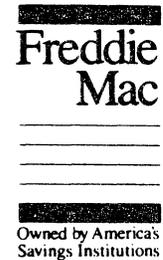


# Federal Home Loan Mortgage Corporation



## Rate Capped Adjustable Rate Mortgage Participation Certificates (Guaranteed)

Rate Capped Adjustable Rate Mortgage Participation Certificates ("Rate Capped ARM PCs") represent undivided interests in specified adjustable rate, first lien, fully amortizing, conventional, 1-4 family residential mortgages or participations therein ("Mortgages"). The Federal Home Loan Mortgage Corporation ("Freddie Mac") has purchased the Mortgages from a single seller ("Seller") in exchange for Freddie Mac Rate Capped ARM PCs representing undivided interests in the same Mortgages. The annual interest rate on a Rate Capped ARM PC ("PC Coupon") adjusts periodically, as described herein, to a rate equal to the applicable Treasury Index plus the applicable PC Margin, subject to the applicable Adjustment Cap on the amount of any single increase or decrease in the PC Coupon, as described herein, and subject to the applicable PC Lifetime Ceiling. The PC Coupon always is rounded to the nearest 0.125%. There is no minimum PC Coupon.

Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method. Freddie Mac also guarantees to each Holder ultimate collection of all principal of the Mortgages, without offset or deduction, to the extent of the Holder's pro rata share thereof.

Each pool of Mortgages consists entirely of Mortgages, the interest rates of which adjust once every three years ("3 Year Rate Capped ARMs") or entirely of Mortgages, the interest rates of which adjust once every five years ("5 Year Rate Capped ARMs"), as described herein. Rate Capped ARM PC Pools are likely to differ in significant respects from each other and from mortgage pools formed under other Freddie Mac programs for Mortgage Participation Certificates.

There currently is no secondary market in Rate Capped ARM PCs, and Freddie Mac can give no assurance that a secondary market in Rate Capped ARM PCs will develop.

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If Seller sells or offers for sale Rate Capped ARM PCs offered hereby, Seller is required by Freddie Mac to furnish to prospective initial purchasers a supplement to this Offering Circular (a "Supplement") that contains information about the Mortgages included in each Rate Capped ARM PC Pool and describes certain characteristics about the Mortgages to the extent such Mortgages differ from the description contained herein.

This Offering Circular should be read in conjunction with any applicable Supplement, Freddie Mac's current Information Statement and any supplement or supplements thereto. See "Availability of Information and Incorporation by Reference."

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**Rate Capped ARM PCs are not guaranteed by and do not constitute debts or obligations of the United States or any Federal Home Loan Bank. Income from the Rate Capped ARM PCs has no exemption under federal law from federal, state or local taxation.**

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**Rate Capped ARM PCs are exempt from the registration requirements of the Securities Act of 1933 and "exempted securities" within the meaning of the Securities Exchange Act of 1934.**

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No dealer, salesperson or other person has been authorized by Freddie Mac to give any information or to make any representations on behalf of Freddie Mac other than those contained in this Offering Circular, Freddie Mac's current Information Statement, any subsequent Information Statement or any supplement to any of the foregoing prepared by Freddie Mac for use in connection with the offer made by this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorized by Freddie Mac. Neither the delivery of this Offering Circular nor any sale of Rate Capped ARM PCs made hereunder shall under any circumstances create an implication that the information provided herein is correct at any time subsequent to the date hereof. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

### OFFERING CIRCULAR SUMMARY

The information set forth below summarizes, and is qualified in its entirety by, the information appearing elsewhere in this Offering Circular.

**Issuer and Guarantor** . . . . . Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States.

**The Securities** . . . . . Rate Capped ARM PCs represent undivided interests in specified Mortgages purchased by Freddie Mac and placed in a discrete pool ("Rate Capped ARM PC Pool"). Each Rate Capped ARM PC Pool is comprised of Mortgages purchased by Freddie Mac from Seller in exchange for Rate Capped ARM PCs representing interests in the same Mortgages. Each Rate Capped ARM PC Pool consists entirely of 3 Year Rate Capped ARMs or entirely of 5 Year Rate Capped ARMs. Each Rate Capped ARM PC Pool comprised of 3 Year Rate Capped ARMs is identified by the two-digit prefix "86." Each Rate Capped ARM PC Pool comprised of 5 Year Rate Capped ARMs is identified by the two-digit prefix "76." The original unpaid principal balance of each Rate Capped ARM PC Pool will be at least \$500,000.

The annual interest rate on a Rate Capped ARM PC ("PC Coupon") adjusts on the first day of the month following the month in which the interest rates on the related Mortgages adjust (the "PC Coupon Adjustment Date"). The PC Coupon adjusts once every three years, in the case of 3 Year Rate Capped ARM PCs, or once every five years, in the case of 5 Year Rate Capped ARM PCs. On each applicable PC Coupon Adjustment Date, the PC Coupon adjusts to a rate equal to the Treasury Index used to adjust the Mortgage Coupons on the related Mortgages plus the specified number of basis points applicable to the Rate Capped ARM PC ("PC Margin"), subject to a limit that no single increase or decrease in the PC Coupon will exceed a specified number of basis points applicable to the Rate Capped ARM PC (the "Adjustment Cap"), and subject to the specified maximum interest rate applicable to the Rate Capped ARM PC ("PC Lifetime Ceiling"). The Adjustment Cap and the PC Lifetime Ceiling applicable to each Rate Capped ARM PC are set forth in the related Supplement. The initial PC Coupon applicable to any Rate Capped ARM PC Pool comprised entirely of Mortgages in their initial fixed-rate period is set with respect to the Mortgage Coupons of the related Mortgages and is not necessarily related to the Index in effect at any particular time. The PC Coupon is always rounded to the nearest 0.125%. There is no minimum PC Coupon applicable to any Rate Capped ARM PC.

Two types of Rate Capped ARM PCs are described in this Offering Circular. A 3 Year Rate Capped ARM PC is a Rate Capped ARM PC as to which the PC Coupon is subject to adjustment once every three years. A 5 Year Rate Capped ARM PC is a Rate Capped ARM PC as to which the PC Coupon is subject to adjustment once every five years.

See "Description of the Rate Capped ARM PCs—The Mortgages" and "—Interest and Principal Payments."

**The Mortgages** . . . . . The Mortgages are adjustable rate, first lien, fully amortizing, 1-4 family conventional residential mortgages or participations therein with original maturities of up to 30 years.

Two types of Mortgages are described in this Offering Circular. A 3 Year Rate Capped ARM is a Mortgage with a Mortgage Coupon that adjusts once every three years. A 5 Year Rate Capped ARM is a Mortgage with a Mortgage Coupon that adjusts every five years.

The Mortgages in certain Rate Capped ARM PC Pools may contain provisions which allow borrowers to convert the adjustable mortgage interest rate of their Mortgages to a fixed rate ("Convertible Mortgages"). Any Mortgage that has been converted into a fixed-rate loan will be repurchased from the related Rate Capped ARM PC Pool by Freddie Mac or the Seller. See "Description of the Rate Capped ARM PCs—The Mortgages."

**The Mortgage Coupon** . . . Each Mortgage bears interest at an annual rate ("Mortgage Coupon") which adjusts once every three years, in the case of 3 Year Rate Capped ARMs, or once every five years, in the case of 5 Year Rate Capped ARMs, to a rate equal to the applicable Treasury Index plus the specified number of basis points applicable to the Mortgage ("Mortgage Margin") (such rate is a "Fully Indexed Rate"), subject to the applicable Adjustment Cap and subject to the specified maximum interest rate applicable to the Mortgage ("Mortgage Lifetime Ceiling"). The amount of any excess of the Fully Indexed Rate over an adjusted Mortgage Coupon will not be accumulated or carried forward. Such amount is not added to the Mortgage Coupon and is not paid to servicers or to Freddie Mac. There is no minimum Mortgage Coupon applicable to any Mortgage. All of the Mortgage Coupons of the Mortgages in a given Rate Capped ARM PC Pool adjust on the same date. The range and weighted averages of the Mortgage Lifetime Ceilings applicable to the Mortgages included in a Rate Capped ARM PC Pool are set forth in the related Supplement. See "Description of the Rate Capped ARM PCs—The Mortgages."

**Payment Adjustments on the Mortgages** . . . . . Prior to the first adjustment of a Mortgage Coupon, the scheduled monthly payment on a Mortgage is the amount which will fully amortize the principal balance of the Mortgage in substantially equal installments over its remaining term and pay interest at the initial Mortgage Coupon. Effective with the first payment due on each Mortgage following each adjustment of the Mortgage Coupon, the scheduled monthly payment is adjusted to the amount which will fully amortize the principal balance of the Mortgage over its remaining term in substantially equal installments and pay interest at the adjusted Mortgage Coupon.

**The Treasury Index** . . . . . The Treasury Index is the weekly average yield of U.S. Treasury securities adjusted to a constant maturity of three years, in the case of 3 Year Rate Capped ARMs, or five years, in the case of 5 Year Rate Capped ARMs, as published by the Federal Reserve Board in Federal Reserve Board Statistical Release No. H.15 (519). The Treasury Index used to adjust a Mortgage Coupon is the most recent Treasury Index available as of the date 45 days prior to the date of such adjustment is effective. The Treasury Index applicable to an adjustment of a PC Coupon is the Treasury Index used to adjust the Mortgage Coupons on the related Mortgages.

**Book-Entry Form; Holders** . . . The Rate Capped ARM PCs are issued and maintained, and may be transferred by Holders (as defined below), only on the book-entry system of a Federal Reserve Bank. Rate Capped ARM PCs may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts Rate Capped ARM PCs have been deposited are referred to herein as "Holders."

A Holder is not necessarily the beneficial owner of a Rate Capped ARM PC. Beneficial owners ordinarily hold Rate Capped ARM PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Rate Capped ARM PC, and each other financial intermediary in the chain between the Holder and the beneficial owner, will have the responsibility of establishing and maintaining accounts for their customers. The rights of a beneficial owner of a Rate Capped ARM PC with respect to Freddie Mac and a Federal Reserve Bank may be exercised only through the Holder of the Rate Capped ARM PC. Freddie Mac and a Federal Reserve Bank will have no direct obligation to a beneficial owner of a Rate Capped ARM PC that is not also the Holder of the Rate Capped ARM PC. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Rate Capped ARM PC.

**Minimum Principal Amounts and Transfers** .....

Rate Capped ARM PCs are issued and must be maintained and transferred in minimum original principal amounts for any Rate Capped ARM PC Pool of \$1,000 and additional increments of \$1. Such amounts represent the Holder's pro rata share of the original unpaid principal balance of the related Mortgages as of the date of Rate Capped ARM PC Pool formation.

**Payment Dates; Methods of Payment** .....

Freddie Mac will pass through payments of principal and interest to Holders on the 15th day of each month, or, if such day is not a Business Day (as defined in Exhibit A attached hereto), on the next succeeding Business Day (a "Payment Date"). Payments are credited monthly on each Payment Date by the Federal Reserve Banks to the Holders' accounts. The Holder and each other financial intermediary in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers.

**Interest** .....

Interest at the PC Coupon is passed through pro rata monthly on the Payment Date, commencing on the Payment Date in the second month following the month in which the Holder becomes a holder of record. See "Record Date" below. Interest is passed through in the amount of one month's interest on the Holder's pro rata share of the unpaid principal balance of the related Mortgages as calculated by Freddie Mac under the Pool Factor method. See "Description of the Rate Capped ARM PCs—Interest and Principal Payments" and "—Pool Factors."

**Principal** .....

Principal is passed through pro rata monthly on the Payment Date, commencing on the Payment Date in the second month following the month in which the Holder becomes a holder of record. See "Record Date" below. All principal payments and determinations of the unpaid principal balance of the related Mortgages are calculated by Freddie Mac under the Pool Factor method. See "Description of the Rate Capped ARM PCs—Interest and Principal Payments" and "—Pool Factors."

**Record Date** .....

A Holder of a Rate Capped ARM PC on the books and records of a Federal Reserve Bank as of the close of business on the last business day of a month (the "Record Date") will be entitled to the payment of principal and interest on the Rate Capped ARM PC for the entire month, which payment will be made on the Payment Date in the second succeeding month.

**Guarantees** .....

Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the aggregate unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method. Freddie Mac also guarantees to each Holder ultimate collection of all principal of the related Mortgages, without offset or deduction, to the extent of such Holder's pro rata share thereof. See "Description of the Rate Capped ARM PCs—Guarantees."

**Timing and Yield Considerations** .....

For a discussion of the time periods between publication of the applicable

Treasury Index, adjustments to the Mortgage Coupons, adjustments to the PC Coupons, and pass through of payments to Holders, see "Description of the Rate Capped ARM PCs—Timing and Yield Considerations."

**Tax Status** ..... Income from the Rate Capped ARM PCs has no exemption under federal law from federal, state or local taxation. Rate Capped ARM PCs constitute (i) "loans secured by an interest in real property" for purposes of determining whether an institution qualifies as a "domestic building and loan association," (ii) "qualifying real property loans" with respect to certain thrift institutions and (iii) "real estate assets" with respect to real estate investment trusts, and interest thereon constitutes "interest on obligations secured by mortgages on real property" with respect to real estate investment trusts. See "Certain Federal Income Tax Consequences."

**Legality of Investment** ..... Rate Capped ARM PCs described herein:

- are acceptable as security for the deposit of public monies subject to the control of the United States or any of its officers;
- are eligible as collateral for Treasury tax and loan accounts;
- are among those securities which national banks may deal in, underwrite and purchase for their own accounts without limitation;
- are eligible as collateral or advances by the Federal Reserve Banks;
- are legal investments for federal savings and loan associations and federal savings banks;
- are eligible as collateral for advances by Federal Home Loan Banks;
- are legal investments for surplus and reserve funds of Federal Home Loan Banks;
- are legal investments for federal credit unions; and
- are considered plan assets for private pension funds under the Employee Retirement Income Security Act of 1974 (and the underlying Mortgages are not considered plan assets).

In addition, any person, trust or business entity created pursuant to or existing under the laws of the United States or any state is authorized to purchase, hold and invest in Rate Capped ARM PCs to the same extent that the investor is authorized to purchase, hold or invest in obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. See "Legality of Investment."

## **FEDERAL HOME LOAN MORTGAGE CORPORATION**

Freddie Mac is a corporate instrumentality of the United States created pursuant to the Federal Home Loan Mortgage Corporation Act (Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459, the "Freddie Mac Act"). The principal activity of Freddie Mac consists of the purchase of first lien, conventional, residential mortgage loans and participation interests in such mortgage loans from mortgage lending institutions and the resale of the whole loans and participations so purchased in the form of guaranteed mortgage securities. Freddie Mac generally matches its purchases of mortgages and sales of guaranteed mortgage securities. Mortgages retained by Freddie Mac are financed with debt and equity capital.

### **AVAILABILITY OF INFORMATION AND INCORPORATION BY REFERENCE**

Freddie Mac prepares an Information Statement annually which describes Freddie Mac, its business and operations and contains Freddie Mac's audited financial statements for the two most recent fiscal years ending prior to the date of such Information Statement. From time to time Freddie Mac prepares an Information Statement supplement which includes certain unaudited financial data and other information concerning the business and operations of Freddie Mac. The most current Information Statement and Information Statement supplement, if any, are incorporated by reference into this Offering Circular and made a part hereof. Any of these documents and any quarterly report prepared and made available by Freddie Mac can be obtained by writing or calling the Investor Inquiry Department at Freddie Mac at P.O. Box 4112, Reston, Virginia 22090 (outside Washington, D.C. metropolitan area, telephone number 800/424-5401, extension 8160; within Washington, D.C. metropolitan area, telephone number 703/759-8160).

### **APPLICATION OF PROCEEDS**

The net proceeds received by Freddie Mac from the sale of the Rate Capped ARM PCs described herein will provide funds for Freddie Mac to engage in activities consistent with its statutory purposes, including purchase of additional mortgages and interests in mortgages, repayment of borrowings and satisfaction of working capital needs. In the case of Rate Capped ARM PCs described herein, such net proceeds are derived from Freddie Mac's management and guarantee fees.

### **DESCRIPTION OF THE RATE CAPPED ARM PCs**

#### **The Rate Capped ARM PCs**

Rate Capped ARM PCs represent undivided interests in the Mortgages which comprise the related Rate Capped ARM PC Pools. Rate Capped ARM PCs are sold under the terms of the Rate Capped Adjustable Rate Mortgage Participation Certificate Agreement dated as of July 1, 1988 ("Rate Capped ARM PC Agreement") included in this Offering Circular as Exhibit A, which qualifies this summary in its entirety. Holders and anyone having a beneficial interest in Rate Capped ARM PCs should refer to the Rate Capped ARM PC Agreement for a complete description of their rights and obligations and the right and obligations of Freddie Mac with respect to the Rate Capped ARM PCs. Each Holder acquires a Rate Capped ARM PC subject to all the terms and conditions of the Rate Capped ARM PC Agreement.

The Mortgage Coupons of all the Mortgages in a Rate Capped ARM PC Pool adjust on the same date, which date may vary from pool to pool. The PC Coupon adjusts on the applicable PC Coupon Adjustment Date which is the first day of the month following the month in which the Mortgage Coupons of the related Mortgages adjust. The PC Coupons adjust once every three years, in the case of 3 Year Rate Capped ARM PCs, or once every five years, in the case of 5 Year Rate Capped ARM PCs. On each applicable PC Coupon Adjustment Date, the PC Coupon adjusts to a rate equal to the Treasury Index used to adjust the Mortgage Coupons of the related Mortgages in the preceding month, plus the applicable PC Margin, subject to the applicable Adjustment Cap and applicable PC Lifetime Ceiling. The PC Coupon applicable to a given payment on a Rate Capped ARM PC is the PC Coupon for the second month preceding the month in which

the payment is made. The initial PC Coupon is set with respect to the Mortgage Coupons of the related Mortgages and not necessarily with respect to the Treasury Index in effect at any particular time.

Two types of Rate Capped ARM PCs are described in this Offering Circular. A 3 Year Rate Capped ARM PC is a Rate Capped ARM PC as to which the PC Coupon is subject to adjustment once every three years. A 5 Year Rate Capped ARM PC is a Rate Capped ARM PC as to which the PC Coupon is subject to adjustment once every five years.

For each Mortgage, the difference between the amount of interest at the applicable Mortgage Coupon and the amount of interest remitted to Freddie Mac by the servicer is retained by the servicer as its servicing fee. Similarly, the difference between the amount of interest remitted to Freddie Mac by the servicer and the amount of interest passed through to Holders by Freddie Mac is retained by Freddie Mac as its management and guarantee fee. The servicing fee retained by a servicer with respect to any Mortgage in a Rate Capped ARM PC Pool may vary by up to 25 basis points during the life of the Mortgage. The maximum servicing fee on any Mortgage in a Rate Capped ARM PC Pool is 2%.

The Mortgage Margins on the Mortgages may vary within a 1% range in a Rate Capped ARM PC Pool. For each Mortgage, the Mortgage Margin less the servicing fee and Freddie Mac's management and guarantee fee equals the PC Margin for the related Rate Capped ARM PC Pool.

The Mortgage Coupons on the Mortgages may vary within a 1% range in a Rate Capped ARM PC Pool. The lowest Mortgage Coupon on any Mortgage is greater than or equal to the corresponding PC Coupon on the related Rate Capped ARM PCs. Disproportionate rates of principal payments between Mortgages bearing relatively low and high Mortgage Coupons will not affect the PC Coupon because the PC Coupon is determined by the applicable Treasury Index plus the amount of the applicable PC Margin, subject to the applicable PC Lifetime Ceiling.

The initial PC Coupon, the PC Margin, the PC Lifetime Ceiling and initial PC Coupon Adjustment Date for each Rate Capped ARM PC Pool will be set forth in the related Supplement.

### **The Mortgages**

The Mortgages are adjustable rate, first lien, fully amortizing, residential mortgages or participations therein secured by 1-4 family dwellings. The Mortgages have been purchased by Freddie Mac from Seller in exchange for Rate Capped ARM PCs representing interests in the same Mortgages. The minimum participation interest purchased by Freddie Mac is 50% and the maximum participation interest is 95%. The Mortgages are conventional mortgages and therefore do not have the benefit of any guarantee or insurance by the United States or any agency or instrumentality of the United States other than the Freddie Mac guarantees described herein. Mortgages secured by nonowner-occupied properties (including second homes or investment properties) may be included in Rate Capped ARM PC Pools. The Mortgages have original terms to maturity not exceeding 360 months, calculated from the date one month prior to the first scheduled monthly payment of principal and interest on each Mortgage, and will require scheduled monthly payments to be paid on the first day of the month.

Each Mortgage bears interest at a Mortgage Coupon which adjusts once every three years, in the case of 3 Year Rate Capped ARMs, or once every five years, in the case of 5 Year Rate Capped ARMs, to a rate equal to the applicable Treasury Index plus the applicable Mortgage Margin (such rate is a "Fully Indexed Rate"), subject to the applicable Adjustment Cap and to the applicable Mortgage Lifetime Ceiling. Adjustments to the Mortgage Coupons of each Mortgage in a Rate Capped ARM PC Pool occur on a specified day which is the first day of a month; subsequent adjustments to the Mortgage Coupons occur once every three years, in the case of 3 Year Rate Capped ARMs, or once every five years, in the case of 5 Year Rate Capped ARMs, thereafter. The amount of any excess of the Fully Indexed Rate over an adjusted Mortgage Coupon is not accumulated or carried forward, and is not paid to servicers or to Freddie Mac. There is no minimum Mortgage Coupon applicable to any Mortgage.

Prior to the first adjustment of the Mortgage Coupon on a Mortgage, the amount of a borrower's scheduled monthly payment is the amount which will fully amortize the original principal balance of the Mortgage in substantially equal installments over its remaining term and pay interest at the initial Mortgage

Coupon. After the initial fixed-rate period, a Mortgage Coupon adjusts once every three years, in the case of 3 Year Rate Capped ARMs, or once every five years, in the case of 5 Year Rate Capped ARMs. On the first day of the month following the month in which the Mortgage Coupon on a Mortgage adjusts, the borrower is required to begin making scheduled monthly payments in the amount which will fully amortize the then remaining principal balance of the Mortgage in substantially equal installments over its remaining term and pay interest at the adjusted Mortgage Coupon.

The Mortgages in certain Rate Capped ARM PC Pools may be Convertible Mortgages. Convertible Mortgages contain provisions which allow borrowers to convert the adjustable mortgage interest rate of their Mortgages to a fixed rate. Any Mortgage that has been converted to a fixed-rate loan will be repurchased from the related Rate Capped ARM PC Pool by Freddie Mac or the Seller. The terms and conditions of the conversion option will be set forth in the related Supplement.

For information about the Mortgages included in a particular Rate Capped ARM PC Pool, see the related Supplement. To the extent that the Mortgages in a Rate Capped ARM PC Pool differ from the description of the Mortgages contained herein, such variations will be described in the related Supplement. For a description of Freddie Mac's general mortgage purchase standards, see "Mortgage Purchase and Servicing Standards."

### **The Rate Capped ARM PC Pools**

Each Rate Capped ARM PC Pool consists entirely of 3 Year Rate Capped ARMs or entirely of 5 Year Rate Capped ARMs. Each Rate Capped ARM PC Pool comprised of 3 Year Rate Capped ARMs will be identified by the two-digit prefix "86." Each Rate Capped ARM PC Pool comprised of 5 Year Rate Capped ARMs will be identified by the two-digit prefix "76." Each Rate Capped ARM PC Pool will have an original unpaid principal balance of at least \$500,000.

Rate Capped ARM PC Pools may differ with respect to matters such as: number of Mortgages; the original unpaid principal balance of the pools; the geographic location of the mortgaged properties; the remaining maturities and ages of the Mortgages; types of borrowers; types of dwellings securing the Mortgages; number of Mortgages secured by properties not occupied by borrowers as their primary residences; and the nature and extent of any special financing arrangements. A particular Rate Capped ARM PC Pool may or may not include Mortgages which are located in a single geographic area or in a single state. Except as specifically set forth herein, Freddie Mac makes no representations as to the characteristics of the Mortgages which comprise any Rate Capped ARM PC Pool. See "The Mortgages."

Unless otherwise agreed to in connection with a particular offering of Rate Capped ARM PCs, once a Mortgage is identified to a Rate Capped ARM PC Pool, the Mortgage will remain in that Rate Capped ARM PC Pool unless it is paid in full, foreclosed upon, substituted for, or repurchased. A Mortgage may be repurchased from a Rate Capped ARM PC Pool as a result of a material breach of warranty, representation or agreement by Seller; as a result of defects in documentation or other rights of recourse to Seller; in connection with certain payment plans and bankruptcy court actions; by virtue of Freddie Mac's guarantee of principal collection; in order to maintain proper servicing of the Mortgages or to minimize loss; as a result of the borrower's exercise of the conversion option of a Convertible Mortgage; and under certain other circumstances. The proceeds of any Mortgage repurchased will be passed through to Holders as if the Mortgage had been prepaid. In determining whether a Mortgage should be repurchased, Freddie Mac considers a variety of factors, including whether a repurchase will reduce Freddie Mac's administrative costs or Freddie Mac's likely exposure under its guarantee of collection of principal.

In the event of a material breach of a warranty, representation or agreement in the purchase documents, a failure to comply with any term or condition in the purchase documents, or a defect in documentation, Freddie Mac may also require Seller, within six months of the purchase of a Mortgage, to substitute a mortgage of comparable type, unpaid principal balance, remaining maturity, and other required mortgage characteristics applicable to the related Rate Capped ARM PC Pool.

## **The Treasury Index**

The "Treasury Index" is the weekly average yield of U.S. Treasury securities, adjusted to a constant maturity of three years, in the case of 3 Year Rate Capped ARMs, or five years, in the case of 5 Year Rate Capped ARMs. Weekly figures, published on Monday or Tuesday, are averages of the seven calendar days ending on Wednesday of the previous week. Yields on Treasury securities at "constant maturity" are estimated from the Treasury's daily yield curve. This curve is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations reported by five leading U.S. Government securities dealers to the Federal Reserve Bank of New York. This method permits estimation of the yield for a three- or five-year maturity, for example, even if no outstanding security has exactly such time remaining to maturity. The Treasury Index is the index which is published in Federal Reserve Statistical Release No. H.15 (519). Statistical Release No. H.15 (519) may be obtained by writing or calling the Publications Department at the Board of Governors of the Federal Reserve System, 21st and C Streets, Washington, D.C. 20551 (202/452-3244). The Treasury Index used to adjust a Mortgage Coupon is the most recent Treasury Index available as of the date 45 days prior to the date such adjustment is effective. The Treasury Index applicable to an adjustment of a PC Coupon is the Treasury Index used to adjust the Mortgage Coupons of the related Mortgages. In the event that the Treasury Index becomes unavailable, Freddie Mac will employ a new index based upon comparable information and methodology.

For a discussion of the delays between publication of the applicable Treasury Index, adjustments to the Mortgage Coupons, adjustments to the PC Coupon, and pass through of payments to Holders, see "Timing and Yield Considerations."

## **Pool Factors**

A Pool Factor is a seven-digit decimal calculated by Freddie Mac which represents the unpaid principal balance of the Mortgages in the related Rate Capped ARM PC Pool as of the end of the preceding monthly reporting period, stated as a fraction of the original unpaid principal balance of such Mortgages. The amount of a Holder's pro rata share of the unpaid principal balance of the Mortgages for a given month can be determined by multiplying the original unpaid principal balance of such Holder's Rate Capped ARM PC by the Pool Factor published in that month. Pool Factors for Rate Capped ARM PCs will be published on or about the seventh business day of each month. The names of the publishers from which a compilation of Pool Factors may be purchased may be obtained by calling Freddie Mac's Investor Inquiry Department (outside Washington, D.C. metropolitan area, telephone 800/424-5401, extension 8160; within Washington, D.C. metropolitan area, telephone 703/759-8160).

Servicers report to Freddie Mac with respect to a reporting period that commences on the 16th day of a given month and concludes on the 15th day of the following month. For example, principal payments reported to Freddie Mac by servicers for the month of February are those received by the servicer for the period from January 16 through February 15.

The Pool Factor for a Rate Capped ARM PC Pool for a particular month reflects the unpaid principal balance of the Mortgages in that Rate Capped ARM PC Pool as of the end of the preceding monthly reporting period, based on the unpaid principal balances reported by the servicers, after giving effect to the payment of principal to be made in the next following month. For example, the Pool Factor for a Rate Capped ARM PC Pool published in March represents the unpaid principal balance of the related Mortgages as of February 15. To the extent that a given Pool Factor may not reflect the actual unpaid principal balance of the Mortgages, Freddie Mac will correct any difference as soon as practicable by adjustment of subsequent Pool Factors.

The Rate Capped ARM PC Agreement permits Freddie Mac to make payments of principal and interest to Holders based on the unpaid principal balance of the related Mortgages as determined by the Pool Factor. Interest on Rate Capped ARM PCs is paid based on the unpaid principal balance of the Mortgages as determined by the Pool Factor for the second month prior to the month in which a payment is made. Principal on Rate Capped ARM PCs is paid in an amount based on the difference between the Pool Factor the second month prior to the month in which payment is made and the Pool Factor for the month prior to the month in

which payment is made. For example, a Holder's April payment contains an interest payment at the February PC Coupon on the Holder's pro rata share of the unpaid principal balance represented by the Pool Factor published in February and a principal payment based on the difference between the Pool Factors published in February and March. See "Interest and Principal Payments."

The following illustrates the application of the Pool Factor method to a hypothetical Rate Capped ARM PC Pool formed on April 22 (*i.e.*, after the 15th day of the month):

|                          |   |
|--------------------------|---|
| April 1 .....            | The initial Pool Factor, which is not published, is equal to 1.0000000.   |
| April 22 .....           | The Rate Capped ARM PC Pool is formed. The original unpaid principal balance of the Rate Capped ARM PCs is equal to the unpaid principal balance of the Mortgages as of April 1, as reported at delivery to Freddie Mac by Seller (the "Original Unpaid Principal Balance").  |
| By April 29 .....        | Within five business days after Rate Capped ARM PC Pool formation, servicers report and remit any prepayments in full of Mortgages which are received from April 1 through April 22 and repurchase any Mortgages that became delinquent during such period.   |
| On or about May 9.....   | The May Pool Factor is published. The May Pool Factor, which will be equal to 1.0000000, will not reflect a reduction in the unpaid principal balance because the servicer's first report of the outstanding principal balance of the Mortgages is not due until May 15 and, therefore, will not be available as of the date of Pool Factor publication.  |
| By May 22.....           | Within five business days after May 15, servicers report the unpaid principal balance of the Mortgages as of May 15. This balance will be used in calculating the June Pool Factor and will reflect principal payments received by servicers (including full and partial prepayments), and any repurchases of Mortgages by servicers from April 1 through May 15.                                     |
| On or about June 9 ..... | The June Pool Factor is published, reflecting the May 15 unpaid principal balance reported by servicers, including full and partial prepayments, and any repurchases of Mortgages as of May 15.   |
| June 15 .....            | The first payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the April and May Pool Factors multiplied by the Original Unpaid Principal Balance. The aggregate interest payment to Holders is equal to the PC Coupon for the month of April multiplied by the unpaid principal balance as determined by the April Pool Factor.                 |
| By June 22 .....         | Within five business days after June 15, servicers report the outstanding principal balance of the Mortgages as of June 15. This balance will be used in calculating the July Pool Factor and will reflect principal payments received by servicers, including full and partial prepayments, from May 16 through June 15.   |
| On or about July 9 ..... | The July Pool Factor is published, reflecting the June 15 unpaid principal balance reported by servicers, including full and partial prepayments, and any repurchases of Mortgages as of June 15.   |
| July 15 .....            | The second payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the May and June Pool Factors multiplied by the Original Unpaid Principal Balance. The aggregate interest payment to Holders is equal to the PC Coupon for the month of May multiplied by the unpaid principal balance of the Mortgages as determined using the May Pool Factor. |

Subsequent months follow the pattern as illustrated for July. Application of the Pool Factor method to a hypothetical Rate Capped ARM PC Pool formed on or before the 15th day of a month differs from the illustration set forth above, in that the second Pool Factor, which is published on or about the seventh business day of the month after the month of formation of the Rate Capped ARM PC Pool (May 9 in the illustration above), reflects the unpaid principal balance of the Mortgages as of the 15th day of the month of pool formation (April in the illustration above). This reflects principal payments received by servicers, including full and partial prepayments, and repurchases by servicers that were made between the 1st and the 15th days of the month of pool formation as reported to Freddie Mac by the servicers within five business days of April 15.

Use of the Pool Factor method determines the timing of receipt of payments by Holders but does not affect Freddie Mac's guarantees of timely payment of interest at the applicable PC Coupon and ultimate collection of principal of the Mortgages.

### **Interest and Principal Payments**

A Holder will receive interest monthly at the applicable PC Coupon on its pro rata share of the unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method. The PC Coupon applicable to a given payment is the PC Coupon in effect for the second month preceding the month of the payment. See "Pool Factors." For purposes of computing payments of interest, all principal payments with respect to the related Mortgages are deemed to have been made on the first day of a calendar month. Interest at the applicable PC Coupon is computed on the basis of a 360-day year of twelve 30-day months.

A Holder will receive monthly its pro rata share of all principal payments on the related Mortgages received by Freddie Mac, including any scheduled principal payments, full and partial prepayments of principal, and principal received by virtue of condemnation, insurance or foreclosure. A Holder also is entitled to receive its pro rata share of repurchases of the Mortgages by Freddie Mac or by the Seller of the Mortgages.

On the settlement date for the Mortgages, Freddie Mac pays to the Seller an amount of interest equal to the difference between (1) the amount of interest paid to Freddie Mac by servicers on the Mortgages, and (2) the amount of interest at the applicable PC Coupon, both for the period from the first day of the month of settlement to the day prior to the date of settlement, inclusive.

Freddie Mac normally receives from servicers payments of principal (including partial prepayments) and interest made with respect to the Mortgages on the first Tuesday of the month following the monthly reporting period in which the payments were made. Servicers remit full prepayments of principal within five business days of the date on which such payments were made to servicers. Pending payment to Holders as described above, Freddie Mac may invest these funds at its own risk and for its own benefit.

### **Guarantees**

Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method. Freddie Mac also guarantees to each Holder ultimate collection of all principal of the related Mortgages, without offset or deduction, to the extent of the Holder's pro rata share of the unpaid principal balance of the Mortgages, but does not guarantee the timely payment of scheduled principal. Pursuant to its guarantees, Freddie Mac indemnifies Holders against any diminution in principal by reason of charges for property repairs, maintenance and foreclosure.

Freddie Mac may pay the amount due on account of its guarantee of ultimate collection of principal at any time after default on an underlying Mortgage, but not later than 30 days following (i) foreclosure sale, (ii) payment of the claim by any mortgage insurer, or (iii) the expiration of any right of redemption, whichever occurs later, but in any event no later than the earlier of one year after demand has been made upon the mortgagor for accelerated payment of principal or for payment of the principal due on the maturity of a Mortgage.

In taking actions regarding the collection of principal after default on the Mortgages in a Rate Capped ARM PC Pool, including the timing of the demand for acceleration, Freddie Mac requires servicers to service the Mortgages in substantially the same manner as for mortgages of the same type which Freddie Mac has purchased but not sold. The effect that Freddie Mac's servicing policies (as well as a borrower's bankruptcy proceeding) may have on the timing of the demand for accelerated payment of principal and on payment pursuant to Freddie Mac's guarantee of ultimate collection of principal is described in "Mortgage Purchase and Servicing Standards—Mortgage Servicing—Defaults and Delinquencies."

**RATE CAPPED ARM PCs ARE NOT GUARANTEED BY AND DO NOT CONSTITUTE DEBTS OR OBLIGATIONS OF THE UNITED STATES OR ANY FEDERAL HOME LOAN BANK.**

**Timing and Yield Considerations**

The scheduled monthly payments on the Mortgages adjust once every three years, in the case of 3 Year Rate Capped ARMs, or once every five years, in the case of 5 Year Rate Capped ARMs. The first Rate Capped ARM PC payment reflecting an adjustment to scheduled monthly payments on the Mortgages will be passed through to Holders on the Payment Date in the second month following the month in which the adjusted scheduled monthly payments are first made by the borrowers. The following table illustrates the timing of the various adjustments and receipt by Holders of related Rate Capped ARM PC payments for a hypothetical Rate Capped ARM PC Pool having a PC Coupon Adjustment Date of August 1.

|                 |   |
|-----------------|---|
| May 12.....     | Treasury Index becomes available.   |
| July 1.....     | Mortgage Coupons are adjusted based on the Treasury Index available May 12.   |
| August 1.....   | Borrowers make the first adjusted monthly payments at the adjusted Mortgage Coupons. The PC Coupon adjusts to reflect adjustment in the related Mortgage Coupons. |
| October 15..... | First payment to Holders including interest at the adjusted PC Coupon, which payment reflects the adjusted scheduled monthly payments on the Mortgages.           |

If the hypothetical Rate Capped ARM PC Pool illustrated above were comprised of 3 Year Rate Capped ARMs, the related PC Coupon would next adjust on May 1 in the third following year. If the hypothetical Rate Capped ARM PC Pool illustrated above were comprised of 5 Year Rate Capped ARMs, the related PC Coupon would next adjust on May 1 in the fifth following year.

**Final Payment Date**

The Final Payment Date of the Mortgages in a Rate Capped ARM PC Pool is the first day of the month in which the last monthly payment on the latest maturing Mortgage in the Rate Capped ARM PC Pool is scheduled to be made. The Final Payment Date of the Mortgages in a Rate Capped ARM PC Pool may reflect the maturity date of only a single Mortgage within that Rate Capped ARM PC Pool.

Holders may receive the final payment of interest and principal on the Mortgages before the Final Payment Date because of prepayments and repurchases. Holders may receive payments after the Final Payment Date because of the up to 75-day delay in the pass through of payments on the Mortgages. Payment plans, periods of forbearance or other actions which delay the receipt of payments by Freddie Mac may also result in payments to Holders after the Final Payment Date. See "Mortgage Purchase and Servicing Standards—Mortgage Servicing."

**Weighted Average Life and Payment Behavior**

The weighted average life of a Rate Capped ARM PC will depend upon the amount of principal, including both scheduled and unscheduled payments, that is paid to Holders. With respect to the types of mortgages included in the Rate Capped ARM PC Pools, Freddie Mac is not aware of any publicly available

statistics that set forth prepayment experience over a meaningful period of time, and Freddie Mac has no experience with respect to mortgages of the type included in Rate Capped ARM PC Pools and is unable to draw any conclusions with respect to the weighted average life of Rate Capped ARM PCs.

The payment behavior of Mortgages included in a Rate Capped ARM PC Pool may be influenced by a variety of economic, tax, social, geographic, demographic, legal and other factors. Freddie Mac believes that in a fluctuating interest rate environment the predominant factor affecting the payment rate on a large, newly originated, geographically diverse group of mortgages underwritten on a consistent basis is the difference between the interest rates of the mortgages in that group and prevailing mortgage interest rates during the terms to maturity of the mortgages in that group.

Other factors affecting payment behavior on the Mortgages included in a Rate Capped ARM PC Pool may include: the age, payment terms and geographic distribution of the Mortgages; characteristics of the borrowers; the availability of mortgage financing; the extent to which the Mortgages are refinanced or the underlying properties are sold or conveyed; whether the Mortgages are Convertible Mortgages; changes in local industry and population migration as they affect housing turnover; and the use of second-lien or other individualized financing arrangements. The relative effect of these factors may vary over time.

The number of foreclosures of Mortgages included in a Rate Capped ARM PC Pool and the number of repurchases of Mortgages will also affect payment behavior. For certain information concerning delinquencies, defaults and foreclosures of mortgages sold or retained by Freddie Mac under other mortgage purchase programs, see “Business—Delinquencies, Defaults and Foreclosures” in the Information Statement. The amount of defaulting borrowers’ equity in real properties securing Mortgages may affect the frequency with which foreclosures occur. In addition, servicing decisions made with respect to the Mortgages, including the use of payment plans prior to demand for acceleration and the restructuring of Mortgages in bankruptcy proceedings, may also have an impact upon the payment behavior of the Mortgages in particular Rate Capped ARM PC Pools. For a description of Freddie Mac’s servicing policies, see “Mortgage Purchase and Servicing Standards—Mortgage Servicing.”

Freddie Mac makes no representation as to the weighted average life of any Mortgages in any Rate Capped ARM PC Pool or the percentage of the Original Unpaid Principal Balance of the Mortgages in any Rate Capped ARM PC Pool which will be paid to Holders at any particular point in time. The Mortgages in any particular Rate Capped ARM PC Pool may experience a rate of principal payment which is different from the principal payment rate for mortgages in other adjustable-rate PC Pools and for mortgages in fixed-rate PC Pools.

#### **Book-Entry Form, Holders, Minimum Principal Amounts and Transfers**

Freddie Mac sells Rate Capped ARM PCs only in book-entry form. Freddie Mac’s fiscal agent for Rate Capped ARM PCs is the Federal Reserve Bank of New York. Each of the Federal Reserve Banks maintains book-entry accounts for Rate Capped ARM PCs. The Fiscal Agency Agreement between Freddie Mac and the Federal Reserve Bank of New York makes generally applicable to Rate Capped ARM PCs the Freddie Mac book-entry regulations, 1 C.F.R. Part 462, and such procedures, insofar as applicable, as may from time to time be established by regulations of the United States Department of the Treasury governing United States securities, and such other procedures as shall be agreed upon from time to time by Freddie Mac and the Federal Reserve Bank of New York. These regulations and procedures relate primarily to registration, transfer and pledge of Rate Capped ARM PCs. Each Rate Capped ARM PC Pool is assigned a unique nine-character designation used to identify the Rate Capped ARM PC Pool on the records of a Federal Reserve Bank (the “CUSIP Number”).

Rate Capped ARM PCs are issued and must be maintained and transferred only on the book-entry system of a Federal Reserve Bank in minimum original principal amounts, by Rate Capped ARM PC Pool, of \$1,000 and in additional increments of \$1. Such amounts represent the Holder’s pro rata share of the original unpaid principal balance of the Mortgages as of the date of formation of the related Rate Capped ARM PC Pool. A Rate Capped ARM PC may not be transferred if, as a result of the transfer, the transferor or the

transferee would have on deposit in its account Rate Capped ARM PCs having an original unpaid principal balance of less than \$1,000 in respect of the related Rate Capped ARM PC Pool.

Rate Capped ARM PCs may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as entities for whose accounts Rate Capped ARM PCs have been deposited are referred to herein as “Holders.” A Federal Reserve Bank’s book-entry records will reflect a Holder’s aggregate holdings of Rate Capped ARM PCs by account.

A Holder is not necessarily the beneficial owner of a Rate Capped ARM PC. Beneficial owners ordinarily hold Rate Capped ARM PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. For example, an individual purchaser may hold a Rate Capped ARM PC through a brokerage firm which, in turn, holds the Rate Capped ARM PC through an entity eligible to maintain book-entry accounts with a Federal Reserve Bank. In such case, the beneficial owner of the Rate Capped ARM PC would be the individual purchaser and the entity whose name appears on the records of a Federal Reserve Bank as the entity for whose account the Rate Capped ARM PC was deposited would be the Holder. A Holder that is not the beneficial owner of a Rate Capped ARM PC, and each other financial intermediary in the chain between the Holder and the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a Rate Capped ARM PC with respect to Freddie Mac and a Federal Reserve Bank may be exercised only through the Holder of the Rate Capped ARM PC. Freddie Mac and a Federal Reserve Bank will have no direct obligation to a beneficial owner of a Rate Capped ARM PC that is not also the Holder of the Rate Capped ARM PC. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Rate Capped ARM PC.

A Federal Reserve Bank credits interest and principal to Holders on the 15th day of each month, or if such day is not a Business Day (as defined in the Rate Capped ARM PC Agreement), on the next succeeding Business Day (“Payment Date”). A Holder of a Rate Capped ARM PC on the books and records of a Federal Reserve Bank as of the close of business on the last business day of a month (the “Record Date”) shall be entitled to payment of principal and interest on the Rate Capped ARM PC for the entire month, which payment will be made on the Payment Date in the second succeeding month. For the purposes of determining a Record Date, the last business day of the month means a day other than (1) a Saturday or Sunday, (2) a day on which the Federal Reserve Bank of New York (or other agent acting as Freddie Mac’s fiscal agent) is authorized or obligated by law or executive order to remain closed, or (3) a day on which the Federal Reserve Bank at which the Holder’s account is maintained is authorized or obligated by law or executive order to remain closed.

The first credit to a Holder’s account will be made on the Payment Date in the second month following the month in which such Holder’s settlement on the Rate Capped ARM PC occurred. This payment procedure may result in a delay in the receipt of the initial payment of up to 75 days. Thereafter, payments will be received by the Holder on each succeeding Payment Date.

### **Remedies**

In the event of Freddie Mac’s default in the payment of principal or interest or in the performance of any other covenants in the Rate Capped ARM PC Agreement, all to the extent and as set forth in the Rate Capped ARM PC Agreement, the Holders of a majority in aggregate unpaid principal balance of the Rate Capped ARM PCs in respect of any affected Rate Capped ARM PC Pool may, subject to certain notice requirements and the rights of Freddie Mac and other Holders, remove Freddie Mac and nominate a successor under the Rate Capped ARM PC Agreement. Appointment of a successor does not relieve Freddie Mac of its guarantee obligations as set forth in the Rate Capped ARM PC Agreement. The right of a Holder to receive payment of interest or principal due in respect of the Holder’s Rate Capped ARM PC or to institute suit for enforcement of any such payment cannot be impaired without the consent of such Holder. For complete information concerning Holders’ rights and remedies with respect to a Rate Capped ARM PC, see the Rate Capped ARM PC Agreement.

## CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following is intended to provide general tax information relating to Rate Capped ARM PCs. The summary is based upon laws, regulations and decisions now in effect, all of which are subject to change or different interpretations. Potential investors should consult their own tax advisors regarding the federal tax treatment of the Rate Capped ARM PCs as well as the consequences of state, local and foreign tax laws.

Neither the Rate Capped ARM PCs nor the income derived therefrom is exempt from federal income, estate or gift taxes under the Internal Revenue Code of 1986, as amended (the "Code") by virtue of the status of Freddie Mac as a corporate instrumentality of the United States. Further, neither the Code nor the Freddie Mac Act contains an exemption from taxation of the Rate Capped ARM PCs or the income derived therefrom by any state, any possession of the United States or any local taxing authority.

Each Holder will be furnished with annual information for federal income tax purposes that will itemize with respect to each Rate Capped ARM PC held the total amount of interest due from mortgagors at the interest rates on the underlying Mortgages, the servicers' fees, Freddie Mac's management and guarantee fees, principal paydowns and the total amount of interest paid on the Rate Capped ARM PCs at the PC Coupon for the calendar year.

### General Tax Characteristics

Rate Capped ARM PCs have the following characteristics for federal income tax purposes:

(A) A Rate Capped ARM PC Pool formed as described herein will not be classified as an association taxable as a corporation, but rather will be classified as a grantor trust under Subpart E, Part I of Subchapter J of the Code. Subject to the potential application of the "stripped bond" rules discussed below, each beneficial owner of a Rate Capped ARM PC ("Beneficial Owner") will be treated as the owner of a pro rata undivided interest in the ordinary income and the corpus of the grantor trust for that particular Rate Capped ARM PC Pool, and will be considered the owner of a pro rata undivided interest in each of the Mortgages included therein. Accordingly, each Beneficial Owner will be required to report on its federal income tax return its pro rata share of the entire income from the Mortgages, including gross interest income on the Mortgages and incidental fees, if any, in accordance with its method of accounting. Each Beneficial Owner will be entitled to deduct, under Section 162 or 212 of the Code, in accordance with its method of accounting, its pro rata share of the servicer's fees and Freddie Mac's management and guarantee fees, including incidental fees paid by the borrowers and retained by servicers or Freddie Mac. The Tax Reform Act of 1986 (the "1986 Act") limits the deduction for a Beneficial Owner's share of the fees in the case of (i) estates and trusts, and (ii) individuals owning an interest in a Rate Capped ARM PC directly or through an investment in a "pass-thru entity" (other than in connection with such individual's trade or business). Pass-thru entities include partnerships, S corporations, grantor trusts and mutual funds, but do not include estates, non-grantor trusts, cooperatives and real estate investment trusts. Generally, such deduction, when aggregated with certain of the Beneficial Owner's other miscellaneous itemized deductions, is allowable only to the extent that such aggregate amount exceeds 2 percent of the Beneficial Owner's adjusted gross income.

(B) Rate Capped ARM PCs constitute "loans . . . secured by an interest in real property" within the meaning of Section 7701(a)(19)(C)(v) of the Code for purposes of determining whether an institution qualifies as a "domestic building and loan association." Rate Capped ARM PCs also constitute "qualifying real property loans" within the meaning of Section 593(d) of the Code.

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

(D) 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 Rate Capped ARM PCs, provided that the purchase meets the investment requisites applicable to such trust.

### **Rate Capped ARM PC Pools Containing Convertible Mortgages**

The Internal Revenue Service has issued Revenue Rulings characterizing participation certificates sold by Freddie Mac that do not provide for a mandatory repurchase of a mortgage upon conversion as representing undivided beneficial interests in the underlying mortgages. Freddie Mac has been advised by its tax counsel, Cadwalader, Wickersham & Taft, that there can be no assurance that such Revenue Rulings could be relied upon with respect to participation certificates that contain such feature. However, tax counsel has rendered its opinion to Freddie Mac that, while the issue is not free from doubt, based upon available authority the sale of Rate Capped ARM PCs that provide for a mandatory repurchase of the underlying Mortgages upon conversion should be treated for federal income tax purposes as a sale to Rate Capped ARM PC Holders of undivided beneficial interests in the Mortgages. The opinion of counsel represents only its best judgment as to the most likely outcome of litigation in the event the Internal Revenue Service were to take a contrary position. Freddie Mac has not sought rulings from the Internal Revenue Service with respect to the status for federal income tax purposes of the Rate Capped ARM PCs representing interests in Convertible Mortgages.

### **Discount and Premium**

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

A Beneficial Owner will be required to report as ordinary income its pro rata share of any original issue discount with respect to the Mortgages in the relevant Rate Capped ARM PC Pool pursuant to Sections 1271-1273 and 1275 of the Code. Original issue discount with respect to a Mortgage could arise by virtue of the charging of points by the originator of the Mortgage if the points are not currently deductible under applicable Code provisions. Original issue discount also could arise by virtue of incentive interest rates or annual or lifetime interest rate caps. Even if there is original issue discount with respect to a Mortgage, a Beneficial Owner will be required to accrue such original issue discount into income currently only if it exceeds a *de minimis* amount. The Mortgages would also be subject to the original issue discount rules if, as discussed below, the "stripped bond" provisions of the Code were determined to be applicable. Unless the stripped bond rules apply, the original issue discount rules described above would not apply to Mortgages of individuals originated before March 2, 1984.

In general, a Beneficial Owner that is considered to have purchased its interest in any Mortgage at a market discount may be required to allocate the market discount among the principal payments on the Mortgage and include in income the discount allocated to each payment when the payment is received or comes due. Such income will be ordinary income in the case of a Mortgage issued by an individual. It is understood that the Mortgages underlying Rate Capped ARM PCs will be obligations of individuals. With respect to Mortgages originated after July 18, 1984, the market discount rules of Sections 1276-1278 of the Code will apply to treat market discount (in excess of a *de minimis* amount) as ordinary income to the extent of the portion of such discount that is considered to have accrued during the period a Beneficial Owner held the Rate Capped ARM PC. Market discount will be considered to accrue under a straight-line method unless a Beneficial Owner elects to calculate accrued market discount under a constant interest method. Under Section 1277, interest paid or accrued by a Beneficial Owner on indebtedness incurred or continued to purchase or carry Mortgages acquired at a market discount (whether such Mortgages were issued on or prior to or after July 18, 1984) will be allowed as a deduction only to the extent such interest (reduced by the interest on the Mortgages includible in income) exceeds the market discount that accrued during the taxable year such interest was paid or accrued. Any such deferred interest expense will, in general, be allowed as a deduction when the related market discount income is recognized. As an alternative, a Beneficial Owner may elect to include market discount in income currently, under either a straight-line method or a constant interest

method, on all market discount obligations held by such Beneficial Owner (other than market discount obligations acquired in prior taxable years), in which event the foregoing ordinary income on disposition and interest deferral rules will not apply. The precise application of the market discount rules to the Mortgages is not clear. It is anticipated that the application of the market discount rules to obligations such as the Mortgages will be addressed in regulations to be issued by the United States Department of the Treasury. The legislative history of the 1986 Act indicates that, until the issuance of regulations, it is permissible for a Beneficial Owner to elect to accrue market discount as follows: (1) for Mortgages that have original issue discount, the amount of market discount that accrues during a period is equal to the product of the total remaining market discount and a fraction, the numerator of which is the original issue discount for the period and the denominator of which is the total remaining original issue discount at the beginning of the period, and (2) for Mortgages that have no original issue discount, the amount of market discount that is deemed to accrue shall be the amount of market discount that bears the same ratio to the amount of remaining market discount that the amount of stated interest paid in the accrual period bears to the total amount of stated interest remaining to be paid on the Mortgage as of the beginning of the accrual period. Investors should consult their own tax advisors regarding the application of the market discount rules as well as the advisability of making any of the above elections.

In the event a Beneficial Owner is considered to have purchased its interest in any Mortgage at a premium, such premium may, if the Mortgage is issued after September 27, 1985, be amortized under a constant interest method at the election of the taxpayer under Section 171 of the Code.

A Beneficial Owner who sells a Rate Capped ARM PC will recognize gain or loss equal to the difference between its adjusted tax basis in the Rate Capped ARM PC and the amount realized in the sale (exclusive of amounts attributable to unpaid interest accrued while the Beneficial Owner has owned the Rate Capped ARM PC and not included in income by the Beneficial Owner, which will be treated as ordinary interest income). In general, such adjusted tax basis will equal the Beneficial Owner's cost for the Rate Capped ARM PC, increased by the amount of any discount previously reported with respect to the Rate Capped ARM PC and decreased by the amount of any premium previously deducted with respect to the Rate Capped ARM PC and the amount of any distributions of principal received thereon. Any such gain or loss would be capital gain or loss if the Rate Capped ARM PC is held as a capital asset, except that in the case of a seller that is considered to have acquired an interest in Mortgages with market discount, some portion of such gain may be treated as ordinary income. Under the market discount rules, gain from the sale of a Rate Capped ARM PC will be treated as ordinary interest income in an amount not exceeding the portion of the market discount with respect to the seller's interest in underlying Mortgages that were originated after July 18, 1984 that is considered to have accrued (in the manner described above) during the period in which the seller held the Rate Capped ARM PC and that has not previously been included in income. In addition, gain attributable to an interest in underlying Mortgages that were originated on or before July 18, 1984 that would otherwise be capital gain will be characterized as ordinary interest income to the extent that any previously deferred interest expense relating to those Mortgages becomes deductible at the time of such sale, as described above. The 1986 Act eliminated the preferential rates applicable to capital gains, generally after December 31, 1986, subject to transition rules.

In the case of a Beneficial Owner other than the seller of the Mortgages to Freddie Mac, any difference between interest at the underlying interest rate on the Beneficial Owner's undivided interest in each Mortgage in the Rate Capped ARM PC Pool (the Beneficial Owner's gross income) and the sum of the interest at the Rate Capped ARM PC Coupon on the Rate Capped ARM PC, Freddie Mac's management and guarantee fee and servicers' fees with respect to such undivided interest is, except as described below, to be accounted for as premium expense, as described in Revenue Ruling 71-399, 1971-2 C.B. 433. In Revenue Ruling 71-399, the Internal Revenue Service ruled that any such premium expense may be deductible in accordance with applicable rules.

The Internal Revenue Service may contend that, by reason of the enactment of the stripped bond rules of Section 1286 of the Code (or its predecessor, Section 1232B), Revenue Ruling 71-399 is no longer applicable in characterizing such differences in interest passed through. If this were the case, a Beneficial Owner would not be treated as having a pro rata undivided interest in the interest payments on the Mortgages, but rather an

ownership interest in such payments to the extent of the Rate Capped ARM PC Coupon plus the reasonable servicing fees. Under the rules of Section 1286, the Beneficial Owner would be treated as if the payments to be received in respect of the ownership interest in the Mortgages were purchased at an original issue discount equal to the difference between the price at which such Beneficial Owner is considered to have purchased such payments and the aggregate amount of such payments. The Beneficial Owner would include in income such original issue discount in accordance with the normal Code provisions governing original issue discount. This would have the effect of requiring both interest and discount on the Mortgages to be reported as ordinary income as such income accrues under a constant interest method pursuant to Sections 1271-1273 and 1275 of the Code.

### **Backup Withholding and Foreign Withholding**

A Beneficial Owner who is a U.S. person (as defined below) may be subject to backup withholding tax at the rate of 20 percent under Section 3406 of the Code on payments made with respect to a Rate Capped ARM PC. Backup withholding would apply if such Beneficial Owner fails to furnish certain information, including such Beneficial Owner's taxpayer identification number, to the person from whom such Beneficial Owner receives such payments or, under certain circumstances, if the person from whom such Beneficial Owner receives payments is notified by the Secretary of the Treasury that such Beneficial Owner is subject to backup withholding as a result of failure to report interest or dividends to the Internal Revenue Service. Any such amounts withheld would be allowed as a credit against such Beneficial Owner's U.S. federal income tax. Backup withholding does not apply to payments with respect to a Rate Capped ARM PC made to a Beneficial Owner who is an "exempt recipient," as defined in applicable provisions of the Code and the regulations thereunder (and including any corporation). In some cases, a Beneficial Owner who is an exempt recipient may be required to furnish certification to the person from whom such Beneficial Owner receives payments with respect to a Rate Capped ARM PC to establish such Beneficial Owner's status as exempt from backup withholding.

Under temporary U.S. Treasury regulations, payments made to a Beneficial Owner who is not a U.S. person with respect to a Rate Capped ARM PC that represents an undivided interest in a pool of mortgages all of which were issued after July 18, 1984 generally will not be subject to United States federal income tax including withholding tax, if (i) such Rate Capped ARM PC is not held by such Beneficial Owner in connection with a trade or business in the United States, (ii) such Beneficial Owner is not with respect to the United States a personal holding company or a corporation that accumulates earnings in order to avoid United States federal income tax and (iii) such Beneficial Owner provides a statement signed under penalties of perjury that includes its name and address and certifies that it is not a U.S. person in accordance with applicable requirements. To the extent amounts paid with respect to a Rate Capped ARM PC to a Beneficial Owner who is not a U.S. person represent interest on obligations issued before July 19, 1984, such amounts will be subject to withholding of U.S. federal income tax at the rate of 30 percent or such lower rate as may be provided by applicable tax treaty. The applicable Offering Circular Supplement will specify whether all Mortgages in a Rate Capped ARM PC Pool have been issued after July 18, 1984. Regardless of the date of issuance of the Mortgages, backup withholding tax will not apply to payments with respect to a Rate Capped ARM PC made to a Beneficial Owner who is not a U.S. person if an appropriate statement of non-U.S. beneficial ownership is furnished by such Beneficial Owner, as described in (iii) in the first sentence of this paragraph.

As used herein, "U.S. person" means a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust that is subject to U.S. federal income taxation regardless of the source of its income.

### **MORTGAGE PURCHASE AND SERVICING STANDARDS**

The Mortgages purchased by Freddie Mac must meet certain standards set forth in the Freddie Mac Act. In addition to providing specific purchase requirements regarding mortgages with loan-to-value ratios in excess of 80% and limitations as to mortgage amount as discussed below, the Freddie Mac Act confines Freddie Mac

to purchase, 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. The mortgage purchase standards Freddie Mac has developed, including its credit, appraisal and underwriting guidelines, are set forth in Freddie Mac's Purchase Documents, including the *Sellers' & Servicers' Guide* and program announcements.

Freddie Mac will consider requests from mortgage sellers to waive or modify specific aspects of its mortgage purchase and servicing standards, including its credit, appraisal and underwriting guidelines, as set forth in its *Sellers' & Servicers' Guide* (other than purchase standards embodying express Freddie Mac Act requirements which cannot be varied). Freddie Mac grants waivers or modifications with some degree of frequency. Since Freddie Mac may grant one or several such waivers or modifications with respect to the Mortgages in a Rate Capped ARM PC Pool, Freddie Mac can make no representation that all or any portion of the Mortgages in any particular Rate Capped ARM PC Pool will conform to all of the purchase standards set forth in the *Sellers' & Servicers' Guide* or to the standards summarized below. Freddie Mac will grant such waivers or modifications in its sole discretion provided that it determines the waivers or modifications will not materially affect the investment quality of the mortgages or materially alter the likely principal payment behavior of the mortgages.

Set forth below is a general summary of certain aspects of Freddie Mac's mortgage purchase and servicing standards. Subject to Freddie Mac's right to waive or modify these standards, and except for differences specifically described herein or in any related Supplement, this summary is qualified in its entirety by Freddie Mac's Purchase Documents including the *Sellers' & Servicers' Guide* and related documents. Copies of these materials may be obtained from Freddie Mac's Subscription Services Department upon payment of a prescribed fee.

#### **Credit, Appraisal and Underwriting Guidelines**

The Mortgages conform to the credit, appraisal and underwriting guidelines established by Freddie Mac specifically for adjustable rate mortgages except to the extent that certain of such guidelines have been modified or waived by Freddie Mac in connection with the purchase of specific mortgages. These guidelines are designed to determine the value of the real property securing the mortgage and the creditworthiness of the borrower.

Mortgages on investment properties or second homes are underwritten in accordance with guidelines established specifically for investment properties or second homes. A second home must be suitable for year-round occupancy as a primary residence, and no income derived from the property will be considered for underwriting purposes. An investment property must be leased as a year-round residence.

Freddie Mac's administration of its credit, appraisal and underwriting guidelines, including the required documentation and the extent of pre- and post-purchase audits of documentation provided by the seller, may differ based on Freddie Mac's evaluation of and experience with the seller of the mortgages, the loan-to-value ratio and age of the mortgages and other factors. Any of Freddie Mac's credit, appraisal and underwriting guidelines and procedures are subject to change at any time and at Freddie Mac's sole discretion so long as the guidelines and procedures as modified continue to be prudent.

#### **Loan-to-Value Ratio**

Under the Freddie Mac Act, Freddie Mac may not purchase a conventional mortgage secured by a 1-4 family dwelling if the outstanding principal balance at the time of purchase exceeds 80% of the value of the real property securing the mortgage, unless one of the following conditions is met: (i) the seller retains a participation interest in the mortgage of not less than 10% of the mortgage; (ii) the seller agrees, for such period and under such circumstances as Freddie Mac may prescribe, to repurchase or replace the mortgage upon demand by Freddie Mac in the event that the mortgage is in default; or (iii) the portion of the unpaid principal balance of the mortgage which is in excess of 80% of such value is insured by a mortgage insurer that meets Freddie Mac's eligibility requirements.

In the application of its mortgage purchase standards, Freddie Mac generally does not purchase a mortgage on the primary residence of a borrower if the mortgage has an original loan-to-value ratio exceeding, in the case of a one- or two-family dwelling, 95% of the lower of the appraised value at origination or the purchase price of the real property securing the mortgage or, in the case of a three- or four-family dwelling, 90% of the lower of the appraised value at origination or the purchase price. Freddie Mac generally does not purchase a mortgage on an owner-occupied property which refinances a borrower's existing mortgage and which provides "cash-out" to the borrower if the loan-to-value ratio exceeds 80% of the newly-appraised value of the property. The maximum loan-to-value ratio for a second home or an investment property generally is 80%. Freddie Mac generally does not purchase a mortgage which refinances a mortgage secured by an investment property or second home if the loan-to-value ratio of the newly-appraised value of such property exceeds 70% or if the mortgage provides "cash-out" to the borrower.

### **Mortgage Insurance**

In the application of its mortgage purchase standards, Freddie Mac generally purchases a mortgage secured by an owner-occupied property with a loan-to-value ratio exceeding 80% only if the unpaid principal balance in excess of 75% of the lower of the appraised value at origination or the purchase price is insured by a mortgage insurer that meets Freddie Mac's eligibility requirements. If a seller retains a participation interest in a mortgage, and mortgage insurance is required, the calculation of the amount of mortgage insurance required by Freddie Mac is based upon the amount of Freddie Mac's participation interest. Under conditions specified by Freddie Mac, mortgage insurance may not be required on such a mortgage if the seller agrees to repurchase the mortgage in the event of default or if the seller retains a 10% participation interest in the mortgage.

### **Mortgage Amount**

The Freddie Mac Act establishes limitations on the maximum original principal amount of any conventional mortgage which may be purchased by Freddie Mac. Currently, the original principal amount may not exceed \$168,700 for a one-family dwelling, \$215,800 for a two-family dwelling, \$260,800 for a three-family dwelling and \$324,150 for a four-family dwelling. The applicable limitation may be increased by 50% for properties located in Alaska, Guam and Hawaii.

### **Special Financing Arrangements**

Under conditions specified in the *Sellers' & Servicers' Guide*, Freddie Mac may purchase first-lien mortgages as to which borrowers have obtained secondary or special financing arrangements. These arrangements may include junior and subordinate lien mortgages. Any junior mortgages may contain features such as the absence of regular amortization of principal and deferred interest and/or principal payments. Freddie Mac may also purchase a mortgage secured by a property on which a subordinate lien has been placed for an amount which includes the unpaid principal balance of the first lien where the holder of the subordinate lien may repay the first lien if market interest rates decline or at any other time.

Freddie Mac also purchases mortgages as to which an individual third party makes contributions to the down payment on the purchase of the property by the purchaser-occupant and shares in the equity in the property. The third party may also contribute to the purchaser-occupant's monthly payments. Any agreement for sharing of equity cannot require sale of the property or buy out of the third party's interest prior to seven years following mortgage origination.

### **Eligible Sellers, Servicers, Warranties and Documentation**

Substantially all of the mortgages are purchased from and serviced by financial institutions the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation ("FSLIC") or the Federal Deposit Insurance Corporation ("FDIC") or mortgage bankers approved for participation in any mortgage insurance program under the National Housing Act. Freddie Mac approves the institutions on an individual basis after consideration of factors such as financial conditions, facilities and mortgage origination

and/or servicing experience. The seller of a mortgage to Freddie Mac need not be the originator of that mortgage.

Sellers are required to give certain warranties to Freddie Mac. These warranties cover such matters as the validity of the mortgage as a first lien; the fact that the mortgage is current at the time of delivery to Freddie Mac; proper execution and recordation of the mortgage; compliance by the originator with the requirements of all state and federal laws, including those relating to settlement procedures, authorization to do business in the state in which the mortgaged property is located, truth-in-lending and usury; and existence and validity of title, hazard and mortgage insurance policies. Sellers also warrant that each mortgage complies with the requirements of the applicable Freddie Mac purchase program and with such requirements as are generally imposed by private institutional mortgage investors in the area in which the mortgaged property is located. Such warranties are made even if the seller is not the originator of the mortgage. Under certain circumstances Freddie Mac may modify the warranties required to be made by a seller.

In the case of all whole loan mortgages and certain participations in mortgages, the mortgage notes are endorsed to and held by Freddie Mac or are held by a custodian acting as Freddie Mac's agent. Where local law or practice requires, assignments of such mortgages are recorded in Freddie Mac's name. In the case of other participations, Freddie Mac holds participation certificates which evidence Freddie Mac's ownership interest, but the originator or servicer holds the mortgage notes, the mortgages are recorded in the originator's or servicer's name, and no assignment is made or recorded in Freddie Mac's name.

### **Mortgage Servicing**

Servicers agree, subject to Freddie Mac's general supervision, to perform diligently all services and duties customary to the servicing of mortgages. The duties performed by servicers include, but are not limited to, collection and payment of principal and interest, computation and adjustment as appropriate of the Mortgage Coupon and borrower's scheduled monthly payments, administration of escrow accounts, collection of insurance claims, property inspections and, if necessary, foreclosure and disposal of property acquired through foreclosure. Subject to Freddie Mac's approval, servicers may contract to have servicing performed by, or sell their servicing rights to, other servicers acceptable to Freddie Mac.

Freddie Mac requires the servicing of mortgages to be performed in a manner consistent with prudent servicing standards. Freddie Mac monitors servicers' performance through periodic and special reports and inspections and has developed servicing policies and procedures as an aid to the efficient and uniform servicing of mortgages. Any of Freddie Mac's servicing policies and procedures are subject to change or waiver at any time and at Freddie Mac's sole discretion so long as the policies and procedures as modified continue to be prudent. Such changes or waivers may be made on a uniform basis, such as by amendment to Freddie Mac's *Sellers' & Servicers' Guide*, or on an individual basis in connection with the servicing of a particular mortgage.

Set forth below is a brief description of certain aspects of Freddie Mac's current servicing policies and procedures concerning prepayments, assumption and due-on-transfer policies, fees, delinquencies and foreclosures. This description is not intended to be complete and is qualified in its entirety by the Freddie Mac *Sellers' & Servicers' Guide*. Further, in view of the highly individualized nature of many servicing situations, informal adaptation, including waiver, in whole or in part, of the requirements in the *Sellers' & Servicers' Guide* to fit particular situations can be expected to occur with some frequency. Freddie Mac will, however, require servicers to service the Mortgages in Rate Capped ARM PC Pools in substantially the same manner as for mortgages purchased by Freddie Mac but not sold.

#### *Prepayments*

A full prepayment of principal on a mortgage may occur upon a transfer of the real property securing the mortgage or a refinancing of the mortgage. A borrower may prepay a mortgage in full at any time.

A servicer may permit a borrower to make partial prepayments of principal to reduce the number or size of subsequent scheduled monthly payments of principal and interest, provided the mortgage is current and that any such reduction will not result in a change in the interest rate or an extension of the term.

### *Assumption and Due-on-Transfer Policies*

Each Mortgage contains a “due-on-transfer” clause which, by its terms, may not be exercised in the event the transferee’s credit is underwritten to the satisfaction of the note holder. Accordingly, the transfer of the real property security will not result in a prepayment of the mortgage if the transferee assumes the mortgage obligation and is determined to be creditworthy. If a due-on-transfer clause can be exercised under its terms, Freddie Mac requires the servicer to demand full payment of the remaining principal balance of the mortgage note upon the sale or transfer of the property securing the note.

### *Fees*

Subject to applicable law or regulation, Freddie Mac permits a servicer to collect a fee for credit underwriting on assumptions equal to the greater of \$400 or 1% of the unpaid principal balance, with a maximum fee of \$900. The credit underwriting fee is not passed through to Freddie Mac or to Holders. Any other fees, such as late payment fees, also are retained by the servicers and are not passed through to Freddie Mac or to Holders.

### *Defaults and Delinquencies*

A servicer is required to report to Freddie Mac any mortgage which is delinquent 60 days or more and to make a recommendation for appropriate action. Freddie Mac requires such a recommendation to reflect the servicer’s familiarity with and knowledge of the borrower, the location and type of property securing the mortgage and the extent of any delinquency. Information with respect to the default, delinquency and foreclosure rates for rate capped adjustable rate mortgages is limited. The rate of default, delinquency and foreclosure with respect to rate capped adjustable rate mortgages may exceed such rates for fixed-rate mortgages or other adjustable rate mortgages. Freddie Mac makes no representation that the default, delinquency and foreclosure rate for rate capped adjustable rate mortgages will be the same as Freddie Mac’s experience with respect to all fixed-rate mortgages or other adjustable rate mortgages.

Freddie Mac authorizes a servicer to resolve a delinquency through a variety of measures, including repayment plans that provide for liquidation for delinquent amounts within a period up to 12 months. Freddie Mac also accepts plans that grant periods of forbearance up to 18 months during which regular mortgage payments may be reduced or suspended. Such plans may be implemented before a demand for accelerated payment of principal is made. Repayment plans or periods of forbearance will not affect Freddie Mac’s guarantees of timely payment of interest and ultimate collection of principal but may defer payment of principal by the borrower and may delay or eliminate demand for acceleration of principal by Freddie Mac.

Freddie Mac requires a servicer to take all reasonable steps to resolve any delinquency prior to Freddie Mac’s authorizing a servicer to initiate foreclosure proceedings and to make demand upon a borrower for accelerated payment of principal. A demand is authorized when Freddie Mac believes that no reasonable prospect exists for payment of delinquent amounts within a reasonable period of time. The length of time necessary for Freddie Mac to determine that a mortgage should be accelerated varies with the particular circumstances of each borrower, and Freddie Mac has adopted no servicing standards which require that the demand be made within any specified period.

Freddie Mac’s servicing discretion in connection with a borrower’s bankruptcy may be limited by a court or by state legislation prohibiting or delaying acceleration. When a bankruptcy proceeding is instituted prior to demand for accelerated payment of principal, no demand for acceleration is permitted to be made without court approval, and the bankruptcy court has broad powers to delay or deny such approval. If Freddie Mac is precluded from making a demand for acceleration, Freddie Mac has established a policy that, for purposes of its guarantee of ultimate collection of principal, demand for acceleration shall be deemed to have been made on the later of the date on which the borrower’s bankruptcy petition was filed or the due date of the last fully paid installment on the mortgage.

Both prior and subsequent to a demand for accelerated payment of principal, a bankruptcy court has broad discretion to approve or deny various payment plans which could have the effect of delaying the

payment of principal and interest on a mortgage, and which, in certain circumstances, could result in a reduction of the aggregate amount paid with respect to a mortgage. In the event a bankruptcy court approves a plan which materially affects the terms of a mortgage, authorizes a transfer of the underlying property or provides for substitution of collateral, Freddie Mac will repurchase the mortgage from the Rate Capped ARM PC Pool.

### *Foreclosures*

Demand for accelerated payment of principal is typically the initial step in the foreclosure process and normally is made at or shortly after the time Freddie Mac approves the institution of foreclosure proceedings. Freddie Mac's *Sellers' & Servicers' Guide* sets forth policies and procedures for instituting and monitoring foreclosure proceedings, including demand upon the borrower for accelerated payment of principal. Freddie Mac may accept a voluntary deed in lieu of foreclosure in those jurisdictions in which this practice is authorized. If, after demand for accelerated payment of principal, a borrower pays all delinquent amounts, foreclosure proceedings are terminated. If, after a borrower has paid all delinquent amounts and foreclosure proceedings have been terminated, the borrower again becomes delinquent, a new demand for accelerated payment of principal generally must be made and new foreclosure proceedings commenced. The length of the foreclosure process varies significantly from state to state. Some state laws may provide borrowers with a right to redeem after foreclosure, and the foreclosure process typically is not final until the expiration of any such right. In any event, payment pursuant to Freddie Mac's guarantee of ultimate collection of principal on a delinquent mortgage is made no later than one year following demand upon the borrower for accelerated payment of principal. See "Description of the Rate Capped ARM PCs—Guarantees."

## LEGALITY OF INVESTMENT

Rate Capped ARM PCs are lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds, the investment or deposits of which are under the authority and control of the United States or any officers thereof. 12 U.S.C. § 1452(f). Accordingly, Rate Capped ARM PCs are acceptable as collateral for Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.15(d)(1).

National banks may deal in, underwrite and purchase Rate Capped ARM PCs for their own accounts without regard to limitations generally applicable to investment securities. 12 U.S.C. § 24, seventh paragraph.

Federal Reserve Banks may accept Rate Capped ARM PCs as eligible security for advances to member banks for periods not exceeding 90 days. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(16).

Federal savings and loan associations and federal savings banks may invest in Rate Capped ARM PCs without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(E).

Rate Capped ARM PCs are eligible as security for advances by Federal Home Loan Banks to federal savings and loan associations, federal savings banks and other members for which Rate Capped ARM PCs are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 525.7(b)(2).

Federal Home Loan Banks may invest their surplus and reserve funds in Rate Capped ARM PCs. 12 U.S.C. §§ 1431(h) and 1436(a), respectively.

Federal credit unions may purchase Rate Capped ARM PCs without regard to limitations generally applicable to investments. 12 U.S.C. § 1757(7)(E). National Credit Union Administration Letter to Credit Unions No. 96 includes guidelines to assist federal credit unions in making investment decisions for mortgage-related securities.

For private pension funds subject to the Employee Retirement Income Security Act of 1974, the Rate Capped ARM PCs, and not the Mortgages underlying the Rate Capped ARM PCs, are considered to be plan assets. 29 U.S.C. § 1101 and 29 C.F.R. § 2510.3-101(i).

In addition to the specific authorizations discussed above, pursuant to Section 106 of the Secondary Mortgage Market Enhancement Act of 1984, any person, trust, corporation, partnership, association, business

trust or business entity created pursuant to or existing under the laws of the United States or any state (including the District of Columbia and Puerto Rico) is authorized to purchase, hold and invest in Rate Capped ARM PCs to the same extent that the investor is authorized to purchase, hold or invest in obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Prior to October 4, 1991, a state may enact legislation which specifically refers to Section 106 and either prohibits or limits an investor's authority to invest in Rate Capped ARM PCs. To Freddie Mac's knowledge, no state has enacted any such legislation. The enactment by any state of legislation which prohibits or limits authority to invest in Rate Capped ARM PCs will not affect the validity of any contractual commitment to purchase, hold or invest in Rate Capped ARM PCs made prior to the date of enactment and such legislation cannot require the sale or other disposition of any Rate Capped ARM PCs acquired prior to the date of enactment.

The foregoing does not take into consideration the applicability of statutes, rules, regulations, orders, guidelines or agreements generally governing investments made by a particular investor, including, but not limited to, "prudent investor" provisions, percentage-of-assets limits, and provisions which may restrict or prohibit investments in securities which are issued in book-entry form. Investors should consult with their own legal advisors in determining whether and to what extent Rate Capped ARM PCs constitute legal investments for such investors.

### **REGULATORY CONSTRAINTS**

Any financial institution which is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the Federal Home Loan Bank Board ("FHLBB"), the National Credit Union Administration or other agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing Rate Capped ARM PCs.

### **FHLBB REGULATORY MATTERS**

The staff of the FHLBB has taken the following positions concerning securities such as Rate Capped ARM PCs guaranteed by Freddie Mac that are held by institutions the deposits or accounts of which are insured by the FSLIC or held by federal savings and loan associations and federal savings banks.

- Rate Capped ARM PCs are to be reported in the asset classification "Mortgage-backed pass-through securities insured or guaranteed by an agency or instrumentality of the U.S." (FHLBB Staff Memorandum R-29a).
- No loss need be reported for regulatory accounting purposes on sales of mortgages or interests in mortgages in exchange for Rate Capped ARM PCs backed by the same or substantially identical mortgages (FHLBB Staff Memorandum R-49 and R-49-1).
- Rate Capped ARM PCs constitute "home mortgage loans" for the purpose of computing a Federal Home Loan Bank member's stock requirement under section 6(c)(4) of the Federal Home Loan Bank Act (FHLBB General Counsel Opinion dated October 30, 1972).
- Rate Capped ARM PCs are eligible collateral for use by savings and loan associations engaging in retail repurchase agreements (FHLBB Staff Memorandum R-51-1).

### **ACCOUNTING MATTERS**

Freddie Mac treats a sale of Rate Capped ARM PCs as a sale of assets and accordingly such sale does not affect Freddie Mac's capitalization. However, Freddie Mac provides for losses as a consequence of its guarantees of principal and interest.

## FEDERAL SECURITIES LAWS

The Rate Capped ARM PCs are exempt from the registration requirements of the Securities Act of 1933 and are “exempted securities” within the meaning of the Securities Exchange Act of 1934.

## DISTRIBUTION ARRANGEMENTS

Freddie Mac purchases the Mortgages from the Seller and, in exchange for the Mortgages purchased, sells to the Seller Rate Capped ARM PCs representing interests in the same Mortgages. Whole loans and participations are purchased at par, so that the unpaid principal balance of the Rate Capped ARM PC Pool sold to the Seller equals the unpaid principal balance of the whole Mortgages purchased by Freddie Mac (or percentages thereof if purchased in the form of participations). Freddie Mac will accept offers for mandatory and optional delivery for a variety of periods on a daily basis in accordance with terms and procedures set forth in Freddie Mac’s *Sellers’ & Servicers’ Guide*. Freddie Mac’s commitment to sell Rate Capped ARM PCs is conditioned on the Seller’s full compliance with the terms and conditions of the Purchase Documents, as defined in Freddie Mac’s *Sellers’ & Servicers’ Guide*, including the Seller’s timely delivery of acceptable Mortgages in the minimum purchase amount required by Freddie Mac.

### Secondary Market

Currently, no secondary market exists for Rate Capped ARM PCs. No representations are made hereby as to whether or when a secondary market in Rate Capped ARM PCs may develop. Freddie Mac may sell and repurchase Rate Capped ARM PCs in the secondary market through its Security Sales and Trading Group. Prospective Rate Capped ARM PC purchasers and Holders wishing to obtain prices may contact securities dealers who may sell or make markets in Rate Capped ARM PCs or Freddie Mac (outside Washington, D.C. metropolitan area, telephone 800/424-5401; within the Washington, D.C. metropolitan area, telephone 703/789-4800).

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**RATE CAPPED ADJUSTABLE RATE**  
**MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT**  
**(Guaranteed)**

**AGREEMENT** dated as of July 1, 1988 among the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and Holders of undivided interests in certain adjustable rate mortgages (and/or interests therein) which are identified in the records maintained by Freddie Mac and which are represented by Rate Capped Adjustable Rate Mortgage Participation Certificates (“Rate Capped ARM PCs”).

Whereas:

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

(b) Pursuant to Section 305 of the Act, Freddie Mac from time to time purchases certain conventional adjustable rate residential Mortgages including Whole Loans and/or Participations, all of which are identified in the records maintained by Freddie Mac; and

(c) Pursuant to Section 305 of the Act, Freddie Mac from time to time creates undivided interests in the Mortgages acquired as set forth above, sells and transfers such undivided interests to Holders by the sale of Rate Capped ARM PCs, and guarantees timely payment of interest and ultimate collection of principal for the benefit of such Holders, all as herein more fully provided.

**NOW, THEREFORE**, in consideration of the premises and mutual covenants herein contained, it is hereby agreed that the following terms and conditions of this Agreement shall govern the creation by Freddie Mac of undivided interests in the Mortgages, the transfer, sale and assignment of undivided interests therein represented by Rate Capped ARM PCs, and the rights and obligations of Freddie Mac and Holders with respect to the Rate Capped ARM PCs.

**ARTICLE I**

**Definitions**

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

*Book-Entry Form:* A security which (i) is issued by means of an entry on the books and records of the Federal Reserve Bank, which entry includes but is not limited to, the name of the Holder, the original unpaid principal balance of the Rate Capped ARM PCs in a particular Rate Capped ARM PC Pool held by such Holder, the CUSIP Number of such Rate Capped ARM PC and the Final Payment Date applicable to the related Rate Capped ARM PC Pool, and (ii) is evidenced only by such entry and is not evidenced by a certificated security.

*Book-Entry Rules:* The provisions from time to time in effect, presently contained in Title 1, Part 462 of the Code of Federal Regulations, setting forth the terms and conditions under which Freddie Mac may issue securities in Book-Entry Form and authorizing the Federal Reserve Bank to act as Freddie Mac’s agent in connection with securities issued by means of entries on the books and records of the Federal Reserve Bank.

*Business Day:* A day other than (i) a Saturday or Sunday, (ii) a day on which the Federal Reserve Bank of New York (or other agent acting as Freddie Mac’s fiscal agent) is authorized or obligated by law or executive order to remain closed, (iii) a day on which the Federal Reserve Bank at which such Holder’s

account is maintained is authorized or obligated by law or executive order to remain closed, (iv) a day on which the offices of the federal government located in the District of Columbia generally are closed for business, or (v) a day on which the offices of Freddie Mac are closed.

*CUSIP Number:* A unique nine-character designation assigned to each Rate Capped ARM PC Pool by the CUSIP Service Bureau and used to identify the Rate Capped ARM PC Pool on the records of the Federal Reserve Bank.

*Federal Reserve Bank:* The Federal Reserve Bank of New York and/or such other Federal Reserve Banks as may from time to time maintain Rate Capped ARM PCs in Book-Entry Form.

*Final Payment Date:* The date which is the first day of the month in which the last monthly payment on the latest maturing Mortgage in a Rate Capped ARM PC Pool is scheduled to be made, as described in the documents pursuant to which the related Rate Capped ARM PCs are offered for sale.

*Guide:* The Freddie Mac *Sellers' & Servicers' Guide*, as supplemented and amended from time to time.

*Holder:* The entity which maintains an account with a Federal Reserve Bank and whose name appears on the books and records of such Federal Reserve Bank as the entity for whose account a Rate Capped ARM PC has been deposited.

*Mortgages:* The Whole Loans and/or Participations identified in the records maintained by Freddie Mac as comprising a Rate Capped ARM PC Pool, which Mortgages consist of or represent interests in promissory notes secured by residential real property comprising one-to-four family dwelling units. A "Mortgage" shall mean any Whole Loan or any participation interest in a mortgage included in the Mortgages.

*Original Unpaid Principal Balance:* The aggregate unpaid principal balance of the related Mortgages as of the first day of the month in which the Mortgages are delivered to Freddie Mac, which shall be equal to the aggregate original unpaid principal balance of the related Rate Capped ARM PCs.

*Participation:* A percentage undivided interest, purchased by Freddie Mac, in an adjustable rate, first lien, conventional mortgage secured by residential real property.

*PC Coupon:* The annual rate at which interest is accrued for the benefit of a Holder of a Rate Capped ARM PC, which rate is subject to adjustment once every three years, in the case of 3 Year Rate Capped ARM PCs, or once every five years, in the case of 5 Year Rate Capped ARM PCs. On each applicable adjustment date, the PC Coupon adjusts to a rate which is equal to the Index most recently used to adjust the interest rates on the related Mortgages, plus the applicable PC Margin, subject to a limit on the amount of any single increase or decrease in the PC Coupon, as specified in the documents pursuant to which the related Rate Capped ARM PCs are offered for sale, and subject to the applicable PC Lifetime Ceiling. The PC Coupon always is rounded to the nearest 0.125%. Interest at the PC Coupon shall be computed on the basis of a 360-day year, each month being assumed to have 30 days.

*PC Lifetime Ceiling:* For a given Rate Capped ARM PC, the maximum PC Coupon which may be borne by such Rate Capped ARM PC as set forth in the documents pursuant to which the related Rate Capped ARM PCs are offered for sale.

*PC Margin:* For a given Rate Capped ARM PC, the number of basis points set forth in the documents pursuant to which the related Rate Capped ARM PCs are offered for sale.

*Pool Factor:* A seven-digit decimal calculated by Freddie Mac with respect to a calendar month which, when multiplied by the original unpaid principal balance of a Rate Capped ARM PC, represents the amount determined by Freddie Mac to be the Holder's pro rata share of the aggregate unpaid principal balance of the Mortgages on the books and records of Freddie Mac as of the end of the reporting period ending in the previous month after giving effect to the payment of principal to be made in the next following month.

*Rate Capped ARM PC:* A Rate Capped Adjustable Rate Mortgage Participation Certificate sold pursuant to this Agreement, representing an undivided interest in a pool of Mortgages identified by a

particular Rate Capped ARM PC Pool Number and CUSIP Number. A 3 Year Rate Capped ARM PC is a Rate Capped ARM PC as to which the PC Coupon is subject to adjustment once every three years. A 5 Year Rate Capped ARM PC is a Rate Capped ARM PC as to which the PC Coupon is subject to adjustment once every five years.

*Rate Capped ARM PC Pool:* A discrete pool of Mortgages identified in records maintained by Freddie Mac by a Rate Capped ARM PC Pool Number.

*Rate Capped ARM PC Pool Number:* A unique number assigned to each Rate Capped ARM PC Pool by Freddie Mac and used to identify the Rate Capped ARM PC Pool on the books and records of Freddie Mac.

*Remaining Rate Capped ARM PC Pool Balance:* The aggregate amount of principal not yet paid to Holders of Rate Capped ARM PCs with respect to the Mortgages comprising the related Rate Capped ARM PC Pool.

*Seller:* The entity that is designated as such in the documents pursuant to which the related Rate Capped ARM PCs are offered for sale.

*Treasury Index:* The weekly average yield of U.S. Treasury securities adjusted to a constant maturity of three years, in the case of 3 Year Rate Capped ARM PCs, and five years, in the case of 5 Year Rate Capped ARM PCs, as currently published by the Federal Reserve Board in Federal Reserve Statistical Release No. H.15 (519). For a given Rate Capped ARM PC, the Treasury Index used to adjust the interest rates on the related Mortgages is the most recent Treasury Index available as of the date 45 days prior to the date such adjustment is effective. The Treasury Index applicable to an adjustment of a PC Coupon is the Treasury Index used to effect the most recent adjustment of the interest rates on the related Mortgages.

*Whole Loan:* An adjustable rate, first lien, conventional mortgage secured by residential real property as to which the entire unpaid principal balance is purchased by Freddie Mac.

## ARTICLE II

### Conveyance of Undivided Interests in Mortgages

**Section 2.01. Sale of Rate Capped ARM PCs.** Sale of a Rate Capped ARM PC by Freddie Mac pursuant to this Agreement shall be deemed to occur upon the date of settlement and payment for such Rate Capped ARM PC and shall constitute a sale, assignment, transfer, and conveyance by Freddie Mac to the Holder of a pro rata undivided interest in the Mortgages comprising the Rate Capped ARM PC Pool in which such Rate Capped ARM PC represents an undivided interest. Such pro rata undivided interest of a Holder shall be determined in accordance with Section 4.02. Freddie Mac shall be bound by all of the terms and conditions of this Agreement at such time as a Rate Capped ARM PC is sold by Freddie Mac to a Holder. Upon settlement of and payment for a Rate Capped ARM PC, a Holder shall, by virtue thereof, acknowledge, accept and agree to be bound by all of the terms and conditions of this Agreement. Payment for a Rate Capped ARM PC shall be deemed to occur upon the settlement date as of which such Rate Capped ARM PC is sold to the initial Holder thereof.

**Section 2.02. Identity of the Mortgages; Substitution and Repurchase.** A Rate Capped ARM PC Pool shall be comprised of only those Mortgages purchased by Freddie Mac from the Seller in exchange for Rate Capped ARM PCs representing undivided interests in the same Mortgages. Except as provided in Section 2.03, once the identity of the Mortgages has been so determined, such identity shall not thereafter be changed; provided, however, that (i) Freddie Mac may, in connection with its performance of servicing responsibilities pursuant to Section 3.02, repurchase any Mortgage at its then unpaid principal balance, if such repurchase is necessary to maintain proper servicing of the Mortgages or to minimize loss, (ii) Seller may repurchase such Mortgage at its then unpaid principal balance pursuant to Seller's obligation to Freddie Mac to do so in the event such Mortgage is in default, (iii) Freddie Mac may, in connection with the performance of its servicing responsibilities pursuant to Section 3.02, agree to a repurchase by the Seller of any Mortgage at its then unpaid principal balance, if such repurchase is necessary in order to maintain proper servicing of the

Mortgages or to minimize loss, (iv) if, in the event of the bankruptcy of a mortgagor, a bankruptcy court approves a plan which materially affects the terms of a Mortgage, authorizes a transfer of the underlying property or provides for substitution of collateral, Freddie Mac may repurchase such Mortgage at its then unpaid principal balance, (v) if any borrower exercises an option to convert the adjustable interest rate of a Mortgage to a fixed interest rate, the Seller of such Mortgage or Freddie Mac will repurchase such Mortgage and (vi) in the case of a material breach of warranty by Seller, or a material defect in documentation as to any Mortgage, or a failure by Seller to comply with any requirements or terms set forth in the Purchase Documents (as defined in the Guide) as to any Mortgage, Freddie Mac may require the Seller to repurchase such Mortgage or may, within six months of the purchase of such Mortgage, require or permit the Seller to substitute for such Mortgage a Mortgage of comparable type, unpaid principal balance, remaining maturity and other required mortgage characteristics applicable to the related Rate Capped ARM PC Pool. In determining whether a Mortgage shall be repurchased from a Rate Capped ARM PC Pool as described in this Section 2.02, Freddie Mac considers such factors as it deems appropriate, including whether a repurchase will reduce Freddie Mac's administrative costs or will reduce Freddie Mac's likely exposure under its guarantee of ultimate collection of principal.

**Section 2.03. Post-Settlement Purchase Adjustments.** With respect to each Rate Capped ARM PC Pool, Freddie Mac shall make such post-settlement purchase adjustments with respect to the aggregate unpaid principal balance of the related Mortgages as may be necessary to reflect the actual aggregate unpaid principal balance of such Mortgages as of the date of their purchase by Freddie Mac. Freddie Mac shall also make such post-settlement purchase adjustments with respect to each Rate Capped ARM PC Pool as may be necessary to reflect the difference between the Original Unpaid Principal Balance of such Rate Capped ARM PC Pool and the actual aggregate unpaid principal balance of the related Mortgages as of the date of delivery to Freddie Mac. The foregoing adjustments may be made in such manner as Freddie Mac determines to be appropriate. Such adjustments shall not affect the Holder's entitlement to interest at the applicable PC Coupon and to receipt of the Holder's pro rata share of principal payments made with respect to the related Mortgages. An amount equal to any adjustment that results in the reduction of the unpaid principal balance of a Mortgage will be passed through on a pro rata basis to Holders.

**Section 2.04. Custody of Mortgage Documents.** In the case of all Whole Loans and certain Participations, the Mortgage notes are endorsed to and held by Freddie Mac or are held by a custodian acting as Freddie Mac's agent; where local law or practice requires, assignments of the Mortgages are recorded in Freddie Mac's name. In the case of other Participations, Freddie Mac holds the participation certificates which evidence Freddie Mac's ownership interest in the Mortgages. If the Mortgage notes are not endorsed to and held by Freddie Mac, the originator or servicer holds the Mortgage notes, the Mortgages are recorded in the originator's or servicer's name, and no assignment is made or recorded in Freddie Mac's name.

**Section 2.05. Rate Capped ARM PCs Held or Acquired by Freddie Mac.** Rate Capped ARM PCs held or acquired by Freddie Mac from time to time shall have an equal and proportionate benefit to Rate Capped ARM PCs held by other Holders, without preference, priority or distinction. No Holder shall have any priority over any other Holder.

## ARTICLE III

### Administration and Servicing of the Mortgages

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

**Section 3.02. Servicing Requirements.** Freddie Mac shall service or supervise servicing of the Mortgages in a manner consistent with and to the extent required by prudent servicing standards and in

substantially the same manner as it services or supervises the servicing of unsold mortgages of the same type in its own portfolio. In performing its servicing responsibilities hereunder, Freddie Mac may employ servicer agents or independent contractors. Freddie Mac shall be entitled to discharge its responsibility to supervise servicing of the Mortgages by monitoring servicers' performance on a reporting and exception basis. Except as provided in Article VI of this Agreement, Freddie Mac shall not be subject to the control of Holders in any manner whatsoever in the discharge of its responsibilities pursuant to this Article III. Except with regard to its guarantee obligations pursuant to Section 4.09, Freddie Mac shall have no liability to any Holder other than for any direct damage resulting from Freddie Mac's failure to exercise the degree of ordinary care which it exercises in the conduct and management of its own affairs. Freddie Mac shall have no liability of whatever nature for consequential damages.

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

**Section 3.04. Assumptions.** The security instrument of each Mortgage contains a due-on-transfer clause which may not be exercised if the transferee is found to be creditworthy by the note holder. Freddie Mac will allow a transfer of the property without acceleration only if the transferee is found by the servicer or Freddie Mac to meet Freddie Mac's credit requirements. Any fees charged by servicers in connection with the assumption of a Mortgage are retained by servicers and are not paid to Freddie Mac or passed through to Holders. Freddie Mac requires, in connection with such Mortgage assumption, that no change be made in the rate of interest or the terms of payment applicable to the Mortgage solely on account of the assumption.

**Section 3.05. Mortgage Insurance.** If a Mortgage is insured by a mortgage insurer, the insurer shall have no obligation to recognize or deal with any person with respect to such Mortgage, other than Freddie Mac, with regard to the rights, benefits and obligations of the mortgagee under the contract of insurance relating to the Mortgage. If a mortgage insurer exercises an option under a contract of insurance to purchase a Mortgage, the proceeds of such purchase shall be considered to be repurchase proceeds for purposes of Article IV.

## ARTICLE IV

### Payments to Holders and Guarantees

**Section 4.01. Monthly Reporting Period.** For purposes of this Agreement, the payments of principal, interest or any other sums, including insurance proceeds, liquidation proceeds and repurchase proceeds, with respect to any Mortgage and the occurrence of any event with respect to any Mortgage, including foreclosure sale, payment by any insurer and expiration of any redemption period, reported to Freddie Mac by Seller (or any other servicer) for a monthly reporting period employed by Freddie Mac for the purposes of accounting for such payments and of reporting such occurrences, shall be deemed to be received or to occur within the calendar month within which such monthly reporting period ends, and the last day of such monthly reporting period shall be deemed to correspond to the last day of such calendar month. For purposes of Section 4.04, scheduled payment dates on all Mortgages shall be deemed to be the first day of the calendar month within which such a monthly reporting period ends, and all scheduled principal payments and full and partial payments of principal, including amounts treated as full prepayments under Section 4.03, with respect to the Mortgages made within such a monthly reporting period shall be deemed to be made on the first day of the calendar month within which such monthly reporting period ends.

**Section 4.02. Holder's Undivided Interest.** An entity recognized as a Holder of a Rate Capped ARM PC on the Record Date, as defined in and pursuant to Section 5.03, shall be the owner of record of a pro rata share of the related Remaining Rate Capped ARM PC Pool Balance as of such date, as calculated pursuant to this Agreement, and shall be entitled to interest at the applicable PC Coupon on such pro rata

undivided interest from such date. Such pro rata undivided interest in each of the Mortgages will change if any Mortgage is added to or removed from the Rate Capped ARM PC Pool in accordance with Section 2.02. For purposes of determining a Holder's pro rata undivided interest in the Mortgages evidenced by a Rate Capped ARM PC, the original unpaid principal balance of the Rate Capped ARM PC shall be divided by the Original Unpaid Principal Balance of the related Mortgages.

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

**Section 4.04. Pass-Through of Interest.** Freddie Mac shall pass through monthly to each Holder such Holder's pro rata share of the interest paid by borrowers with respect to each Whole Loan and with respect to each Participation included in the related Mortgages in an amount sufficient to produce the Holder's pro rata share of interest at the applicable PC Coupon. A partial month's interest retained by Freddie Mac or remitted to each Holder with respect to full and partial prepayments of principal deemed to have been made on the first day of a calendar month in accordance with Section 4.01 shall constitute an adjustment to Freddie Mac's management and guarantee fee.

**Section 4.05. Payments.** Freddie Mac will cause payments of principal, interest or any other sum due to Holders to be made by directing the Federal Reserve Bank to credit the Holders' accounts at the Federal Reserve Bank. A Holder shall receive the first payment of principal and interest with respect to the Mortgages in which it owns an undivided interest on the fifteenth day of the second month following the month in which the Holder becomes recognized as such pursuant to Section 5.03. Thereafter, a Holder shall receive a payment with respect to the Mortgages on the fifteenth day of each month.

Subject to the provisions of this Article IV, Freddie Mac shall pay to each Holder such Holder's pro rata share of principal received by Freddie Mac, interest at the applicable PC Coupon, and any other sums due to Holders under this Agreement, within 60 days of the date on which such payments are deemed to be received by Freddie Mac from the Seller (or any other servicer) pursuant to Section 4.01. Freddie Mac reserves the right to change the period during which Seller (or any other servicer) may hold funds prior to payment to Freddie Mac; provided, however, that any such change shall not delay the time of payments to Holders as otherwise provided in this Section 4.05. Pending payment to Holders of funds received by Freddie Mac from Seller (or any other servicer), Freddie Mac shall be entitled to invest and reinvest such funds for Freddie Mac's sole risk and benefit. Freddie Mac's guarantees as set forth in Section 4.09 shall continue to be effective or shall be reinstated in the event that any payment of principal or interest with respect to the Mortgages paid under this Agreement to a Holder is, for any reason, returned by the Holder pursuant to an order, decree or judgment of any court of competent jurisdiction that the Holder was not entitled to retain such payment pursuant to this Agreement.

**Section 4.06. Pool Factors.** Freddie Mac shall calculate and make payments to Holders pursuant to the pool factor method until such time as Freddie Mac shall determine that there is a more accurate and practicable method for calculating such payments, in which event Freddie Mac shall calculate and pay Holders pursuant to such more accurate method. As long as Freddie Mac uses the pool factor method, it shall do so pursuant to the provisions of this Section 4.06. On or about the seventh business day of each month, Freddie Mac will publish or cause to be published for such month a Pool Factor with respect to each Rate Capped ARM PC Pool. Principal payments shall be paid to a Holder by Freddie Mac in an amount equal to the difference between the Holder's pro rata share of the Remaining Rate Capped ARM PC Pool Balance as

determined by the Pool Factor for the second month prior to the month in which payment is made to the Holder and such pro rata share as determined by the Pool Factor for the month prior to the month in which payment is made to the Holder. Interest at the applicable PC Coupon shall be paid by Freddie Mac on the Holder's pro rata share of the Remaining Rate Capped ARM PC Pool Balance as determined by the Pool Factor for the second month prior to the month in which payment to the Holder is made. To the extent that a given Pool Factor may not reflect the actual unpaid principal balance of the Mortgages, Freddie Mac will correct any difference as soon as practicable by adjustment of subsequent Pool Factors.

The Pool Factor applicable to each Rate Capped ARM PC will be based upon the unpaid principal balance of the related Mortgages as reported to Freddie Mac by servicers. The pool factor method of determining payments will affect the timing of receipt of payments by Holders but will not affect Freddie Mac's guarantee of timely payment of interest and ultimate collection of principal as set forth in Section 4.09. Freddie Mac's guarantees will not be affected by the implementation of any different method for calculating and paying principal and interest as permitted by this Section 4.06.

**Section 4.07. Amounts Retained by Servicers.** Pursuant to its contractual arrangement with Freddie Mac, Seller (or any other servicer) shall be entitled to retain each month as a servicing fee a percentage of the unpaid principal balance of each Mortgage, which percentage is determined (subject to variation of up to 25 basis points during the life of the Mortgage) at the time the Mortgage is sold to Freddie Mac. The Seller (or any other servicer) is required to pay all expenses incurred by it in connection with its servicing activities and shall not be entitled to reimbursement therefor, except as provided in Section 4.08. The Seller (or any other servicer) is entitled to retain all incidental fees with respect to a Mortgage.

**Section 4.08. Amounts Retained by Freddie Mac.** Subject to any adjustments required by Section 4.04, Freddie Mac shall retain from monthly interest payments on each Mortgage received by Freddie Mac from the Seller (or any other servicer) a management and guarantee fee which is an amount equal to the excess, if any, of interest payments received by Freddie Mac from Seller (or any other servicer) over the amount of such interest paid to Holders at the applicable PC Coupon; provided, however, that the amount retained by Freddie Mac hereunder shall be adjusted automatically to the extent a Pool Factor does not reflect the unpaid principal balance of the Mortgages. Any such adjustment is equal to the difference between (i) interest at the applicable PC Coupon computed on the Remaining Rate Capped ARM PC Pool Balance for such month based on monthly principal payments actually received by or reported to Freddie Mac and (ii) interest at the applicable PC Coupon computed on the Remaining Rate Capped ARM PC Pool Balance derived from the Pool Factor. Freddie Mac shall pay all expenses incurred by it in connection with administration of a Rate Capped ARM PC Pool and the related Mortgages; provided, however, that any amounts expended by Freddie Mac or on Freddie Mac's behalf by servicers for the protection, preservation or maintenance of the Mortgages, or property received in liquidation of or realization upon the Mortgages, shall be deemed expenses to be borne pro rata by Freddie Mac and the Holders in accordance with their interests in each Mortgage. Expenses borne pro rata by Holders may be paid by Freddie Mac from payments otherwise due to Holders, and therefore will affect the timing of receipt of payments by Holders, but in no event shall Freddie Mac's guarantees of ultimate collection of principal or timely payment of interest at the applicable PC Coupon as set forth in Section 4.09 be affected by fees deducted by Freddie Mac or servicers or by amounts expended by Freddie Mac or servicers for the protection, preservation or maintenance of the real property securing the Mortgages.

**Section 4.09. Freddie Mac Guarantees.** Freddie Mac hereby guarantees to each Holder of a Rate Capped ARM PC:

- (a) Timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the Remaining Rate Capped ARM PC Pool Balance as determined pursuant to this Agreement; and
- (b) Ultimate collection of principal, without offset or deduction. For purposes of this guarantee, principal shall include the Holder's pro rata share of the unpaid principal balance plus the Holder's pro rata share of amounts expended by any servicer of the Mortgages or by Freddie Mac and deducted, pursuant to Section 4.08, from payments otherwise due such Holder. Freddie Mac shall pay the amount due on account of its guarantee of ultimate collection of principal at any time after default on a Mortgage,

but no later than thirty days following: (i) foreclosure sale, (ii) payment of a claim by any mortgage insurer, if applicable, or (iii) the expiration of any redemption period, whichever occurs later, but in any event no later than the earlier of one year after demand has been made upon the mortgagor for accelerated payment of principal or for payment of the principal due on the maturity of a Mortgage.

**Section 4.10. Freddie Mac Subrogation.** Freddie Mac shall be subrogated to all the rights, interests, remedies, powers and privileges of each Holder in respect of any Mortgage on which guarantee payments have been made by Freddie Mac of principal and/or interest, to the extent of such payments.

**Section 4.11. Termination Upon Final Payment.** Except as provided in Section 4.05, the obligations and responsibilities of Freddie Mac under this Agreement to a Holder in respect of any Rate Capped ARM PC shall terminate upon: (i) the payment to the Holder of all principal and interest due the Holder in respect of such Rate Capped ARM PC pursuant to the pool factor method or by reason of Freddie Mac's guarantees of timely payment of interest and ultimate collection of principal, or (ii) the payment to the Holder of all amounts held by Freddie Mac and required to be paid hereunder.

**Section 4.12. Modification of Final Payment Date.** The final payment in respect of a Rate Capped ARM PC may occur prior to the Final Payment Date by virtue of prepayments of principal or may occur after the Final Payment Date by virtue of (i) the procedure for payment of principal and interest as described in Section 4.05, (ii) forbearance or payment plans affecting any Mortgage, or (iii) payment under Freddie Mac's guarantee of collection of principal after a mortgagor default as described in Section 4.09(b).

## ARTICLE V

### The Rate Capped ARM PCs

**Section 5.01. Book-Entry Form; Minimum Principal Amounts.** Rate Capped ARM PCs shall be issued in Book-Entry Form only in minimum original principal amounts of \$1,000 with respect to any Rate Capped ARM PC Pool and in additional increments of \$1 and shall at all times remain on deposit with the Federal Reserve Bank in accordance with the provisions of the Book-Entry Rules. The Federal Reserve Bank shall maintain a book-entry recordkeeping system for all transactions in Rate Capped ARM PCs with respect to Holders.

**Section 5.02. Transfer of Rate Capped ARM PCs.** Rate Capped ARM PCs may be transferred only in minimum original principal amounts of \$1,000 with respect to any Rate Capped ARM PC Pool and additional increments of \$1. Rate Capped ARM PCs may not be transferred if, as a result of such transfer, the transferor or the new Holder would have on deposit in its account Rate Capped ARM PCs having an original principal amount of less than \$1,000 in respect of the related Rate Capped ARM PC Pool. The transfer, exchange or pledge of Rate Capped ARM PCs shall be governed by the Book-Entry Rules and such procedures, insofar as applicable, as may from time to time be established by regulations of the Treasury Department governing obligations of the United States, and such other procedures as shall be agreed upon from time to time by Freddie Mac and the Federal Reserve Bank. The Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Rate Capped ARM PC. A charge may be made for any transfer. A charge will be made for any tax or other governmental charge imposed in connection with a transfer of a Rate Capped ARM PC.

**Section 5.03. Record Date.** The Record Date for each month shall be the last Business Day of the month (disregarding for this purpose clauses (iv) and (v) of the definition of "Business Day"). A Holder of a Rate Capped ARM PC on the books and records of the Federal Reserve Bank as of the close of business on the Record Date shall be entitled to payment of principal and interest in respect of such Rate Capped ARM PC for such month. A transfer of a Rate Capped ARM PC made on or before the close of business on the Record Date shall be recognized as effective as of the opening of business on the first Business Day of the month of such transfer.

## ARTICLE VI

### Remedies

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

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

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

(c) Failure on the part of Freddie Mac to observe or perform any other of the covenants of this Agreement, continued for a period of 60 days after the date on which written notice of such failure, requiring Freddie Mac to remedy the same, shall have been given to Freddie Mac by the Holders of not less than 65 percent of the Remaining Rate Capped ARM PC Pool Balance of any affected Rate Capped ARM PC Pool; or

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

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

**Section 6.02. Remedies.** If an Event of Default occurs and is continuing, then and in each and every such case, the Holders of a majority of the Remaining Rate Capped ARM PC Pool Balance of any affected Rate Capped ARM PC Pool may, by written notice to Freddie Mac, remove Freddie Mac and nominate a successor to Freddie Mac under this Agreement with respect to such Rate Capped ARM PC Pool, which nominee shall be deemed appointed as successor to Freddie Mac unless within ten days after such nomination Freddie Mac objects thereto, in which case Freddie Mac may petition any court of competent jurisdiction for the appointment of a successor or any Holder who has been a bona fide Holder for at least six months may, on behalf of such Holder and all others similarly situated, petition any such court for appointment of a successor to Freddie Mac. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor to Freddie Mac. Upon the appointment of any successor pursuant to this Section 6.02, Freddie Mac shall submit to its successor a complete written report and accounting of the Mortgages relating to any such affected Rate Capped ARM PC Pool and shall take all other steps necessary or desirable to transfer its interest in the administration of this Agreement with respect to such Rate Capped ARM PC Pool to the successor. Subject to the Act, such successor may take such action with respect to such Mortgages as may be reasonable and appropriate in the circumstances. Prior to any such designation of a successor, the Holders of a majority of the Remaining Rate Capped ARM PC Pool Balance of any affected Rate Capped ARM PC Pool may waive any past default or Event of Default. Appointment of a successor will not relieve Freddie Mac of its guarantee obligations as set forth in this Agreement.

**Section 6.03. Limitation on Suits by Holders.** Except as provided in Section 6.02, no Holder shall have any right to institute any action or proceeding at law or in equity or in bankruptcy or otherwise, upon, under or with respect to this Agreement, the Rate Capped ARM PCs or the Mortgages, or for the appointment of a receiver or trustee, or for any other remedy whatsoever, unless such Holder previously shall

have given to Freddie Mac written notice of an Event of Default and of the continuance thereof, as hereinbefore provided, and unless also the Holders of a majority of the Remaining Rate Capped ARM PC Pool Balance of any affected Rate Capped ARM PC Pool shall have made written request upon Freddie Mac to institute such action or proceeding in its own name and shall have offered to Freddie Mac such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and Freddie Mac for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action or proceeding, and no direction inconsistent with such written request has been given to Freddie Mac during such 60-day period by the Holders of a majority of the Remaining Rate Capped ARM PC Pool Balance of any affected Rate Capped ARM PC Pool. It is understood and intended, and expressly covenanted by the Holder of each Rate Capped ARM PC in any affected Rate Capped ARM PC Pool with every other Holder in such Rate Capped ARM PC Pool and with Freddie Mac that no one or more Holders shall have any right in any manner whatsoever by virtue of or by availing themselves of any provision of this Agreement, to affect, disturb or prejudice the rights of any other Holder, or to obtain or seek to obtain preference or priority over any other Holder or to enforce any right under this Agreement, except in the manner herein provided and for the ratable and common benefit of all Holders of Rate Capped ARM PCs in any affected Rate Capped ARM PC Pool. For the protection and enforcement of the provisions of this Section 6.03, each and every Holder and Freddie Mac shall be entitled to such relief as can be given either at law or in equity. Notwithstanding the foregoing or any other provision of this Agreement, the right of any Holder to receive payment of principal and interest as herein provided, on or after the respective due date of such payment, or to institute suit for enforcement of any such payment on or after such date, shall not be impaired or affected without the consent of such Holder.

## ARTICLE VII

### Miscellaneous Provisions

**Section 7.01. Annual Statements.** Freddie Mac and/or its designated agent shall furnish, within a reasonable time after the end of each calendar year, to each entity which was a Holder on the records of the Federal Reserve Bank on any Record Date during such year, such customary information as Freddie Mac deems necessary or desirable to enable Holders and beneficial owners of Rate Capped ARM PCs to prepare their United States federal income tax returns, if applicable.

**Section 7.02. Limitation on Liability of Freddie Mac and Others.** Neither Freddie Mac nor any of its directors, officers, employees or agents shall be under any liability to Holders for any action taken by them or by a servicer or for their or any servicer's refraining from the taking of any action in good faith pursuant to this Agreement, or for errors in judgment; provided, however, that this provision shall not protect Freddie Mac or any such person against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence in the performance of duties or by reason of reckless disregard of obligations and duties hereunder. Freddie Mac and any director, officer, employee or agent of Freddie Mac may rely in good faith on any document of any kind properly executed and submitted by any person with respect to any matter arising hereunder. Holders shall jointly and severally indemnify and hold Freddie Mac and any director, officer, employee or agent of Freddie Mac harmless against any loss, liability or expense incurred in connection with any legal action brought by any person other than a Holder relating to this Agreement or the Rate Capped ARM PCs, other than any loss, liability or expense relating to any Mortgage (except as permitted in this Agreement) or incurred by reason of willful misfeasance, bad faith or gross negligence in performance of their duties or by reason of reckless disregard of obligations and duties hereunder. Freddie Mac shall not be under any obligation to appear in, prosecute or defend any legal action which is not incidental to its duties to service the Mortgages in accordance with this Agreement and which in its opinion may involve it in any expense or liability; provided, however, that Freddie Mac may in its discretion undertake any action which it may deem necessary or desirable with respect to any Mortgage, this Agreement, the Rate Capped ARM PCs or the rights and duties of the parties hereto and the interests of the Holders hereunder. In such event, the legal expenses and costs of such action and any liability resulting therefrom shall be expenses for the protection, preservation, and maintenance of the Mortgages borne pro rata by Freddie Mac and Holders as provided in Section 4.08.

**Section 7.03. Limitation on Rights of Holders.** The death or incapacity of any person having an interest, beneficial or otherwise, in a Rate Capped ARM PC shall not operate to terminate this Agreement or any Rate Capped ARM PC Pool, nor entitle the legal representatives or heirs of such person or any Holder for such person, to claim an accounting, to take any action or bring any proceeding in any court for a partition or winding up of any Rate Capped ARM PC Pool, nor otherwise to affect the rights, obligations and liabilities of the parties hereto or any of them.

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

**Section 7.05. Amendment.**

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

(b) Except as provided in Section 7.05(c) of this Agreement, with respect to any Rate Capped ARM PC Pool formed pursuant to the terms hereof, any provision of this Agreement may be amended by Freddie Mac with the consent of the Holders of not less than a majority of the Remaining Rate Capped ARM PC Pool Balance of such Rate Capped ARM PC Pool.

(c) Without the consent of a Holder, this Agreement may not be amended to impair or affect the right of such Holder to receive payment of principal and interest as herein provided, on or after the respective due date of such payment, or to institute suit for the enforcement of any such payment on or after such date.

**Section 7.06. Persons Deemed Owners.** Freddie Mac and the Federal Reserve Bank, or any agent of Freddie Mac or the Federal Reserve Bank, may deem and treat the Holder as the absolute owner of a Rate Capped ARM PC and the undivided interest in the Mortgages represented by such Rate Capped ARM PC for the purpose of receiving payment of principal or interest and for all other purposes, and neither Freddie Mac nor the Federal Reserve Bank shall be affected by any notice to the contrary. All such payments so made to any such Holder or upon such Holder's 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 Freddie Mac upon the Holder's Rate Capped ARM PC. A Holder is not necessarily the beneficial owner of a Rate Capped ARM PC. The rights of a beneficial owner of a Rate Capped ARM PC with respect to Freddie Mac and the Federal Reserve Bank may be exercised only through a Holder. Freddie Mac and the Federal Reserve Bank will have no direct obligation to a beneficial owner that is not also the Holder of a Rate Capped ARM PC.

**Section 7.07. Governing Law.** This Agreement and the Holder's and Freddie Mac's rights and obligations with respect to Rate Capped ARM PCs shall be construed in accordance with and governed by the laws of the United States. Insofar as there may be no applicable precedent, and insofar as to do so would not frustrate the purposes of the Act or any provision of this Agreement or the transactions governed thereby, the local laws of the State of New York shall be deemed reflective of the laws of the United States.

**Section 7.08. Payments Due on Non-Business Days.** If the date fixed for any payment on the Rate Capped ARM PC shall be a day which is not a Business Day, then such payment need not be made on such date, but may be made on the next succeeding day which is a Business Day, with the same force and effect as though made on the date fixed for payment, and no interest shall accrue for the period after such date.

**Section 7.09. Successors.** This Agreement shall be binding upon and shall inure to the benefit of any successor to Freddie Mac, including any successor by operation of law.

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

**Section 7.11. Notice and Demand.** Any notice, demand or other communication which by any provision of this Agreement is required or permitted to be given to or served upon any Holder may be given or served in writing by deposit thereof, postage prepaid, in the United States mail addressed to such Holder as such Holder's name and address may appear in the records of the Federal Reserve Bank, or by transmission to such Holder through the communication system linking the Federal Reserve Banks. Any notice, demand or other communication to or upon a Holder given in the manner prescribed in this Section 7.11 shall be deemed to have been sufficiently given or made, for all purposes, upon mailing or transmission.

Any notice, demand or other communication which by any provision of this Agreement is required or permitted to be given to or served upon Freddie Mac shall be given in writing addressed (until another address is published by Freddie Mac) as follows: Federal Home Loan Mortgage Corporation, Lake Fairfax Business Center, 1759 Business Center Drive, Building 5, Reston, Virginia 22090, Attention: Senior Vice President—General Counsel and Secretary. Such notice, demand or other communication to or upon Freddie Mac shall be deemed to have been sufficiently given or made only upon actual receipt of any such writing by Freddie Mac.

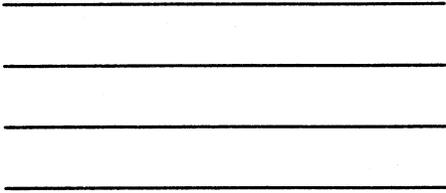
THE SALE OF A RATE CAPPED ARM PC BY FREDDIE MAC AND RECEIPT AND ACCEPTANCE OF A RATE CAPPED ARM PC BY OR ON BEHALF OF A HOLDER, WITHOUT ANY SIGNATURE OR FURTHER MANIFESTATION OF ASSENT, SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE HOLDER AND ALL OTHERS HAVING A BENEFICIAL INTEREST IN SUCH RATE CAPPED ARM PC OF ALL THE TERMS AND PROVISIONS OF THIS AGREEMENT, AND THE AGREEMENT OF FREDDIE MAC, SUCH HOLDER AND SUCH OTHERS THAT THOSE TERMS AND PROVISIONS SHALL BE BINDING, OPERATIVE AND EFFECTIVE AS BETWEEN FREDDIE MAC AND SUCH HOLDER AND SUCH OTHERS.

FEDERAL HOME LOAN MORTGAGE CORPORATION





# Freddie Mac



Owned by America's  
Savings Institutions