

**Federal Home Loan  
Mortgage Corporation**  
**Giant Participation Certificates and Other Structured  
Pass-Through Participation Certificates**

**Freddie  
Mac**

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Freddie Mac's Pass-Through PCs are pass-through mortgage-related securities that represent beneficial ownership interests in discrete Pass-Through Pools consisting of Contributing Assets. The Contributing Assets are typically backed directly or indirectly by fixed-rate Mortgages or by ARMs. Pass-Through PCs include:

- Giant PCs:
  - Standard Giant PCs, which receive payments of both the principal and interest from the related Contributing Assets, and
  - Stripped Giant PCs, including (i) Basic Strips, consisting of IO PCs, PO PCs and/or IP PCs; (ii) Modifiable And Combinable Securities (MACS), each Class of which receives payments of interest only, principal only, or part of the principal and interest from the related Contributing Assets; and (iii) IOette Strips, which receive payments of the interest and any principal from the related Contributing Assets, typically an interest only REMIC Tranche;
- Structured Pass-Through PCs:
  - Structured Pass-Through Certificates (SPCs), which receive payments from two or more types or classes of Contributing Assets, typically REMIC Tranches;
  - Callable Pass-Through Certificates (CPCs), in which one or more classes have the right to cause Freddie Mac to redeem other classes of the same Series; and
- Other types of Pass-Through PCs, including Structured Pass-Through PCs, designated as such in a Supplement, which receive all or part of their payments from mortgage-related securities.

Pass-Through PCs entitled to receive interest bear interest at an annual rate called the Pass-Through Coupon, as specified in the applicable Supplement. The Pass-Through Coupon may be a specified fixed rate or may adjust by reference to the interest rates of the Contributing Assets.

Freddie Mac guarantees to each Holder of a Pass-Through PC entitled to receive interest the timely payment of interest at the applicable Pass-Through Coupon. Freddie Mac guarantees to each Holder of a Pass-Through PC entitled to receive principal the payment of principal as payments are made on the Contributing Assets.

In addition to this Offering Circular and the related Supplement for each offering, Freddie Mac furnishes offering materials that describe the general characteristics of various types of Contributing Assets. The Supplement for each offering contains selected information about the characteristics of the related Contributing Assets.

**PASS-THROUGH PCs ARE NOT SUITABLE INVESTMENTS FOR ALL INVESTORS. IN PARTICULAR, NO INVESTOR SHOULD PURCHASE PASS-THROUGH PCs UNLESS THE INVESTOR UNDERSTANDS AND IS ABLE TO BEAR THE ASSOCIATED PREPAYMENT, YIELD, LIQUIDITY AND MARKET RISKS.**

Investors should purchase Pass-Through PCs only if they have read this Offering Circular, any applicable Supplements, the applicable PC Offering Circulars, Freddie Mac's current Information Statement, any subsequent Information Statement Supplements and any other documents incorporated by reference in the Supplements for such Pass-Through PCs. This Offering Circular incorporates by reference the Pass-Through Agreement, all applicable PC Offering Circulars, the current Information Statement and any subsequent Information Statement Supplements. Prospective investors can obtain any of these documents from Freddie Mac by writing or calling Investor Inquiry at Freddie Mac, 8200 Jones Branch Drive, McLean, Virginia 22102 (outside Washington, D.C. metropolitan area, phone 800/336-FMPC; within Washington, D.C. metropolitan area, phone 703/759-8160).

Capitalized terms used in this Offering Circular are defined in the "Glossary of Terms," which is attached as Exhibit A.

The obligations of Freddie Mac under its guarantees of the Pass-Through PCs are obligations of Freddie Mac only. The Pass-Through PCs, including any interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac. Income on the Pass-Through PCs has no exemption under federal law from federal, state or local taxation. Pass-Through 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.

The yield of each Pass-Through PC will depend upon its purchase price, its sensitivity to the rate of principal payments on the underlying Mortgages, the actual characteristics of the Mortgages and, in the case of ARM Pass-Through PCs, the levels of interest rates on the underlying ARM PCs as adjusted from time to time. The Mortgages are subject to prepayment at any time without penalty and Mortgage prepayment rates are likely to fluctuate significantly from time to time. Investors should carefully consider the associated risks, including, in the case of any Pass-Through PCs purchased at a discount (especially PO PCs and low coupon IP PCs), the risk that a slower than anticipated rate of principal payments could result in actual yields to investors that are lower than the anticipated yields and, in the case of any Pass-Through PCs purchased at a premium (especially IO PCs, IOette Strips and high coupon IP PCs), the risk that a faster than anticipated rate of principal payments could result in actual yields to investors that are lower than the anticipated yields. Investors in IO PCs, IOette Strips and any other Pass-Through PCs purchased at a significant premium should also consider the risk that rapid rates of principal payments could result in the failure of such investors to fully recover their investments. See "Prepayments, Yields and Suitability" in this Offering Circular.

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There is no assurance that a secondary market for the purchase and sale of any Pass-Through PCs, particularly those that are especially sensitive to interest rate, prepayment or market risks or that have been structured to meet the investment requirements of limited categories of investors, will develop or, if it develops, that it will be, or continue to be, liquid. Consequently, investors may not be able to sell their Pass-Through PCs readily or at prices that will enable them to realize their desired yield. The Pass-Through PCs of any Series or Class may or may not be eligible to back Freddie Mac REMIC Tranches or other Freddie Mac structured transactions. Investors should consult the Supplement for each particular Series for details.

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Pass-Through PCs, especially IO PCs, PO PCs, IOette Strips, high premium or low discount IP PCs, CPC and SPC Classes, are not suitable investments for all investors. Pass-Through PCs are not appropriate investments for any investor that requires a single lump sum payment on a predetermined date or an otherwise certain payment stream. The market values of the Pass-Through PCs are likely to fluctuate; such fluctuations may be significant and could result in significant losses to investors, particularly those investors whose circumstances do not permit them to hold the securities until maturity. The secondary markets for mortgage-related securities have experienced periods of illiquidity and can be expected to do so in the future. Illiquidity can have a severely adverse effect on the prices of Pass-Through PCs that are especially sensitive to prepayment risk or that have been structured to meet the investment requirements of limited categories of investors. Pass-Through PCs can be complex securities and it is important that each investor possess, either alone or together with an investment adviser, the expertise necessary to evaluate the information contained and incorporated in this Offering Circular and in the related Supplement in the context of that investor's financial situation.

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Freddie Mac issues and administers Pass-Through PCs pursuant to the terms of the Pass-Through Agreement, which contains a complete description of the rights and obligations of each Holder and of Freddie Mac. *The sale of a Pass-Through PC and the receipt and acceptance of a Pass-Through PC by or on behalf of a Holder, without any signature or further manifestation of assent, constitutes the unconditional acceptance by the Holder and all others having a beneficial interest in such Pass-Through PC of all the terms and provisions of the Pass-Through Agreement (including the related Terms Supplement), and the agreement of Freddie Mac, such Holder and such others that those terms and provisions will be binding, operative and effective among Freddie Mac, such Holder and such others.* The sale of a Pass-Through PC by Freddie Mac pursuant to the Pass-Through Agreement constitutes the sale, transfer and assignment by Freddie Mac to the Holder of a beneficial ownership interest in the related Pass-Through Pool.

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This Offering Circular, together with any applicable Supplement, constitutes an offer to sell only the Pass-Through PCs described in this document. Freddie Mac has not authorized any broker, dealer or salesperson, or anyone else, to make any statements, written or oral, in connection with any such offer, except for those contained in this Offering Circular, in the applicable Supplement and in the other documents and sources of information prepared by Freddie Mac that are described in this Offering Circular or the applicable Supplement. Investors must not rely on any other statements as having been authorized by Freddie Mac. Neither this Offering Circular nor any Supplement constitutes an offer to sell or a solicitation of an offer to buy any Pass-Through PCs by anyone in any jurisdiction where such an offer or solicitation would be unlawful, or where the person making such an offer or solicitation would not be qualified to do so, or to anyone to whom it would be unlawful to make such an offer or solicitation. Freddie Mac makes no representation that the statements in this Offering Circular, any Supplement or any other documents will be correct at any time after the date of such document, even though delivery of the document and the sale of the Pass-Through PCs take place on a later date.

## OFFERING CIRCULAR SUMMARY

The summary information set forth below is qualified in its entirety by reference to the information appearing elsewhere in this Offering Circular and by reference to the information with respect to each specific offering of Pass-Through PCs contained in the related Supplement.

**Issuer and Guarantor** . . . . . Federal Home Loan Mortgage Corporation, a shareholder owned government-sponsored enterprise created pursuant to an Act of Congress.

**Freddie Mac Pass-Through**

**PCs** . . . . . Freddie Mac Pass-Through PCs represent beneficial ownership interests in Pass-Through Pools formed under the Pass-Through Agreement, which is available from Freddie Mac. The following chart summarizes the various types of Pass-Through PCs:

Type of Pass-Through PC			General Description		Contributing Assets* / Type of Underlying Mortgage		
Giant PCs	Standard Giant PCs	Standard Fixed-Rate Giant PCs	Single Class; entitled to both interest and principal from Contributing Assets	Bear interest at a fixed Pass-Through Coupon	Fixed-Rate PCs; Standard Fixed-Rate Giant PCs/ Fixed-Rate Mortgages		
		Standard ARM Giant PCs		Bear interest at an adjustable Pass-Through Coupon	ARM PCs; Standard ARM Giant PCs/ARMs		
	Stripped Giant PCs	Basic Strips	IO PCs	Proportionate amounts of each Class of Basic Strips from the same Series are exchangeable for an equivalent amount of the underlying Standard Giant PC and vice versa	Issued in Series together with one Class of PO PCs and/or one or more Classes of IP PCs; entitled to interest payments only	PCs; Standard Giant PCs/Fixed-rate Mortgages or ARMs	
			PO PCs				Issued in Series together with one Class of IO PCs and/or one or more Classes of IP PCs; entitled to principal payments only
			IP PCs				Issued in Series together with one Class of IO PCs, one Class of PO PCs and/or one or more Classes of other IP PCs; entitled to interest and principal payments
			Modifiable And Combinable Securities (MACS)		Issued in Series, which may consist of one or two Classes of IO PCs, one or two Classes of PO PCs and multiple Classes of IP PCs with different Pass-Through Coupons; Classes are exchangeable for other Classes of same Series with different Pass-Through Coupons, or for equivalent amount of underlying Standard Giant PC; underlying Standard Giant PC may also be exchanged for MACS Classes	PCs; Standard Fixed-Rate Giant PCs/Fixed-Rate Mortgages	
			IOette Strips		Issued in Series; entitled to interest payments and any principal payments from Contributing Assets; not exchangeable for underlying Standard Giant PC	Interest only or high-coupon REMIC Tranches; IO PCs; high-coupon IP PCs; other IOette Strips/Fixed-Rate Mortgages or ARMs	
Structured Pass-Through PCs	Callable Pass-Through Certificates (CPCs)			One or more Classes entitled to interest and principal payments from Contributing Assets, and one or more other Classes have right to cause Freddie Mac to redeem other Classes in the transaction	REMIC Tranches; Pass-through PCs/ Fixed-Rate Mortgages or ARMs		
	Structured Pass-Through Certificates (SPCs)			Single Class, may be issued in Series with other discrete Classes of SPCs, entitled to interest and principal payments from two or more types or classes of Contributing Assets; exchangeable for equivalent amounts of Contributing Assets	PCs; REMIC Tranches/Pass-Through PCs/Fixed-Rate Mortgages and/or ARMs		
Other Pass-Through PCs, including Structured Pass-Through PCs, as designated in applicable Supplement			As described in applicable Supplement		As described in applicable Supplement		

\* Indicates most frequently used types of Contributing Assets; other types permitted if so provided in Supplement.

**The Contributing Assets and the Mortgages** . . . . .

Various PCs or other securities created or acquired by Freddie Mac having the characteristics described under "Description of Pass-Through PCs — Pass-Through Pools" in this Offering Circular and, as to a particular Pass-Through Pool, in the related Supplement. PCs include Gold PCs, Original PCs and ARM PCs. The Mortgages underlying PCs will be residential mortgages, including whole mortgage loans and/or mortgage participation interests. The Mortgages in each PC Pool will be entirely Conventional Mortgages or entirely FHA/VA Mortgages.

**Pass-Through Pool Factors** . . . . .

Each month Freddie Mac calculates a Pass-Through Pool Factor for each Pass-Through Pool. Freddie Mac uses Pass-Through Pool Factors to make principal and interest payments to Holders. The Pass-Through Pool Factor reflects the payment of principal or reduction in notional principal to be made on the Payment Date in the same month in the case of a Gold Pass-Through PC, or in the following month in the case of an Original Pass-Through PC or ARM Pass-Through PC. See "Payments — Pass-Through Pool Factors" below.

**Payment Dates** . . . . .

Freddie Mac passes through payments on each Payment Date to Holders as of the related Record Date. The Record Date is the close of business on the last day of (i) the preceding month in the case of Gold Pass-Through PCs or (ii) the second preceding month in the case of Original Pass-Through PCs and ARM Pass-Through PCs. Unless otherwise provided in the applicable Supplement, Freddie Mac will pay principal and interest to Holders of Pass-Through PCs of each Series entitled to such payments on the 15th of each month specified in the related Supplement or, if the 15th is not a "Business Day," on the next Business Day (a "Payment Date"), beginning on the date specified in the related Supplement.

**Method of Payment** . . . . .

Unless otherwise provided in the applicable Supplement, a Federal Reserve Bank will credit payments on each Payment Date to the accounts of Holders of Pass-Through PCs maintained on the Federal Reserve Banks' book-entry system. Each Holder, and each other financial intermediary in the chain to the beneficial owner, will be responsible for remitting payments to their customers. Unless otherwise provided in the applicable Supplement, the Registrar will make payments on Retail Classes to the Depository in immediately available funds. The Depository will be responsible for crediting payments to the accounts of the appropriate Depository participants in accordance with the Depository's normal procedures. Each Depository participant, and each other financial intermediary in the chain to the beneficial owner, will be responsible for remitting payments to its customers.

**Interest** . . . . .

On each Payment Date, a Holder entitled to the payment of interest will receive one month's interest at the applicable Pass-Through Coupon on the remaining principal balance or notional principal balance of the Holder's Pass-Through PC. In the case of a Pass-Through PC entitled to receive interest at a fixed rate, the Pass-Through Coupon is fixed at the time the Pass-Through Pool is created and does not change. In the case of a Pass-Through PC entitled to receive interest at an adjustable rate, the Pass-Through Coupon adjusts each month based on the weighted average of the interest rates of the Contributing Assets. See "Payments — Payments of Interest" below.

**Principal** . . . . .

Subject to any allocation procedure that may apply in the case of a Retail Class, a Holder entitled to the payment of principal will receive the Holder's proportionate share of principal received on the Contributing Assets. See "Payments — Payments of Principal" below.

**Guarantees** . . . . .

Freddie Mac guarantees to each Holder of a Pass-Through PC entitled to receive interest the timely payment of interest at the applicable Pass-Through Coupon. Freddie Mac also guarantees to each Holder of a Pass-Through PC the payment of any principal amount of such Holder's Pass-Through PC as principal payments are made on the Contributing Assets. Freddie Mac guarantees to Holders of Gold Pass-Through PCs the payment of the entire principal amount outstanding by the Payment Date occurring in the month of the Final Payment Date for such Pass-Through PCs. See "Guarantees" below.

**Form of Pass-Through**

**PCs** ..... Unless otherwise specified in the related Supplement, the Pass-Through PCs will be issued and maintained, and may be transferred by Holders, only on the book-entry system of the Federal Reserve Banks. Pass-Through PCs maintained on such book-entry system may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. If a Series includes one or more "Retail Classes," each such Class will be represented by one or more certificates held by or on behalf of The Depository Trust Company or its successor (the "Depository"), unless otherwise provided in the related Supplement. The Depository will maintain each such Class through its book-entry facilities. Other Classes in certificated form ("Certificated Classes") will be transferable and exchangeable at the office of Texas Commerce Bank National Association or its successor (the "Registrar").

**Holders** ..... The term "Holders" means (i) in the case of a Pass-Through PC maintained on the Federal Reserve Banks' book-entry system, the entities that appear on the book-entry records of a Federal Reserve Bank as holders of that Class and (ii) in the case of a Retail Class, the Depository or its nominee and (iii) in the case of a Certificated Class, the entities or individuals that appear on the records of the Registrar as the registered holders of that Class. See "Description of Pass-Through PCs — Form of Pass-Through PCs, Holders, Minimum Principal Amounts and Transfers."

**Minimum Principal Amounts and Transfers**

..... Unless otherwise provided in the applicable Supplement, Pass-Through PCs (other than Retail Classes) will be issued and must be maintained and transferred in minimum original principal (or minimum original notional principal) amounts of \$1,000 and additional increments of \$1. See "Description of Pass-Through PCs — Form of Pass-Through PCs, Holders, Minimum Principal Amounts and Transfers."

**Tax Status of Pass-Through**

**PCs** ..... Income from the Pass-Through PCs has no exemption under federal law from federal, state or local taxation. See "Certain Federal Income Tax Consequences" below.

## AVAILABILITY OF INFORMATION

Freddie Mac regularly makes available to investors information regarding Pass-Through PCs and Contributing Assets. Information regarding PC Pools and Pass-Through Pools generally is available from various sources, including several information vendors that provide both original and updated securities information. Investors can obtain the names of these vendors, and may receive access to Freddie Answers<sup>SM</sup>, by writing or calling Investor Inquiry at Freddie Mac at the address or phone numbers on the cover page. Information regarding Pass-Through Pools is available from Investor Inquiry at Freddie Mac as of pool formation. Freddie Mac's Resecuritization Electronic Data Base ("FRED") makes available information regarding Pass-Through PCs. FRED is available through AT&T's Easy Link Services (an electronic mail system). Investors can obtain information about access to FRED by writing or calling Investor Inquiry at Freddie Mac.

## DESCRIPTION OF PASS-THROUGH PCs

### GENERAL

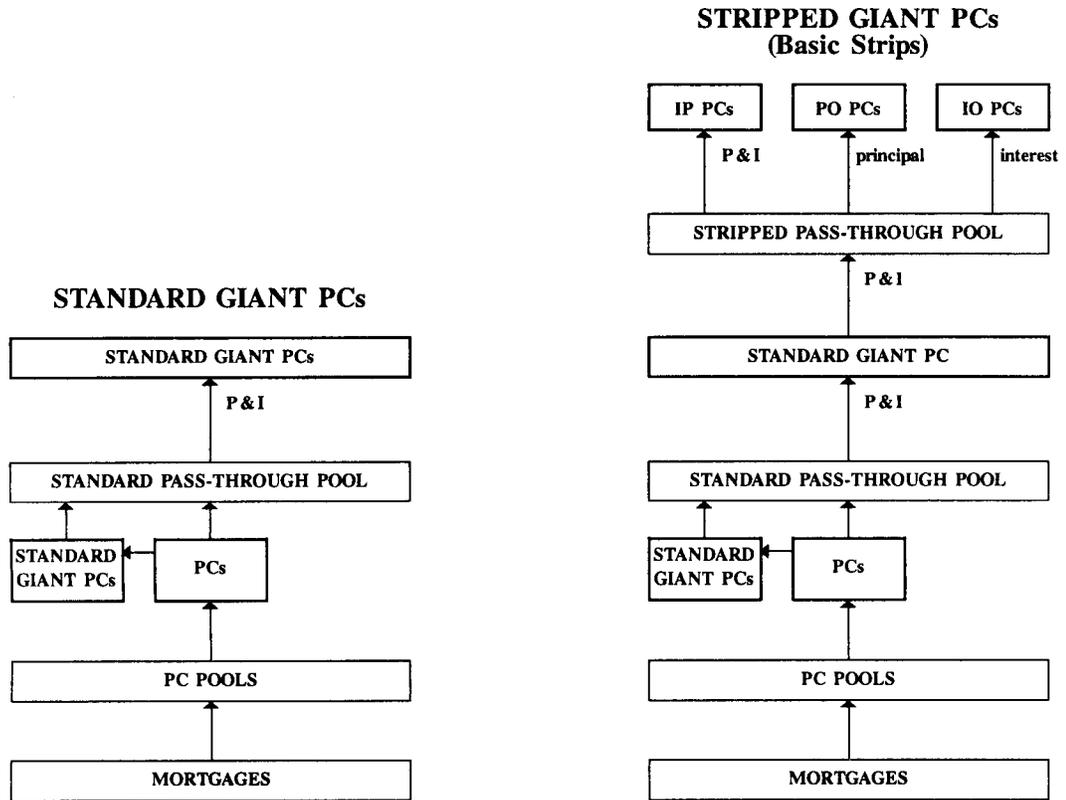
Pass-Through PCs represent beneficial ownership interests in discrete Pass-Through Pools containing Freddie Mac mortgage-related securities and/or other securities. Pass-Through PCs include the following:

- Standard Giant PCs, including Standard Fixed-Rate Giant PCs and Standard ARM Giant PCs
- Stripped Giant PCs, including Basic Strips, Modifiable And Combinable Securities (MACS) and IOette Strips
- Structured Pass-Through Certificates (SPCs)
- Callable Pass-Through Certificates (CPCs)
- Any other securities that are designated as Pass-Through PCs or Structured Pass-Through PCs by Freddie Mac. These securities will be backed, directly or indirectly, by PCs and/or other securities.

### GIANT PCs

"Giant PCs" is a generic term that encompasses (a) *Standard Giant PCs* — a single Class entitled to payments of all the principal and interest received on the Contributing Assets (except any amounts retained by Freddie Mac), and (b) *Stripped Giant PCs*, of three types — (i) *Basic Strips*, with two or more Classes entitled to payments of interest only (IO PCs), principal only (PO PCs) or a portion of the principal and interest payments received on the Contributing Assets (IP PCs); (ii) *MACS*, with many Classes consisting of IO PCs, PO PCs and IP PCs, which are entitled to payments of principal and/or interest, as applicable, on the Contributing Assets; and (iii) *IOette Strips*, with one or more Classes entitled to payments of interest and, in some cases, a relatively small amount of principal received on the Contributing Assets.

When Freddie Mac creates Stripped Giant PCs, it forms (i) a Stripped Pass-Through Pool that consists of one Standard Giant PC as the sole Contributing Asset and (ii) an underlying Standard Pass-Through Pool, represented by that Standard Giant PC, containing the applicable Contributing Assets for the transaction. The following chart depicts the structure of typical Standard Giant PCs and Basic Strips:



## **Standard Giant PCs**

**Standard Fixed-Rate Giant PCs.** An issuance of Standard-Fixed Rate Giant PCs consists of a single Class that bears interest at a specified fixed rate. The Contributing Assets for Standard Fixed-Rate Giant PCs are PCs and other Standard Fixed-Rate Giant PCs. Generally, the Contributing Assets for Standard Fixed-Rate Giant PCs bear interest at the same rate as the related Pass-Through Coupon. However, from time to time Freddie Mac may issue Standard Fixed-Rate Giant PCs with a Pass-Through Coupon that is higher or lower than the rate of interest payable on the Contributing Assets.

**Standard ARM Giant PCs.** An issuance of Standard ARM Giant PCs consists of a single Class that bears interest at a Pass-Through Coupon that adjusts each month based on the weighted average of the interest rates of the Contributing Assets. The Contributing Assets for Standard ARM Giant PCs are ARM PCs and other Standard ARM Giant PCs. ARMs backing a Standard ARM Giant PC adjust based on the same index and adjustment parameters, but need not adjust on the same date. Generally, Freddie Mac will not pool together Contributing Assets that are backed by ARMS that are convertible into fixed-rate Mortgages and Contributing Assets that are backed by ARMs that are not so convertible. The Supplement for each Standard ARM Giant PC will indicate the initial Pass-Through Coupon, the amount of the maximum permissible periodic adjustment, if any, of the related ARM PCs, the maximum interest rate, if any, to which such ARM PCs may adjust, the ARM PCs included in the ARM Pass-Through Pool. The particular characteristics of different types of ARM PCs are described in more detail in the applicable PC Offering Circulars.

The Supplement for each Standard Giant PC will provide information concerning the terms of the Standard Giant PCs and information concerning the related Mortgages.

## **Stripped Giant PCs**

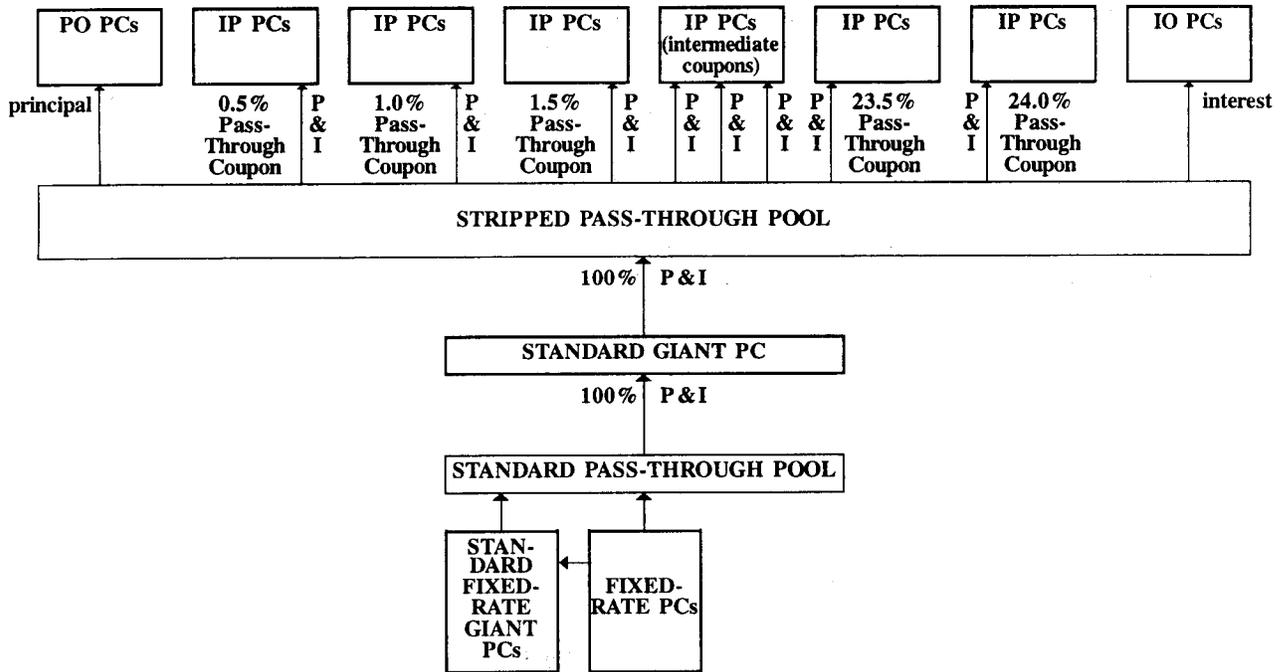
Currently, Freddie Mac issues three types of Stripped Giant PCs: (i) Basic Strips, which consist of two or more Classes for each Series, usually IO PCs and PO PCs, and sometimes including IP PCs; (ii) MACS, which typically consist of fifty Classes for each Series, including one or two Classes of IO PCs, one or two Classes of PO PCs and multiple Classes of IP PCs and (iii) IOette Strips, which typically consist of one, but may consist of more, Classes of IO PCs, IP PCs and/or PO PCs. New types of Stripped Giant PCs, or Stripped Giant PCs with terms that vary from the customary terms, may be offered from time to time.

**Basic Strips.** Basic Strips may be issued as IO PCs and PO PCs only, or may include IP PCs entitled to a portion of the principal and interest payments of the underlying Standard Giant PC. IP PCs may also be issued with IO PCs only or PO PCs only. Contributing Assets eligible for inclusion in a Pass-Through Pool for Basic Strips include (i) fixed-rate PCs and Standard Fixed-Rate Giant PCs, or (ii) ARM PCs and Standard ARM Giant PCs.

Unless stated otherwise in the applicable Supplement, a Holder of proportionate interests in the principal and notional principal amounts of all Classes issued in respect of the same Series of Basic Strips may exchange such interests with Freddie Mac for an equivalent principal amount of the underlying Standard Giant PC. The unpaid principal amount of the underlying Standard Giant PC received by the Holder in such exchange will equal the unpaid principal amount of the Classes so exchanged, and interest will be payable thereon at the Pass-Through Coupon for such Standard Giant PC, in the same aggregate amount as would have been paid on such Classes. Similarly, a Holder of a Standard Giant PC that has been reconstituted by such an exchange may exchange such Standard Giant PC for equivalent interests in the Basic Strips. Recombining Basic Strips and re-stripping such recombined Basic Strips are possible until these securities are retired. Purchasers of Basic Strips for which all the original principal amount of any one Class has been placed into a pool underlying a series of REMIC Tranches should note that it is highly unlikely that they will be able to acquire an interest in any needed Class in order to effectuate an exchange for an interest in the underlying Standard Giant PC. For further procedures relating to exchanges of Stripped Giant PCs, see "Exchange Procedures for Basic Strips, MACS and SPCs" below.

**MACS.** MACS, or Modifiable And Combinable Securities, are Stripped Giant PCs issued in a range of possible Pass-Through Coupons that are exchangeable for other Classes having different Pass-Through Coupons. The following chart depicts the structure of typical MACS:

**MODIFIABLE AND COMBINABLE SECURITIES**



The aggregate original principal amount of all MACS Classes actually issued (other than any Class of IO PCs) will equal the original principal amount of the underlying Standard Giant PC. MACS Classes are offered in *maximum* original principal or notional principal amounts, and that maximum amount is considered individually for each Class and without regard to the amounts of the other Classes. The maximum original principal amount shown in a MACS Supplement for each Class will equal (i) the original principal amount of the underlying Standard Giant PC times (ii) the Pass-Through Coupon of the underlying Standard Giant PC divided by (iii) the greater of the Pass-Through Coupon of the underlying Standard Giant PC or the Pass-Through Coupon for that Class, with the result being rounded, if necessary, to the nearest whole dollar.

Which Classes of MACS are outstanding at any given time will depend upon which Classes are initially issued and upon any exchanges that occur. The aggregate outstanding principal amount of all the Classes, exclusive of any notional principal amount of any Class of IO PCs, will at all times equal the outstanding principal amount of the underlying Standard Giant PC that remains in the Stripped Pass-Through Pool, and the outstanding Classes will receive interest payments, in the aggregate, equal to the interest payments made on such Standard Giant PC.

Class designations for MACS that are IP PCs are set forth in each Supplement by reference to their Pass-Through Coupons. Thus, a Class with a Pass-Through Coupon of 0.5% is called the "0.5 PCs," a Class with a Pass-Through Coupon of 24.0% is called the "24.0 PC."

A Holder of one or more outstanding Classes of the same Series of MACS (the "Old MACS") may, through a Dealer and upon notice to Freddie Mac and payment of a fee as described below, exchange the Holder's Old MACS for one or more different Classes of MACS of the same Series (the "New MACS"). Any such exchange of different Classes will be permitted, so long as the following constraints are met:

- The aggregate outstanding principal amount of the New MACS (rounded to whole dollars) immediately after the exchange must equal that of the Old MACS immediately before the exchange (for this purpose, the outstanding principal amount of the IO Class always equals \$0).
- The aggregate "Annual Interest Amount" of the New MACS (rounded to whole dollars) must equal that of the Old MACS (the "Annual Interest Amount" for any Class of MACS equals its outstanding principal amount or notional principal amount times its Pass-Through Coupon.)

The following examples illustrate some of the possible exchanges of Old MACS for New MACS. It is assumed that the exchanging Holder's Old MACS are as follows:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Pass-Through Coupon</u>	<u>Annual Interest Amount</u>
\$10,000,000	4.0	4.0%	\$ 400,000
10,000,000	8.0	8.0	800,000
10,000,000	18.0	18.0	1,800,000
<u>\$30,000,000</u>			<u>\$3,000,000</u>

*Example 1:* Holder receives New MACS consisting entirely of the 10.0 Class, as follows:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Pass-Through Coupon</u>	<u>Annual Interest Amount</u>
<u>\$30,000,000</u>	10.0	10.0%	<u>\$3,000,000</u>

*Example 2:* Holder receives New MACS consisting of PO and IO Classes, as follows:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Pass-Through Coupon</u>	<u>Annual Interest Amount</u>
\$30,000,000	PO	0.0%	\$ 0
35,294,118(notional)	IO	8.5*	3,000,000
<u>\$30,000,000</u>			<u>\$3,000,000</u>

*Example 3:* Holder receives New MACS consisting of 6.0, 9.0 and IO Classes, as follows:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Pass-Through Coupon</u>	<u>Annual Interest Amount</u>
\$20,000,000	6.0	6.0%	\$1,200,000
10,000,000	9.0	9.0	900,000
10,588,236(notional)	IO	8.5*	900,000
<u>\$30,000,000</u>			<u>\$3,000,000</u>

\* Examples 2 and 3 assume that the Pass-Through Coupon of the Contributing Assets, and therefore that of the IO Class, is 8.5%.

*Example 4:* Holder receives New MACS consisting of PO, 6.0, 9.0, and 20.0 Classes, as follows:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Pass-Through Coupon</u>	<u>Annual Interest Amount</u>
\$ 500,000	PO	0.0%	\$ 0
5,000,000	6.0	6.0	300,000
20,000,000	9.0	9.0	1,800,000
4,500,000	20.0	20.0	900,000
<u>\$30,000,000</u>			<u>\$3,000,000</u>

*Example 5:* Holder receives New MACS consisting of the 6.0 and 14.0 Classes, as follows:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Pass-Through Coupon</u>	<u>Annual Interest Amount</u>
\$15,000,000	6.0	6.0%	\$ 900,000
15,000,000	14.0	14.0	2,100,000
<u>\$30,000,000</u>			<u>\$3,000,000</u>

*Example 6:* Holder receives New MACS consisting of the 6.0 and 15.0 Classes, as follows:

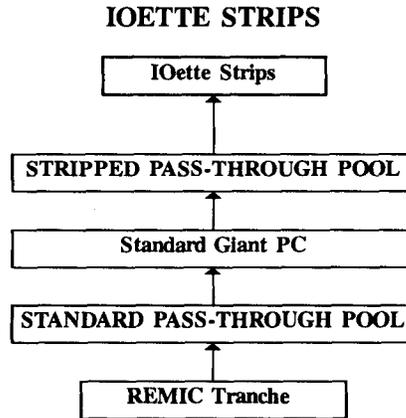
<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Pass-Through Coupon</u>	<u>Annual Interest Amount</u>
\$16,666,667	6.0	6.0%	\$1,000,000
13,333,333	15.0	15.0	2,000,000
<u>\$30,000,000</u>			<u>\$3,000,000</u>

In each example, the aggregate outstanding principal amount (\$30,000,000) and the aggregate Annual Interest Amount (\$3,000,000) of the New MACS equal those of the Old MACS that have been exchanged. In examples 2, 3 and 6, certain amounts have been rounded to whole dollars to achieve this result. A multitude of other examples, each using the same Old MACS, could be constructed.

Any Class or Classes of MACS of the same Series with outstanding principal or notional principal amounts may be exchanged, in proper proportions and amounts, in any month for one or more other Classes of the same Series of MACS. Similarly, one or more Classes of MACS of the same Series may be exchanged, in proper proportions and amounts, for a portion of the underlying Standard Giant PC, and vice versa. For example, the Holder in the above examples could exchange \$10,000,000 of the 4.0 Class, \$10,000,000 of the 8.0 Class and \$5,263,158 (rounded) of the 18.0 Class for \$25,263,158 (rounded) of the underlying Standard Giant PC having a Pass-Through Coupon of 8.5%. This process may be repeated again and again. A fee will be payable to Freddie Mac in connection with certain exchanges. For further procedures relating to exchanges of MACS, see "Exchange Procedures for Basic Strips, MACS and SPCs" below.

***IOette Strips.*** An IOette Strip is a Stripped Giant PC backed by (i) one or more REMIC Tranches with interest only characteristics (but which may pay a relatively small amount of principal), (ii) one or more Classes of IO PCs, (iii) one or more Classes of high-coupon IP PCs and/or (iv) one or more Classes of IOette Strips. IOette Strips may be issued in one or more Classes in a Series. Each REMIC Tranche that underlies any IOette Strip reduces its principal amount or notional principal amount proportionately with the principal amount of the PCs or Pass-Through PCs underlying the related REMIC. IOette Strips may *not* be exchanged for their Contributing Assets or otherwise disaggregated.

The following chart depicts the structure of a typical IOette Strip:



**STRUCTURED PASS-THROUGH PCs**

**Callable Pass-Through Certificates**

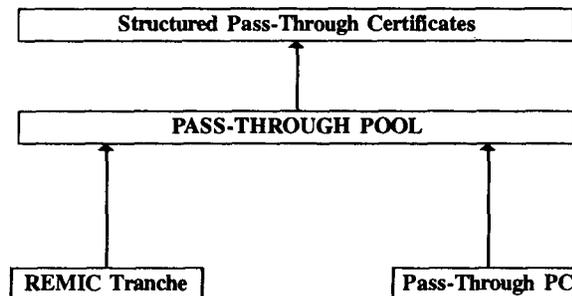
Callable Pass-Through Certificates (CPCs) represent beneficial interests in a Pass-Through Pool that contains PCs, Pass-Through PCs, REMIC Tranches and/or other securities specified in the related Supplement. Certain Classes of CPCs will be Call Classes and will have the right to cause Freddie Mac to redeem certain other Classes of CPCs and to receive the Contributing Assets underlying the redeemed Class in exchange for a payment. Note that Call Classes do *not* represent beneficial *ownership* interests in the underlying Pass-Through Pool. The Supplement for each CPCs transaction will provide information on the Contributing Assets for that Series, and on the mechanics of redemption and payment.

**Structured Pass-Through Certificates**

Structured Pass-Through Certificates (SPCs) represent beneficial ownership interests in a Pass-Through Pool that contains REMIC Tranches, Pass-Through PCs, PCs, Freddie Mac debt instruments and/or other securities specified in the related Supplement. Each such Pass-Through Pool typically contains, and thus the related SPCs represent interests in, two or more separate classes or types of Contributing Assets. The Supplement relating to each Series of SPCs and FRED each provide information on the Contributing Assets for that Series. Each Class of SPCs is backed by a separate Pass-Through Pool, but a Series of SPCs may contain one or more Classes.

The following chart depicts the structure of a typical offering of SPCs:

**STRUCTURED PASS-THROUGH CERTIFICATES**



Generally, holders of the SPCs of any Class will be entitled to exchange all or a portion of their interest in such SPCs for a proportionate interest in each of the underlying Contributing Assets. A fee will be payable to Freddie Mac in connection with such exchanges. For procedures on such exchanges, see “Exchange Procedures for Basic Strips, MACS and SPCs” below.

After a SPC has been exchanged for a proportionate interest in the underlying Contributing Assets, such Contributing Assets may not be recombined back into that same SPC.

### ***PASS-THROUGH POOLS***

Each Pass-Through Pool will consist of (i) Gold PCs and/or other Contributing Assets backed directly or indirectly by Gold PCs, (ii) Original PCs and/or other Contributing Assets backed directly or indirectly by Original PCs, (iii) ARM PCs and/or other Contributing Assets backed directly or indirectly by ARM PCs or (iv) any other securities that are identified as Contributing Assets in the related Supplement.

Depending on the Pass-Through Pool, the Contributing Assets may include PCs, Pass-Through PCs, REMIC Tranches and/or other Contributing Assets described in the related Supplement. Unless otherwise provided in the applicable Supplement, up to 10% of the Contributing Assets in a Fixed-Rate Pass-Through Pool by principal amount may have pool numbers or legends denoting that the underlying Mortgages include any one of the following: “Relocation Mortgages,” “Cooperative Share Mortgages,” “Extended Buydown Mortgages” or “Newly Originated Assumable Mortgages”; however, such Contributing Assets, in the aggregate, may not constitute more than 15% of the Contributing Assets by original principal balance in a Fixed-Rate Pass-Through Pool. The applicable PC Offering Circulars describe these types of Mortgages and the characteristics that distinguish them from other Mortgages.

Each Class of Giant PCs is assigned a Pass-Through Pool Number. The Pass-Through Pool Number for a Pass-Through Pool (other than for SPCs and CPCs) or Class of Giant PCs will be set forth in the related Supplement. The minimum original principal balance or notional principal balance of a Pass-Through Pool will be \$1,000,000.

### **Prefix Table**

The following table summarizes, by prefix and type of Giant PC, certain characteristics of the Giant PCs. From time to time Freddie Mac may issue Giant PCs with prefixes other than those shown below. SPC and CPCs Classes and Series are not assigned pool numbers and therefore do not have prefixes.

<u>Prefix</u>	<u>Type of Giant PCs</u>	<u>Maximum Term (Years)</u>
<b>Gold(1):</b>		
G0	Standard Giant PCs	30
G1	Standard Giant PCs	15
G2	Standard Giant PCs	30
	(FHA/VA Mortgages)	
G3	Standard Giant PCs	20
G4	Standard Giant PCs	7
	(7-year Balloon/Reset Mortgages)	
G5	Standard Giant PCs	5
	(5-year Balloon/Reset Mortgages)	
S0	PO PCs, IP PCs or IOette Strips	30
S1	IO PCs or IOette Strips	30
S2	PO PCs, IP PCs or IOette Strips	15, 7 or 5
S3	IO PCs or IOette Strips	15, 7 or 5
<b>Original(2):</b>		
14	Standard Giant PCs	30
	(FHA/VA Mortgages)	
16,17	Standard Giant PCs	30
20, 21, 38	Standard Giant PCs	15
27-30, 36	Standard Giant PCs	30
50	Standard Giant PCs	15
53-59	Standard Giant PCs	30
80	PO PCs or IP PCs	30
	(Stripped Giant PCs only)	
82	PO PCs or IP PCs	15
	(Stripped Giant PCs only)	
89	Standard Giant PCs	5
	(5-year Balloon/Reset Mortgages)	
90	IO PCs	30
92	IO PCs	15
95	Standard Giant PCs	7
	(7-year Balloon/Reset Mortgages)	
<b>ARM(3):</b>		
84	Standard Giant PCs	40

- (1) A Pass-Through Pool backed by Gold PCs may include Contributing Assets formed under the Cash Program, the Guarantor Program, the MultiLender Swap Program or any combination thereof.
- (2) A Pass-Through Pool backed by Original PCs may include Contributing Assets formed under either the Cash Program (including the MultiLender Swap Program) or the Guarantor Program but not both.
- (3) A Pass-Through Pool backed by ARM PCs may include Contributing Assets formed under either the Cash Program or the Guarantor Program or both.

## **PAYMENTS**

### **Pass-Through Pool Factors**

Each month Freddie Mac calculates the Pass-Through Pool Factor for each outstanding Class of Pass-Through PCs. The Pass-Through Pool Factor is a truncated seven digit decimal that, when multiplied by the original principal amount or notional principal amount of a Pass-Through PC, will equal its remaining principal or notional principal amount. The Pass-Through Pool Factor reflects the payment of principal or reduction in notional principal to be made on the Payment Date in the same month in the case of Gold Pass-Through PCs, or in the following month in the case of Original Pass-Through PCs and ARM Pass-Through PCs. For more detail on the Pool Factor Method of calculating payments on PCs, see the applicable PC Offering Circular.

Freddie Mac will publish or otherwise make available the Pass-Through Pool Factor for each outstanding Pass-Through Pool for each month on or about the first business day of that month in the case of Gold Pass-Through PCs and Original Pass-Through PCs, or on or about the seventh business day of that month in the case of ARM Pass-Through PCs.

The Pass-Through Pool Factor for each Class of Pass-Through PCs for the month of the Settlement Date is 1.0000000. Each Class of Stripped Giant PCs will reflect the same Pass-Through Pool Factor as the underlying Standard Giant PC, because each Class is subject to the same rate of principal paydowns on the Mortgages underlying such Standard Giant PC. The Pass-Through Pool Factor for a Class of Stripped Giant PCs or SPCs may not reflect the aggregate outstanding principal amount (or notional principal amount) of the Class as a whole, which may decrease or, in the case of Stripped Giant PCs, increase over time due to exchanges. An investor can obtain monthly updates of current aggregate principal amounts (or notional principal amounts) of the Classes of Stripped Giant PCs and SPCs from FRED.

### **Payments of Principal**

Freddie Mac will pay principal on each Payment Date to the Holders of each Class of Pass-Through PCs on which principal is due. Payments of principal received on a Payment Date on the Contributing Assets will be passed through as principal on the same Payment Date. Subject to any allocation procedures that may apply in the case of Retail Classes, the Holders of the related Pass-Through PCs entitled to receive principal on any Payment Date will receive such payments on a pro rata basis among the Pass-Through PCs of the same Class. Holders of IO PCs and Call Classes of CPCs will not receive principal payments.

For any Payment Date, the amount of principal to be paid on a Pass-Through PC of any Class entitled thereto can be calculated by multiplying the original principal amount of such Pass-Through PC by (i) in the case of a Gold Pass-Through PC, the difference between the Pass-Through Pool Factors for such Class published in the immediately preceding and current months and (ii) in the case of an Original Pass-Through PC or ARM Pass-Through PC, the difference between the Pass-Through Pool Factors for such Class published in the two preceding months. For more detail on the Pool Factor Method of calculating payments on PCs and on principal payments on PC pools formed after the date hereof, see the applicable PC Offering Circular.

Where Basic Strips are offered with an IO and PO Class and no IP Class, the PO Class receives all the payments of principal and none of the payments of interest on the underlying Standard Giant PC, and the IO Class receives none of the payments of principal and all of the payments of interest on the underlying Standard Giant PC. Where Basic Strips are offered with a PO and an IP Class, and where the Pass-Through Coupon on the IP Class matches the Pass-Through Coupon on the underlying Standard Giant PC, Holders of such PO Class and IP Class are each entitled to receive payments of principal equal to its original principal amount divided by the sum of the original principal amounts of both Classes.

### **Payments of Interest**

Pass-Through PCs entitled to receive interest bear interest at an annual fixed or adjustable rate called the Pass-Through Coupon, as specified in the related Supplement. The Pass-Through Coupon may be a specified fixed rate or may adjust by reference to the weighted average of the interest rates of the Contributing Assets. In the case of a Pass-Through PC entitled to receive interest at a fixed rate, the Pass-Through Coupon is fixed at the time the Pass-Through Pool is created and does not change. In the case of a Pass-Through PC entitled to receive interest at an adjustable rate, the Pass-Through Coupon adjusts each month based on the weighted average of the interest rates of the Contributing Assets.

Freddie Mac will pay interest at the applicable Pass-Through Coupon on each Payment Date to the Holders of each Class of Pass-Through PCs entitled to receive interest. Holders of PO PCs and Call Classes of CPCs will not receive interest payments. Payments will be made to Holders of record as of the related Record Date.

Unless otherwise specified in the applicable Supplement, interest will accrue on the principal or notional principal amount of Pass-Through PCs of any Class entitled thereto as determined by the applicable Pass-Through Pool Factor published in (i) the month immediately preceding the month in which the related Payment Date occurs in the case of Gold Pass-Through PCs, or (ii) the second month preceding the month in which the related Payment Date occurs in the case of Original Pass-Through PCs

and ARM Pass-Through PCs. The Interest Accrual Period for Gold Pass-Through PCs is the calendar month immediately preceding the related Payment Date, and the Interest Accrual Period for Original Pass-Through PCs and ARM Pass-Through PCs is the second calendar month preceding the related Payment Date. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

**ARM Pass-Through PCs, CPCs and SPCs.** Unless otherwise provided in the related Supplement, the Pass-Through Coupon for ARM Pass-Through PCs, CPCs and SPCs will be adjusted as of the first day of each month, which is the same date that the applicable Interest Accrual Period begins, and will equal the weighted average of the interest rates of the Contributing Assets as of such date. In the case of ARM Pass-Through PCs, such Pass-Through Coupon is truncated at the third decimal place. Investors can obtain the Pass-Through Coupons for the current Interest Accrual Period from FRED or by writing or calling Investor Inquiry at Freddie Mac.

### **Payment Dates**

Freddie Mac passes through payments on each Payment Date to Holders as of the related Record Date. The Record Date is the close of business on the last day of (i) the preceding month in the case of Gold Pass-Through PCs or (ii) the second preceding month in the case of Original Pass-Through PCs and ARM Pass-Through PCs.

Freddie Mac will pass through payments on Pass-Through PCs on each applicable Payment Date, commencing on the date specified in the related Supplement. Unless otherwise stated in the applicable Supplement, Payment Dates occur on the 15th day of each month, or if such day is not a Business Day, on the next Business Day.

The first payment on Standard Giant PCs and Stripped Giant PCs received in an exchange transaction will be made, in the case of Gold Pass-Through PCs, on the Payment Date in the month following the month of the exchange, and in the case of Original Pass-Through PCs and ARM Pass-Through PCs, in the second month following the month of the exchange. Such payment will be made to the Holder of record as of the close of business on the last day of the month of the exchange. The last payment on Stripped Giant PCs, Standard Giant PCs and SPCs surrendered in an exchange transaction will be made, in the case of Gold Pass-Through PCs, in the month of the exchange, and in the case of Original Pass-Through PCs and ARM Pass-Through PCs, in the following month.

### **GUARANTEES**

Freddie Mac guarantees to each Holder of a Pass-Through PC entitled to receive interest the timely payment of interest at the applicable Pass-Through Coupon. Freddie Mac also guarantees to each Holder of a Pass-Through PC entitled to receive principal the payment of the principal amount of such Holder's Pass-Through PC as payments are made on the Contributing Assets. Freddie Mac guarantees to each Holder of a Gold Pass-Through PC entitled to receive principal the final payment of its entire principal amount by the month of the Final Payment Date for such Gold Pass-Through PC.

Freddie Mac guarantees the payment of interest and principal on Contributing Assets, as set forth in the applicable offering materials for the particular Contributing Assets. Freddie Mac guarantees the timely payment of interest and the full payment of principal on the underlying Mortgages for all PCs. For Gold PCs, Freddie Mac also guarantees to each Holder thereof, on each Payment Date, its proportionate share of scheduled principal payments on the related Mortgages, and interest at the applicable "PC Coupon," in each case, whether or not received, and calculated as described in the PC Offering Circular. See the discussions of Freddie Mac's guarantees in the applicable PC Offering Circulars for PCs and Multiclass PC Offering Circulars for REMIC Tranches.

## ***EXCHANGE PROCEDURES FOR BASIC STRIPS, MACS AND SPCs***

A Holder proposing to effectuate an exchange involving Basic Strips, MACS or SPCs must notify Freddie Mac's Structured Finance Department through a Dealer in writing or by telefax not earlier than five, and not later than three, Business Days before the proposed exchange date, which date shall be subject to Freddie Mac's approval. The notice must include the outstanding principal amounts of the Pass-Through PCs to be exchanged and to be received in the exchange, and the proposed exchange date. Promptly after the receipt of a Holder's notice, Freddie Mac will telephone the Dealer to provide instructions for delivering such Pass-Through PCs and the exchange fee to Freddie Mac by wire transfer. A Holder's notice becomes irrevocable on the third Business Day before the proposed exchange date.

Investors can obtain the aggregate principal amounts of Classes of Basic Strips, MACS or SPCs that are subject to exchanges from FRED or by writing or calling Investor Inquiry at Freddie Mac.

At any given time, a Holder's ability to exchange a Class or Classes for one or more other Classes may be limited by a number of factors. A Holder may not be able to obtain the Class or Classes to be exchanged in the proportions and amounts needed to receive in exchange the desired principal amount of new securities. The Holder of a needed Class may refuse to sell at a reasonable price or at any price, or certain Classes may have been purchased and placed into other financial structures, such as, for example, a Real Estate Mortgage Investment Conduit (REMIC).

## ***FORM OF PASS-THROUGH PCs, HOLDERS, MINIMUM PRINCIPAL AMOUNTS AND TRANSFERS***

Unless otherwise provided in the applicable Supplement, Freddie Mac will sell Pass-Through PCs (other than Retail Classes and other Certificated Classes) only in Book-Entry Form through the Federal Reserve Banks' book-entry system. Freddie Mac's fiscal agent for such Pass-Through PCs is the Federal Reserve Banks. The Fiscal Agency Agreement between Freddie Mac and the Federal Reserve Bank of New York, acting on behalf of the Federal Reserve Banks, makes generally applicable to such Pass-Through PCs (i) the Book-Entry Rules, (ii) the procedures, insofar as applicable, established from time to time by regulations of the U.S. Department of the Treasury governing obligations of the U.S. Department of the Treasury, as now contained in Treasury Department Circular No. 300, and (iii) such other procedures as may be agreed upon from time to time by Freddie Mac and a Federal Reserve Bank. These regulations and procedures relate primarily to the registration, transfer and pledge of Freddie Mac's book-entry securities. A copy of Circular No. 300 may be obtained upon request from any Federal Reserve Bank, the U.S. Department of the Treasury or Freddie Mac. The accounts of Holders on the Federal Reserve Banks' book-entry system are governed by applicable operating circulars and letters of the Federal Reserve Banks. Typically, each Class of Pass-Through PCs is assigned a CUSIP Number used, among other things, to identify such Class.

Unless otherwise provided in the applicable Supplement, Pass-Through PCs (other than Retail Classes and Certificated Classes) are issued and must be maintained and transferred only on the book-entry system of the Federal Reserve Banks in minimum original principal or notional principal amounts of \$1,000 and additional increments of \$1. A Pass-Through PC may not be transferred if, as a result of the transfer, the transferor or the transferee would have on deposit in its account Pass-Through PCs of any Class having an original principal or notional principal amount of less than \$1,000. Transfers will also be subject to any applicable Federal Reserve Bank minimum wire transfer requirements.

A Pass-Through PC held in Book-Entry Form (other than a Retail Class) may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. A Federal Reserve Bank's book-entry records will reflect Holders' aggregate holdings of a Pass-Through PC by account. The term "Holders" means (i) in the case of a Pass-Through PC maintained on the Federal Reserve Banks' book-entry system, the entities that appear on the book-entry records of a Federal Reserve Bank as holders of that Class, (ii) in the case of a Retail Class, the Depository or its nominee and (iii) in the case of a Certificated Class, the entities or individuals that appear on the records of the Registrar as the registered holders of that Class.

If a Series includes one or more Retail Classes, each such Class will be represented by one or more certificates registered in the name of the Depository or its nominee, unless otherwise provided in the related Supplement. The Depository will maintain each such Class through its book-entry facilities.

If a Series includes one or more Certificated Classes, each such Class will be issued in registered, certificated form in minimum original principal amounts (or minimum original notional principal amounts) of \$1,000 and additional increments of \$1, unless otherwise provided in the applicable Supplement.

A Holder of a Pass-Through PC is not necessarily the beneficial owner of such Pass-Through PC. Beneficial owners ordinarily will hold Pass-Through PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. For example, an investor may hold an interest in a Pass-Through PC through a brokerage firm which, in turn, holds such interest through an entity eligible to maintain book-entry accounts with a Federal Reserve Bank. In that case, the beneficial owner of such interest would be the investor and the entity that appears as the holder on the records of a Federal Reserve Bank would be the Holder. A Holder that is not also the beneficial owner of a Pass-Through PC, and each other financial intermediary in the chain between the Holder and the beneficial owner, will be responsible for establishing and maintaining accounts for their customers. The rights of the beneficial owner of a Pass-Through PC with respect to Freddie Mac and (in the case of a Pass-Through PC maintained on the Federal Reserve Banks' book-entry system) a Federal Reserve Bank may be exercised only through the Holder of the Pass-Through PC. Neither Freddie Mac nor any Federal Reserve Bank will have a direct obligation to a beneficial owner of a Pass-Through PC that is not also the Holder of the Pass-Through PC. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Pass-Through PC maintained on the Federal Reserve Banks' book-entry system.

Freddie Mac, the Registrar and the Federal Reserve Banks, or any agent of Freddie Mac, the Registrar or the Federal Reserve Banks, may treat the Holder as the absolute owner of a Pass-Through PC for the purpose of receiving payments of principal or interest and for all other purposes, and neither Freddie Mac, the Registrar or the Federal Reserve Banks, nor any agent of Freddie Mac, the Registrar or the Federal Reserve Banks, will be affected by any notice to the contrary.

A Federal Reserve Bank will credit payments to Holders of Pass-Through PCs maintained on the Federal Reserve Banks' book-entry system on each applicable Payment Date. Holders of such a Pass-Through PC on the books and records of a Federal Reserve Bank on the applicable Record Date will be entitled to any payments on the Pass-Through PC made on the related Payment Date.

Unless otherwise provided in the applicable Supplement, payments on a Retail Class will be made by the Registrar to the Depository in immediately available funds. The Depository will be responsible for crediting the payment to the accounts of the appropriate Depository participants in accordance with the Depository's normal procedures. Each Depository participant and each other financial intermediary will be responsible for remitting payments to the beneficial owners of the Retail Class that it represents.

Payments on a Certificated Class will be made by check mailed by the Registrar to the addresses of the Holders, as they appear on the register maintained by the Registrar, or, if specified in the related Supplement, by wire transfer to such Holders, in either case not later than the applicable Payment Date. However, a Holder will receive the final payment on a Certificated Class only upon presentation and surrender of the Holder's certificate to the Registrar.

The Pass-Through Agreement provides that in the event of a principal or interest payment error, Freddie Mac, in its sole discretion, may effect corrections by the adjustment of payments to be made on future Payment Dates or in such other manner as it deems appropriate.

## PREPAYMENTS, YIELDS AND SUITABILITY

### PREPAYMENTS

The rate of principal payments on the Contributing Assets, and therefore of payments on the related Pass-Through PCs, will depend primarily on the rate of payments of principal on the underlying Mortgages. The Mortgages are subject to prepayment at any time without penalty. Mortgage principal payments may be in the form of scheduled amortization or partial or full prepayments and are likely to fluctuate significantly from time to time. "Prepayments" include prepayments by the borrower, liquidations resulting from default, casualty or condemnation and payments made pursuant to Freddie Mac's guarantee of full payment of principal on the PCs. Any given pool of Mortgages may experience payment behavior that is similar to or different from that experienced by other pools consisting of similar Mortgages. Prepayments on Mortgages are affected by the characteristics of the Mortgages, the prevailing level of interest rates and a wide variety of other factors which are all discussed in greater detail in the applicable PC Offering Circulars. For example, the rates of default for ARMs and such non-standard Mortgages as Balloon/Reset Mortgages tend to exceed the rates for standard fixed-rate Mortgages, and ARMs and other non-standard Mortgages may respond differently than standard fixed-rate Mortgages to the factors that may influence payment behavior. Freddie Mac makes no representation as to the actual prepayment experience of the Mortgages underlying any Pass-Through Pool.

Prepayments on pools of mortgages are commonly measured relative to a variety of prepayment models. The model typically used in Supplements for certain Pass-Through PCs, unless otherwise provided, will be the Public Securities Association's standard prepayment model, or "PSA." This model assumes that mortgages will prepay at an annual rate of 0.2% in the first month after origination, that the prepayment rate increases at an annual rate of 0.2% per month up to the 30th month after origination and that the monthly prepayment rate is constant at 6% per annum in the 30th and later months (this assumption is called "100% PSA"). For example, at 100% PSA, mortgages with a loan age of 3 months (*i.e.*, mortgages in their fourth month after origination) are assumed to prepay at an annual rate of 0.8%; "0% PSA" assumes no prepayments; "50% PSA" assumes prepayment rates equal to 0.50 times 100% PSA; "200% PSA" assumes prepayment rates equal to 2.00 times 100% PSA; and so forth. Another model occasionally used in Supplements for Stripped Giant PCs, SPCs, CPCs and other Structured Pass-Through PCs is the "Constant Prepayment Rate" (or CPR) model. This model represents an assumed annual constant rate of prepayment each month relative to the then outstanding principal balances of a pool of mortgages for the life of such mortgages. Neither PSA nor CPR are descriptions of historical prepayment experience or predictions of the rate of prepayment of any Mortgages.

### YIELDS

#### General

The yield of each Class of Pass-Through PCs will depend on its purchase price, its sensitivity to the rate of principal prepayments on the underlying Mortgages, the actual characteristics of those Mortgages and, in the case of ARM Pass-Through PCs, the levels of interest rates on the underlying ARM PCs as adjusted from time to time. Investors should carefully consider the associated risks, including, in the case of any Pass-Through PCs purchased at a discount (especially PO PCs and low coupon IP PCs), the risk that a slower than anticipated rate of principal payments could result in actual yields to investors that are lower than the anticipated yields and, in the case of any Pass-Through PCs purchased at a premium over their principal amounts (especially IO PCs, IOette Strips and high coupon IP PCs), the risk that a faster than anticipated rate of principal payments could result in actual yields to investors that are lower than the anticipated yields. Investors in IO PCs, IOette Strips and any other Pass-Through PCs purchased at a significant premium should also consider the risk that rapid rates of principal payments could result in the failure of such investors to fully recover their investments.

In general, the earlier a prepayment of principal on the Mortgages, the greater the effect on an investor's yield to maturity. As a result, the effect on an investor's yield to maturity of principal prepayments occurring at a rate higher (or lower) than the rate anticipated by the investor during the

period immediately following the creation of a Pass-Through PC is not likely to be offset by a subsequent like reduction (or increase) in the rate of principal prepayments. An investor must make an independent decision as to the appropriate prepayment scenarios to be used in deciding whether to purchase a Pass-Through PC.

### **Yields of ARM Pass-Through PCs**

Investors in ARM Pass-Through PCs should consider the risk that lower than anticipated values of the applicable index upon which the underlying ARMs adjust could result in actual yields that are lower than the anticipated yields. In addition, the interest rates of the underlying ARMs are subject to adjustment caps, lifetime ceilings and, in some cases, lifetime floors. Pass-Through Coupons for ARM Pass-Through PCs generally adjust monthly, while the interest rates on the underlying ARMs may adjust monthly, semi-annually, annually or at other intervals, depending on the type(s) of ARM PCs included in the related ARM Pass-Through Pool. As a result, disproportionate principal payments (including prepayments) on ARMs bearing relatively low and high rates of interest will affect the level of the related Pass-Through Coupon, even if the interest rates on the underlying ARMs remain unchanged. Changes in the values of any index may not correlate with changes in prevailing mortgage interest rates. It is possible that lower prevailing mortgage interest rates (which would be expected to result in faster prepayments) could occur concurrently with a higher level of any index. Conversely, higher prevailing mortgage interest rates (which would be expected to result in slower prepayments) could occur concurrently with a lower value of any index. No index will remain constant at any value. The timing of changes in the value of the applicable index may affect the actual yield to an investor, even if the average value is consistent with the investor's expectation. In general, the earlier a change in the value of the applicable index, the greater the effect on an investor's yield. As a result, the effect on an investor's yield of an index value that is higher (or lower) than the rate anticipated by the investor during earlier periods is not likely to be offset by a later equivalent reduction (or increase). See the discussion of yields in the applicable PC Offering Circular.

### **Yields and Weighted Average Lives of Stripped Giant PCs, SPCs, CPCs and Other Structured Pass-Through PCs**

In order to illustrate the significance of the effect of prepayments on Classes of Stripped Giant PCs, SPCs, CPCs and other Structured Pass-Through PCs, the Supplement for such securities may include, as applicable, (i) the pre-tax yields to maturity (corporate bond equivalent) of each Class, (ii) the weighted average lives of each Class, (iii) the total cash flows of each Class and/or (iv) the percentages of the original principal amounts of each Class that would be outstanding after each of the dates shown, in each case under various prepayment scenarios.

Pre-tax yields shown in any Supplement will be calculated by determining the monthly discount rates (whether positive or negative) that, when applied to the assumed stream of cash flows to be paid on a Class, would cause the discounted present value of such assumed stream of cash flows to equal the assumed purchase prices of such Class, and by converting such monthly rates to corporate bond equivalent (*i.e.*, semiannual payment) rates. The yield calculations will not take into account any variations in the interest rates at which investors may be able to reinvest payments received on any Class. Consequently, they will not reflect the return on any investment when reinvestment rates other than the discount rate are considered.

The weighted average life of a security refers to the average amount of time that will elapse from the date of its issuance until each dollar of principal has been repaid to the investor. The weighted average lives of the Classes of Pass-Through PCs will depend primarily on the rate at which principal is paid on the Mortgages. No assurances can be given as to any particular rate of principal payments or as to the weighted average life of any Class of Pass-Through PCs. Freddie Mac will calculate the weighted average lives shown in any Supplement by (i) multiplying the assumed reduction, if any, in the principal amount on each Payment Date by the number of years from the Settlement Date to such Payment Date, (ii) summing the results and (iii) dividing the sum by the aggregate amount of the assumed reductions in principal amount.

No representation will be made as to the actual rate of principal payments on the Mortgages or as to the actual pretax yield or weighted average life of any Class. Notwithstanding the assumed prepayment rates that will be reflected in any tables, the applicable Mortgages will not prepay at a constant rate until maturity, nor will all of the Mortgages prepay at the same rate. Freddie Mac publishes all of its tabular information based on assumptions regarding the underlying Mortgages and PCs. Because the Mortgages underlying any Series of Pass-Through PCs will have characteristics different from those assumed in preparing any tables, any weighted average lives, pre-tax yields, annual and total cash flows and percentages of original principal amounts outstanding are likely to differ from those shown, even if all the underlying Mortgages were to prepay at the indicated rates. An investor seeking to maximize yield is urged to make an investment decision with respect to the Classes of any Series based on their anticipated yields to maturity resulting from their respective prices at the time of purchase, the investor's own projection of Mortgage prepayment rates under a variety of scenarios and, in the case of ARM Pass-Through PCs, the investor's own projection of levels of the applicable indices under a variety of scenarios.

### ***SUITABILITY***

Pass-Through PCs, especially IO PCs, PO PCs, IOette Strips, high premium or low discount IP PCs, and SPC or CPC Classes, are not suitable investments for all investors. Pass-Through PCs are not appropriate investments for any investor that requires a single lump sum payment on a predetermined date or an otherwise certain payment stream. There is no assurance that a market for the purchase and sale of Pass-Through PCs after their initial issuance will develop or, if it develops, that it will continue. Consequently, investors may not be able to sell their Pass-Through PCs readily or at prices that will enable them to realize their desired yield. The Pass-Through PCs of any Series or Class may or may not be eligible to back REMIC Tranches or other Freddie Mac structured transactions. Investors should consult the Supplement for each particular Series for details. The market values of the Pass-Through PCs are likely to fluctuate; such fluctuations may be significant and could result in significant losses to investors. The secondary markets for mortgage-related securities have experienced periods of illiquidity and can be expected to do so in the future. Illiquidity can have a severely adverse effect on the prices of Pass-Through PCs that are especially sensitive to prepayment risk or that have been structured to meet the investment requirements of limited categories of investors. Pass-Through PCs can be complex securities and it is important that each investor possess, either alone or together with an investment adviser, the expertise necessary to evaluate the information contained and incorporated in this Offering Circular and in the related Supplement in the context of that investor's financial situation and his or her views as to both possible and likely interest rate and economic scenarios. This Offering Circular does not describe all of the risks and ramifications of an investment in Pass-Through PCs resulting from each investor's particular circumstances, nor does it project the manner in which the Pass-Through PCs will perform under all possible interest rate and economic scenarios. No investor should purchase Pass-Through PCs unless the investor understands and is able to bear the prepayment, yield, liquidity and market risks associated with that investment under a variety of interest rate and economic scenarios.

### **FINAL PAYMENT DATE**

The Final Payment Date for each Class of Pass-Through PCs reflects the latest final payment date of the Contributing Assets and is indicated in the related Supplement. The final payment dates of the Contributing Assets are determined by various methods depending upon their type and date of issuance, as described in the applicable offering materials. See the discussions of final payment dates in the applicable PC Offering Circulars and Multiclass PC Offering Circulars.

Because the rate of payment of principal of the Pass-Through PCs will depend on the rate of payment (including prepayments) of principal of the Mortgages underlying the Contributing Assets, the actual final payment with respect to any Class of Pass-Through PCs could occur significantly earlier than its Final Payment Date. Each Holder of a Gold Pass-Through PC will receive the final payment on such Gold Pass-Through PC on or before the Payment Date occurring in the same month as the

applicable Final Payment Date. Holders of Original Pass-Through PCs and ARM Pass-Through PCs will receive the final payment on such PCs in the month following the the related Final Payment Date.

## **PASS-THROUGH AGREEMENT**

The following summary describes certain provisions of the Pass-Through Agreement not otherwise summarized in this Offering Circular.

### ***CERTAIN MATTERS REGARDING FREDDIE MAC***

The Pass-Through Agreement provides that neither Freddie Mac nor any director, officer, employee or agent of Freddie Mac will be under any liability to the Holders for any action taken, or for refraining from the taking of any action, in good faith pursuant to the Pass-Through Agreement or for errors in judgment. However, neither Freddie Mac nor any such person will be protected against any liability imposed by reason of willful misfeasance, bad faith or gross negligence or by reason of reckless disregard of obligations and duties.

In addition, the Pass-Through Agreement provides that Freddie Mac is not under any obligation to appear in, prosecute, or defend any legal action that is not incidental to its responsibilities under the Pass-Through Agreement and that in its opinion may involve it in any expense or liability. However, Freddie Mac may in its discretion undertake any such legal action that it may deem necessary or desirable in the interests of the Holders. In such event, the legal expenses and costs of such action will be expenses and costs of Freddie Mac.

Freddie Mac may, from time to time, repurchase or otherwise acquire all or a portion of the Pass-Through PCs of any Class. Pass-Through PCs of any Class held or acquired by Freddie Mac from time to time will have an equal and proportionate benefit to Pass-Through PCs of the same Class held by other Holders, without preference, priority or distinction.

The Pass-Through Agreement will be binding upon and inure to the benefit of any successor to Freddie Mac.

### ***EVENTS OF DEFAULT***

“Events of Default” under the Pass-Through Agreement will consist of (i) any failure by Freddie Mac to pay to Holders of any Class any required payment that continues unremedied for 30 days; (ii) any failure by Freddie Mac to perform in any material respect any other covenant or agreement in the Pass-Through Agreement, which failure continues unremedied for 60 days after the giving of notice of such failure to Freddie Mac by the Holders of any affected Class representing not less than 60% of the outstanding principal amount (or notional principal amount) of such Class; and (iii) certain events of bankruptcy, insolvency or similar proceedings involving Freddie Mac.

### ***RIGHTS UPON EVENT OF DEFAULT***

As long as an Event of Default under the Pass-Through Agreement remains unremedied, the Holders of any Class of Pass-Through PCs representing not less than 50% of the outstanding principal amount (or notional principal amount) of such Class may, in writing, remove Freddie Mac and nominate a successor to Freddie Mac. That nominee will be deemed appointed as successor to Freddie Mac (except as to its guarantee obligation) unless, within 10 days after such nomination, Freddie Mac objects, 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. The court may, upon any prescribed notice, appoint a successor to Freddie Mac.

### ***VOTING UNDER ANY PC OR MULTICLASS PC AGREEMENT***

To the extent set forth in each PC Agreement and Multiclass PC Agreement, the record holders of PCs or REMIC Tranches representing a specified percentage of the remaining unpaid principal balance of any affected PCs or REMIC Tranches may take certain actions, including termination of certain obligations and duties of Freddie Mac with respect thereto, if an Agreement Default has occurred and is continuing. The Pass-Through Agreement provides that Holders of Pass-Through PCs may, upon the occurrence of an Agreement Default with respect to a PC or REMIC Tranche backing such Pass-Through PCs, take any such action rather than Freddie Mac. For this purpose, the Holders of Pass-Through PCs will be deemed the holders of the affected PC or REMIC Tranche, in proportion to the outstanding principal amounts of their Pass-Through PCs.

As set forth in each PC Agreement and the Multiclass PC Agreement, the holders of PCs or REMIC Tranches owning a majority of the remaining unpaid principal balance of any affected PCs or REMIC Tranches may consent to certain amendments to the PC Agreement or Multiclass PC Agreement. The Pass-Through Agreement provides that Freddie Mac may consent to such an amendment as to any PC or REMIC Tranche backing a Series of Pass-Through PCs, so long as such amendment would not adversely affect in any material respect the interests of the related Holders. If the amendment would have such effect, Freddie Mac may consent to it only with the written consent of Holders of Pass-Through PCs of each Class so affected representing not less than 50% of the outstanding principal amount (or notional principal amount) of that Class. However, Freddie Mac may consent to any amendment to a PC Agreement without the consent of Holders of Pass-Through PCs if such amendment relates to the modification of Freddie Mac's procedures for calculating payments or passing full or partial prepayments through on PCs directly or indirectly backing Pass-Through Pools formed after the date hereof. See the applicable PC Offering Circulars regarding payments on PCs.

### ***AMENDMENT***

Freddie Mac may amend the Pass-Through Agreement, without the consent of any Holder or Holders, to cure any ambiguity, to correct or supplement any provision which may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Pass-Through Agreement that are not inconsistent with the other provisions of the Pass-Through Agreement, provided that any such amendment shall not adversely affect in any material respect the interest of any Holder. Freddie Mac may also amend the Pass-Through Agreement in any other respect with the consent of the Holders of each affected Class representing not less than 50% of the outstanding principal amount (or notional principal amount) of such Class. However, except as provided above in "Voting Under Any PC or Multiclass PC Agreement," without the consent of a Holder, Freddie Mac may not amend the Pass-Through Agreement to impair or affect the right of such Holder to receive payment of principal and interest (including any payment under Freddie Mac's guarantee) due such Holder, on or after the due date of such payment, or to institute suit for the enforcement of any such payment on or after such date.

### ***GOVERNING LAW***

The Pass-Through Agreement and the rights and obligations of the Holders and Freddie Mac with respect to the Pass-Through PCs will 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 Freddie Mac Act or any provisions of the Pass-Through Agreement or the transactions governed thereby, the local laws of the State of New York will be deemed reflective of the laws of the United States.

## CERTAIN FEDERAL INCOME TAX CONSEQUENCES

### **GENERAL**

The following is a general discussion of the anticipated material federal income tax consequences of the purchase, ownership and disposition of Pass-Through PCs. The discussion below does not purport to address all federal income tax consequences that may be applicable to particular categories of investors, some of which may be subject to special rules. The authorities on which this discussion is based are subject to change or differing interpretations, and any such change or interpretation could apply retroactively. Investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of Pass-Through PCs.

Neither the Pass-Through PCs nor the income derived therefrom is exempt from federal income, estate or gift taxes under the Code by virtue of the status of Freddie Mac as a government-sponsored enterprise. Further, neither the Code nor the Freddie Mac Act contains an exemption from taxation of the Pass-Through PCs or the income derived therefrom by any state, any possession of the United States or any local taxing authority.

Beneficial owners of Contributing Assets that exchange such Contributing Assets for Pass-Through PCs (and/or cash) may be required to recognize gain or loss on the exchange. Original beneficial owners of Pass-Through PCs who exchange Contributing Assets for Pass-Through PCs (and/or cash) should consult their own tax advisors regarding this matter.

Freddie Mac will report income on the Pass-Through PCs to the Service and to the Holders of the Pass-Through PCs based, in part, on the final Treasury Regulations under Sections 1271-1275 of the Code (the "OID Regulations"). The OID Regulations apply to debt obligations issued on or after April 4, 1994 and generally adopt the rules contained in the Proposed OID Regulations. See "Certain Federal Income Tax Consequences" in the offering circulars applicable to certain Contributing Assets. The OID Regulations allow a beneficial owner, on either a cash or an accrual basis of accounting, to elect to include in gross income all interest that accrues on a debt instrument by using the constant yield method. Beneficial owners are advised to consult their tax advisors regarding the availability and advisability of this election.

The federal income tax consequences relating to a Class of Pass-Through PCs may depend upon the Class's treatment under the "stripped bond" rules of Section 1286 of the Code. On December 16, 1994, the Service issued proposed regulations relating to the taxation of contingent payment obligations, proposed to be effective for debt instruments issued on or after the date that is 60 days after the date that final regulations are published. Because of the possible varying characterizations of a debt instrument under the stripped bond rules and the uncertainty regarding the relationship of the contingent payment obligations rules thereto, beneficial owners are urged to consult their own tax advisors regarding the proper treatment of any Pass-Through PCs subject to these rules.

Freddie Mac will treat what is herein referred to as a "Strip Class" for tax purposes according to the rules discussed below under "Strips." Also, to the extent that a Standard Giant PC, single Class IOette Strip, SPC or CPC Class is backed by a Strip Class as a Contributing Asset, the Strip rules indirectly may apply to the Standard Giant PC, single Class IOette Strip, SPC or CPC Class. Freddie Mac will describe any such indirect application in the applicable Supplement.

### **STANDARD GIANT PCs**

#### **General**

The arrangement pursuant to which Standard Giant PCs are created and sold and the related Pass-Through Pool is administered will be classified as a grantor trust under subpart E, Part 1 of subchapter J of the Code and not as an association taxable as a corporation. Each beneficial owner of a Standard Giant PC will be treated as the owner of a pro rata undivided interest in the ordinary income and corpus portions of the grantor trust for the related Pass-Through Pool and will be considered the owner of a pro

rata undivided interest in each of the Contributing Assets of the related Pass-Through Pool, subject to the discussions below under “Application of the Stripped Bond Rules.”

Each beneficial owner will be required to report on its federal income tax return its pro rata share of the entire income from the Contributing Assets in the related Pass-Through Pool including gross interest income at the interest rates on the Contributing Assets and incidental fees, if any, in accordance with the beneficial owner’s method of accounting. Each beneficial owner generally will be able to deduct, under Section 162 or 212 of the Code, its pro rata share of servicers’ fees and Freddie Mac’s management and guarantee fees, including incidental fees paid by the borrowers and retained by the servicers or Freddie Mac and all administrative and other expenses of the Pass-Through Pool in accordance with its method of accounting. The Code limits the deductions for miscellaneous itemized deductions for certain beneficial owners.

### **Tax Status**

Special tax counsel to Freddie Mac, Cadwalader, Wickersham & Taft, has advised Freddie Mac that:

1. Standard Giant PCs owned by a “domestic building and loan association” within the meaning of Code Section 7701(a)(19) will be considered to represent “loans . . . secured by an interest in real property” within the meaning of Code Section 7701(a)(19)(C)(v).
2. Standard Giant PCs owned by a financial institution described in Code Section 593(a) will be considered to represent “qualifying real property loans” within the meaning of Code Section 593(d)(1).
3. Standard Giant PCs owned by a real estate investment trust will be considered to represent “real estate assets” within the meaning of Code Section 856(c)(5)(A), and interest income on such assets will be considered “interest on obligations secured by mortgages on real property” within the meaning of Code Section 856(c)(3)(B).

### **Premium and Discount**

A beneficial owner of a Standard Giant PC will be treated as purchasing an interest in each of the Mortgages underlying the Standard Giant PC at a price determined by allocating the purchase price paid for the Standard Giant PC among the Mortgages in proportion to their fair market values at the time of purchase of the Standard Giant 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 Standard Giant 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 underlying the Standard Giant PC pursuant to Sections 1271-1273 and 1275 of the Code. Original issue discount may arise as a result of initial incentive or “teaser” interest rates on ARMs or points charged at origination. 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 also would be subject to the original issue discount rules if, as discussed below, the “stripped bond” provisions of the Code were determined to be applicable.

The market discount rules of Sections 1276-1278 of the Code will apply, upon disposition of a Standard Giant PC, 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 Standard Giant 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. Principal payments will be included in income to the extent such payments do not exceed the accrued market discount. Interest paid or accrued by a beneficial owner on indebtedness incurred or continued to purchase or carry Mortgages acquired at a market discount will be allowed as a

deduction only to the extent such interest (reduced by the interest, including original issue discount, on the Mortgages includible in income) exceeds the market discount that accrued but was not taken into account 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 taxable years prior to the year of election), in which event the foregoing rules regarding ordinary income on disposition and interest deferral will not apply. The precise application of the market discount rules of Sections 1276-1278 to the Mortgages is not clear and 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.

A beneficial owner may elect to include in gross income all interest that accrues on a debt instrument by using the constant yield method. For purposes of this election, interest would include stated interest, original issue discount and market discount, as adjusted by any premium.

In the event a beneficial owner is considered to have purchased its interest in any Mortgage at a premium, such premium may be amortizable under a constant interest method at the election of the taxpayer under Section 171 of the Code. Such premium is treated as an offset to income includable with respect to the Standard Giant PC.

### **Sale or Exchange of a Standard Giant PC**

A beneficial owner who sells a Standard Giant PC will recognize gain or loss equal to the difference between its adjusted tax basis in the Standard Giant PC and the amount realized in the sale (exclusive of amounts attributable to accrued and unpaid interest, which will be treated as ordinary interest income). In general, such adjusted tax basis will equal the beneficial owner's cost for the Standard Giant PC, increased by the amount of any discount income previously reported with respect to the Standard Giant PC and decreased by the amount of any premium previously deducted with respect to the Standard Giant PC and the amount of any distributions of principal received thereon. Subject to the market discount rules, any such gain or loss would be capital gain or loss if the Standard Giant PC is held as a capital asset.

### **Application of the Stripped Bond Rules**

Where Freddie Mac issues a Class of Standard Giant PCs, Revenue Ruling 71-399, 1971-2 C.B. 433, issued to Freddie Mac by the Service, indicates that any difference between interest payable at the Mortgage interest rate and the sum of (i) interest payable at the Pass-Through Coupon plus (ii) fees applicable to the Mortgage (servicing fees and Freddie Mac's management and guarantee fees) should be accounted for as discount income or premium expense. If such sum exceeds the Mortgage interest rate, the difference is characterized as "discount" and considered additional gross income. Alternatively, if such sum is less than the Mortgage interest rate, the net difference is characterized as "premium expense." In Revenue Ruling 71-399, the Service ruled that discount income is to be included in ordinary gross income in accordance with the beneficial owner's method of accounting, and that premium expense may be deductible in accordance with applicable rules. The Service, however, may contend that by reason of enactment of the stripped bond rules of Code Section 1286 (or its predecessor, Section 1232B), Revenue Ruling 71-399 is no longer applicable in characterizing such difference.

On August 8, 1991, the Service issued guidance taking the position that, when mortgages are sold and the contract entitles the servicer to receive amounts that exceed reasonable compensation for the mortgage servicing to be performed, the mortgages are treated as stripped bonds within the meaning of Section 1286 of the Code. If this is the case, a beneficial owner would not be treated as having a pro rata undivided interest in the related underlying Mortgages, but rather, under the rules of Section 1286, the beneficial owner would be treated as owning "stripped bonds" to the extent of its share of principal payments and "stripped coupons" to the extent of the Pass-Through Coupon plus reasonable servicing fees. The consequences of the characterization are described below in "Stripped Giant PCs."

The Service has also issued guidance providing that a purchaser of a mortgage that is a stripped bond must treat such bond as a market discount bond if the amount of original issue discount with respect to such stripped bond is considered to be zero after application of the de minimis rule of Section 1273(a)(3) of the Code or if the annual stated rate of interest payable on the stripped bond is no more than 100 basis points lower than the annual stated rate of interest payable on the mortgage. These conditions apparently are based on the premise that the interest payments which remain associated with the stripped bond are treated, for purposes of the original issue and market discount provisions of the Code, as stated interest payable with respect to the stripped bond. If such conditions are met, a beneficial owner would be required to account for any market discount in accordance with the rules for market discount described herein.

It is unclear whether the position taken by the Service in the guidance would be upheld if challenged. Investors should consult their own tax advisors regarding the application of the Service guidance to their ownership of Standard Giant PCs.

## **STRIPS**

### **General**

The arrangement pursuant to which Basic Strips, MACS and multiple Class IOette Strips (each, for tax purposes, a "Strip"), are created and sold and the related Pass-Through Pool is administered will not be classified as an association taxable as a corporation. Rather, it will be classified as a grantor trust under subpart E, part 1 of subchapter J of the Code. Beneficial owners of Strips will be treated for federal income tax purposes as owners of the right to receive payments of principal and/or interest, as the case may be, on the Contributing Assets in the related Pass-Through Pool.

Pursuant to Code Section 1286, the separation of ownership of the right to receive some or all of the interest payments on an obligation from ownership of the right to receive some or all of the principal payments results in the creation of "stripped bonds" with respect to principal payments and "stripped coupons" with respect to interest payments. A beneficial owner of a Strip will be considered to own stripped bonds to the extent of its share of principal payments and stripped coupons to the extent of its share of interest payments on the Contributing Assets in the related Pass-Through Pool.

Code Section 1286 treats a stripped bond or a stripped coupon, for purposes of applying the original issue discount rules, as a debt instrument issued with original issue discount on the date that such stripped interest is purchased. While it is unclear whether the original issue discount computations described below should be done separately with respect to each principal and/or interest payment on a Strip, or by treating all such payments as if they were made on a single debt instrument, Freddie Mac intends to treat a Strip as a single debt instrument for purposes of information reporting.

### **Tax Status**

Several Code sections provide beneficial treatment to certain taxpayers that invest in mortgages of the type that will underlie each Pass-Through Pool as to which Strips are created and sold. Although there is no specific precedent and the characterization of the Strip is not entirely free from doubt, the Strips should be considered to represent "qualifying real property loans" within the meaning of Code Section 593(d), "real estate assets" within the meaning of Code Section 856(c)(5)(A), and "loans . . . secured by an interest in real property" within the meaning of Code Section 7701(a)(19)(C)(v), and original issue discount and interest accruing on Strips should be considered to represent "interest on obligations secured by mortgages on real property" within the meaning of Code Section 856(c)(3)(B).

### **Determination of Income on Strips**

Original issue discount on each Strip must be included in the beneficial owner's ordinary income for federal income tax purposes as it accrues, which may be prior to receipt of the cash attributable to such income, in accordance with a constant interest method that takes into account the compounding of interest. Although not free from doubt (see "Possible Alternative Characterizations"), the amount of

original issue discount required to be included in a beneficial owner's income in any taxable year likely will be computed, as described below, by (i) using the Prepayment Assumption; (ii) assuming, in the case of a Strip which includes rights to variable interest payments, a level of future payments with respect to the underlying Mortgages based on the initial level of the variable rate; and (iii) making periodic adjustments to take into account actual prepayment experience.

Generally, the beneficial owner of a Strip must include in gross income the sum of the "daily portions," as defined below, of the original issue discount on the Strip for each day on which it owns such Strip including the date of purchase but excluding the date of disposition. The daily portions of original issue discount generally will be determined as follows. First, a calculation will be made of the original issue discount that accrues during each successive month, or shorter period from the date of purchase. This will be done by adding (i) the present value at the end of the month (determined by using as a discount rate the yield to maturity of the Strip to such beneficial owner, as described below) of all payments to be received in future months on the Strip applying the Prepayment Assumption to the then balance of the Mortgages and (if applicable) the assumption as to future variable interest payments and (ii) any payments included in the stated redemption price of the Strip received during such month, and subtracting from that total the "adjusted issue price" of the Strip at the beginning of such month, or, if later, the date of purchase of such Strip. The "adjusted issue price" of a Strip at the beginning of the first month, or shorter period from the date of purchase, is its issue price; the "adjusted issue price" of a Strip at the beginning of a subsequent month is the "adjusted issue price" at the beginning of the immediately preceding month plus the amount of original issue discount allocable to that preceding month and minus the amount of any payment included in the stated redemption price made at the end of or during that preceding month and the amount of any loss recognized at the end of that preceding month. The original issue discount accruing during such month, or shorter period from the date of purchase, will then be divided by the number of days in the period to determine the daily portion of original issue discount for each day in the period. The yield used by a beneficial owner in making these calculations would be the monthly rate (assuming monthly compounding) determined as of the date of purchase that, if used in discounting the remaining payments on the portion of the Mortgages allocable to the Strip, would cause the present value of those payments to equal such beneficial owner's purchase price.

With respect to a particular beneficial owner, it is not clear whether the Prepayment Assumption would be determined at the time of purchase of the Strip by such beneficial owner or at the time the Strips are created or first sold. The Prepayment Assumption that will be used by Freddie Mac for purposes of information reporting will be the same for each Class of Strips created with respect to a Pass-Through Pool, and will be determined based upon conditions at the time of the initial creation or sale of Strips relating to such Pass-Through Pool.

Under the method for calculating the accrual of original issue discount described above, the rate at which a beneficial owner recognizes original issue discount with respect to a Strip and, in the case of an interest only Class of a Strip, the amount of such original issue discount depend on the actual rate of prepayment of the underlying Mortgages and the relative interest in principal and interest on each Mortgage represented by such Strip. If the method for computing income for any particular month (as set forth in the second preceding paragraph) results in a negative amount, the beneficial owner may be entitled to deduct such amount as a loss only against future income from the Strip. However, the beneficial owner of a Strip should be entitled to deduct a loss to the extent that its remaining basis would otherwise exceed the maximum amount of future payments which the beneficial owner is entitled to receive (determined by assuming, for this purpose, that no future prepayments will occur on the underlying Mortgages).

#### **Treatment of Servicing Fee for Federal Income Tax Purposes**

The excess of the interest paid on the Mortgages over the Pass-Through Coupon payable in the aggregate on the related Strip or, in accordance with the Service guidance described above in "Standard Giant PCs — Application of the Stripped Bond Rules," the portion of such excess that constitutes reasonable compensation for servicing, will be allocated for tax reporting purposes to the related Strips

in proportion to the relative amounts of original issue discount accrued during each accrual period with respect to each Class of related Strips. A beneficial owner of a Strip will be entitled to deduct each year, in accordance with such beneficial owner's method of accounting, the amounts of such beneficial owner's allocable share of the servicing fee to the same extent as if such beneficial owner paid such share of the servicing fee directly. In general, individual investors will not be allowed to deduct certain itemized deductions, including deductions for servicing compensation under Code Section 212, except to the extent that such deductions, in the aggregate, exceed two percent of adjusted gross income.

### **Sale of a Strip**

A beneficial owner who sells a Strip will recognize gain or loss equal to the difference, if any, between the amount realized and the beneficial owner's adjusted basis in such Strip. Such gain or loss will be capital gain or loss to a beneficial owner for which a Strip is a "capital asset" within the meaning of Code Section 1221, and will be long-term or short-term depending on whether such Strip has been owned for at least the long-term capital gain holding period (currently more than one year). A seller's adjusted basis generally will equal the purchase price of the Strip to the seller, increased by the original issue discount included in the seller's gross income with respect to the Strip and reduced by payments included in the stated redemption price of the Strip previously received by the seller and any losses previously recognized by the seller with respect to the Strip.

### **Possible Alternative Characterizations**

The Service could assert that a method other than the one described above must be used to determine the accrual of original issue discount. For example, the Service might require either that original issue discount for a month be calculated under the method described above except that both the yield and the remaining payments should be determined by assuming no further prepayments of the Mortgages.

Further, the characterizations of the Strips discussed above are not the only possible interpretations of the applicable Code provisions. For example, the beneficial owner of a Strip may be treated as the owner of (i) one installment obligation consisting of such Strip's pro rata share of the payments attributable to principal on each Mortgage and a second installment obligation consisting of such Strip's pro rata share of the payments attributable to interest on each Mortgage, (ii) as many stripped bonds or stripped coupons as there are scheduled payments of principal and/or interest on each Mortgage, or (iii) a separate installment obligation for each Mortgage, representing the Strip's pro rata share of payments of principal and/or interest to be made with respect thereto. Alternatively, the holder of one or more Classes of Strips may be treated as the owner of a pro rata fractional undivided interest in each Mortgage to the extent that such Strip, or Classes of Strips, in the aggregate, represent the same pro rata portion of principal and interest on each such Mortgage and a stripped bond or stripped coupon (as the case may be). In addition, the Service might assert that certain contingent payment rules contained in proposed Treasury regulations should apply to certain Strips.

Because of these possible varying characterizations of Strips and the resultant differing treatment of income recognition, beneficial owners of Strips are urged to consult their own tax advisors regarding the proper treatment of Strips for federal income tax purposes.

### **Purchase of One or More Classes of Strips**

If a beneficial owner purchases more than one Class of Strip relating to a single Pass-Through Pool consisting of Strips, it is currently unclear whether the federal income tax treatment of the Strips should be determined by treating each Class of Strips separately. Alternatively, a beneficial owner of more than one Class of Strips may be treated as the owner of a pro rata fractional undivided interest in each related Mortgage to the extent that the Classes of Strips represent, in the aggregate, an equal pro rata portion of principal and interest on each such related Mortgage, and an installment obligation consisting of stripped bonds or stripped coupons (as the case may be) with respect to the remainder. A beneficial owner in this circumstance should consult his own tax advisor as to the proper treatment of the Strips.

## ***SPCs AND SINGLE CLASS IOETTE STRIPS***

The arrangement pursuant to which an SPC Class or single Class IOette Strip is created and sold and the related Pass-Through Pool is administered will not be classified as an association taxable as a corporation. Rather, it will be classified as a grantor trust under subpart E, part 1 of subchapter J of the Code. A beneficial owner of an SPC Class or single Class IOette Strip will be treated for federal income tax purposes as the owner of a pro rata undivided interest in each of the related Contributing Assets.

A beneficial owner of an SPC Class or single Class IOette Strip should see the applicable Supplement for a description of the related Contributing Assets, and should see the offering documents applicable to such Contributing Assets for a description of the federal income tax consequences of owning such Contributing Assets, by reason of the ownership of such SPC Class or single Class IOette Strip.

## ***CPCs***

### **General**

The arrangement pursuant to which CPCs are created and sold and the related Pass-Through Pool is administered will be classified as a grantor trust under subpart E, Part 1 of subchapter J of the Code and not as an association taxable as a corporation. CPCs are issued in pairs of classes consisting of (i) a "Call Class" representing a right (the "Call Right") to direct Freddie Mac to redeem the related CPC class (the "Callable Class") and to acquire the Contributing Assets identified as underlying the Callable Class (the "Callable Assets"), and (ii) the related Callable Class representing the beneficial ownership interest in the Callable Assets, subject to the Call Right. Unless otherwise provided in the applicable Supplement, a Call Class may be beneficially owned by only one person.

### **Status of the CPC Classes**

***The Callable Class.*** A beneficial owner of an interest in a Callable Class will be treated as (i) owning an undivided interest in the underlying Callable Assets, and (ii) writing a call option on such beneficial owner's interest in the underlying Callable Assets, which call option is represented by a proportionate part of the Call Right. The beneficial owner will be treated as having written such call option in exchange for an option premium in an amount equal to the fair market value of the call option. In light of the existence of the Call Right, a thrift, REMIC, real estate investment trust or regulated investment company should consult its tax advisor before purchasing an interest in a Callable Class.

***The Call Class.*** The beneficial owner of a Call Class will be treated as having purchased a call option on all the Callable Assets underlying the related Callable Class for an option premium in an amount equal to the price paid for the Call Class. A thrift, REMIC, real estate investment trust or regulated investment company should consult its tax advisor before purchasing a Call Class. It would appear that if the beneficial owner of a Call Class acquired an interest in the related Callable Class, such call option would be proportionately extinguished for at least as long as the beneficial owner of the Call Class held such interest, and such beneficial owner would be treated as holding solely its proportionate share of the underlying Callable Assets.

### **Taxation of the CPC Classes**

#### ***The Callable Class.***

***Allocations.*** A beneficial owner of an interest in a Callable Class should be considered to have purchased its interest in the underlying Callable Assets for an amount equal to the cost of its interest in the Callable Class *plus* the fair market value at the time of such purchase of the call option such beneficial owner is deemed to have written, which amount such beneficial owner is deemed to have received. Accordingly, such beneficial owner's basis in its interest in the underlying Callable Assets will be *greater* than the amount such beneficial owner paid directly for its interest in the Callable Class. Similarly, when a beneficial owner sells an interest in a Callable Class, such beneficial owner will be deemed to have sold its interest in the underlying Callable Assets for a price equal to the sales price for

its interest in the Callable Class *plus* an amount equal to the fair market value, at the time of such sale, of the call option such beneficial owner is deemed to have written, which amount such beneficial owner is deemed to have paid to be relieved from such obligation. Accordingly, the amount realized by such beneficial owner with respect to its interest in the underlying Callable Assets will be greater than the amount such beneficial owner received directly for its interest in the Callable Class.

*Taxation of Underlying Callable Assets.* Except as described below under “Application of the Straddle Rules,” the anticipated material federal income tax consequences to a beneficial owner of purchasing, owning and disposing of its interest in the underlying Callable Assets are as described under “Certain Federal Income Tax Consequences” in the Offering Circular applicable to such Callable Assets and the related CPC Supplement.

*Taxation of Call Option Premium.* A beneficial owner of an interest in a Callable Class will not be required to include immediately in income the option premium that it is deemed to receive when it purchases its interest in the Callable Class. Instead, such premium will be taken into account when the Call Right lapses, is exercised or is otherwise terminated with respect to such beneficial owner. As indicated above, an amount equal to the option premium that is deemed to be received by such beneficial owner would be included in the beneficial owner’s basis in the Callable Assets. A beneficial owner’s recovery of such basis will not occur at the same rate as its inclusion in income of the option premium.

A beneficial owner of an interest in a Callable Class will include the option premium in income as short-term capital gain when the Call Right lapses. Typically, the Callable Assets subject to the Call Right will be reduced over time through principal payments prior to the expiration of the Call Right. Although it is not entirely clear whether the Call Right would thus be deemed to lapse as the Callable Assets are paid down, and if so, at what rate, Freddie Mac intends to assume that the Call Right lapses, and the related premium is recognized by the beneficial owners of interests in the Callable Class, proportionately as principal is paid on the Callable Assets (whether as scheduled principal payments or prepayments) after the first date on which the Call Right may be exercised. There is no assurance that the Service would agree with this method of determining income from the lapse of the Call Right. Beneficial owners of interests in a Callable Class are urged to consult their tax advisors regarding these matters.

If the Call Right is exercised, the beneficial owners of interests in the Callable Class will add an amount equal to the unamortized portion of the option premium to the amount realized from the sale of the underlying Callable Assets. If a beneficial owner transfers its interest in a Callable Class, such transfer will be treated as a “closing transaction” with respect to the option such beneficial owner is deemed to have written. Accordingly, such beneficial owner will recognize a short-term capital gain or loss equal to the difference between the unamortized amount of option premium and the amount such beneficial owner is deemed to pay, under the rules discussed above, to be relieved from such beneficial owner’s obligation under the option.

*The Call Class.* Since the price paid by the beneficial owner of the Call Class to purchase such Class will be treated as an option premium for the Call Right, it will be added to the purchase price of the Callable Assets (in addition to any fee for the exchange, as described in the related Supplement) if the Callable Assets are purchased upon exercise of the Call Right, and will be treated as a loss as the Call Right lapses. For a discussion of when the Call Right may be deemed to lapse, see “The Callable Class — Taxation of Call Option Premium” above. Assuming that the underlying Callable Assets, if acquired, would be capital assets in such beneficial owner’s hands, then loss recognized with respect to such lapse will be treated as a capital loss.

#### **Application of the Straddle Rules**

In the case of a beneficial owner of an interest in a Callable Class, the Service might take the position that the beneficial owner’s interest in the underlying Callable Assets and the call option constitute positions in a straddle. If this contention were correct, the straddle rules of Section 1092 of the Code would apply, with the following consequences. A beneficial owner selling its interest in the

Callable Class would be treated as selling its interest in the underlying Callable Assets at gain or loss which would be short-term because the beneficial owner's holding period would be tolled. (As discussed above, the beneficial owner's gain or loss with respect to the option premium always would be short-term under the option rules, regardless of the application of the straddle rules.) In addition, the straddle rules might require a beneficial owner to capitalize, rather than deduct, a portion of any interest and carrying charges allocable to such beneficial owner's interest in a Callable Class. Further, if the Service were to take the position that a beneficial owner's interest in the underlying Callable Assets and the call option constituted a "conversation transaction" as well as a straddle, then a portion of the gain with respect to the underlying Callable Assets or the call option might be characterized as ordinary income. Beneficial owners are advised to consult their tax advisors regarding these issues.

### **Tax-Exempt Organizations**

In general, income or gain from the CPC Classes will not be subject to the tax on unrelated business taxable income for a tax-exempt organization if the CPC Classes do not constitute "debt-financed property."

### **EXCHANGE TRANSACTIONS**

A beneficial owner that surrenders Classes of Basic Strips in return for an equivalent principal amount of the underlying Standard Giant PC, or vice versa, will not recognize gain or loss as a result. A beneficial owner that surrenders Old MACS in return for New MACS, or that surrenders one or more Classes of MACS for a portion of the underlying Standard Giant PC, or vice versa, will not recognize gain or loss as a result. Similarly, a beneficial owner that exchanges all or a portion of its interest in a Class of SPCs in return for a proportionate interest in the Contributing Assets will not recognize gain or loss as a result.

### **BACKUP WITHHOLDING, FOREIGN WITHHOLDING AND INFORMATION REPORTING**

A beneficial owner of a Pass-Through PC who is a U.S. Person may be subject to backup withholding tax under Section 3406 of the Code on payments made with respect to a Pass-Through PC, unless, in general, such beneficial owner complies with certain information reporting procedures or is an exempt recipient. Any such amounts withheld would be allowed as a credit against such beneficial owner's United States federal income tax.

Payments made to a beneficial owner who is not a U.S. Person, or a Holder holding on behalf of a beneficial owner who is not a U.S. Person, with respect to a Pass-Through PC that represents an ownership interest in Underlying Assets all of which were originated after July 18, 1984 generally will not be subject to United States federal income tax, or withholding tax, if (i) such Pass-Through PC is not held by such beneficial owner in connection with a trade or business in the U.S., (ii) such beneficial owner is not with respect to the United States a personal holding company or corporation that accumulates earnings in order to avoid United States federal income tax, 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 Pass-Through PC to a beneficial owner who is not a U.S. Person represent interest on obligations originated before July 19, 1984, such amounts may be subject to United States withholding tax at the rate of 30 percent or such lower rate as may be provided by applicable tax treaty. Regardless of the date of origination of the Underlying Assets, backup withholding tax will not apply to payments with respect to a Pass-Through PC made to a beneficial owner who is not a U.S. Person if an appropriate statement of non-U.S. status is furnished by such beneficial owner. In general, a beneficial owner of a CPC will not be subject to United States withholding tax on amounts received or deemed received with respect to the option associated with such CPC.

Freddie Mac will furnish or make available, within a reasonable time after the end of each calendar year, to each Holder of a Pass-Through PC, such information as Freddie Mac deems necessary or desirable to assist Holders in preparing their federal income tax returns, or to enable Holders to make

such information available to beneficial owners or other financial intermediaries for which such Holders hold such Pass-Through PCs as nominees. The amount reported by Freddie Mac may not be correct for any particular beneficial owner of a Pass-Through PC.

### **LEGAL INVESTMENT CONSIDERATIONS**

Investors should consult their own legal advisors in determining whether and to what extent Pass-Through PCs constitute legal investments for such investors and whether and to what extent Pass-Through PCs can be used as collateral for various types of borrowings. In addition, financial institutions should consult their legal advisors or regulators in determining the appropriate treatment of Pass-Through PCs under any applicable risk-based capital or similar rules.

Institutions whose investment activities are subject to legal investment laws and regulations or to review by regulatory authorities may be subject to restrictions on investments in certain types of Pass-Through PCs or in Pass-Through PCs generally. An institution under the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the OTS, the National Credit Union Administration, the Treasury or any other federal or state agency with similar authority should review any applicable regulations, policy statements and guidelines before purchasing or pledging Pass-Through PCs.

### **DISTRIBUTION ARRANGEMENTS**

Freddie Mac generally purchases Contributing Assets from one or more Dealers, forms a Pass-Through Pool consisting of such Contributing Assets and sells to such Dealers Pass-Through PCs created in respect of such Pass-Through Pool pursuant to the terms and conditions of the Pass-Through Dealer Agreement. Freddie Mac engages in Pass-Through Transactions only with Dealers, which include SS&TG. The Dealer or Dealers for any particular transaction may sell to or through other securities dealers. Dealers may receive compensation in the form of discounts, concessions or commissions from such dealers and commissions from any purchasers for which they act as agents.

Freddie Mac may retain or repurchase all or part of the Pass-Through PCs representing interests in a Pass-Through Pool for its own portfolio, and may offer or re-offer such Pass-Through PCs from time to time. The purchase price of Pass-Through PCs offered or re-offered by Freddie Mac will be stated as a percentage of the principal amount of the Pass-Through PCs as of the month of settlement as determined by the applicable Pass-Through Pool Factors.

Certain Dealers, including SS&TG, may buy, sell and make a market in Pass-Through PCs. The secondary market for Pass-Through PCs may be limited. If a Pass-Through PC is sold by a Dealer, the Dealer is required to confirm the sale; notify the purchaser of the settlement date, purchase price, concessions and fees; and deliver a copy of this Offering Circular and the applicable Supplement to the purchaser.

### **INCREASE IN SIZE**

Before the Settlement Date for any offering of Pass-Through PCs, Freddie Mac and any Dealers may agree to increase the size of the offering. In that event, the Pass-Through PCs will have the same characteristics as described in the applicable Supplement, except that the original principal amount (or original notional principal amount) of each Class will increase by the same proportion.

### **ACCOUNTING CONSIDERATIONS**

Investors should consult their accountants regarding the appropriate application of generally accepted accounting principles and regulatory accounting principles to their purchase of Pass-Through PCs and any exchange transactions pursuant to the procedures described in this Offering Circular.

## GLOSSARY OF TERMS

The following definitions apply to capitalized terms used in the Offering Circular and the Pass-Through Agreement. These definitions will also apply to any Supplement, amendment or confirmation prepared by Freddie Mac, unless otherwise modified in such Supplement, amendment or confirmation.

*Agreement Default:* An “Event of Default” as defined in the agreement governing any Contributing Asset between Freddie Mac and the holders of such Contributing Asset.

*ARM:* An adjustable rate Mortgage.

*ARM Giant:* A Giant PC backed directly or indirectly by ARM PCs.

*ARM Pass-Through PC:* A Pass-Through PC backed directly or indirectly by ARM PCs.

*ARM Pass-Through Pool:* A Pass-Through Pool consisting entirely of ARM PCs and/or other Contributing Assets backed directly or indirectly by ARM PCs.

*ARM PC:* A PC representing an undivided interest in an ARM PC Pool.

*ARM PC Pool:* A PC Pool consisting entirely of ARMs.

*Balloon/Reset Mortgage:* A Mortgage with an original term of up to either five or seven years that grants the borrower an option, subject to certain conditions, to extend the original term at a reset Mortgage interest rate and which provides for level payments of principal and interest during the original term based upon an amortization schedule calculated to pay the original principal balance of the Mortgage in full over a period of up to 360 months.

*Basic Strips:* Stripped Giant PCs designated by Freddie Mac as Basic Strips, having at least two Classes that include one Class of IO PCs, one Class of PO PCs and/or one or more Classes of IP PCs.

*Book-Entry Form:* The form of a security which (i) is issued by means of an entry on the books and records of a Federal Reserve Bank 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 Banks to act as Freddie Mac’s agent in connection with securities issued 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) or, as to Pass-Through PCs issued in certificated form, the Registrar, is authorized or obligated by law or executive order to remain closed, (iii) as to any Holder of a Pass-Through PC issued in Book-Entry Form, 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 for business, (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.

*Call Class:* A Class of Callable Pass-Through Certificates representing the right to direct Freddie Mac to redeem a related Callable Class and to acquire the Contributing Assets underlying such Callable Class.

*Call Right:* The right of the beneficial owner of a Call Class to direct Freddie Mac to redeem a related Callable Class and to acquire the Contributing Assets underlying such Call Class.

*Callable Assets:* The Contributing Assets underlying a Callable Class.

*Callable Class:* A Class of Callable Pass-Through Certificates representing the beneficial ownership of specified Contributing Assets, subject to the Call Right of a related Call Class.

*Callable Pass-Through Certificates, or CPCs:* Freddie Mac structured securities designated by Freddie Mac as CPCs, which include at least one Class (the “Call Class”) that has the right to direct Freddie Mac to redeem another Class in the same Series.

*Cash Program:* A program pursuant to which Freddie Mac purchases Mortgages for cash, forms PC Pools and sells PCs representing undivided interests in such Mortgages.

*Certificated Class:* A Class of Pass-Through PCs, not a Retail Class, which is issued in registered, certificated form, and is transferable and exchangeable at the office of the Registrar.

*Class:* All of the Pass-Through PCs having like terms created in respect of a single Pass-Through Pool. For each Pass-Through Pool, there may be one or more Classes; together, all Classes of Pass-Through PCs issued in respect of a Pass-Through Pool represent all the beneficial interests in the Pass-Through Pool.

*Code:* The Internal Revenue Code of 1986, as amended.

*Contributing Asset:* An asset placed in a Pass-Through Pool so that Pass-Through PCs may be issued which will receive payments from that asset.

*Contributing Asset Payment:* Any principal, interest or guarantee payment received by Freddie Mac in respect of any Contributing Asset.

*Conventional Mortgage:* A Mortgage which is not guaranteed or insured by the United States or any agency or instrumentality of the United States.

*Cooperative Share Mortgage:* A Mortgage secured by a first mortgage, lien or other security interest on (i) the stock or membership certificate issued to a tenant-stockholder or resident-member by a “cooperative housing corporation” as defined in Section 216(b) of the Code and (ii) the proprietary lease, occupancy agreement or right of tenancy granting the tenant-stockholder or resident-member exclusive rights to occupy a specific dwelling unit in the project owned by the cooperative housing corporation.

*CPCs:* See “Callable Pass-Through Certificates.”

*CUSIP Number:* A unique nine-character designation, created by the CUSIP Service Bureau and assigned by Freddie Mac to each Class of Pass-Through PCs, that is used to identify the Class of Pass-Through PCs on the books and records of the Federal Reserve Banks.

*Dealer:* Any entity which is a member of Freddie Mac’s “Giant Dealer Group” at the time a Pass-Through Transaction with such Dealer is scheduled in accordance with the Pass-Through Dealer Agreement.

*Depository:* The Depository Trust Company, or any successor depository selected or approved by Freddie Mac.

*ERISA:* The Employee Retirement Income Security Act of 1974, as amended.

*Extended Buydown Mortgage:* A Mortgage originated with special payment arrangements under which funds are placed in a separate account used to pay a portion of the scheduled monthly payment on the Mortgage for a specified period, reducing the effective interest rate paid by the borrower during the period; provided that the period is more than two years or the effective interest rate during the period is more than two percentage points below the interest rate on the Mortgage.

*Federal Reserve Bank:* The Federal Reserve Bank of New York and/or such other Federal Reserve Bank as may maintain Freddie Mac Pass-Through PCs in Book-Entry Form.

*FHA/VA Mortgage:* A fixed-rate Mortgage fully insured by the Federal Housing Administration or guaranteed in part by the Department of Veterans Affairs.

*Final Payment Date:* With respect to each Class of Pass-Through PCs, the first day of the month of the latest final payment date of the Contributing Assets, as specified in the related Supplement.

*Fixed-Rate Pass-Through Pool:* A Pass-Through Pool directly or indirectly backed by Gold PCs or Original PCs, but not ARM PCs.

**FRED:** Freddie Mac's Resecuritization Electronic Data Base, which displays certain information relating to Pass-Through PCs, and which is available through AT&T's Easy Link Services (an electronic mail system).

**Freddie Mac:** The Federal Home Loan Mortgage Corporation, a corporation created pursuant to the Freddie Mac Act.

**Freddie Mac Act:** Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459.

**Giant PC:** Any Standard Giant PC or Stripped Giant PC issued by Freddie Mac.

**Giant PC Offering Circular or Offering Circular:** The Giant Participation Certificates and Other Structured Pass-Through Participation Certificates Offering Circular to which this Glossary of Terms is attached.

**Gold MACS:** MACS backed directly or indirectly by Gold PCs.

**Gold Pass-Through PC:** A Pass-Through PC backed directly or indirectly by Gold PCs.

**Gold PC:** A fixed-rate PC as to which there are approximately 45 days between the first day of the month in which the PC is issued and the date a holder of record receives the initial payment in respect of the PC.

**Guarantor Program:** A program pursuant to which Freddie Mac purchases a group of Mortgages from a single seller in exchange for PCs representing undivided interests in a PC Pool consisting of the same Mortgages.

**Holder:** In the case of a Class of Pass-Through PCs maintained in Book-Entry Form, any 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 Pass-Through PCs of such Class have been deposited; in the case of a Retail Class maintained in certificated form, the entity acting as nominee for the Depository in holding such Class; or in the case of a Certificated Class, the entities or individuals that appear on the records of the Registrar as the registered holders of that Class, unless otherwise specified in the related Terms Supplement.

**Information Statement:** An annual statement prepared by Freddie Mac that describes Freddie Mac and its business and operations and contains Freddie Mac's audited financial statements.

**Information Statement Supplement:** A supplement to the Information Statement that includes unaudited financial data and/or other information concerning the business and operations of Freddie Mac.

**Interest Accrual Period:** For Gold Pass-Through PCs, the calendar month immediately preceding the related Payment Date; for Original Pass-Through PCs and ARM Pass-Through PCs, the second calendar month preceding such Payment Date.

**IOette Strips:** Stripped Giant PCs designated by Freddie Mac as IOette Strips, which receive payments of interest and any principal from the related Contributing Assets.

**IO PC:** A Class of Stripped Giant PCs which is entitled to payment of all or a portion of the interest payments received on the Contributing Assets and no principal. In the case of IO PCs, references to principal amounts shall be regarded as references to notional principal amounts, unless the context requires otherwise.

**IP PC:** A Class of Stripped Giant PCs which is entitled to payment of a portion of the principal and interest payments received on the Contributing Assets.

**MACS or Modifiable And Combinable Securities:** Stripped Giant PCs designated by Freddie Mac as MACS, which are issuable in many Classes that are exchangeable for other Classes of the same Series having different Pass-Through Coupons.

**Mortgage:** A mortgage loan secured by a lien on a single-family or multifamily residential property, or a participation in such a mortgage loan, purchased by Freddie Mac and identified in the records maintained by Freddie Mac as included in a discrete PC Pool.

**Multiclass PC Agreement:** The agreement, amended by the applicable Terms Supplement, pursuant to which a REMIC Tranche is created.

**Multiclass PC Offering Circular:** Any one of Freddie Mac's Multiclass Mortgage Participation Certificates Offering Circulars, pursuant to which, in conjunction with a Multiclass Supplement, REMIC Tranches are offered.

**Multiclass Supplement:** A supplement to a Multiclass PC Offering Circular, pursuant to which one Series of REMIC Tranches is offered.

**MultiLender Swap Program:** A program pursuant to which Freddie Mac purchases Mortgages from one or more sellers, in each case in exchange for PCs with an unpaid principal balance equal to the remaining principal balance of the Mortgages delivered by each such seller.

**New MACS:** MACS Classes received in exchange for one or more previously held Classes of MACS of the same Series.

**Newly Originated Assumable Mortgage:** A Mortgage, originated less than one year prior to the month of issuance of the related PC Pool, that does not contain an enforceable due-on-transfer clause permitting automatic acceleration upon the transfer of the property or an interest therein regardless of the creditworthiness of the transferee. A Newly Originated Assumable Mortgage generally can be assumed by a creditworthy purchaser of the property securing the Mortgage at the applicable Mortgage interest rate for the remaining term of the Mortgage.

**1986 Act:** The Tax Reform Act of 1986.

**Offering Circular or Giant PC Offering Circular:** The Giant Participation Certificates and Other Structured Pass-Through Participation Certificates Offering Circular to which this Glossary of Terms is attached.

**Old MACS:** MACS Classes exchanged for one or more different Classes of MACS of the same Series.

**Original Pass-Through PC:** A Pass-Through PC backed directly or indirectly by Original PCs.

**Original PC:** A fixed-rate PC as to which there are approximately 75 days between the first day of the month in which the PC is issued and the date a holder of record receives the initial payment in respect of the PC.

**Original Principal Amount:** The aggregate of the original principal amounts of all Classes issued in respect of an offering of Pass-Through PCs.

**Pass-Through Agreement:** The Giant Participation Certificates and Other Structured Pass-Through Participation Certificates Agreement, as it may be amended or supplemented from time to time (including any related Terms Supplement), available upon request from Freddie Mac.

**Pass-Through Coupon:** The rate at which interest is passed through to a Holder of a Pass-Through PC entitled to the payment of interest, which rate is subject to monthly adjustment for ARM Pass-Through PCs and certain IOette Strips and SPCs.

**Pass-Through Dealer Agreement:** The Pass-Through Participation Certificates Dealer Agreement, as it may be amended or supplemented from time to time.

**Pass-Through PC:** A Freddie Mac structured mortgage-related security offered pursuant to the Offering Circular and a related Supplement, including, but not limited to, Giant PCs, SPCs and CPCs.

**Pass-Through Pool:** A discrete pool of Contributing Assets underlying one or more Classes of Pass-Through PCs.

**Pass-Through Pool Factor:** A truncated, seven-digit decimal calculated and published by Freddie Mac which represents the remaining principal amount or notional principal amount, as the case may be, of a Pass-Through PC. Freddie Mac publishes a Pass-Through Pool Factor for each Pass-Through Pool.

**Pass-Through Pool Number:** A number assigned to each Pass-Through Pool (other than for SPCs) and Class of Giant PCs by Freddie Mac and used to identify such Pass-Through Pool or Class of Giant PCs on the books and records of Freddie Mac.

*Pass-Through Principal Payment Amount:* The amount of principal paid on a Payment Date on Contributing Assets and paid as principal to the Holders of the related Pass-Through PCs.

*Pass-Through Transaction:* Any exchange of Contributing Assets held by a Dealer as principal or agent for an equivalent amount of Pass-Through PCs in accordance with and subject to the terms and conditions of the Pass-Through Dealer Agreement.

*PC:* A Mortgage Participation Certificate (Guaranteed) issued by Freddie Mac and representing an undivided interest in a PC Pool. The term PC includes the terms Gold PC, Original PC and ARM PC, unless the context requires otherwise.

*PC Agreement:* Any one of the agreements pursuant to which PCs are created.

*PC Offering Circular:* Any one of Freddie Mac's Mortgage Participation Certificates Offering Circulars, Mortgage Participation Certificates Exchange Circulars, Multifamily Mortgage Participation Certificates Offering Circulars and/or Payment Capped Adjustable Rate Mortgage Participation Certificates Offering Circulars, as applicable, together with any supplements thereto.

*PC Pool:* A discrete pool of Mortgages identified in the records maintained by Freddie Mac and represented by one or more PCs.

*PO PC:* A Class of Stripped Giant PCs which is entitled to payment of all or a portion of the principal payments received on the Contributing Assets and no interest.

*Prefix:* The first two characters of a Pass-Through Pool Number.

*Prepayment Assumption:* An assumed rate of prepayment on the Mortgages.

*Pricing Date:* The date on which an agreement is entered into between Freddie Mac and Dealer to settle a Pass-Through Transaction.

*Record Date:* As to each Payment Date, the close of business on the last day of (i) the preceding month in the case of Gold Pass-Through PCs, or (ii) the second preceding month in the case of Original Pass-Through PCs and ARM Pass-Through PCs.

*Registrar:* Texas Commerce Bank National Association, or any successor Registrar appointed by Freddie Mac.

*Relocation Mortgage:* A Mortgage made to a transferred employee to finance a home purchase at a new job location pursuant to an employee relocation program administered by the employer or its agent, involving an employer contribution to mortgage funding, in which the Mortgage is originated by a lender pursuant to a contract or arrangement with the employer or its agent.

*REMIC Tranche:* A "Regular Class" issued as part of a series of Freddie Mac's Multiclass Mortgage Participation Certificates, as to which series an election has been or will be made to treat the related pool as a Real Estate Mortgage Investment Conduit pursuant to the Code.

*Retail Class:* A Class of Pass-Through PCs that is designed to be issued and maintained by the Depository in small denominations and that may receive payments of principal in units or other increments in accordance with priorities and limitations as specified in the related Terms Supplement.

*Series:* Related Classes of Pass-Through PCs offered by means of the same Supplement. Each Series has a number which designates the offering.

*Service:* The Internal Revenue Service.

*Settlement Date:* With respect to any Pass-Through Transaction, the date on which Freddie Mac expects to issue a Pass-Through PC in exchange for the Contributing Assets delivered by Dealer.

*SPCs:* See Structured Pass-Through Certificates.

*SS&TG:* Freddie Mac's Securities Sales and Trading Group.

*Standard ARM Giant PC:* A Standard Giant PC backed directly or indirectly by ARM PCs.

*Standard Fixed-Rate Giant PC:* A Standard Giant PC backed directly or indirectly by fixed-rate PCs.

*Standard Giant PC:* A Giant PC designated by Freddie Mac as a Standard Giant PC and representing an undivided beneficial ownership interest in a Pass-Through Pool, in respect of which a single Class has been created, and which is entitled to receive either (a) all of the principal and interest payments made on the Contributing Assets or (b) all of the principal and interest payments made on the Contributing Assets except any amounts retained by Freddie Mac.

*Standard Pass-Through Pool:* A Pass-Through Pool in which the beneficial interests are represented by Standard Giant PCs.

*Strip:* For tax purposes, a Pass-Through PC that is a Stripped Giant PC, MACS or IOette Strip with multiple Classes, each such Pass-Through PC being subject to the “stripping rules” of Section 1286 of the Code.

*Stripped Giant PC:* A Giant PC designated by Freddie Mac as a Stripped Giant PC and representing a beneficial ownership interest in a Pass-Through Pool in respect of which one or more Classes of Giant PCs have been created, which are entitled to payments of (i) interest only, (ii) principal only and/or (iii) a portion of the principal and interest payments received on the Contributing Assets. Stripped Giant PCs include Basic Strips, MACS and IOette Strips.

*Stripped Pass-Through Pool:* A Pass-Through Pool in which the beneficial interests are represented by Stripped Giant PCs.

*Structured Pass-Through Certificates or SPCs:* Freddie Mac structured securities designated by Freddie Mac as SPCs, which receive payments of all the cash flows from two or more types or classes of Contributing Assets.

*Supplement:* A document which modifies, amends or supplements the Offering Circular and/or the Pass-Through Agreement in any respect whatsoever. “Supplement” includes “Preliminary Offering Circular Supplements” and “Offering Circular Supplements” in the case of Standard Giant PCs and “Offering Circular Supplements” and “Supplemental Statements” in the case of Stripped Giant PCs, CPCs and SPCs.

*Terms Supplement:* A document (which may be a Supplement) which modifies, amends or supplements the provisions of the Pass-Through Agreement in any respect whatsoever.

*U.S. Person:* For certain tax purposes, 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 United States federal income taxation regardless of the source of its income.

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**Federal Home  
Loan Mortgage  
Corporation**

**Giant Participation Certificates  
and Other Structured Pass-Through  
Participation Certificates**

Freddie  
Mac

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September 1, 1995

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