price for the repurchase of PCs and its offering price for currently issued PCs. This spread may fluctuate substantially depending on market conditions and the level of The Mortgage Corporation's PC inventory. PC holders who wish to obtain more attractive bid prices may desire to seek their own buyers or to contact securities dealers making a market.

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 applicable to such mortgages.

### **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. Funds of federal savings and loan associations and federal credit unions may be invested in PCs without regard to limitations generally applicable to investments. Additional information with respect to legality of investment by other institutions can be obtained from The Mortgage Corporation.

### **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 up to 65% of their unpaid principal balance for advances exceeding one year and 80% for advances one year or less.

### **Reverse Repurchase Agreements**

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

### **FHLBB Regulatory Matters**

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

The Director of the Office of Examination 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 deposits 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.

### **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 a reserve with regard to its guarantees of principal and interest.

# FEDERAL HOME LOAN MORTGAGE CORPORATION

## STATEMENT OF INCOME AND RETAINED EARNINGS

The following statement of income and retained earnings of the Federal Home Loan Mortgage Corporation, insofar as it relates to the five years ended December 31, 1976, has been examined by Arthur Andersen & Co., independent public accountants, whose report thereon is included elsewhere herein. The statement of income and retained earnings for the eight month periods ended August 31, 1976 and 1977, not examined by independent public accountants, reflects, in the opinion of management of the Corporation, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for such periods. This statement should be read in conjunction with the financial statements and related notes appearing elsewhere in this Offering Circular.

	Years Ended December 31,					Eight Months Ended August 31,	
	1972	1973	1974	1975	1976	1976	1977
	(000 omitted)					(Unaudited)	
<b>Income:</b>							
Interest and discount on mortgage loans, net .....	\$ 94,573	\$153,106	\$257,115	\$397,526	\$369,928	\$254,069	\$196,552
Management fee and guarantee .....	1,281	2,241	1,904	3,285	3,271	2,130	4,284
Interest on temporary cash investments ..	10,890	25,540	35,581	41,053	66,657	46,342	10,795
Other income .....	1,791	134	885	3,535	4,059	2,973	2,064
<b>Total income .....</b>	<b>108,535</b>	<b>181,021</b>	<b>295,485</b>	<b>445,399</b>	<b>443,915</b>	<b>305,514</b>	<b>213,695</b>
<b>Expenses:</b>							
Interest on borrowings and related costs.	96,129	147,582	250,362	407,745	419,058	289,588	187,420
Provision (credit) for losses, manage- ment fee and guarantees .....	3,739	14,765	32,577	11,386	(995)	(2,320)	4,610
Commitment fees .....	—	—	—	587	1,005	588	1,283
Administrative .....	4,805	6,954	7,554	10,173	10,686	6,840	7,588
<b>Total expenses .....</b>	<b>104,673</b>	<b>169,301</b>	<b>290,493</b>	<b>429,891</b>	<b>429,754</b>	<b>294,696</b>	<b>200,901</b>
<b>Net Income:.....</b>	<b>3,862</b>	<b>11,720</b>	<b>4,992</b>	<b>15,508</b>	<b>14,161</b>	<b>10,818</b>	<b>12,794</b>
Retained earnings, beginning of year.....	5,733	9,595	21,315	26,307	41,815	41,815	55,976
Retained earnings, end of period .....	<u>\$ 9,595</u>	<u>\$ 21,315</u>	<u>\$ 26,307</u>	<u>\$ 41,815</u>	<u>\$ 55,976</u>	<u>\$ 52,633</u>	<u>\$ 68,770</u>
Earnings per common share .....	<u>\$ 38.62</u>	<u>\$ 117.20</u>	<u>\$ 49.92</u>	<u>\$ 155.08</u>	<u>\$ 141.61</u>	<u>\$ 108.18</u>	<u>\$ 127.94</u>

The notes to financial statements on pages 30 to 34 are an integral part of this statement.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENT OF INCOME

Net income for 1976 was \$14,161,000, compared to \$15,508,000 in 1975. During 1976 the spread increased between the interest The Mortgage Corporation earned on all mortgages and the interest paid on related borrowings; however, the rate of return on temporary cash investments declined. This decline of the rate of return, together with an increased level of temporary cash investments accumulated in anticipation of maturation of borrowings, produced a negative spread between the interest earned on such temporary cash investments and the related cost of borrowings.

The reserve for possible loan losses was adjusted downward during 1976, reflecting the overall reduction in the level of risk inherent in the Corporation's mortgage loan portfolio. This appears as a credit of \$995,000 to the Provision for Losses, Management Fee and Guarantees, and compares to a provision of \$11,386,000 in 1975. (See "Allowance for Possible Losses on Mortgage Loans" in Notes to Financial Statements, page 32.) These two offsetting factors, namely, reduction of the loan loss reserve and the negative spread on temporary cash investments, resulted in a slight decrease in net income in 1976.

Net income for the eight months ended August 31, 1977 was \$12,794,000 compared to \$10,818,000 for the corresponding period in 1976. The Corporation substantially improved the positive spread on its portfolio of mortgages and temporary cash investments, principally due to a decrease in the level of low yielding temporary cash investments after the maturation of borrowings discussed above. Net income for the eight months ended August 31, 1976 was favored by downward adjustment of the reserve for possible loan losses as mentioned above. Total income and total expenses for the eight months ended August 31, 1977 were lower due to a reduction in the size of The Mortgage Corporation's retained portfolio of mortgage and other investments and a commensurate reduction in the size of its related borrowings.

Net income for 1975 was \$15,508,000, compared to \$4,992,000 in 1974. Two factors affected this increase. Earnings increased due to a Provision for Losses, Management Fee and Guarantees of \$11,386,000 in 1975, compared to \$32,577,000 in 1974. This increase in earnings was partially offset by a decline in the spread between interest The Mortgage Corporation earned on all mortgages and the interest on its related borrowings, because of increased borrowing costs. In addition, The Mortgage Corporation experienced a negative spread between the interest earned on temporary cash investments and the cost of borrowings that supported such investments.

For discussion of the profit or loss generated by FHLMC's mortgage operations, see "PC and GMC Sales, Refinancing and Reinvestment" at page 22.

### 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 FHLMC. There is presently one vacancy on the Federal Home Loan Bank Board and the Board of FHLMC. (See "Management.") The Members of the Federal Home Loan Bank Board are appointed by the President of the United States, with the advice and consent of the Senate, for four-year terms.

The capital stock of The Mortgage Corporation consists solely of non-voting common stock held by the twelve Federal Home Loan Banks. 100,000 shares, par value \$1,000 each, have been issued for a total purchase price of \$100 million, the maximum amount which the Federal Home Loan Banks were required to purchase pursuant to the FHLMC Act. FHLMC may declare dividends on its common stock but has not done so. The stock may be retired by FHLMC at its issue price if such retirement will not reduce its reserves and surplus to less than \$100 million.

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

## Purchase Programs

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

	Years Ended December 31,					Eight Months Ended August 31, 1977
	1972	1973	1974	1975	1976	
	(000 omitted)					
<b>Commitments and Contracts:</b>						
FHA/VA.....	\$ 832,318	\$ 315,609	\$ 260,798	\$122,398	\$ 17,651	\$ 12,834
Conventional Loans.....	770,604	1,199,501	874,877	858,649	1,358,154	3,037,595
Multipurpose Forward (A).....	—	113,949	411,592	—	—	—
Six-Month Forward (A).....	—	—	—	—	102,175	503,725
Total .....	<u>\$1,602,922</u>	<u>\$1,629,059</u>	<u>\$1,547,267</u>	<u>\$981,047</u>	<u>\$1,477,980</u>	<u>\$3,554,154</u>
<b>Purchases:</b>						
FHA/VA.....	\$ 802,645	\$ 336,418	\$ 260,668	\$119,794	\$ 21,243	\$ 12,783
Participations in Conventional Whole Loans.....	312,841	730,697	739,106	523,650	819,622	1,867,089
Conventional Whole Loans.....	149,390	266,807	489,437	192,620	288,054	371,864
Total .....	<u>\$1,264,876</u>	<u>\$1,333,922</u>	<u>\$1,489,211</u>	<u>\$836,064</u>	<u>\$1,128,919</u>	<u>\$2,251,736</u>

(A) The terms of the Multipurpose Forward and Six-Month Forward commitments permit delivery of conventional whole loans and/or participations.

Delivery of mortgages under the Six-Month Forward Commitment Program is at the option of the seller; delivery is mandatory under all other programs, and must occur within 60 days of the contract date.

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

1. *Statutory restrictions.* All whole loans or participations purchased by FHLMC must meet certain standards set forth in the FHLMC Act. FHLMC is confined to the purchase of obligations secured by first mortgages, the outstanding principal balance of which at the time of purchase does not exceed 80% of the value of the real property securing the mortgage unless: (1) the seller retains a participation interest in the mortgage of not less than 10% of the mortgage; or (2) the seller agrees for such period and under such circumstances as FHLMC may prescribe, to repurchase or replace the mortgage obligations upon demand by FHLMC in the event that the mortgage is in default; or (3) the portion of the unpaid principal balance of the mortgage obligation which is in excess of 80% is insured by a qualified mortgage insurer as determined by FHLMC. At present FHLMC purchases conventional mortgages with a loan-to-value ratio exceeding 80% 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 thereof, the cumulative aggregate principal balances 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 balances of all conventional mortgages purchased by FHLMC. As of September 30, 1977, FHLMC had purchased \$529 million aggregate principal amount of mortgages more than one year old which represents approximately 5.92% of all conventional mortgages purchased by FHLMC. Additionally, FHLMC is required to establish limitations governing the maximum principal obligation of conventional mortgages purchased by it, which shall not exceed by more than twenty five per centum the limitations contained in Section 5(c) of the Home Owners' Loan Act of 1933. At present, the limitations established by FHLMC for single-family loans are \$42,000 for mortgages with respect to loans having loan-to-value ratios greater than 90% but not in excess of 95%, and \$75,000, for mortgages with respect to loans not exceeding a 90% loan-to-value ratio. These limitations are increased by 50% for mortgages on properties located in Alaska, Guam or Hawaii. With respect to multi-family loans, Section 5(c) provides that such limitations shall be in accordance with Section 207(c)(3) of the National Housing Act. FHLMC's present limitations on the principal obligation of conventional mortgages purchased by it, for multi-family structures, range from \$19,500 to \$43,758 per unit. In addition, FHLMC presently imposes an original loan amount limitation of \$5,000,000 in connection with multi-family loans. Finally, 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; this requirement applies to both single-family and multi-family loans.

**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 and from certain financial institutions the deposits or accounts of which are insured under state law (chiefly certain Massachusetts institutions). FHLMC purchases mortgages from Federal Home Loan Bank members, whose mortgage origination and servicing experience is adequate and satisfactory. Approximately 78% of all active sellers from whom mortgages have been acquired by FHLMC have been such 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.

**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. 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. Such duties include collection and remittance of principal and interest payments, administration of escrow accounts, collection of insurance claims, and, if necessary, foreclosure. Sellers may, with the consent of FHLMC, contract with other eligible sellers or in certain instances with service corporations, bank subsidiaries or with mortgagees approved by the Secretary of Housing and Urban Development to have such servicing performed; however, such use of servicing agents does not relieve the seller of its obligations to The Mortgage Corporation.

5. *Qualified mortgage insurers.* FHLMC purchases conventional mortgages with a loan-to-value ratio exceeding 80% if the principal amount of the indebtedness in excess of 75% of the appraised value of the mortgaged property is insured by a qualified mortgage insurer. Pursuant to the FHLMC Act, FHLMC has established minimum requirements which a mortgage insurer must meet in order to be approved as a qualified mortgage insurer under the various purchase programs. As of September 30, 1977 FHLMC had approved 19 mortgage insurers as insurers whose insurance was eligible under FHLMC purchase programs. Mortgages with principal balances aggregating approximately 57% of the principal balance of all single family mortgages purchased by FHLMC as of September 30, 1977, have some portion of their principal balance insured by a qualified mortgage insurer.

6. *Credit, appraisal, and underwriting standards.* Each whole loan or participation purchased by FHLMC must meet the credit, appraisal, and underwriting standards established by FHLMC. These standards 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 standards. Approximately 9.50% of the conventional whole loans or participations offered for sale to FHLMC between September 1, 1976 and August 31, 1977, have been either withdrawn or rejected for failure to meet the standards and requirements of the FHLMC purchase program under which the whole loan or participation was to be purchased.

7. *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 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 retained interest to be paid over 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  $\frac{3}{8}$ % 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.

8. *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 and maximum unpaid principal amounts for individual mortgages. FHLMC believes that these variations have had no material impact upon the quality of whole loans or participations purchased in the various programs.

### **Sale Programs**

As of August 31, 1977, FHLMC had sold or had contracted to sell \$5.747 billion original principal balance of Mortgage Participation Certificates ("PCs") substantially similar to the PCs offered hereby. As of August 31, 1977, the unpaid balances of outstanding PCs sold were approximately \$3.950 billion.

As of August 31, 1977, FHLMC had sold \$1.300 billion initial principal amount of Guaranteed Mortgage Certificates ("GMCs"). GMCs represent undivided interests in specified conventional whole loans and participations previously purchased by FHLMC. 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 reductions payments as scheduled. As of August 31, 1977, the unpaid balances of outstanding GMCs were approximately \$1.208 billion.

At August 31, 1977, FHLMC had accumulated a reserve of \$17,680,000 with regard to its management fee and guarantees on outstanding PCs and GMCs.

FHLMC has sold approximately \$2.109 billion aggregate original principal amount of mortgage-backed bonds issued by FHLMC and guaranteed as to principal and interest by the Government National Mortgage Association ("GNMA"), for which FHA insured and VA guaranteed mortgages in a similar principal amount were placed in trust. As of August 31, 1977, \$783 million aggregate principal amount of these bonds remained outstanding. (See Bonds and Advances note in Notes to Financial Statements, page 33.)

In addition, FHLMC has sold approximately \$158 million of whole mortgages which were FHA insured or VA guaranteed. As these loans are insured or guaranteed when originated, FHLMC provides no additional guarantee in connection with the sale of such loans.

### **Other Activities**

Pursuant to a joint United States Department of the Treasury-Federal Home Loan Bank System program, FHLMC acquired \$1.575 billion aggregate original principal balance of conventional single family residential mortgages. These mortgages were purchased pursuant to standards and requirements in all substantial respects the same as those used by FHLMC in its various conventional mortgage purchase programs. This program was financed by loans from the Treasury to the Bank System, which in turn advanced such funds to FHLMC as were necessary to acquire the mortgages purchased pursuant to the program. FHLMC's loan from the Bank System was secured by the mortgages purchased. The program provided in effect that FHLMC's borrowing costs would not exceed its return on the mortgages, and both the loan to FHLMC and the loan to the Bank System provided for repayment in semiannual instalments in amounts equal to the principal collections on the related mortgage loans purchased. Subsequent to December 31, 1976, the outstanding principal balance of these advances was retired, with the final payment made on February 25, 1977. See Special U.S. Treasury Funded Program note in Notes to Financial Statements.

GNMA has contracted with FHLMC for FHLMC to purchase and service, as GNMA's agent, up to \$3.491 billion aggregate principal balance of conventional single family residential mortgages. As of August 31, 1977, FHLMC, as GNMA's agent, had purchased \$2.822 billion principal balance of these mortgages, and commitments totaling \$669 million had been cancelled or expired. As of August 31, 1977, \$2.750 billion of these mortgages had been sold, and principal reductions and loans paid in full totaled \$27 million, with FHLMC servicing the remaining \$45 million of these mortgages as agent for GNMA. These purchases are for GNMA's account and are, therefore, excluded from FHLMC's balance sheet. FHLMC receives fees for the administration of the program as agent for GNMA. These fees are intended to offset FHLMC's expenses in connection with the program.

### **FHLMC Mortgage Portfolio**

Summarized below is certain statistical information on FHLMC's mortgage portfolio. Mortgages purchased under the joint United States Treasury-Federal Home Loan Bank System program described above are excluded for years ended 1974 and 1975. During 1976 and 1977 the debt associated with that program was retired, with the final payment made on February 25, 1977. Accordingly, the mortgages

purchased under the program are included below at the dates debt was retired. The spread on the yields shown below is not necessarily indicative of the long-term relationships which may prevail.

**Effective Interest Income Rates and Financing Rates**

	December 31, 1972		December 31, 1973		December 31, 1974		December 31, 1975		December 31, 1976		August 31, 1977	
	Principal	Yield	Principal	Yield								
	(000 omitted)		(000 omitted)		(000 omitted)		(000 omitted)		(000 omitted)		(000 omitted)	
<b>FHA/VA</b>												
<b>Mortgages:</b>												
Effective interest income.....		7.47%		7.54%		7.73%		7.76%		7.78%		7.85%
Effective borrowing cost..		6.53		6.50		7.15		7.09		7.23		7.51
Net .....	\$1,485,281	.94	\$1,790,547	1.04	\$1,956,115	.58	\$1,877,166	.67	\$1,672,076	.55	\$1,517,672	.34
<b>Participations in Conventional Mortgages:</b>												
Effective interest income.....		7.63		8.28		8.64		8.65		8.96		8.93
Effective borrowing cost..		6.61		7.18		8.63		8.63		8.55		8.35
Adjustment (Note) .....		1.02		1.10		.01		.02		.41		.58
Net .....	141,900	1.02	570,464	1.10	1,206,297	.48	843,697	.49	808,635	.71	1,743,197	.80
<b>Conventional Mortgages:</b>												
Effective interest income.....		7.23		7.94		8.58		8.58		8.64		8.92
Effective borrowing cost..		6.61		7.18		8.63		8.63		8.55		8.35
Adjustment (Note) .....		.62		.76		(.05)		(.05)		.09		.57
Net .....	144,188	.62	230,737	.76	696,404	.42	713,578	.42	675,596	.39	155,477	.79
<b>Total Mortgages Owned:</b>												
Effective interest income.....		7.46		7.73		8.17		8.16		8.27		8.46
Effective borrowing cost..		6.54		6.73		7.88		7.92		7.89		7.95
Adjustment (Note) .....		.92		1.00		.29		.24		.38		.51
Net .....	\$1,771,369	.92	\$2,591,748	1.00	\$3,858,816	.52	\$3,434,441	.50	\$3,156,307	.56	\$3,416,346	.63
<b>Mortgage Participation Certificates:</b>												
Effective interest income.....		7.72		7.63		7.65		8.28		8.46		8.55
Effective certificate rate ...		7.20		7.31		7.37		7.85		8.17		8.39
Net .....	\$ 444,173	.52	\$ 791,275	.32	\$ 779,838	.28	\$1,142,524	.43	\$1,900,136	.29	\$3,949,877	.16
<b>Guaranteed Mortgage Certificates:</b>												
Effective interest income.....		—		—		—		8.64		8.78		8.73
Effective certificate rate ...		—		—		—		8.46		8.48		8.39
Net .....							\$ 477,435	.18	\$ 793,950	.30	\$1,077,406	.34
<b>Weighted Average Yields on Mortgages Owned, Participation Certificates and Guaranteed Mortgage Certificates:</b>												
Effective Interest Income .....		7.52		7.71		8.28		8.42		8.50		8.59
Effective Certificate Rate and borrowing cost.....		6.67		6.87		7.80		7.95		8.06		8.23
Net .....	\$2,215,542	.85	\$3,383,023	.84	\$4,638,654	.48	\$5,054,400	.47	\$5,850,393	.44	\$8,443,629	.36

Note—The adjustment represents additional yield resulting from the write-down of mortgage loans. To the extent a loss is indicated on the financing of mortgage loans, the loss attributable to such financing is charged against the allowance for possible losses and is reflected on the balance sheet as a reduction of mortgage loans. This reduction of mortgage loans results in additional yield which for financial reporting purposes is recognized in FHLMC's Statement of Income and Retained Earnings as additional interest income over the term of the related borrowing. (See Notes to Financial Statements.)

The effective interest income rate on the mortgage portfolio is average contract interest income adjusted to semiannual yield equivalent and adjusted for the effect of discount amortization, less servicing fees. The effective borrowing cost and, in the case of PCs, the effective certificate rate are the weighted averages of such rates on a semiannual basis, adjusted for discounts and concessions. The adjustments to effective interest income and effective certificate rates (on PCs only) to reflect semiannual yield equivalents range from 11 to 15 basis points and apply equally to both effective interest income and interest paid.

#### PC and GMC Sales, Refinancing and Reinvestment

The profit or loss generated by FHLMC's mortgage operations is substantially governed by the volume of these operations and by (i) the difference between the effective interest income rate on whole loans and participations purchased by FHLMC and the effective interest paid to holders with respect to PCs and GMCs sold, and (ii) the difference between the effective income rate on FHLMC's portfolio of unsold mortgages and temporary cash investments and the effective interest expense on borrowings required to carry the portfolio and temporary investments. As a result, FHLMC's earnings are materially dependent upon relative movements between mortgage yields and other market rates. See "FHLMC Mortgage Portfolio—Effective Interest Income Rates and Financing Rates" at page 21.

*PC and GMC Sales.* Since January 1976, the funds for FHLMC's purchases of mortgages have been provided predominately by the proceeds of PC and GMC sales. Management of FHLMC believes that the excess of the effective interest income rate on the whole loans and participations purchased during this period over the effective interest paid with respect to the PCs and GMCs sold will be more than sufficient to absorb all losses resulting from defaults, delinquencies and foreclosures, and administrative expenses in connection with the purchase, sale and servicing of those mortgages. If the spread on the yields were not sufficient to cover losses and expenses, there would be an adverse impact on The Mortgage Corporation. At August 31, 1977, The Mortgage Corporation had accumulated a reserve of \$17,680,000 for possible loan losses with respect to its management fee and guarantees on outstanding PCs and GMCs. See "Mortgage Loan Sales and Related Matters" in Notes to Financial Statements, page 30.

PCs and GMCs represent the sale of underlying mortgages having an unpaid principal balance equal to the principal balance of the PCs or GMCs sold and bearing an interest rate exceeding the applicable PC and GMC certificate rate. Accordingly, The Mortgage Corporation's maximum contingent liability for its guarantees with respect to principal and interest on PCs and GMCs is offset by an equivalent principal amount of mortgages with interest rates in excess of the PC or GMC certificate rate.

*Refinancing and Reinvestment.* FHLMC's unsold mortgage portfolio consists principally of mortgages with original maturities of thirty years on which principal is amortized monthly in increasing amounts over the life of the mortgage. Due to prepayments, the average mortgage is discharged prior to its stated maturity. The borrowings required to finance this portfolio may mature more rapidly than the portfolio itself.

The table below sets forth the maturities of FHLMC's borrowings, as of August 31, 1977.

<u>Maturity</u>	<u>Amounts</u>	<u>Maturity</u>	<u>Amounts</u>
	(000 omitted)		(000 omitted)
1977 .....	\$227,335	1981-1985 .....	\$1,172,077
1978 .....	\$368,005	1986-1990 .....	\$ 82,455
1979 .....	\$220,347	1991-1995 .....	\$ 472,500
1980 .....	\$211,683	1996-1997 .....	\$ 457,500

See Bonds and Advances note in Notes to Financial Statements, page 33.

If FHLMC were to experience greater than anticipated principal payments (including prepayments) on portfolio mortgages, it would be required to invest in mortgages or other interest bearing investments which could have yields less favorable than required to pay the interest upon related borrowings. At August 31, 1977, FHLMC had accumulated a reserve of \$8,956,000 with respect to possible losses on its portfolio of unsold mortgages.

#### 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 as of August 31, 1977 (including those mortgages which The Mortgage Corporation has sold but as to which The Mortgage Corporation has guaranteed payment of principal and interest).

Geographic Area Designation	Unpaid Principal Balance (000 omitted)							
	FHA/VA	Percentage of FHA/VA	Conventional Loans			Percentage of Conventional Loans	Total	Percentage of Total
			Participation	Whole Loans	Total			
Boston.....	\$ 3,098	.20%	\$ 63,774	\$ 26,675	\$ 90,449	1.31%	\$ 93,547	1.11%
New York.....	18,041	1.18	51,206	49,736	100,942	1.46	118,983	1.41
Pittsburgh.....	7,169	.47	109,443	26,845	136,288	1.97	143,457	1.70
Atlanta.....	182,413	11.90	686,114	709,355	1,395,469	20.19	1,577,882	18.69
Indianapolis.....	58,912	3.84	195,979	86,996	282,975	4.09	341,887	4.05
Chicago.....	123,177	8.04	138,068	89,174	227,242	3.29	350,419	4.15
Des Moines.....	79,679	5.20	83,846	21,775	105,621	1.53	185,300	2.19
Little Rock.....	180,046	11.75	266,651	395,133	661,784	9.58	841,830	9.97
Denver.....	139,303	9.09	487,922	112,472	600,394	8.69	739,697	8.76
Los Angeles.....	597,011	38.96	1,993,059	534,068	2,527,127	36.56	3,124,138	37.00
Seattle.....	143,617	9.37	432,874	349,998	782,872	11.33	926,489	10.97
<b>Total.....</b>	<b>\$1,532,466</b>	<b>100.00%</b>	<b>\$4,508,936</b>	<b>\$2,402,227</b>	<b>\$6,911,163</b>	<b>100.00%</b>	<b>\$8,443,629</b>	<b>100.00%</b>

*States included under geographic area designations:*

<u>BOSTON</u>	<u>ATLANTA</u>	<u>DES MOINES</u>	<u>LOS ANGELES</u>
Connecticut	Alabama	Iowa	Arizona
Maine	District of Columbia	Minnesota	California
Massachusetts	Florida	Missouri	Nevada
New Hampshire	Georgia	North Dakota	
Rhode Island	Kentucky	South Dakota	
Vermont	Maryland		<u>SEATTLE</u>
	North Carolina		Alaska
	South Carolina	<u>LITTLE ROCK</u>	Guam
<u>NEW YORK</u>	Tennessee	Arkansas	Hawaii
New Jersey	Virginia	Louisiana	Idaho
New York		Mississippi	Montana
Puerto Rico	<u>INDIANAPOLIS</u>	New Mexico	Oregon
Virgin Island	Indiana	Texas	Utah
	Michigan		Washington
		<u>DENVER</u>	Wyoming
<u>PITTSBURGH</u>	<u>CHICAGO</u>	Colorado	
Delaware	Illinois	Kansas	
Pennsylvania	Ohio	Nebraska	
West Virginia	Wisconsin	Oklahoma	

**Delinquencies, Defaults and Foreclosures**

Set forth below is certain information concerning FHLMC's default, delinquency and foreclosure experience with its mortgage portfolio (including those mortgages which FHLMC has sold but as to which FHLMC has guaranteed payment of principal and interest). Defaults, delinquencies and foreclosures on mortgages are in some measure related to general economic conditions and historically do not reach their peak until sometime after maximum unemployment rates are reached in an economic cycle. A peak in unemployment rates was reached in the second quarter of 1975. For the last half of 1975 and throughout 1976, while less than the peak, unemployment rates remained relatively high. The unemployment rate through the first nine months of 1977 has declined gradually. Overall statistics relating to delinquencies and numbers of foreclosures in FHLMC's portfolio are somewhat lower than the same time last year, reflecting the improvement in unemployment rates.

As of August 31, 1977, there were 3,781 conventional mortgages (1.57% of total) one payment delinquent, 678 mortgages (0.28% of total) two payments delinquent, and 260 mortgages (0.11% of total) three payments or more delinquent and not in the process of foreclosure. Foreclosure had been approved and was in process for 184 mortgages (0.08% of total) as of that date.

As of August 31, 1977, there were 3,476 FHA/VA mortgages (4.53% of total) one payment delinquent, 861 mortgages (1.12% of total) two payments delinquent, and 390 mortgages (0.51% of total) three payments or more delinquent and not in the process of foreclosure. Foreclosure had been approved and was in process for 264 mortgages (0.34% of total) as of that date.

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

From commencement of operations in 1970 through August 31, 1977, 605 conventional home loans and eight multi-family conventional mortgage loans, in FHLMC's portfolio or guaranteed by FHLMC, with unpaid principal balances of approximately \$14,494,000 and \$8,447,000, respectively, have been foreclosed. No losses of principal were incurred with regard to the foreclosed conventional home loans; losses of approximately \$3,447,000 were incurred on the foreclosed multi-family loans. As of August 31, 1977, FHLMC had \$8,956,000 reserved for possible losses resulting from foreclosure of mortgages owned and \$17,680,000 reserved with regard to its management fee and guarantees on mortgage loans sold.

## MANAGEMENT

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

<u>Name</u>	<u>Age</u>	<u>Year of Affiliation</u>	<u>Position</u>
Robert McKinney .....	52	1977	Chairman of Board of Directors
Garth Marston .....	51	1974	Director
Philip R. Brinkerhoff .....	34	1973	President
Richard A. Mackey .....	34	1971	Executive Vice President
William R. Thomas, Jr. ....	48	1970	Executive Vice President
Jerry Barrentine .....	43	1973	Vice President and Treasurer
Alan J. Blocher .....	39	1973	Vice President—Mortgage Programs and Services
Jack Carter .....	59	1973	Vice President—Congressional Relations
Edward S. Elles, Jr. ....	30	1975	Vice President—Financial Planning and Analysis
Richard Hadik .....	40	1975	Vice President—Systems
Henry L. Judy .....	37	1975	Vice President and General Counsel
Kenneth M. Plant .....	42	1971	Vice President—Research
Leady W. Seale, Jr. ....	54	1972	Vice President—Appraisal and Underwriting

Mr. McKinney is Chairman and Mr. Marston is a Member of the Federal Home Loan Bank Board. There is one vacancy on the Federal Home Loan Bank Board and when filled the new member will become a director of FHLMC. The terms of Messrs. McKinney and Marston expire in 1981 and 1979, respectively. Prior to August 1977 Mr. McKinney was Chairman of Jefferson Corporation and First Federal Savings and Loan Association of Indianapolis. Prior to April 1974, Garth Marston was Senior Vice President of Washington Mutual Savings Bank.

Philip R. Brinkerhoff has been President since September, 1977 and was Executive Vice President of FHLMC from April 1975 and Vice President and General Counsel from June 1973. Prior thereto he was an attorney with Streich, Lang, Weeks, Cardon & French, Phoenix, Arizona. Richard A. Mackey has been Executive Vice President of FHLMC since September, 1977 and was Vice President—Systems of FHLMC from June 1974. Prior to his affiliation with FHLMC in 1971, he was a Systems Analyst for Tate Technologies, Inc. William R. Thomas, Jr. has been Executive Vice President of FHLMC since October 1977. He was 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.

Jerry Barrentine has been Vice President and Treasurer of FHLMC since October 1973 and was Assistant Treasurer from January 1973. Prior thereto he was a Manager with Peat, Marwick, Mitchell & Co. Alan J. Blocher has been Vice President—Mortgage Programs and Services since May, 1977, prior to which he was Director of Servicing of FHLMC. Prior to his affiliation with FHLMC, Mr. Blocher was a Loan Servicing Officer for Dime Savings Bank from 1970 to 1973. Jack Carter has been Vice President—Congressional Relations of FHLMC since July 1973, prior to which he was Secretary of the Federal Home Loan Bank Board. Edward S. Elles, Jr. has been affiliated with FHLMC since February 1975 and was appointed Vice President—Financial Planning and Analysis in June 1977. Prior to his affiliation with FHLMC, he was a Senior Accountant with Arthur Andersen & Co. Richard Hadik has been affiliated with FHLMC since December, 1975 and was appointed Vice President—Systems in October 1977. Prior to his affiliation with FHLMC, he was a Senior Associate—Vice President for Computer Performance Associates, Inc. Henry L. Judy has been Vice President and General Counsel of FHLMC since June 1975. Prior to that he was Deputy General Counsel of the Federal Home Loan Bank Board. Kenneth M. Plant has been Vice President—Research of FHLMC since June 1973, prior to which he was Director of Research of FHLMC. Prior to his affiliation with FHLMC, Mr. Plant was a business economist for American Can Company from 1970 to 1971. Prior to that he was a Research Economist for the Conference Board. Leady W. Seale, Jr. has been affiliated with FHLMC since October 1972 and was appointed Vice President—Appraisal and Underwriting in September 1975. Prior to his affiliation, 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 October 31, 1977, FHLMC had 292 employees.

#### **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.

#### **EXPERTS**

The Financial Statements included in this Offering Circular to the extent and for the periods indicated in their report, have been examined by Arthur Andersen & Co., independent public accountants, and have been included herein in reliance upon the authority of said firm as experts in giving such report.

## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

**TO THE BOARD OF DIRECTORS OF FEDERAL HOME LOAN MORTGAGE CORPORATION:**

We have examined the balance sheet of Federal Home Loan Mortgage Corporation (a Federally chartered corporation exempt from income taxes) as of December 31, 1976, and the related statements of income and retained earnings (included on page 15 of this Offering Circular) and changes in financial position for the five years then ended. Our examination was 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, 1976, and the results of its operations and the changes in its financial position for the five years then ended, all in conformity with generally accepted accounting principles consistently applied during the periods.

**ARTHUR ANDERSEN & Co.**

Washington, D. C.,  
February 11, 1977.

**FINANCIAL STATEMENTS**  
**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**BALANCE SHEET**

**ASSETS**

	<u>December 31, 1976</u>	<u>August 31, 1977</u>
		(Unaudited)
		(000 omitted)
<b>Mortgage Loans, at unpaid principal balances:</b>		
Insured by Federal Housing Administration (FHA) or guaranteed by Veterans Administration (VA).....	\$1,672,076	\$1,517,672
Participation in conventional mortgages.....	808,635	1,743,197
Conventional mortgages.....	675,596	155,477
	<u>3,156,307</u>	<u>3,416,346</u>
Conventional mortgage loans funded under Special U.S. Treasury Program, pledged to secure advances.....	1,091,991	—
	<u>4,248,298</u>	<u>3,416,346</u>
Less—Unamortized mortgage purchase discount.....	73,567	70,873
—Allowance for possible losses.....	9,000	8,956
Total mortgage loans.....	4,165,731	3,336,517
Cash.....	222	5,525
Temporary cash investments, at cost plus accrued interest, which approximates market.....	583,945	63,830
Accrued interest receivable.....	31,888	26,492
Accounts receivable and other assets.....	1,701	3,393
Claims against FHA and VA, net of allowance for losses of \$100,000.....	1,761	1,397
Real estate owned, at the lower of cost or estimated realizable value.....	2,598	2,600
Unamortized discount and commissions on mortgage loan sales.....	27,197	103,544
Unamortized debt expense.....	3,946	6,402
	<u>\$4,818,989</u>	<u>\$3,549,700</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Bonds and advances payable, including \$866,507,000 at December 31, 1976 and \$535,825 at August 31, 1977 due within one year.....	\$3,351,074	\$3,211,902
Advances for Special U.S. Treasury Program, including \$79,750,000 due in January, 1977.....	1,171,741	—
<b>Other Liabilities:</b>		
Accrued interest.....	96,489	38,272
Accounts payable and other accrued expenses.....	29,683	109,851
Commitment fees.....	910	3,225
	<u>4,649,897</u>	<u>3,363,250</u>
Reserve for management fee and guarantees.....	13,116	17,680
Guaranteed Mortgage Certificates.....	865,200	1,207,600
Less—Underlying mortgage loans sold, including principal collections held in trust of \$71,250,000 at December 31, 1976 and \$130,194,000 at August 31, 1977.....	865,200	1,207,600
	<u>—</u>	<u>—</u>
<b>Stockholders' Equity:</b>		
Common stock, nonvoting, \$1,000 par value; no maximum authorization; 100,000 shares issued and outstanding.....	100,000	100,000
Retained earnings.....	55,976	68,770
	<u>155,976</u>	<u>168,770</u>
	<u>\$4,818,989</u>	<u>\$3,549,700</u>

The accompanying notes are an integral part of this balance sheet.

# FEDERAL HOME LOAN MORTGAGE CORPORATION

## STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years Ended December 31,					Eight Months Ended August 31,	
	1972	1973	1974	1975	1976	1976	1977
	(000 omitted)					(Unaudited)	
<b>FUNDS PROVIDED:</b>							
Net income .....	\$ 3,862	\$ 11,720	\$ 4,992	\$ 15,508	\$ 14,161	\$ 10,818	\$ 12,794
Charges (credits) to income not affecting funds:							
Amortization of mortgage purchase discount .....	(3,467)	(5,550)	(6,545)	(7,668)	(7,614)	(5,149)	(5,044)
Amortization of debt expense .....	1,004	1,483	1,261	1,532	1,239	884	701
Provision (credit) for losses, management fee and guarantees .....	3,739	14,765	32,577	11,386	(995)	(2,320)	4,610
Funds provided from operations .....	5,138	22,418	32,285	20,758	6,791	4,233	13,061
Mortgage loan principal repayments .....	62,943	110,469	156,659	290,538	456,469	287,644	316,471
Proceeds from issuance of bonds and advances, net of debt expense .....	896,881	1,205,850	1,696,400	211,023	—	—	591,557
Proceeds from advances for Special U.S. Treasury Program .....	—	—	695,000	879,500	—	—	—
Mortgage Loans sold:							
Mortgage Participation Certificates, net of repurchases .....	409,820	407,268	42,771	452,111	937,297	603,357	2,299,644
Guaranteed Mortgage Certificates ..	—	—	—	497,250	398,200	398,200	396,200
FHA/VA .....	—	—	—	66,939	35,425	20,984	7,064
Total funds provided .....	<u>\$1,374,782</u>	<u>\$1,746,005</u>	<u>\$2,623,115</u>	<u>\$2,418,119</u>	<u>\$1,834,182</u>	<u>\$1,314,418</u>	<u>\$3,623,997</u>
<b>FUNDS APPLIED:</b>							
Mortgage loans purchased, net of discount:							
Regular programs .....	\$1,262,286	\$1,314,160	\$1,488,570	\$ 828,808	\$1,125,188	\$ 652,657	\$2,247,537
Special U.S. Treasury Program .....	—	—	677,196	875,672	—	—	—
Bonds and advances retired .....	175,000	151,120	554,935	2,023	698,878	490,900	833,460
Repayments of advances for Special U.S. Treasury Program .....	—	—	—	15,306	387,453	68,511	1,171,741
Decrease (increase) in short-term discount notes .....	—	—	(147,600)	147,600	—	—	(99,566)
Increase (decrease) in cash and temporary cash investments .....	(57,917)	297,680	50,802	599,780	(394,635)	84,560	(514,812)
Other items, net .....	(4,587)	(16,955)	(788)	(51,070)	17,298	17,790	(14,363)
Total funds applied .....	<u>\$1,374,782</u>	<u>\$1,746,005</u>	<u>\$2,623,115</u>	<u>\$2,418,119</u>	<u>\$1,834,182</u>	<u>\$1,314,418</u>	<u>\$3,623,997</u>

The accompanying notes are an integral part of this statement.

# FEDERAL HOME LOAN MORTGAGE CORPORATION

## NOTES TO FINANCIAL STATEMENTS

(Information, insofar as it relates to the eight months ended August 31, 1977  
has not been examined by independent public accountants)

### Summary of Significant Accounting Policies

#### *Recognition of Gain (Loss) on Mortgage Loans*

Federal Home Loan Mortgage Corporation (the "Corporation") provides for estimated losses on mortgage loan purchases, including outstanding commitments, which may be incurred upon the funding of such purchases through a security sale, or upon sale of the loans, and provides allowances for uninsured losses. To the extent a loss is indicated on the financing of mortgage loans, the loss attributable to such financing is charged against the allowance for possible losses which is reflected in the balance sheet as a reduction of mortgage loans. This reduction in the mortgage loans results in additional yield which is recognized over the term of the related borrowing. To the extent a loss is indicated on the sale of mortgage loans in the form of Mortgage Participation Certificates (PCs) or Guaranteed Mortgage Certificates (GMCs), the loss attributable to such sales (including estimated future administrative costs) is recognized currently. Gains or losses on outright sales of mortgage loans without recourse to the Corporation are recognized at the time of sale.

#### *Mortgage Purchase Discount*

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

#### *Unamortized Discount and Commissions on Mortgage Loan Sales*

Mortgage Participation Certificates and Guaranteed Mortgage Certificates (See "Mortgage Loan Sales and Related Matters" note), may be sold at discounts. Discount on Mortgage Participation Certificates is amortized over the life of the related mortgage loans, and discount and brokerage commissions on Guaranteed Mortgage Certificates are amortized over the period to the optional repurchase date, both using the level yield method. This amortization is recorded as a reduction of management fee and guarantee income in the accompanying financial statements.

#### *Amortization of Debt Expense*

Debt expense is amortized over the period during which the related indebtedness is outstanding.

#### *Commitment Fees*

Commitment fees received/paid are deferred and treated as additional mortgage purchase/sales discount when delivery occurs or recognized as income/expense if delivery does not occur.

### Mortgage Loan Sales and Related Matters

The Corporation sells PCs and GMCs representing undivided interests in mortgage loans. The Corporation guarantees the timely payment of interest and the collection of principal on the underlying mortgage loans. Sales of PCs and GMCs provide for the Corporation to manage and guarantee the underlying mortgages. If the Corporation's net yield after estimated management fees and guarantees is less than the effective rate payable to the investor, the Corporation recognizes the estimated loss ("negative interest margin") currently. 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 fee and guarantee income in the accompanying financial statements.

## FEDERAL HOME LOAN MORTGAGE CORPORATION

### NOTES TO FINANCIAL STATEMENTS—Continued

(Information, insofar as it relates to the eight months ended August 31, 1977  
has not been examined by independent public accountants)

Holders of PCs receive interest monthly at the certificate rate together with their pro rata share of principal payments received by the Corporation. The issued certificates have been accounted for as sales, and the mortgage loans and the certificates issued are not included in the accompanying balance sheet. Unpaid balances of the outstanding certificates were approximately \$1.900 billion and \$3.950 billion at December 31, 1976 and August 31, 1977, respectively. At August 31, 1977, the weighted average remaining term to maturity of the related mortgage loans was 28 years. At December 31, 1976 and August 31, 1977, the excess effective interest income rate to the Corporation over that payable to the PC investor was .29% and .16%, respectively. The effective interest income rate to the Corporation and effective rate payable to the investor have been adjusted to semiannual yield equivalent.

Holders of GMCs are paid interest semiannually at the certificate rate, and annually, their pro rata share of principal collected or specified minimum annual principal reductions, whichever is greater. Any GMC holder may, at his option, require the Corporation to repurchase such certificates on a designated "optional repurchase date" at the then unpaid principal balance. At December 31, 1976 and August 31, 1977, the excess effective interest income rate to the Corporation over that payable to the GMC investor was .30% and .34%, respectively. The effective interest income rate to the Corporation has been adjusted to semiannual yield equivalent.

A summary of outstanding GMCs is as follows:

<u>Issue</u>	<u>Issue Date</u>	<u>Optional Repurchase Date</u>	<u>Unpaid Principal Balances</u>	
			<u>December 31, 1976</u>	<u>August 31, 1977</u>
(000 Omitted)				
GMC Series A 1975 .....	02/25/75	03/15/90	\$277,800	\$ 243,000
GMC Series B 1975 .....	11/25/75	09/15/90	187,400	187,400
GMC Series A 1976 .....	02/25/76	03/15/91	200,000	177,200
GMC Series B 1976 .....	08/25/76	09/15/96	200,000	200,000
GMC Series A 1977 .....	01/25/77	03/15/97	—	200,000
GMC Series B 1977 .....	05/25/77	03/15/02	—	200,000
			<u>\$865,200</u>	<u>\$1,207,600</u>

As the Corporation recognizes estimated losses attributable to "negative interest margin" on PCs and GMCs currently, management believes that the principal risk to the Corporation subsequent to the consummation of PC and GMC sales relates to its guarantees of the timely payment of interest and the collection of principal on the underlying mortgage loans and the recovery of future administrative costs relative to the PC and GMC programs.

The maximum contingent liability of \$2.765 billion and \$5.158 billion at December 31, 1976 and August 31, 1977, respectively, plus interest is offset by a like amount of interest bearing mortgage loans underlying the PCs and GMCs. In management's opinion the \$13.1 million and \$17.7 million reserve for management fees and guarantees is adequate to absorb any losses anticipated at December 31, 1976, and August 31, 1977, respectively. In addition, based on a 12 year prepayment assumption, interest margin of \$87.3 million and \$110.4 million will become available to absorb future losses (including administrative costs), if any, attributable to the PCs and GMCs outstanding at December 31, 1976, and August 31, 1977, respectively.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**

**NOTES TO FINANCIAL STATEMENTS—Continued**

**(Information, insofar as it relates to the eight months ended August 31, 1977  
has not been examined by independent public accountants)**

**Mortgage Loans**

As of December 31, 1976 and August 31, 1977, the effective net yield of mortgage loans, adjusted to semiannual annual yield equivalent and adjusted for the effect of discount amortization, less servicing fees was as follows:

	<u>December 31, 1976</u>	<u>August 31, 1977</u>
FHA and VA Mortgages .....	7.78%	7.85%
Participation in Conventional Mortgages .....	9.26%	9.15%
Conventional Mortgages .....	8.94%	9.14%

**Allowance for Possible Losses on Mortgage Loans**

An analysis of the changes in the Allowance for Possible Losses on Mortgage Loans for the periods ended December 31, 1976 and August 31, 1977 follows:

	<u>December 31, 1976</u>	<u>August 31, 1977</u>
	<i>(000 omitted)</i>	
Balance, beginning of period .....	\$16,000	\$9,000
Provision (credit) reflected in current earnings .....	(4,625)	—
Reductions attributable to:		
Loss on sales of Mortgage Participation Certificates	—	—
Loss on mortgages sold .....	<u>(2,375)</u>	<u>(44)</u>
Balance, end of period .....	<u>\$ 9,000</u>	<u>\$8,956</u>

Many factors influence the determination of the Corporation's allowance for possible losses on mortgage loans, including market yields, delinquencies, financing costs, etc. During 1976 this allowance was adjusted downward, reflecting the overall reduction in the level of risk inherent in the Corporation's mortgage loan portfolio.

**Commitments**

The Corporation's outstanding commitments to purchase and sell mortgage loans at December 31, 1976 and August 31, 1977 are summarized below.

*Commitments to Purchase*

The average contract rate on commitments to purchase mortgage loans is determined after deducting servicing fees. Delivery of mortgages under the six-month 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.

	<u>December 31, 1976</u>		<u>August 31, 1977</u>	
	<u>Average Contract Rate</u>	<u>Amount (000 omitted)</u>	<u>Average Contract Rate</u>	<u>Amount (000 omitted)</u>
FHA/VA .....	8.41%	\$ 1,000	8.55%	\$ 553
Conventional Mortgages:				
Home .....	8.61%	227,000	8.64%	927,792
Multifamily .....	9.40%	5,000	9.35%	25,736
Six Month Forward .....	8.59%	100,000	8.76%	398,132
		<u>\$333,000</u>		<u>\$1,352,213</u>

**FEDERAL HOME LOAN MORTGAGE CORPORATION**

**NOTES TO FINANCIAL STATEMENTS—Continued**

**(Information, insofar as it relates to the eight months ended August 31, 1977  
has not been examined by independent public accountants)**

**Commitments to Sell**

The Corporation's PCs are continuously offered for sale under both mandatory and optional delivery programs. Delivery periods range from 7 to 150 days under the mandatory program. Offers where delivery is at the Corporation's option have settlements between 120 and 150 days from the date of the contract. The Corporation pays commitment fees ranging up to 1.0%, depending on the length of delivery period (effective October 11, 1977, the fees paid range up to ¾ of 1%), on all offers with specified delivery beyond 30 days from the date of the contract.

	December 31, 1976		August 31, 1977	
	Average Effective Rate Payable To Investor	Amount (000 omitted)	Average Effective Rate Payable To Investor	Amount (000 omitted)
Mandatory .....	8.00%	\$256,400	8.32%	\$261,500
Optional .....	8.33%	162,700	8.40%	337,300
		<u>\$419,100</u>		<u>\$598,800</u>

**Bonds and Advances**

A summary of bonds and advances payable is as follows:

	December 31, 1976			August 31, 1977	
	Maturity	Interest Rate	Balance (000 omitted)	Interest Rate	Balance (000 omitted)
Advances from Federal Home Loan Bank in the form of a pass-through of short-term discount notes .....		—	—	5.47%	\$ 100,000
Notes to GMC Trusts .....		—	—	6.00	54,288
Bond payable to bank .....	1977/1986	7.75%	19,465	7.75	19,465
Advances from the Federal Home Loan Bank in the form of a pass-through of Consolidated Federal Home Loan Bank Obligations.....					
	1977	8.46	500,000	7.48	65,000
	1978	9.43	300,000	9.43	300,000
	1979	9.50	100,000	9.50	100,000
	1981	8.69	400,000	8.69	360,000
	1982	8.65	190,000	8.65	190,000
	1984	8.78	300,000	8.78	300,000
	1985	—	—	7.58	240,000
	1993	7.41	400,000	7.41	400,000
	1997	—	—	7.91	300,000
			<u>2,190,000</u>		<u>2,255,000</u>
Mortgage-Backed Bonds.....					
	1977	6.24	350,000	—	—
	1978	5.30	51,375	5.30	51,375
	1979	6.06	103,580	6.06	103,580
	1976/1980	5.24	200,193	5.30	199,233
	1985	5.33	3,461	5.33	3,461
	1976/1995	8.69	133,000	8.69	133,000
	1977/1996	7.84	150,000	7.84	142,500
	1997	7.25	150,000	7.25	150,000
			<u>1,141,609</u>		<u>783,149</u>
Bonds and Advances Payable.....			<u>\$3,351,074</u>		<u>\$3,211,902</u>

## FEDERAL HOME LOAN MORTGAGE CORPORATION

### NOTES TO FINANCIAL STATEMENTS—*Concluded*

(Information, insofar as it relates to the eight months ended August 31, 1977  
has not been examined by independent public accountants)

The 1997, 1976/1995, and 1977/1996 Mortgage-Backed Bonds and the 1993 and 1997 advances from the Federal Home Loan Bank are redeemable at the Corporation's option commencing 1982, 1983, 1984, 1983 and 1987, respectively, at their face value. On the 1976/1995 and 1977/1996 Bonds, a sinking fund provides for annual retirements of \$7.0 million and \$7.5 million principal amount of bonds, respectively, commencing in 1976 and 1977. In addition, the Corporation has a noncumulative option to increase the sinking fund amounts each year by an amount not exceeding the annual retirement amounts.

All Mortgage-Backed Bonds are guaranteed as to principal and interest by the 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 December 31, 1976 and August 31, 1977, Trust assets of approximately \$2.1 billion and \$1.6 billion, 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 sheet.

The bond payable to bank is collateralized by a like amount of FHA/VA mortgages and calls for specific annual principal repayments ranging from \$663,000 to \$1,408,000 over the life of the bond with the balance due at maturity.

The Notes to GMC Trusts are collateralized by a like amount of GNMA insured mortgage backed securities. The notes, which mature September 15, 1977, are held by the GMC Trusts pursuant to a provision contained in each GMC Trust Indenture.

#### **Special U.S. Treasury Funded Program**

Pursuant to a joint United States Department of the Treasury-Federal Home Loan Bank System program, the Corporation acquired \$1.575 billion aggregate principal balance of conventional mortgage loans. This program was financed by loans from the Treasury to the Bank System, which in turn passed through the funds to the Corporation. The mortgage loans, with an unpaid principal balance of \$1,091,991,000 at December 31, 1976 and -0- at August 31, 1977 were pledged as collateral for the Treasury loan. The agreement provides that the Corporation's borrowing cost will not exceed its return on the mortgages. The terms of the agreement also provide for the Corporation to make semiannual installments in amounts at least equal to the principal collections on the related mortgage loans pledged as collateral.

The agreement provides that the Corporation may, at its option, retire additional amounts of the Treasury debt. The Corporation, during 1976, elected to retire \$318.9 million of this debt in excess of the required payments. During 1977, the outstanding principal balance of the Advances for Special U.S. Treasury Program was retired with the final payment made on February 25, 1977.

#### **Pension Plan**

In November, 1974, the Corporation established a non-contributory pension plan covering all eligible employees. Total pension expense was approximately \$422,000 and \$343,000 for the year ended December 31, 1976 and the eight months ended August 31, 1977, respectively. The Corporation's policy is to fund pension cost accrued. The pension fund assets exceed the actuarially computed value of vested benefits. In the opinion of management, the pension plan complies with the provisions of the Pension Reform Act of 1974.

# Federal Home Loan Mortgage Corporation

## FHLMC MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT (Guaranteed)

### Series 500

**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 on the books and records of FHLMC, which undivided interests in mortgages are represented by Mortgage Participation Certificates ("PCs").

**WHEREAS:**

(a) Pursuant to Section 305 of the Emergency Home Finance Act of 1970 (the "Act"), FHLMC owns certain mortgages (as defined in Section 302 of the Act), including whole loan mortgages ("whole loans") and undivided participation interests in mortgages ("participations"), identified on the books and records of FHLMC (hereinafter collectively called the "Mortgages"); and

(b) Pursuant to Section 305 of the Act, FHLMC wishes to create and sell undivided interests in the whole loans and participations acquired as set forth above, and to guarantee timely payment of interest and ultimate collection of principal, for the benefit of Holders; and

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

**NOW, THEREFORE**, in consideration of the premises and mutual covenants herein contained, the parties hereby agree as follows:

1. The terms and conditions of this Agreement shall govern the creation of undivided interests in whole loans and participations owned by FHLMC, and the transfer, sale and assignment of such interests in the Mortgages as represented by PCs. FHLMC shall be bound to Holders at such time as it delivers PCs to such Holders.

2. For purposes of determining the Holder's percentage interest in the underlying Mortgages evidenced by a PC, the original unpaid principal balance of the PC shall be divided by the aggregate unpaid principal balance of the specific underlying Mortgages as of the date shown on the face of the PC.

3. To the extent that 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 the Mortgages, other than FHLMC, with regard to the rights, benefits and obligations of the mortgagee under the respective contracts of insurance relating to each of the Mortgages insured by such insurer; and FHLMC shall maintain or supervise custody of the mortgage documents.

#### **Obligations of FHLMC**

4. FHLMC shall pass through to each Holder such Holder's pro rata share of principal payments made in respect to the Mortgages, and its pro rata share of any net income, net profits or any proceeds of the Mortgages, and its pro rata share in any property of whatever character received or acquired in substitution or realization thereof; provided, however, FHLMC's obligations herein shall be subject to FHLMC's rights pursuant to paragraph 12 below in respect to payments made pursuant to FHLMC's guaranty.

5. With respect to such portion of the Mortgages as shall be comprised of whole loans purchased by FHLMC, FHLMC shall remit to each Holder his pro rata share of the interest income received by FHLMC, less fees, if any, chargeable by FHLMC as management and guaranty fees (interest at the coupon rate of each whole loan less fees deducted by the servicer and/or FHLMC equals interest at Certificate Rate).

6. With respect to such portion of the Mortgages as shall be comprised of participations, FHLMC shall remit to each Holder his pro rata share of the interest income received by FHLMC with respect to each participation ("Certificate Yield"), less fees, if any, chargeable by FHLMC as management and guaranty fees (Certificate Yield less fees deducted equals interest at Certificate Rate).

7. FHLMC shall remit to each Holder his pro rata share of principal received by FHLMC and interest to the extent of the Certificate Rate, on or before the first day of the second month following the month in which such payments are to be made by the mortgagors on the Mortgages. FHLMC shall remit any other sums, such as prepayments, prepayment fees, net income or profits or liquidation proceeds, no later than the first day of the second month following the month in which such funds are received by FHLMC.

8. The final payment date specified in the PC may be accelerated by virtue of prepayments of principal or extended by virtue of forbearance affecting any of the whole loans or participations comprising the Mortgages.

9. FHLMC shall service, or supervise servicing of, the Mortgages in a manner consistent with and to the extent required by prudent servicing standards, including management of any property acquired through foreclosure or otherwise. 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. In discharging its responsibility pursuant to this paragraph 9, FHLMC shall not be subject to the control of the Holders in any manner whatsoever. Except with regard to its guaranty obligations pursuant to paragraph 11 below, 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.

10. Any amounts expended by or on behalf of FHLMC 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 as their interests may appear in each of the Mortgages; however, in no event shall the Holder's guarantee of principal or interest at Certificate Rate as set forth in paragraph 11 below be affected.

11. FHLMC hereby guarantees to each Registered Holder of a PC:

(a) Timely payment of interest by each mortgagor at the applicable Certificate Rate on the unpaid principal balance outstanding on each mortgage (to the extent of each Holder's percentage of participation therein); in the case of whole loans, coupon rate of each mortgage less any fees payable by Holder to FHLMC or to servicers as provided herein equals Certificate Rate; in the case of participations, Certificate Yield less any fees payable by Holder to FHLMC as provided herein equals Certificate Rate. In no event shall fees deducted by FHLMC or by servicers reduce the Certificate Rate stated on the PC.

(b) Collection of principal, without offset or deduction of any fees due FHLMC or servicers hereunder. For purposes of this guaranty, 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 the servicer of the Mortgages or by FHLMC under paragraph 10 above. FHLMC shall remit the amount due on account of its guaranty 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 claim by any mortgage insurer, if applicable, or (iii) thirty (30) days following the expiration of any redemption period, whichever occurs later, but in no event later than one (1) year after demand upon the mortgagor for accelerated payment of principal.

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

## **Transfer; Registration; and Lost PCs**

13. 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.

14. 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, unless FHLMC otherwise consents in writing.

15. FHLMC and/or its designated agent shall maintain a register in which shall be registered the Holders of PCs. 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 either of the addresses stated below or to such other address as is subsequently designated by FHLMC for receipt of transfers of PCs:

Registrar of PCs  
Federal Home Loan Mortgage Corporation  
311 First St., N.W.  
Washington, D.C. 20001

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

16. 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 save 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.

## **Miscellaneous**

17. 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 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 any such PC.

18. Issuance by FHLMC to any Holder of a PC evidencing undivided interests in the Mortgages shall be deemed to occur as of the date of settlement and payment for the PC and shall be deemed to constitute a sale, conveyance, assignment and transfer to such Holder of undivided interests in the Mortgages.

19. 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.

20. PCs owned by FHLMC from time to time shall have an equal and proportionate benefit to PCs owned by Holders, without preference, priority or distinction. In the event that FHLMC retains any interest in the Mortgages, FHLMC and Holders shall share pro rata, without preference, priority or distinction. No Holder shall have any priority over any other Holder.

21. This Agreement and the Holder's rights and FHLMC's 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.

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

(Revised June, 1977)