

# Federal Home Loan Mortgage Corporation

## Multiclass Mortgage Participation Certificates (Guaranteed) (Issuable in Series)

**Freddie  
Mac**

Owned by America's  
Savings Institutions

The Multiclass Mortgage Participation Certificates (Guaranteed) (the "Multiclass PCs") of each series (each, a "Series") will represent beneficial ownership interests in a pool (the "Multiclass PC Pool") to be formed by the Federal Home Loan Mortgage Corporation ("Freddie Mac") for each Series. Each Multiclass PC Pool will consist of Mortgage Securities (as defined herein), which, in turn, will either consist of or be supported by one or more PCs or one or more ARM PCs (each as defined herein). Such PCs and ARM PCs represent undivided interests in specified first lien, residential mortgages or participations therein (the "Mortgages") purchased by Freddie Mac and placed in discrete pools (the "PC Pools"). The general characteristics of the PCs are described in Freddie Mac's Offering Circular relating to the PCs as in effect from time to time (the "PC Offering Circular"), and the general characteristics of the ARM PCs are described in Freddie Mac's various Offering Circulars relating to the ARM PCs as in effect from time to time (each, an "ARM PC Offering Circular"). Certain information relating to the Mortgage Securities constituting the Multiclass PC Pool for a Series will be set forth in the Offering Circular Supplement relating to such Series.

Freddie Mac guarantees to each Holder of a Regular Class PC (as defined herein) the timely payment of interest at the applicable Multiclass PC interest rate (the "Multiclass PC Coupon") on such Holder's Multiclass PC and to each Holder of a Residual Class PC (as defined herein) the timely payment of interest as described in the applicable Offering Circular Supplement. Freddie Mac also guarantees to each Holder the payment of the principal amount of such Holder's Multiclass PC as payments are required to be made on the Mortgage Securities in accordance with their terms, as described in the applicable Offering Circular Supplement. With respect to the PCs or ARM PCs constituting or underlying such Mortgage Securities, Freddie Mac guarantees to each holder thereof the timely payment of interest at the applicable PC interest rate on the holder's pro rata share of the unpaid principal balance of the related Mortgages as calculated by Freddie Mac under the Pool Factor method and the ultimate collection of all principal of the related Mortgages, all as and to the extent set forth in the PC Offering Circular or the applicable ARM PC Offering Circular, as the case may be.

Each Series will consist of two or more classes of Multiclass PCs (each, a "Class") and may include one or more Classes of Accrual PCs, Variable Rate PCs, Inverse Variable Rate PCs, Adjustable Rate PCs, Planned Amortization PCs, Targeted Amortization PCs, Principal Only PCs or Interest Only PCs (each as defined herein) or any combination of the above. Each Series will include a Class of Residual Class PCs. Interest on each Class of Multiclass PCs (other than any Class of Principal Only PCs) will be passed through on each Payment Date specified in the related Offering Circular Supplement, except for interest on any Classes of Accrual PCs. Payments of interest on a Class of Accrual PCs will occur as provided in the related Offering Circular Supplement. Interest accrued but not paid on a Class of Accrual PCs will be added to the principal amount thereof on the applicable Payment Dates. Principal payments will be made on each Payment Date on the Multiclass PCs of each Series (on a pro rata basis among the Multiclass PCs of each Class entitled to receive such payments) as described in the related Offering Circular Supplement.

Scheduled payments on the Mortgages underlying the Mortgage Securities in the Multiclass PC Pool relating to a Series will be sufficient to make timely payments of interest on the Multiclass PCs of such Series and to retire each Class of such Series on or before its Final Payment Date (as defined herein). Because the rate of payment of principal of each Class of the Multiclass PCs of such Series will depend on the rate of payment (including prepayments) of the principal of the Mortgages underlying the Mortgage Securities in the related Multiclass PC Pool, the actual final payment with respect to any Class of Multiclass PCs of such Series could occur significantly earlier than its Final Payment Date.

An election will be made to treat the Multiclass PC Pool related to each Series as a "real estate mortgage investment conduit" ("REMIC") pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). All Classes of Multiclass PCs of each Series will constitute "regular interests" in the REMIC, except for a single Class of Residual Class PCs, which will constitute the "residual interest" in the REMIC. The Residual Class PCs will be subject to certain transfer restrictions. See "Certain Federal Income Tax Consequences."

Unless otherwise specified in the Offering Circular Supplement relating to a Series, Regular Class PCs will be sold in book-entry form only, and Residual Class PCs will be sold in registered, certificated form only. See "Description of Multiclass PCs—Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers."

This Offering Circular should be read in conjunction with the Offering Circular Supplement applicable to each Series, the PC Offering Circular or the applicable ARM PC Offering Circular, as the case may be, Freddie Mac's current Information Statement and any supplements to any of the foregoing. See "Availability of Information and Incorporation by Reference."

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

This Offering Circular may not be used to consummate sales of Multiclass PCs unless accompanied by an Offering Circular Supplement.

## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Offering Circular Supplement .....	3
Offering Circular Summary .....	3
Federal Home Loan Mortgage Corporation .....	8
Availability of Information and Incorporation by Reference .....	8
Description of Multiclass PCs .....	8
General .....	8
Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers .....	9
The Mortgage Securities .....	10
Multiclass PC Pool Factors .....	10
Payments of Interest .....	10
Payments of Principal .....	11
Residual Class PCs .....	11
Guarantees .....	11
Optional Redemption .....	12
Reports to Holders .....	12
Prepayment Considerations .....	13
Final Payment Dates and Weighted Average Lives of the Multiclass PCs .....	13
The Multiclass PC Agreement .....	13
Transfer of Mortgage Securities to Multiclass PC Pool .....	14
Certain Matters Regarding Freddie Mac .....	14
Voting Under Any PC Agreement .....	14
Events of Default .....	14
Rights Upon Event of Default .....	15
Amendment .....	15
Certain Federal Income Tax Consequences .....	15
General .....	15
Status of Multiclass PC Pool for Federal Income Tax Purposes .....	15
Status of Multiclass PCs .....	16
Taxation of Regular Class PCs .....	16
Taxation of Residual Class PCs .....	19
Sale or Exchange of Multiclass PCs .....	22
Transfers of Residual Class PCs .....	22
Administrative Matters .....	23
Treatment of Servicing Compensation .....	23
Taxation of Certain Foreign Investors .....	24
Backup Withholding .....	24
Reporting Requirements .....	24
ERISA Considerations .....	25
Legality of Investment .....	26
Regulatory Constraints .....	26
Federal Securities Laws .....	27
Distribution Arrangements .....	27
Exhibit A — Multiclass Mortgage Participation Certificate Agreement .....	A-1

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

### OFFERING CIRCULAR SUPPLEMENT

The Offering Circular Supplement with respect to a Series of Multiclass PCs to be offered hereby and by means of such Offering Circular Supplement will, among other things, set forth with respect to such Series of Multiclass PCs: (i) the identity and type of each Class of Multiclass PCs of such Series; (ii) the original principal amount and, if applicable, the interest rate or method of determining the interest rate of each Class of Multiclass PCs of such Series; (iii) certain information concerning the Multiclass PC Pool for such Series; (iv) the Final Payment Date of each Class of Multiclass PCs of such Series; (v) the method used to calculate the aggregate amount of principal required to be passed through with respect to each Class of Multiclass PCs on each Payment Date; (vi) the order of payments to each of the Classes within such Series, whether sequential, pro rata, or otherwise; (vii) the Payment Dates with respect to such Series; (viii) information with respect to the terms of the Class of Residual Class PCs for such Series; and (ix) additional information with respect to the plan of distribution of such Series of Multiclass PCs. Further information relating to the Mortgage Securities constituting the Multiclass PC Pool may be made available, as described in the related Offering Circular Supplement.

### 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 Series of Multiclass PCs contained in the related Offering Circular Supplement.

<b>Seller and Guarantor</b> . . . . .	Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States.
<b>The Multiclass PCs</b> . . . . .	The Multiclass Mortgage Participation Certificates (Guaranteed) of each Series will be issued pursuant to a Multiclass Mortgage Participation Certificate Agreement dated as of December 12, 1988 in the form included in this Offering Circular as Exhibit A and a Terms Supplement relating to each Series (the Multiclass Mortgage Participation Certificate Agreement, together with the Terms Supplement applicable to a Series, the "Multiclass PC Agreement"). The Multiclass PCs of each Series will evidence beneficial ownership interests in the Multiclass PC Pool relating to such Series formed by Freddie Mac pursuant to the Multiclass PC Agreement.
<b>The Mortgage Securities</b> . . . . .	Various mortgage securities created or acquired by Freddie Mac (the "Mortgage Securities") having the characteristics described herein under "Description of Multiclass PCs—The Mortgage Securities" and, as to a particular Series of Multiclass PCs, in the related Offering Circular Supplement. The Mortgages underlying the PCs or ARM PCs that either constitute or support the Mortgage Securities are first lien, residential mortgages, including whole mortgage loans and/or participation interests therein. The Mortgages in any PC Pool are all either conventional Mortgages or Mortgages insured by the Federal Housing Administration and/or guaranteed, in part, by the Veterans Administration.

**Form of Multiclass PCs;  
Holders** .....

Unless otherwise specified in the Offering Circular Supplement relating to a Series, the Classes of Multiclass PCs of a Series that constitute "regular interests" in the Multiclass PC Pool for such Series (collectively, the "Regular Class PCs") will be issued and maintained, and may be transferred by Holders, only on the book-entry system of a Federal Reserve Bank. Regular Class PCs in book-entry form may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. The Class of Multiclass PCs that constitutes the "residual interest" in the Multiclass PC Pool for such Series (the "Residual Class PCs") will not be issued in book-entry form but will be issued in registered, certificated form. Multiclass PCs in certificated form will be transferable and exchangeable at the office of Texas Commerce Bank National Association (the "Registrar"), which has been designated by Freddie Mac as its agent for such purpose, or any successor thereto.

Entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts Regular Class PCs have been deposited or whose names appear on the records of the Registrar as the registered holders of Residual Class PCs, as the case may be, are referred to herein as "Holders."

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

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

Multiclass PCs will be issued and must be maintained and transferred in the minimum original principal amounts and additional increments specified in the applicable Offering Circular Supplement. See "Description of Multiclass PCs—Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers."

**Payment Dates; Method of  
Payment** .....

Freddie Mac will pass through payments of principal and interest to Holders of Multiclass PCs of each Series on the 15th day of each month specified in the related Offering Circular Supplement or, if such day is not a Business Day (as defined in the Multiclass PC Agreement), on the next succeeding Business Day (a "Payment Date"), commencing on the date specified in the related Offering Circular Supplement. Unless otherwise specified in the Offering Circular Supplement relating to a Series, payments are credited on each Payment Date by a Federal Reserve Bank to the accounts of Holders of Regular Class PCs in book-entry form. A holder that is not the beneficial owner of a Multiclass PC, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of remitting payments for the accounts of their customers. Payments of principal and interest on a Residual Class PC will be made by check mailed by the Registrar to the address of the Holder, as it appears on the register maintained by the Registrar, or, if specified in the related Offering Circular Supplement, by wire transfer to such Holder, in either case not later than the applicable Payment Date; provided, however, that the final payment on a Residual

Class PC will be made only upon presentation and surrender of such Residual Class PC at the office of the Registrar. However, if the principal amount of a Residual Class PC is reduced to zero before the principal amounts of all of the Regular Class PCs of the related Series are reduced to zero, the final payment of the principal amount of a Residual Class PC will be made only upon presentation (without surrender) of such Residual Class PC at the office of the Registrar for notation that the principal amount of such Residual Class PC has been reduced to zero. See "Description of Multiclass PCs—Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers."

**Interest** ..... Interest will accrue on each Class of the Regular Class PCs of each Series at the applicable Multiclass PC interest rate (the "Multiclass PC Coupon") (which may be zero) specified in, or determined as specified in, the related Offering Circular Supplement and will be passed through on each Payment Date, except for interest on any Classes of Accrual PCs contained in such Series. Payments of interest on each Class of Accrual PCs will be passed through to the extent provided in the related Offering Circular Supplement. The amount of any interest accrued and not passed through on any Payment Date on any Class of Accrual PCs will be added to the principal amount of each Accrual PC of such Class. Any accrued interest so added will accrue interest from such Payment Date or from such other date as may be specified in the related Offering Circular Supplement. Interest, if any, in respect of the Residual Class PCs of each Series will be passed through on each Payment Date as described in the applicable Offering Circular Supplement. Interest payable or added to principal on a Payment Date will accrue during the period or periods specified in the related Offering Circular Supplement. See "Description of Multiclass PCs—Payments of Interest."

**Principal** ..... Unless otherwise specified in the Offering Circular Supplement relating to a Series, principal payments on the Multiclass PCs of such Series will be made on each Payment Date in an aggregate amount equal to the sum of (i) the amount of interest, if any, accrued on any Classes of Accrual PCs contained in such Series during the related Interest Accrual Period but not then payable; and (ii) an amount equal to the Mortgage Security Principal Payment Amount (as defined below). All payments of principal on the Regular Class PCs of such Series will be applied on each Payment Date to the applicable Classes of the Regular Class PCs as provided in such Offering Circular Supplement. All payments of principal on the Multiclass PCs of a particular Class will be applied pro rata among all Multiclass PCs of such Class.

With respect to any Payment Date, the Mortgage Security Principal Payment Amount of a Series will be the amount of principal payments made on the same Payment Date on the Mortgage Securities in the related Multiclass PC Pool. See "Description of Multiclass PCs—Payments of Principal."

**Residual Class PCs** ..... Holders of the Residual Class PCs of a Series will be entitled to receive (i) on each Payment Date, any payments of principal and interest specified in the related Offering Circular Supplement and (ii) the proceeds of the remaining assets of the related Multiclass PC Pool, if any, after the aggregate principal amount of all Classes of Multiclass PCs of such Series has been reduced to zero.

The Residual Class PCs will be subject to certain transfer restrictions. See "Certain Federal Income Tax Consequences—Transfers of Residual Class PCs."

**Record Date** ..... Each payment on the Multiclass PCs of a Series will be made to Holders of record on the day specified in the related Offering Circular Supplement.

**Final Payment Date** ..... The Final Payment Date for each Class of Multiclass PCs of a Series will be the Payment Date on or before which the entire principal amount of the Multiclass PCs of such Class is reduced to zero. The Final Payment Date for each such Class will be calculated as described in the related Offering Circular Supplement. See "Description of Multiclass

PCs—Final Payment Dates and Weighted Average Lives of the Multiclass PCs” herein, “Description of Mortgage Participation Certificates—Weighted Average Life and Payment Behavior” in the PC Offering Circular and the discussion of the weighted average lives and prepayment behavior of the ARM PCs in the applicable ARM PC Offering Circular.

**Guarantees** ..... Freddie Mac guarantees to each Holder of a Regular Class PC the timely payment of interest at the applicable Multiclass PC Coupon on such Holder’s Multiclass PC and to each Holder of a Residual Class PC the timely payment of interest as described in the applicable Offering Circular Supplement. Freddie Mac also guarantees to each Holder the payment of the principal amount of such Holder’s Multiclass PC, as payments are required to be made on the Mortgage Securities in the related Multiclass PC Pool in accordance with their terms, as described in the related Offering Circular Supplement. See “Description of Multiclass PCs—Guarantees.”

With respect to the PCs or ARM PCs constituting or supporting such Mortgage Securities, Freddie Mac guarantees to each holder thereof the timely payment of interest at the applicable PC interest rate on the holder’s pro rata share of the aggregate unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the “Pool Factor method” described in the PC Offering Circular or in the applicable ARM PC Offering Circular, as the case may be. Freddie Mac also guarantees to each such holder ultimate collection of all principal of the related Mortgages, without offset or deduction, to the extent of such holder’s pro rata share thereof. See “Description of Mortgage Participation Certificates—Guarantees” in the PC Offering Circular or the discussion of Freddie Mac’s guarantees with respect to the ARM PCs in the applicable ARM PC Offering Circular, as the case may be.

**Optional Redemption** ..... Unless otherwise specified in the Offering Circular Supplement relating to a Series, the outstanding Multiclass PCs of such Series may be redeemed in whole, but not in part, at the option of Freddie Mac, on any Payment Date on or after the date on which, after giving effect to principal payments to be made on the Multiclass PCs of such Series on such date, the aggregate outstanding principal amount of the Multiclass PCs of such Series is less than 1% of the aggregate original principal amount of the Multiclass PCs of such Series. Any such optional redemption will be at a redemption price equal to 100% of the unpaid principal amount of the Multiclass PCs redeemed, plus accrued and unpaid interest thereon. All decisions as to the making of such an optional redemption, including the timing of any such optional redemption, will be at Freddie Mac’s sole discretion. See “Description of Multiclass PCs—Optional Redemption.”

**Multiclass PC Pool Factors** . . . On or about the first day of each month (in the case of a Series of Multiclass PCs the Multiclass PC Pool of which consists of or is supported by PCs) or the seventh day of each month (in the case of a Series of Multiclass PCs the Multiclass PC Pool of which consists of or is supported by ARM PCs), Freddie Mac will publish or otherwise make available for that month the Multiclass PC Pool Factor for each Class of Multiclass PCs of a Series. The Multiclass PC Pool Factor is a seven-digit decimal calculated by Freddie Mac which, when multiplied by the original principal amount of a Multiclass PC, will equal the remaining principal amount of such Multiclass PC, after giving effect to the payment of principal to be made on the Payment Date in the following month, including any accretion of principal to be added thereto on such Payment Date. See “Description of Multiclass PCs—Multiclass PC Pool Factors.”

**REMIC Election and Tax Status of the Multiclass PCs** .....

An election will be made to treat each Multiclass PC Pool as a “real estate mortgage investment conduit” (“REMIC”) for federal income tax purposes. The Regular Class PCs will be treated as “regular interests” in

a REMIC, and the Residual Class PCs will be treated as the "residual interest" for federal income tax purposes.

As a consequence of the REMIC election, the Multiclass PCs will generally be treated as "qualifying real property loans" for mutual savings banks and domestic building and loan associations, "regular or residual interests in a REMIC" for domestic building and loan associations, "real estate assets" for real estate investment trusts and, except for the Residual Class PCs, as "qualified mortgages" for other REMICs. See "Certain Federal Income Tax Consequences — Status of Multiclass PCs."

**Special tax considerations apply to an investment in Residual Class PCs for all types of investors. In certain circumstances, the method of taxation of beneficial owners of Residual Class PCs can produce a significantly lower after-tax yield for Residual Class PCs than would be the case if no REMIC election were made for the Multiclass PC Pool or if the Residual Class PCs were taxable as debt instruments. In addition, a substantial tax may be imposed on certain transferors of Residual Class PCs and beneficial owners of Residual Class PCs that are "pass-thru entities." See "Certain Federal Income Tax Consequences—Transfers of Residual Class PCs."**

**Legality of Investment . . . . .**

Multiclass PCs described herein:

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

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

The Federal Home Loan Bank System's Office of Regulatory Activities has recently issued a bulletin, entitled "Mortgage Derivative Products and Mortgage Swaps," which establishes guidelines for the investment by federally chartered or FSLIC-insured savings institutions in certain "high-risk" derivative mortgage-backed securities and limitations on the use of such securities by insolvent, undercapitalized or otherwise "troubled" institutions.

Institutions whose investment activities are subject to review by certain regulatory authorities may be subject to restrictions, or may hereafter become subject to restrictions (which may be retroactively imposed), by such regulatory authorities, on investment by such institutions in certain types of Multiclass PCs. See "ERISA Considerations," "Legality of Investment" and "Regulatory Constraints."

## FEDERAL HOME LOAN MORTGAGE CORPORATION

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

### AVAILABILITY OF INFORMATION AND INCORPORATION BY REFERENCE

Freddie Mac prepares an Information Statement annually which describes Freddie Mac, its business and operations and contains Freddie Mac's audited financial statements for the two most recent fiscal years ending prior to the date of such Information Statement. From time to time Freddie Mac prepares an Information Statement supplement which includes certain unaudited financial data and other information concerning the business and operations of Freddie Mac. Freddie Mac periodically prepares a PC Offering Circular with respect to its PCs and various ARM PC Offering Circulars with respect to its ARM PCs, each of which describes the general characteristics of such securities, the related mortgages and other matters and each of which includes a copy of the agreement pursuant to which such securities are created and sold (the "PC Agreement" in the case of the PCs and the applicable "ARM PC Agreement" in the case of the ARM PCs). The current Information Statement, the current PC Offering Circular, the current ARM PC Offering Circulars, and any supplements thereto are incorporated by reference into this Offering Circular and made a part hereof. Any of these documents and any quarterly report prepared and made available by Freddie Mac can be obtained by writing or calling the Investor Relations Department at Freddie Mac at P.O. Box 4112, Reston, Virginia 22090 (outside Washington, D.C. metropolitan area, telephone 800/424-5401, extension 8160; within Washington, D.C. metropolitan area, telephone 703/759-8160).

### DESCRIPTION OF MULTICLASS PCs

#### General

Multiclass PCs will be offered from time to time in Series pursuant to this Offering Circular and an Offering Circular Supplement relating to each Series.

Each Series of Multiclass PCs represents the beneficial ownership interest in the Multiclass PC Pool for such Series. Each Series of Multiclass PCs will be sold under the terms of the Multiclass PC Agreement, which qualifies this summary in its entirety. Holders and anyone having a beneficial interest in Multiclass PCs of any Series should refer to the Multiclass PC Agreement for a complete description of their rights and obligations and the rights and obligations of Freddie Mac with respect to such Multiclass PCs. Each Holder acquires a Multiclass PC subject to all the terms and conditions of the Multiclass PC Agreement.

Each Series of Multiclass PCs will consist of one or more Classes and may include one or more of the following types of Classes: a Class of Multiclass PCs on which interest will accrue but will not be payable until the time specified in the related Offering Circular Supplement (the "Accrual PCs"), a Class of Multiclass PCs on which interest accrues at a variable rate which may be related directly (although not necessarily proportionately) to an index (the "Variable Rate PCs") or which may be related inversely (although not necessarily proportionately) to an index (the "Inverse Variable Rate PCs"), a Class of Multiclass PCs for which the applicable interest rate changes over the life of such PCs (the "Adjustable Rate PCs"), a Class of Multiclass PCs expected to receive payments in reduction of the outstanding principal amount of the Multiclass PCs of such Class in specified amounts and on specified dates on the basis of certain assumptions set forth in the related Offering Circular Supplement (the "Planned Amortization PCs" or the "Targeted Amortization PCs," as the case may be), a Class of Multiclass PCs entitled to receive payments of principal

only (the "Principal Only PCs") and a Class of Multiclass PCs that do not have principal amounts (other than a notional principal amount) and that are entitled to receive payments of interest only (the "Interest Only PCs"). Each Series of Multiclass PCs will also contain a Class of Residual Class PCs. Residual Class PCs may be denominated by principal amounts, may be denominated by percentage interests in the residual interest in the related Multiclass PC Pool or may be "Interest Only PCs." Payments with respect to each Series of Multiclass PCs will be made on each Payment Date specified in the related Offering Circular Supplement.

#### **Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers**

Unless otherwise specified in the Offering Circular Supplement relating to a Series, Freddie Mac will sell Regular Class PCs only in book-entry form. Freddie Mac's fiscal agent for Regular Class PCs in book-entry form will be any Federal Reserve Bank or such other institution as may be specified in the related Offering Circular Supplement. 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 Regular Class PCs the Freddie Mac book-entry regulations, 1 C.F.R. Part 462, and such procedures, insofar as applicable, as may from time to time be established by regulations of the Treasury governing United States securities, and 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. Each Series and Class of Multiclass PCs is assigned a unique nine-character designation used to identify such Series and Class on the records of any Federal Reserve Bank (the "CUSIP Number").

Regular Class PCs will be issued and must be maintained and transferred on the book-entry system of the Federal Reserve Bank in the minimum original principal amounts and in the additional increments specified in the Offering Circular Supplement relating to a Series. A Regular Class PC may not be transferred if, as a result of the transfer, the transferor or the transferee would have on deposit in its account Regular Class PCs of any Class having an original principal amount of less than the minimum amount specified in such Offering Circular Supplement.

Regular Class PCs in book-entry form 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 a Holder's aggregate holdings of Regular Class PCs by account.

Unless otherwise specified in the Offering Circular Supplement relating to a Series, Residual Class PCs will not be issued in book-entry form but will be issued only in fully registered, certificated form in the minimum original principal amounts and in the additional increments specified in such Offering Circular Supplement. Residual Class PCs will be transferable and exchangeable at the offices of the Registrar. A service charge may be imposed for any exchange or registration of transfer of Residual Class PCs, and Freddie Mac may require payment of a sum sufficient to cover any tax or other governmental charge.

Entities whose names appear on the book-entry records of a Federal Reserve Bank as entities for whose accounts Regular Class PCs have been deposited or whose names appear on the records of the Registrar as the registered holders of Residual Class PCs, as the case may be, are referred to herein as "Holders."

A Holder of a Regular Class PC is not necessarily the beneficial owner of such Regular Class PC. Beneficial owners ordinarily will hold Regular Class PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. For example, an individual purchaser may hold a Regular Class PC through a brokerage firm which, in turn, holds the Regular Class PC through an entity eligible to maintain book-entry accounts with a Federal Reserve Bank. In such case, the beneficial owner of a Regular Class PC would be the individual purchaser and the entity whose name appears on the records of a Federal Reserve Bank as the entity for whose account the Regular Class PC was deposited would be the Holder. A Holder that is not the beneficial owner, and each other financial intermediary in the chain between the Holder and the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a Regular Class PC with respect to Freddie Mac and a Federal Reserve Bank may be exercised only through the Holder of the Regular Class PC. Neither Freddie Mac nor any Federal Reserve Bank will have a direct obligation to a beneficial owner of a Regular

Class PC that is not also the Holder of the Regular Class PC. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Regular Class PC.

A Federal Reserve Bank credits interest and principal to Holders on each Payment Date. A Holder of a Regular Class PC on the books and records of a Federal Reserve Bank on the applicable Record Date will be entitled to any payment of principal and interest on the Regular Class PC made on the related Payment Date. Payments of principal and interest on a Residual Class PC will be made by check mailed by the Registrar to the address of the Holder, as it appears on the register maintained by the Registrar, or, if specified in the related Offering Circular Supplement, by wire transfer to such Holder, in either case not later than the applicable Payment Date; provided, however, that the final payment on a Residual Class PC will be made only upon presentation and surrender of such Residual Class PC at the office of the Registrar. However, if the principal amount of a Residual Class PC is reduced to zero before the principal amounts of all of the Regular Class PCs of the related Series are reduced to zero, the final payment of the principal amount of a Residual Class PC will be made only upon presentation (without surrender) of such Residual Class PC at the office of the Registrar for notation that the principal amount of such Residual Class PC has been reduced to zero.

### **The Mortgage Securities**

The Mortgage Securities constituting the Multiclass PC Pool for each Series of Multiclass PCs will consist of any one of the following types of securities: (i) Freddie Mac Mortgage Participation Certificates (Guaranteed) (the "PCs"), which represent undivided interests in specified fixed-rate, first lien, residential mortgages or participations therein purchased by Freddie Mac and placed in PC Pools; (ii) Freddie Mac Adjustable Rate Mortgage Participation Certificates (Guaranteed) (the "ARM PCs"), which represent undivided interests in specified adjustable rate, first lien residential mortgages or participations therein purchased by Freddie Mac and placed in PC Pools; (iii) certificates ("Variable Rate Pass-Through Securities") representing the "regular interest" in a REMIC, which REMIC consists of a pool of ARM PCs; (iv) debt obligations ("Funding Notes") representing the "regular interest" in a REMIC, which Funding Notes are secured either by PCs or by ARM PCs and provide for the receipt by Freddie Mac of payments on such PCs or ARM PCs in such amounts as are necessary to amortize the principal amounts of, and pay accrued interest on, such Funding Notes; or (v) any other types of mortgage securities whose payments are derived from PCs or ARM PCs which Freddie Mac may acquire for a Series of Multiclass PCs. The Offering Circular Supplement relating to each Series will contain specific information regarding the Mortgage Securities constituting the Multiclass PC Pool for such Series.

### **Multiclass PC Pool Factors**

On or about the first business day of each month (in the case of a Series of Multiclass PCs the Multiclass PC Pool of which consists of or is supported by PCs) or the seventh day of each month (in the case of a Series of Multiclass PCs the Multiclass PC Pool of which consists of or is supported by ARM PCs), unless otherwise specified in the applicable Offering Circular Supplement, Freddie Mac will publish or otherwise make available the Multiclass PC Pool Factor for each Class of each Series of outstanding Multiclass PCs. The Multiclass PC Pool Factor is a seven-digit decimal calculated by Freddie Mac which, when multiplied by the original principal amount of a Multiclass PC, will equal the remaining principal amount of such Multiclass PC, after giving effect to the payment of principal to be made on the Payment Date in the following month, including any accretion of principal to be added thereto on such Payment Date.

### **Payments of Interest**

Unless otherwise specified in the related Offering Circular Supplement, interest will accrue during the applicable interest accrual period relating to each Payment Date on the remaining principal amount (or notional principal amount) of each Class of the Regular Class PCs of each Series (other than any Class of Principal Only PCs) as represented by the Multiclass PC Pool Factor for each such Class published in the second month preceding such Payment Date, at the applicable Multiclass PC Coupon specified in or determined as specified in the related Offering Circular Supplement. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on Multiclass PCs other than Accrual PCs will be passed

through on the Payment Dates specified in the related Offering Circular Supplement. Interest accrued on each Class of Accrual PCs will be payable to the extent provided in the related Offering Circular Supplement, the amount of any interest accrued and unpaid as of any Payment Date being added to the principal amount of each such Accrual PC. Any accrued interest so added will accrue interest from such Payment Date or from such other date as may be specified in the related Offering Circular Supplement.

Unless otherwise specified in the Offering Circular Supplement relating to a Series of Multiclass PCs, interest in respect of the Residual Class PCs of each Series will be passed through on each Payment Date in an amount equal to the amount received as interest payments on the Mortgage Securities in the Multiclass PC Pool for such Series on such Payment Date, less the aggregate amount of interest payable on the Regular Class PCs of such Series on such Payment Date.

### **Payments of Principal**

Unless otherwise specified in the Offering Circular Supplement relating to a Series of Multiclass PCs, on each Payment Date for such Series, Freddie Mac will be obligated to make principal payments in the manner described below to the Holders of the Multiclass PCs of such Series as to which principal is then due. Each Class of Multiclass PCs of such Series will be fully paid no later than the Final Payment Date for such Class.

The total amount of each principal payment required to be made on the Multiclass PCs on a Payment Date will be equal to the sum of (i) the interest, if any, that has accrued on any Class or Classes of Accrual PCs during the applicable interest accrual period but is not yet payable, and (ii) the Mortgage Security Principal Payment Amount for such Payment Date.

For any Payment Date, the amount of principal to be paid on (or accrued to) any Class of a Series entitled thereto can be calculated by multiplying the original principal amount of such Class by the difference between the Multiclass PC Pool Factors for such Class published in the first and second preceding months.

Principal payments will be made on each Payment Date to the Classes of Regular Class PCs of a Series (on a pro rata basis among the applicable Classes of Regular Class PCs) as provided in the related Offering Circular Supplement.

The Holders of the Residual Class PCs of a Series will be entitled to receive (on a pro rata basis among the Residual Class PCs): (i) on each Payment Date, any payments of principal specified in the related Offering Circular Supplement and (ii) the proceeds of the remaining assets of the Multiclass PC Pool relating to such Series, if any, after the aggregate principal amount of all Classes of Multiclass PCs of such Series has been reduced to zero.

### **Residual Class PCs**

The Residual Class PCs will be subject to certain transfer restrictions. See "Certain Federal Income Tax Consequences—Transfers of Residual Class PCs."

For federal income tax purposes, the Holders of the Residual Class PCs of a Series will be considered to be the holders of the residual interest in the Multiclass PC Pool for such Series. Pursuant to the Multiclass PC Agreement, Freddie Mac will be obligated to provide to such Holders such information as Freddie Mac deems necessary or appropriate to enable them to prepare federal income tax returns and any reports regarding the Multiclass PCs that may be required under the Code or applicable Treasury regulations. Freddie Mac has no present intention to hold the Residual Class PCs of any Series, and applicable law may not permit Freddie Mac to perform tax administrative functions for the Multiclass PC Pool. Accordingly, the Holders of the Residual Class PCs of a Series may have certain tax administrative obligations (for which Freddie Mac will act as attorney-in-fact and agent). See "Certain Federal Income Tax Consequences."

### **Guarantees**

Freddie Mac guarantees to each Holder of a Regular Class PC the timely payment of interest at the applicable Multiclass PC Coupon on such Holder's Multiclass PC, and to each Holder of a Residual Class PC

the timely payment of interest as described in the applicable Offering Circular Supplement. Freddie Mac also guarantees to each Holder the payment of the principal amount of such Holder's Multiclass PC, as payments are required to be made on the Mortgage Securities in the Multiclass PC Pool in accordance with their terms, as described in the related Offering Circular Supplement.

With respect to PCs or ARM PCs either constituting or supporting such Mortgage Securities, Freddie Mac guarantees to each holder thereof the timely payment of interest at the applicable PC interest rate on such holder's pro rata share of the aggregate unpaid principal balance of the related mortgages, as calculated by Freddie Mac under the "Pool Factor method" described in the PC Offering Circular or in the applicable ARM PC Offering Circular, as the case may be. Freddie Mac also guarantees to each such holder ultimate collection of all principal of the related mortgages, without offset or deduction, to the extent of such holder's pro rata share of the unpaid principal balance of such mortgages. See "Description of Mortgage Participation Certificates—Guarantees" in the PC Offering Circular or the discussion of Freddie Mac's guarantees with respect to the ARM PCs in the applicable ARM PC Offering Circular, as the case may be.

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

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

### **Optional Redemption**

Unless otherwise specified in the Offering Circular Supplement relating to a Series, the outstanding Multiclass PCs of such Series may be redeemed in whole, but not in part, at the option of Freddie Mac, upon not less than 30 or more than 60 days' notice, on any Payment Date on or after the date on which, after giving effect to principal payments to be made on the Multiclass PCs of such Series on such date, the aggregate outstanding principal amount of the Multiclass PCs of such Series is less than 1% of the aggregate original principal amount of the Multiclass PCs of such Series. Any such optional redemption will be at a redemption price equal to 100% of the unpaid principal amount of the Multiclass PCs redeemed, plus accrued and unpaid interest for the interest accrual period or periods relating to the applicable Payment Date. In order to effect such an optional redemption, Freddie Mac will liquidate all of the Mortgage Securities in the applicable Multiclass PC Pool, at fair market value as determined by Freddie Mac, and apply the net proceeds of such liquidation (together with funds contributed by Freddie Mac if such net proceeds are insufficient) to pay the redemption price. Following such redemption, any remaining proceeds from the liquidation of the Mortgage Securities in the applicable Multiclass PC Pool (net of liquidation expenses) will be distributed pro rata to the Holders of the Residual Class PCs of such Series upon surrender of their Residual Class PCs to the Registrar. All decisions as to the making of such an optional redemption, including the timing of any such optional redemption, will be at Freddie Mac's sole discretion. Freddie Mac will be under no obligation to any Holder to make an optional redemption, even if such redemption would be in such Holder's interest. Neither PCs nor ARM PCs are subject to redemption by Freddie Mac.

### **Reports to Holders**

Within a reasonable time after the end of each calendar year in the case of Regular Class PCs, and after the end of each calendar quarter in the case of Residual Class PCs, Freddie Mac will furnish to each person or entity that was a Holder at any time during such year or quarter such information as Freddie Mac deems necessary or desirable to enable Holders and beneficial owners of Multiclass PCs to prepare their federal income tax returns.

## **Prepayment Considerations**

The rate of principal payments on the PCs or the ARM PCs constituting or supporting the Mortgage Securities for each Series of Multiclass PCs, and therefore of payments on such Multiclass PCs, is related to the rate of payments of principal on the underlying Mortgages, which may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayments” includes prepayments and liquidations resulting from default, casualty, condemnation and payments made pursuant to any guarantee of payment by Freddie Mac). In general, when the level of prevailing interest rates declines significantly below the interest rates on the underlying Mortgages, the rate of prepayment on such Mortgages is likely to increase, although the prepayment rate is influenced by a number of other factors. See “Description of Mortgage Participation Certificates—Weighted Average Life and Payment Behavior” in the PC Offering Circular or the discussion of the weighted average lives and payment behavior of the ARM PCs in the applicable ARM PC Offering Circular, as the case may be.

Acceleration of mortgage payments as a result of transfers of the mortgaged property is another factor affecting prepayment rates. The Mortgages underlying the PCs generally provide by their terms that, in the event of the transfer or prospective transfer of title to the underlying mortgaged property, the full unpaid principal balance of the Mortgage is due and payable at the option of the holder. As set forth under “Mortgage Purchase and Servicing Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies” in the PC Offering Circular, Freddie Mac requires servicers of the Mortgages to enforce “due-on-transfer” clauses where permitted by applicable law. Unless otherwise stated in an applicable supplement to the applicable ARM PC Offering Circular, all of the Mortgages underlying the ARM PCs provide by their terms that, in the event of the transfer of title to the underlying mortgaged property, such Mortgages are assumable by a creditworthy transferee. If, however, a “due-on-transfer” clause can be exercised under the terms of a Mortgage, Freddie Mac requires servicers to enforce such clauses. See the discussion of mortgage purchase and servicing standards and, in particular, the discussion of assumption and due-on-transfer policies in the applicable ARM PC Offering Circular.

## **Final Payment Dates and Weighted Average Lives of the Multiclass PCs**

The Final Payment Date for each Class of Multiclass PCs in a Series is the date on or before which the final payment of principal thereof will be made, based on the assumptions specified in the Offering Circular Supplement relating to each Series.

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 of such security will be repaid to the investor. The weighted average lives of the Multiclass PCs will be influenced by, among other factors, the rate at which principal is paid on the Mortgages underlying the PCs or ARM PCs that constitute or support the Mortgage Securities for each such Series of Multiclass PCs. Principal payments on such Mortgages may be in the form of scheduled amortization or prepayments.

The Offering Circular Supplement for each Series of Multiclass PCs will contain a table setting forth the weighted average life of each Class of Multiclass PCs of such Series and the percentage of the original principal amount of each Class of Multiclass PCs of such Series that would be outstanding on specified Payment Dates for such Series, on the assumption that prepayments on the Mortgages underlying the Mortgage Securities in the related Multiclass PC Pool are made at such rates and on such other assumptions as may be specified in such Offering Circular Supplement.

## **THE MULTICLASS PC AGREEMENT**

The following summary describes certain provisions of the Multiclass PC Agreement not otherwise summarized in this Offering Circular. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the more complete provisions of the Multiclass PC Agreement and the PC Agreement or the applicable ARM PC Agreement, as the case may be.

## **Transfer of Mortgage Securities to Multiclass PC Pool**

The Mortgage Securities will be identified to the Multiclass PC Pool for each Series. The Mortgage Securities either will be deposited in Freddie Mac's name on the books of a Federal Reserve Bank, if eligible, or otherwise will be held by Freddie Mac or its custodian or other agent for the benefit of the Holders of each related Series of Multiclass PCs pursuant to the Multiclass PC Agreement. Freddie Mac has the limited right to substitute PCs or ARM PCs for PCs or ARM PCs, respectively, originally placed in the Multiclass PC Pool.

## **Certain Matters Regarding Freddie Mac**

The Multiclass PC 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 Multiclass PC 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 Multiclass PC 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 Multiclass PC 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.

The Multiclass PC Agreement will be binding upon and inure to the benefit of any successor to Freddie Mac.

## **Voting Under Any PC Agreement**

To the extent set forth in the PC Agreement or the applicable ARM PC Agreement, the record holders of PCs or ARM PCs, as the case may be, owning a majority of the remaining unpaid principal balance of any affected PC Pool may take certain actions, including termination of certain obligations and duties of Freddie Mac with respect thereto, if an Event of Default under and within the meaning of the applicable Agreement has occurred and is continuing. The Multiclass PC Agreement provides that Holders of Multiclass PCs may, upon the occurrence of an Event of Default with respect to a PC or ARM PC either constituting or supporting a portion of the Mortgage Securities in the related Multiclass PC Pool, take any such action rather than Freddie Mac. For this purpose, the Holders of Multiclass PCs will be deemed the holders of the affected PCs or ARM PCs, as the case may be, in proportion to the outstanding principal amounts of their Multiclass PCs.

As set forth in the PC Agreement and the applicable ARM PC Agreement, the holders of PCs or ARM PCs, as the case may be, owning a majority of the remaining unpaid principal balance of any affected PC Pool may consent to certain amendments to the PC Agreement or the ARM PC Agreement, as applicable. The Multiclass PC Agreement provides that Freddie Mac may consent to such an amendment as to any PC or ARM PC either constituting or supporting a portion of the Mortgage Securities held in the related Multiclass PC Pool so long as such amendment would not adversely affect in any material respect the interests of the Holders of Multiclass PCs. If the amendment would have such effect, Freddie Mac may consent thereto only with the written consent of Holders of Multiclass PCs of each Class so affected representing not less than 50% of the outstanding principal amount thereof.

## **Events of Default**

Events of Default under the Multiclass PC Agreement will consist of (i) any failure by Freddie Mac to pay to Holders of Multiclass PCs of any Class any required payment that continues unremedied for 30 days; (ii) any failure by Freddie Mac duly to observe or perform in any material respect any other of its covenants or agreements in the Multiclass PC Agreement, which failure continues unremedied for 60 days after the giving of notice of such failure to Freddie Mac by the Holders of Multiclass PCs of any Class representing not less

than 60% of the aggregate outstanding principal amount of the Multiclass PCs 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 Multiclass PC Agreement remains unremedied, the Holders of Multiclass PCs of any Class representing not less than 50% of the aggregate outstanding principal amount of the Multiclass PCs of such Class may, in writing, remove Freddie Mac and nominate a successor to Freddie Mac, which 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 thereto, in which case Freddie Mac may petition any court of competent jurisdiction for the appointment of a successor or any Holder who has been a bona fide Holder for at least six months may, on behalf of such Holder and all others similarly situated, petition any such court for appointment of a successor to Freddie Mac. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor to Freddie Mac.

### **Amendment**

The Multiclass PC Agreement may be amended by Freddie Mac, without the consent of any Holder or Holders, (i) to cure any ambiguity, to correct or supplement any provision thereof which may be inconsistent with any other provision thereof, or to make any other provisions with respect to matters or questions arising under the Multiclass PC Agreement that are not inconsistent with the other provisions of the Multiclass PC Agreement, provided that any such amendment shall not adversely affect in any material respect the interest of any Holder; or (ii) to permit Freddie Mac to take any necessary or helpful action to maintain the qualification of any Multiclass PC Pool as a REMIC under the Code or to avoid the imposition of any state or federal tax on the Multiclass PC Pool.

The Multiclass PC Agreement also may be amended by Freddie Mac in any other respect with the consent of the Holders of Multiclass PCs of each affected Class representing not less than 50% of the aggregate outstanding principal amount of the Multiclass PCs of such Class. However, without the consent of a Holder, the Multiclass PC Agreement may not be amended to impair or affect the right of such Holder to receive payment of principal and interest (including any payment under any guarantee in respect thereof) 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.

## **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 Multiclass 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 Multiclass PCs. For purposes of this tax discussion (other than the discussion of information reporting by the Multiclass PC Pool), references to a "purchaser" or a "Holder" mean the beneficial owner of a Multiclass PC. Furthermore, for purposes of this tax discussion, a "Lower Tier REMIC" means a REMIC, the regular interests of which are Funding Notes or Variable Rate Pass-Through Securities.

### **Status of Multiclass PC Pool for Federal Income Tax Purposes**

With respect to each Series of Multiclass PCs, an election will be made to treat the related Multiclass PC Pool as a REMIC within the meaning of Section 860D(a) of the Code. Qualification as a REMIC requires ongoing compliance with certain conditions. With respect to each Series of Multiclass PCs, Cadwalader,

Wickersham & Taft, special counsel to Freddie Mac, has advised Freddie Mac that in the firm's opinion, assuming (i) the making of such an election, (ii) compliance with the Multiclass PC Agreement, (iii) in the case of a Series of Multiclass PCs for which the Multiclass PC Pool consists of Mortgage Securities which are regular interests in a Lower Tier REMIC, compliance with the terms of the purchase agreement relating to such Mortgage Securities and the making of an election to treat the Lower Tier REMIC as a REMIC and (iv) compliance with changes in the law, including any amendments to the Code or applicable Treasury regulations thereunder, the Multiclass PC Pool will qualify as a REMIC. In such case, the Regular Class PCs will be considered to be "regular interests" in the REMIC and generally will be taxed as if they were newly originated debt instruments for federal income tax purposes, and the Residual Class PCs will be considered to be "residual interests" in the REMIC and will be subject to tax rules, described below, that differ from those that would apply if the Residual Class PCs were treated for federal income tax purposes as direct ownership interests in the Mortgages (or in Lower Tier REMIC regular interests, if applicable) or as debt instruments issued by the REMIC.

### **Status of Multiclass PCs**

Multiclass PCs held by a mutual savings bank or a domestic building and loan association will constitute "qualifying real property loans" within the meaning of Code Section 593(d)(1) in the same proportions that the assets of a Multiclass PC Pool would be so treated. Multiclass PCs held by a domestic building and loan association will constitute assets described in Code Section 7701(a)(19)(C) in the proportion that the assets of the REMIC would be treated as assets described in Code Section 7701(a)(19)(C). Multiclass PCs held by a real estate investment trust will constitute "real estate assets" within the meaning of Code Section 856(c)(5)(A), and interest on the Multiclass PCs will be considered "interest on obligations secured by mortgages on real property or on interests in real property" within the meaning of Code Section 856(c)(3)(B) in the same proportion that, for both purposes, the assets and income of the Multiclass PC Pool would be so treated. If at all times 95% or more of the assets of the Multiclass PC Pool qualifies for any of the foregoing treatments, the Multiclass PCs will qualify for the corresponding status in their entirety. In determining the tax status of a Multiclass PC Pool consisting of Mortgage Securities that are regular interests in a Lower Tier REMIC, rules similar to those described above would apply, except that the 95% test would apply only to the Multiclass PC Pool. It is anticipated that the Multiclass PCs will qualify for the foregoing treatments in their entirety. Regular Class PCs will also be "qualified mortgages" within the meaning of Code Section 860G(a)(3) with respect to another REMIC to which they are transferred on or before such other REMIC's startup day.

### **Taxation of Regular Class PCs**

#### *General*

In general, interest, original issue discount, and market discount accrued on a Regular Class PC will be treated as ordinary income to the Holder. Each Holder must use the accrual method of accounting with regard to Regular Class PCs, regardless of the method of accounting otherwise used by such Holder.

#### *Original Issue Discount*

All Accrual PCs will be, and certain other Classes of Regular Class PCs in a Series may be, issued with "original issue discount" within the meaning of Code Section 1273(a). Holders of any Class of Regular Class PCs having original issue discount generally must include original issue discount in income for federal income tax purposes as it accrues, in accordance with a constant interest method that takes into account the compounding of interest, in advance of receipt of the cash attributable to such income. Based in part on proposed Treasury regulations issued on April 2, 1986 under Sections 1271 through 1273 and Section 1275 of the Code (the "Proposed Regulations") and in part on the Tax Reform Act of 1986, (the "1986 Act"), including, where applicable, the intended meaning ascribed to the provisions of the 1986 Act by the Conference Committee Report (the "Committee Report") accompanying the 1986 Act, Freddie Mac anticipates that the amount of original issue discount required to be included in the income of a Holder of a Regular Class PC in any taxable year will be computed as described below.

The total amount of original issue discount on a Regular Class PC is the excess of the “stated redemption price” of the Regular Class PC over its “issue price.” The issue price of a Regular Class PC is the price at which a substantial amount of Regular Class PCs of that Class are first sold to the public. The issue price of a Regular Class PC may also include the amount paid by an initial Holder of a Regular Class PC for accrued interest that relates to a period prior to the issue date of the Regular Class PC. The stated redemption price of an Accrual PC will include all distributions. The stated redemption price of a Regular Class PC (other than an Accrual PC) always includes its original principal amount, but generally does not include distributions of stated interest. If the interval between the date on which the Regular Class PCs are originally issued and the first Payment Date on such Regular Class PCs is longer than the interval between subsequent Payment Dates, however, the Internal Revenue Service could contend that the initial interval should be divided into a short accrual period followed by a period corresponding to the interval between subsequent Payment Dates, and that because no distribution of interest is made on the date the short accrual period ends, all stated interest distributions on such Regular Class PCs are included in the stated redemption price. Accordingly, such Regular Class PCs may be considered to be issued with original issue discount. In general, such treatment would result in more interest on such a Regular Class PC being allocated to this initial interval and less interest being allocated to all subsequent periods.

Under a *de minimis* rule, original issue discount on a Regular Class PC will be considered to be zero if such original issue discount is less than 0.25% of the stated redemption price of the Regular Class PC multiplied by the weighted average maturity of the Regular Class PC. For this purpose, the weighted average maturity of Regular Class PCs is computed as the sum of the amounts determined by multiplying the number of full years (*i.e.*, rounding down partial years) from the issue date until each distribution in reduction of the principal amount of the Regular Class PC is scheduled to be made by a fraction, the numerator of which is the amount of each distribution in reduction of the principal amount of the Regular Class PC and the denominator of which is the stated redemption price of the Regular Class PC. Although not entirely clear, it appears that the schedule of such distributions should be determined in accordance with the assumed rate (or rates, in the case of a Series of Multiclass PCs for which the Multiclass PC Pool consists of Mortgage Securities which are regular interests in more than one Lower Tier REMIC) of prepayment of the PCs or ARM PCs constituting or underlying the Mortgage Securities in the Multiclass PC Pool used in pricing the Regular Class PCs (the “Prepayment Assumption”). The Prepayment Assumption with respect to the Regular Class PCs of a Series will be set forth in the related Offering Circular Supplement. In the case of a Multiclass PC Pool that consists of regular interests in more than one Lower Tier REMIC, the Prepayment Assumption set forth in the related Offering Circular Supplement will equal the initial average of the assumed rates of prepayment of the PCs or ARM PCs underlying the Lower Tier REMICs. No representation is made that the Regular Class PCs will prepay at this rate or at any other rate.

A holder of a Regular Class PC generally must include in gross income for any taxable year the sum of the “daily portions,” as defined below, of the original issue discount on the Regular Class PC accrued during an accrual period for each day on which he holds the Regular Class PC, including the date of purchase, but excluding the date of disposition. With respect to each Regular Class PC, a calculation will be made of the original issue discount that accrues during each successive full accrual period (or shorter period from the date of original issue) that ends on the day in the calendar year corresponding to the Payment Dates on the Regular Class PC. Original issue discount is to be calculated initially based on a schedule of maturity dates that takes into account the Prepayment Assumption. The original issue discount accruing in any accrual period on a Regular Class PC would be the *excess*, if any, of (i) the sum of (a) the present value of all of the remaining distributions to be made on the Regular Class PC as of the end of that accrual period and (b) the distributions made on the Regular Class PC during the accrual period that are included in the Regular Class PC’s stated redemption price at maturity, *over* (ii) the adjusted issue price of the Regular Class PC at the beginning of the accrual period. The present value of the remaining distributions referred to in the preceding sentence is calculated based on (i) the original yield to maturity of the Regular Class PC, (ii) events (including actual prepayments) that have occurred prior to the end of the accrual period, and (iii) the Prepayment Assumption. For these purposes, the original yield to maturity of the Regular Class PC will be calculated based on its issue price and assuming that the Regular Class PC will be prepaid in all periods in accordance with the Prepayment Assumption. The adjusted issue price of a Regular Class PC at the beginning of any accrual

period equals the issue price of the Regular Class PC, increased by the aggregate amount of original issue discount with respect to the Regular Class PC that accrued in all such prior periods and reduced by the amount of distributions included in the Regular Class PC's stated redemption price at maturity that were made on the Regular Class PC in such prior periods. The original issue discount accruing during any accrual period 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.

Under the method described above, the daily portions of original issue discount required to be included in income by a Holder of a Regular Class PC generally will increase to take into account prepayments on the PCs or ARM PCs constituting or underlying the Mortgage Securities in the Multiclass PC Pool that exceed the Prepayment Assumption, and generally will decrease (but not below zero for any period) if the prepayments on such PCs or ARM PCs are slower than the Prepayment Assumption.

A purchaser of a Regular Class PC at a price less than its stated redemption price also will be required to include in gross income the daily portions of the original issue discount on the Regular Class PC. If the cost of the Regular Class PC to such a subsequent purchaser is greater than its "revised issue price," however, the daily portion for any day is reduced by the amount that would be the daily portion for such day (computed in accordance with the rules set forth above) multiplied by a fraction, the numerator of which is the amount by which the price paid by such purchaser for the Regular Class PC exceeds the revised issue price and the denominator of which is the sum of the daily portions for such Regular Class PC (computed in accordance with the rules set forth above) for all days after the date of purchase. The revised issue price of a Regular Class PC on any given day is equal to the sum of its adjusted issue price at the beginning of the accrual period during which such day occurs and the daily portions of original issue discount for all days during such accrual period prior to such day.

#### *Market Discount*

A purchaser of a Regular Class PC also may be subject to the market discount rules. Market discount is the amount by which the purchaser's basis in the Regular Class PC (i) is exceeded by the stated redemption price of the Regular Class PC (less any prior distributions included in the stated redemption price), or (ii) in the case of a Regular Class PC having original issue discount, is exceeded by the revised issue price. Such purchaser generally will be required to recognize accrued market discount as ordinary income as distributions includable in the stated redemption price of such Regular Class PC are received, in an amount not exceeding any such distribution. Such market discount would accrue in a manner to be provided in Treasury regulations and should take into account the Prepayment Assumption. The Committee Report provides that until such regulations are issued, such market discount would accrue either (i) on the basis of a constant interest rate (similar to the method described above for accruing original issue discount), or (ii) in the ratio of stated interest distributable in the relevant period to the total stated interest remaining to be distributed from the beginning of such period (computed taking into account the Prepayment Assumption), or in the case of a Regular Class PC issued with original issue discount, in the ratio of original issue discount accrued for the relevant period to the total remaining original issue discount at the beginning of such period. Such purchaser also generally will be required to treat a portion of any gain on a sale or exchange of the Regular Class PC as ordinary income to the extent of the market discount accrued, but unrecognized, to the date of disposition under one of the foregoing methods. As an alternative to the inclusion of market discount in income on the foregoing basis, the Holder may elect to include market discount in income currently as it accrues on all market discount instruments acquired by such Holder in that taxable year or thereafter.

In addition, deductions for a portion of a Holder's interest expense attributable to any indebtedness incurred or continued to purchase or carry the Regular Class PC purchased with market discount may be deferred. The deferred portion would not exceed the portion of market discount which accrues but which is not taken into account currently. Any such deferred interest expense is, in general, allowed as a deduction not later than the year in which the related market discount income is recognized.

Market discount with respect to a Regular Class PC will be considered to be zero if such market discount is less than 0.25% of the remaining stated redemption price at maturity of such Regular Class PC, multiplied

by the weighted average maturity of the Regular Class PC (determined as described above in the fourth paragraph under "Original Issue Discount") remaining after the date of purchase. Treasury regulations implementing the market discount rules have not yet been issued, and therefore investors should consult their own tax advisors regarding the application of these rules as well as the advisability of making any of the elections with respect thereto.

#### *Premium*

A Regular Class PC, other than an Accrual PC, purchased at a cost (net of accrued interest) greater than its principal amount generally is considered to be purchased at a premium. The Holder may elect under Code Section 171 to amortize such premium under the constant interest method, using the Prepayment Assumption. Such premium is generally treated as an offset to the amount of interest income from a Regular Class PC, rather than as a separate interest deduction. In addition, though not set forth in the Code, the Committee Report indicates a Congressional intent that the methods for determining the accrual of market discount described above which are alternatives to accrual on the basis of a constant interest rate will also apply for purposes of amortizing bond premium under Code Section 171 on obligations such as the Regular Class PCs. If a Holder's election to amortize bond premium was effective as of October 22, 1986, such election will apply to obligations issued after September 27, 1985 only if the Holder so chooses.

#### *Variable and Inverse Variable Rate PCs*

Regular Class PCs may provide for interest based on a variable rate, such as Variable Rate PCs or Inverse Variable Rate PCs. Although not entirely clear, it is likely that the rules of the Code relating to original issue discount, market discount and premium would be applied to such a Regular Class PC by assuming that such Regular Class PC will bear interest in all periods after the first Payment Date at a fixed rate assuming the variable rate remains constant at its value as of the date of initial issuance (or possibly as of the pricing date of such Regular Class PC). If the interest that actually accrues in any accrual period differs from the assumed rate, then an adjustment would be made in the income for the period to reflect the actual rate. Absent clarification, original issue discount will be reported to the Internal Revenue Service and to Holders of Regular Class PCs in this manner using the Prepayment Assumption.

### **Taxation of Residual Class PCs**

#### *Taxation of REMIC Income*

Generally, the "daily portions" of REMIC taxable income or net loss will be treated as ordinary income or loss for original Holders of Residual Class PCs ("Residual Holders"). The daily portions of REMIC taxable income or net loss for a Residual Holder are determined by allocating the REMIC's taxable income or net loss for each calendar quarter ratably to each day in such quarter and by allocating such daily portion among the Residual Holders in proportion to their respective holdings of Residual Class PCs in the REMIC on such day. REMIC taxable income is generally determined in the same manner as the taxable income of an individual (and subject to clarification in Treasury regulations in certain respects); however, REMIC taxable income must be determined under the accrual method of accounting. REMIC taxable income generally means the REMIC's gross income, including interest, original issue discount income and market discount income, if any, on the PCs, ARM PCs or Lower Tier REMIC regular interests owned by the REMIC, minus deductions, including interest and original issue discount expense on the Multiclass PCs, servicing fees on the PCs or ARM PCs (or the REMIC's allocable portion thereof if the REMIC holds Lower Tier REMIC regular interests) and the Multiclass PC Pool, other administrative expenses, and deduction or amortization of premium, if any, with respect to the PCs, ARM PCs or Lower Tier REMIC regular interests.

A Holder of a Residual Class PC (other than an original Holder) also will be required to report on its federal income tax returns amounts representing a daily share of the taxable income of the REMIC for each day that such Holder owns a Residual Class PC. Those daily amounts generally would equal the amounts that would have been reported for the same days by an original Holder, as described above. The legislative history of the 1986 Act indicates that Congress may subsequently re-examine the REMIC provisions and provide that

adjustments are appropriate to reduce (or increase) the income of a subsequent Holder that purchased such Residual Class PC at a price greater than (or less than) the adjusted basis such Residual Class PC would have in the hands of an original Holder. For the present, however, adjustments are apparently not permitted or required.

In the case of a REMIC that holds PCs or ARM PCs, the taxable income recognized by a Residual Holder may also be greater in earlier years because the REMIC will use a constant yield in computing income from the Mortgages and interest deductions with respect to Regular Class PCs, expressed as a percentage of the outstanding principal amount of the Regular Class PCs, may increase over time as earlier Classes are paid. This method of taxation of Residual Class PCs can produce a significantly lower after-tax yield for a Residual Class PC than if it were taxed as a debt instrument.

A Holder of a Residual Class PC will not be permitted to amortize the cost of its Residual Class PC as an offset to its share of the taxable income of the REMIC. However, that taxable income will not include cash received by the REMIC that represents a recovery of the REMIC's basis in its assets, and, as described above, REMIC's initial basis in its assets equals the aggregate issue prices (*i.e.*, fair market values) of the Multiclass PCs. Such recovery of basis by the REMIC will have the effect of amortization of the issue price of the Residual Class PCs over their life. However, in view of the possible acceleration of the income of Holders of the Residual Class PCs described in the immediately preceding paragraph, the period of time over which such issue price is effectively amortized may be longer than the economic life of the Residual Class PCs. **The method of taxation of the Residual Class PCs described in this section can produce a significantly lower after-tax yield for the Residual Class PCs than would be the case if the Residual Class PCs were treated for federal income tax purposes as direct interests in the Mortgages or as debt instruments issued by the REMIC.**

#### *Losses*

The amount of any net loss of the REMIC that may be taken into account by a Residual Holder is limited to the adjusted basis of the Residual Class PC as of the close of the calendar quarter (or time of disposition of the Residual Class PC, if earlier), determined without taking into account the net loss for the quarter. Any loss that is disallowed on account of this limitation may be carried over indefinitely by the Residual Holder for whom such loss was disallowed, but only to offset any taxable income generated by the same REMIC.

#### *Treatment of Certain Items of REMIC Income and Expenses*

**Original Issue Discount.** Generally, the REMIC's inclusions of original issue discount with respect to Mortgage Securities will be determined in accordance with the rules described above under "Taxation of Regular Class PCs—Original Issue Discount." The REMIC's deductions for original issue discount with respect to Multiclass PCs will be determined in the same manner, except without regard to the *de minimis* rule or the adjustments for subsequent Holders described therein.

**Market Discount.** In the case of a REMIC that holds PCs or ARM PCs, the REMIC will have market discount income in respect of the Mortgages underlying such PCs or ARM PCs held by the REMIC if, in general, the basis of the REMIC allocable to such Mortgages is exceeded by their revised issue prices. The REMIC's basis in such Mortgages is their fair market value immediately after their transfer to the REMIC (which will equal the aggregate initial fair market value of the Multiclass PCs) or at a time prior to such transfer (*e.g.*, reflecting the REMIC's cost of the Mortgages) as may be provided in Treasury regulations yet to be issued. In respect of Mortgages described above which have market discount to which Code Section 1276 applies, such market discount would be recognized in the same fashion as if it were original issue discount. It is not anticipated that a REMIC which holds Lower Tier REMIC regular interests will have market discount income in respect of such regular interests.

**Premium.** Generally, if the basis of the REMIC in Lower Tier REMIC regular interests or in Mortgages underlying a PC or ARM PC held by the REMIC exceeds the unpaid principal balances of the Lower Tier REMIC regular interests or the Mortgages, the REMIC will be considered to have acquired such

Lower Tier REMIC regular interests or Mortgages at a premium equal to the amount of such excess. As described above under "Taxation of Regular Class PCs—Premium," a REMIC which holds Lower Tier REMIC regular interests or Mortgages may elect under Code Section 171 to amortize premium on the Lower Tier REMIC regular interests or Mortgages described above, under a constant interest rate method, using a prepayment assumption. In the case of a REMIC that holds PCs or ARM PCs, substantially all of the mortgagors on the Mortgages described above are expected to be individuals and Code Section 171 will not be available for premium on Mortgages originated on or prior to September 27, 1985. Premium with respect to such Mortgages may be deductible, in accordance with a reasonable method regularly employed by the REMIC. The allocation of such premium pro rata among principal payments or on the basis of a constant interest rate should be considered a reasonable method.

#### *Limitations on Offset or Exemption of REMIC Income*

A portion of the REMIC taxable income includable in determining the federal income tax liability of a Residual Holder will be subject to federal income tax in all events. That portion, referred to as the "excess inclusion," is equal to the excess of REMIC taxable income for the calendar quarter allocable to a Residual Class PC over the daily accruals for such quarterly period, which are equal to the product of (i) 120% of the long-term federal rate that would have applied to the Residual Class PC (if it were a debt instrument) on the Startup Day under Code Section 1274(d), and (ii) the adjusted issue price of such Residual Class PC at the beginning of such quarter. The adjusted issue price of a Residual Class PC at the beginning of a quarter is the issue price of the Residual Class PC, plus the amount of the daily accruals of REMIC income for all prior quarters, decreased (but not below zero) by any distributions made with respect to such Residual Class PC prior to the beginning of such quarter.

The portion of a Residual Holder's REMIC taxable income consisting of the "excess inclusion" may not be offset by unrelated losses or loss carryforwards of a Residual Holder. An exception applies to certain thrift institutions, but the Treasury Department has the authority to issue regulations providing that this exception will not apply to the extent necessary or appropriate to prevent avoidance of tax. This exception may not apply if the aggregate value of the Residual Class PCs is not considered to be "significant" as described below. Further, a Residual Holder's excess inclusion is treated as unrelated business taxable income for an organization subject to the tax on unrelated business income. In addition, under Treasury regulations yet to be issued, if a real estate investment trust, regulated investment company, or certain pass-thru entities own a Residual Class PC, a portion of distributions made by such entities would constitute excess inclusions.

If the aggregate value of the Residual Class PCs is not considered to be significant, then to the extent provided in Treasury regulations a Residual Holder's entire share of REMIC taxable income will be treated as an excess inclusion subject to the foregoing limitations. Such regulations may apply to Multiclass PCs issued before such regulations are issued. The Committee Report states the intention that Treasury regulations yet to be issued would take into account the value of the Residual Class PCs relative to the aggregate value of the Multiclass PCs and that the value of the Residual Class PCs would be considered significant in cases where such value is at least two percent of the aggregate value of the Multiclass PCs. Such regulations could provide, however, that this significant value test is a continuing or annual test so that a Residual Holder's entire share of REMIC taxable income for any year will be treated as excess inclusion if the relative value of the Residual Class PCs at the time is not significant.

The Offering Circular Supplement will set forth the anticipated value of the Residual Class PCs relative to the aggregate value of the Multiclass PCs on the Startup Day.

#### *Prohibited Transactions*

Income from certain transactions by the REMIC, called prohibited transactions, will not be part of the calculation of income or loss includable in the federal income tax returns of Residual Holders, but rather will be taxed directly to the REMIC at a 100% rate. Prohibited transactions generally include (i) the disposition of qualified mortgages other than pursuant to a (a) substitution for a defective mortgage within two years or for any qualified mortgage within three months of the Startup Day, (b) repurchase of a defective mortgage,

(c) foreclosure, default, or imminent default of a qualified mortgage, (d) bankruptcy or insolvency of the REMIC or (e) qualified (complete) liquidation, (ii) the receipt of income from assets that are not the type of mortgage loans or investments that the REMIC is permitted to hold, (iii) the receipt of compensation for services, or (iv) the receipt of gain from disposition of cash flow investments other than pursuant to a qualified (complete) liquidation. Where the REMIC holds PCs or ARM PCs, it is uncertain whether for the foregoing purposes, the qualified mortgages held by the REMIC are the PCs or ARM PCs themselves or the Mortgages underlying such PCs or ARM PCs. Because of Freddie Mac's guarantee, in the event such tax is imposed on a REMIC, payments of principal and interest on the Multiclass PCs will not be affected.

### **Sale or Exchange of Multiclass PCs**

If a Holder sells or exchanges a Multiclass PC, the Holder will recognize gain or loss equal to the difference between the amount received and his adjusted basis in the Multiclass PC (except that, in the case of a sale of a Residual Class PC, a loss may be deferred under the "wash sale" rules described below). The adjusted basis of a Multiclass PC generally will equal the cost of the Multiclass PC to the seller, increased by income previously included by the seller with respect to the Multiclass PC, and reduced (but not below zero) by the distributions previously received by the seller and by any amortized premium, in the case of a Regular Class PC, or net losses allowed as a deduction, in the case of a Residual Class PC.

Except as described above with respect to market discount, and except as provided in this paragraph, any gain or loss on the sale or exchange of a Regular Class PC realized by an investor who holds the Regular Class PC as a capital asset will be capital gain or loss and will be long-term or short-term depending on whether the Regular Class PC has been held for the long-term capital gain holding period (more than one year). Multiclass PCs will be "evidences of indebtedness" within the meaning of Code Section 582(c)(1), so that gain or loss recognized from the sale of a Multiclass PC by a bank or thrift institution to which such section applies would be ordinary income or loss. Gain from the disposition of a Regular Class PC that might otherwise be capital gain will be treated as ordinary income to the extent such gain does not exceed the excess, if any, of (i) the amount that would have been includable in the gross income of the Holder if his yield in such Regular Class PC were 110% of the applicable federal rate under Code Section 1274(d) as of the date of purchase, over (ii) the amount of income actually includable in the gross income of such Holder with respect to the Regular Class PC. Under the 1986 Act, the preferential rates applicable to long-term capital gains generally have been eliminated with respect to taxable years of individuals beginning after December 31, 1987 and after June 30, 1987 in the case of corporations.

Whether the termination of the REMIC will be treated as a sale or exchange of a Holder's Residual Class PC is not clear; if it is, and if the Residual Holder has an adjusted basis in his Residual Class PC remaining when his interest in the REMIC terminates, and if he holds such Residual Class PC as a capital asset under Code Section 1221, then he will recognize a capital loss at the time in the amount of such remaining adjusted basis.

Except as provided in Treasury regulations, the wash sale rules of Code Section 1091 will apply to dispositions of Residual Class PCs where the seller of the interest, during the period beginning six months before the sale or disposition of the residual interest and ending six months after such sale or disposition, acquires (or enters into any other transaction that results in the application of Code Section 1091) any residual interest in any REMIC or any interest in a "taxable mortgage pool" (such as a non-REMIC owner trust) that is economically comparable to a Residual Class PC.

### **Transfers of Residual Class PCs**

If a Residual Class PC is transferred to a "disqualified organization" (as defined below), a tax would be imposed in an amount equal to the product of (i) the present value of the total anticipated excess inclusions with respect to such Residual Class PC for periods after the transfer (as calculated in accordance with Treasury regulations) and (ii) the highest marginal federal income tax rate applicable to corporations. Such a tax would generally be imposed on the transferor of the Residual Class PC, except that where such transfer is through an agent for a disqualified organization, the tax would instead be imposed on such agent. However, a

transferor of a Residual Class PC would in no event be liable for such tax with respect to a transfer if the transferee furnishes to the transferor an affidavit that the transferee is not a disqualified organization and, as of the time of the transfer, the transferor does not have actual knowledge that such affidavit is false.

In addition, if a "pass-thru entity" (as defined below) includes in income excess inclusions with respect to a Residual Class PC during a taxable year and a disqualified organization is the record holder of an interest in such entity, then a tax will be imposed on such entity equal to the product of (i) the amount of excess inclusions on the Residual Class PC that are allocable to the interest in the pass-thru entity held by such disqualified organization and (ii) the highest marginal federal income tax rate imposed on corporations. However, such tax will not apply if the pass-thru entity receives an affidavit that the record holder is not a disqualified organization and does not have actual knowledge that such affidavit is false.

For these purposes, (a) "disqualified organization" means the United States, any state or political subdivision thereof, any foreign government, any international organization, any agency or instrumentality of any of the foregoing, certain organizations which are exempt from taxation under the Code (including tax on excess inclusions) and certain corporations operating on a cooperative basis and (b) "pass-thru entity" means any regulated investment company, real estate investment trust, common trust fund, partnership, trust or estate and certain corporations operating on a cooperative basis. Except as may be provided in Treasury regulations, any person holding an interest in a pass-thru entity as a nominee for another will, with respect to such interest, be treated as a pass-thru entity.

The Multiclass PC Agreement will provide that record ownership of a Residual Class PC may not be transferred unless (a) the proposed transferee provides to Freddie Mac (i) an affidavit to the effect that such transferee is not a disqualified organization and is not purchasing such Multiclass PC on behalf of a disqualified organization and (ii) if requested by Freddie Mac, an opinion of counsel to the effect that the proposed transfer will not cause such Residual Class PC to be held by a disqualified organization, or (b) Freddie Mac consents to such transfer. Moreover, the Multiclass PC Agreement will provide that any attempted or purported transfer in violation of these transfer restrictions will be null and void and will vest no rights in any purported transferee.

#### **Administrative Matters**

For purposes of the administrative provisions of the Code, each Multiclass PC Pool will be treated as a partnership and Residual Holders will be treated as partners. Each Multiclass PC Pool must file federal information returns (Form 1066, U.S. Real Estate Mortgage Investment Conduit Income Tax Return). Freddie Mac will prepare, sign and file federal income tax returns for each Multiclass PC Pool. To the extent allowable, Freddie Mac will also act as the tax matters person for each Multiclass PC Pool. Each Owner of a Residual Class PC, by the acceptance of its Residual Class PC, agrees that Freddie Mac will act as its fiduciary in the performance of any duties required of it in the event that it is the tax matters person.

#### **Treatment of Servicing Compensation**

An investor who is an individual, estate, or trust will be subject to limitation with respect to certain itemized deductions described in Code Section 67, to the extent that such deductions, in the aggregate, do not exceed two percent of the investor's adjusted gross income. In the case of a REMIC that holds PCs or ARM PCs, such deductions will include servicing compensation for the related Series, or servicing fees paid to the servicer of the Mortgages underlying the PCs or ARM PCs in the Multiclass PC Pool, or to Freddie Mac as guarantor of the PCs or ARM PCs. Where the REMIC holds Lower Tier REMIC regular interests, such deductions will include the REMIC's allocable share of such fees and compensation with respect to each of the Lower Tier REMIC regular interests in the Multiclass PC Pool. The Treasury Department issued temporary regulations on March 4, 1988 pertaining to certain REMIC information reporting requirements (the "Temporary Regulations"). These regulations clarified the allocation of deductions described in Code Section 67. Under these regulations, such deductions will be allocated entirely to the Holders of the Residual Class PCs in the case of REMICs with multiple classes of interests that pay their principal amounts sequentially. As a result, the REMIC will report additional taxable income to Holders of such Multiclass PCs

in an amount equal to their allocable share of such servicing compensation, and individuals, estates, or trusts holding Multiclass PCs may have taxable income in excess of the cash received. In cases involving single-class arrangements, the Temporary Regulations provide that such deductions will be allocated proportionately among Regular and Residual Class PCs.

## **Taxation of Certain Foreign Investors**

### *Regular Class PCs*

Interest, including original issue discount, distributable to holders of Regular Class PCs who are non-resident aliens, foreign corporations or other non-U.S. persons ("foreign persons"), will be considered "portfolio interest" and, therefore, generally will not be subject to 30% United States withholding tax provided that such foreign person (i) is not a "10-percent shareholder", within the meaning of Code Section 871(b)(3)(B) or a controlled foreign corporation described in Code Section 881(c)(3)(C), (ii) 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) provides an appropriate statement, signed under penalties of perjury, identifying the beneficial owner and stating, among other things, that the beneficial owner of the Regular Class PC is a foreign person. If such statement is not provided, 30% withholding will apply unless reduced or eliminated pursuant to an applicable tax treaty or unless the interest is effectively connected with the conduct of a trade or business within the United States by such foreign person. In the latter case, such foreign person will be subject to United States federal income tax at regular rates. Holders of Regular Class PCs who are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Regular Class PC.

### *Residual Class PCs*

Amounts paid to Residual Holders who are foreign persons are treated as interest for purposes of 30% (or lower treaty rate) United States withholding tax. It is presently unclear whether such interest could qualify as "portfolio interest." If such treatment is unavailable, such amounts will be taken into account for purposes of withholding only when paid or otherwise distributed (or when the Residual Class PC is disposed of) under rules similar to withholding upon disposition of debt instruments that have original issue discount. However, the Code grants the Treasury Department authority to issue regulations requiring the amount includable be taken into account earlier than otherwise provided where necessary to prevent avoidance of tax. The Committee Report indicates the intention that this latter rule should apply where the Residual Class PCs do not have significant value. Further, a Residual Holder will not be entitled to any exemption from the 30% withholding tax or a reduced treaty rate to the extent of that portion of REMIC taxable income that constitutes an "excess inclusion." See "Taxation of Residual Class PCs—Limitations on Offset or Exemption of REMIC Income." Holders of Residual Class PCs who are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Residual Class PC.

## **Backup Withholding**

Distributions made on the Multiclass PCs and proceeds from the sale of Multiclass PCs to or through certain brokers may be subject to a "backup" withholding tax of 20% of "reportable payments" (including interest accruals, original issue discount, and, under certain circumstances, distributions in reduction of principal amount) unless, in general, the Holder of the Multiclass PCs complies with certain reporting and/or certification procedures or is an exempt recipient under applicable provisions of the Code. Any amounts so withheld from distributions on the Multiclass PCs would be refunded by the Internal Revenue Service or allowed as a credit against the Holder's federal income tax.

## **Reporting Requirements**

Reports will be made annually to the Internal Revenue Service and to Holders of record of Regular Class PCs that are not excepted from the reporting requirements as may be required with respect to amounts treated as interest or original issue discount for federal income tax purposes accrued on the Regular Class PCs and

with respect to information necessary to compute the accrual of any market discount or the amortization of any premium on the Regular Class PCs. The Treasury Department has the authority to issue regulations requiring more detailed or more frequent reporting.

The Internal Revenue Service has released Form 1066, U.S. Real Estate Mortgage Investment Conduit Income Tax Return and accompanying Schedule Q, Quarterly Notice to Residual Interest Holders of REMIC Taxable Income or Net Loss Allocation. The Temporary Regulations generally require that Schedule Q be furnished by the REMIC to each Residual Holder no later than the last day of the month following the close of each calendar quarter in which the REMIC is in existence. In addition, under the Temporary Regulations, information must be furnished quarterly to Holders of Residual Class PCs, furnished annually to Holders of Regular Class PCs, and filed annually with the Internal Revenue Service concerning the percentage of the REMIC's assets meeting the qualified asset tests described above under "Status of Multiclass PCs."

The Temporary Regulations provide that a Holder of a Residual Class PC is not required to treat items on its return consistently with their treatment on the REMIC's return if a Holder owns 100% of the Residual Class PCs for the entire calendar year. Otherwise, each Holder of a Residual Class PC is required to treat items on its returns consistently with their treatment of the REMIC's return, unless the Holder of a Residual Class PC either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the REMIC. The Internal Revenue Service may assess a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the REMIC level. The REMIC does not intend to register as a tax shelter pursuant to Code Section 6111 because it is not anticipated that the REMIC will have a net loss for any of the first five taxable years of its existence. Any person that holds a Residual Class PC as a nominee for another person may be required to furnish the REMIC, in a manner to be provided in Treasury regulations, with the name and address of such person and other information.

#### ERISA CONSIDERATIONS

The Department of Labor issued a final regulation on November 13, 1986, which provides that if an employee benefit plan ("plan") subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), acquires a "guaranteed governmental mortgage pool certificate" then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA and the Code, the plan's assets include the certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the plan's holding of such certificate, include any of the mortgages underlying such certificate. Under the regulation, the term "guaranteed governmental mortgage pool certificate" is specifically defined to include a certificate "backed by, or evidencing an interest in, specified mortgages or participation interests therein" and with respect to which interest and principal payable pursuant to the certificate are guaranteed by Freddie Mac. The effect of such regulations is to make clear that the sponsor (that is, the entity that organizes and services the pool, in this case Freddie Mac) and other persons, in providing services with respect to the assets in the pool, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, merely by reason of the plan's investment in a certificate. At the time this Labor Department regulation was originally issued, certificates similar to Multiclass PCs were not in existence. However, Freddie Mac has been advised by its counsel, Cadwalader, Wickersham & Taft, that the Multiclass PCs should qualify as "guaranteed governmental mortgage pool certificates."

The purchase of a Residual Class PC, which is a REMIC residual interest, by a plan may give rise to "unrelated business taxable income" as described in Sections 511 through 515 and Section 860E of the Code. See "Certain Federal Income Tax Consequences—Taxation of Residual Class PCs—Limitations on Offset or Exemption of REMIC Income."

## LEGALITY OF INVESTMENT

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

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

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

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

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

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

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

In addition to the specific authorizations discussed above, pursuant to Section 106 of the Secondary Mortgage Market Enhancement Act of 1984, any person, trust, corporation, partnership, association, business trust or business entity created pursuant to or existing under the laws of the United States or any state (including the District of Columbia and Puerto Rico) is authorized to purchase, hold and invest in Multiclass PCs to the same extent that the investor is authorized to purchase, hold or invest in obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Prior to October 4, 1991, a state may enact legislation which specifically refers to Section 106 and either prohibits or limits an investor's authority to invest in Multiclass PCs. To Freddie Mac's knowledge, no state has enacted any such legislation. The enactment by any state of legislation which prohibits or limits authority to invest in Multiclass PCs will not affect the validity of any contractual commitment to purchase, hold or invest in Multiclass PCs made prior to the date of enactment, and such legislation cannot require the sale or other disposition of any Multiclass PCs acquired prior to the date of enactment.

## REGULATORY CONSTRAINTS

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

Special restrictions or prohibitions may also apply to investments by certain investors in Interest Only PCs, Principal Only PCs, Residual Class PCs and other Classes of Multiclass PCs. Any financial institution which is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board ("FHLBB"), the National Credit Union Administration or other agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing Multiclass PCs. The Federal Home Loan Bank System's Office of Regulatory Activities has recently issued a bulletin, entitled "Mortgage

Derivative Products and Mortgage Swaps.” The bulletin establishes guidelines for the investment by federally chartered or FSLIC-insured savings institutions in certain “high-risk” derivative mortgage-backed securities and limitations on the use of such securities by insolvent, undercapitalized or otherwise “troubled” institutions. Such “high-risk” derivative mortgage-backed securities include Interest Only PCs, Principal Only PCs, Inverse Variable Rate PCs, Residual Class PCs and Classes of Multiclass PCs of a Series that are particularly sensitive to mortgage principal prepayments due to the presence of one or more Classes of Planned Amortization PCs or Targeted Amortization PCs in such Series. In addition, the Federal Home Loan Bank of Chicago has issued a supervisory bulletin regarding the purchase of such securities.

Depository institutions should review and consider the applicability of the Federal Financial Institutions Examination Council’s Supervisory Policy Statement on the Selection of Securities Dealers and Unsuitable Investment Practices which, among other things, sets forth guidelines for investing in certain types of mortgage-related securities, including securities such as the Multiclass PCs.

Institutions whose investment activities are subject to review by certain regulatory authorities may hereafter become subject to restrictions, which may be retroactively imposed by such regulatory authorities, on investment by such institutions in certain types of Multiclass PCs. Furthermore, certain state regulators have indicated that regulated institutions subject to their jurisdiction should not hold so-called “interest only” mortgage-backed securities, including “interest only” mortgage-backed securities previously purchased.

### **FEDERAL SECURITIES LAWS**

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

### **DISTRIBUTION ARRANGEMENTS**

Each Series of Multiclass PCs will be offered pursuant to the terms set forth in the related Offering Circular Supplement.

**Federal Home Loan Mortgage Corporation**  
**MULTICLASS MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT**  
**(Guaranteed)**

**AGREEMENT** dated as of December 12, 1988 among the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Holders (as herein defined) of Multiclass Mortgage Participation Certificates (Guaranteed) ("Multiclass PCs").

Whereas:

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

(b) Pursuant to Section 305 of the Act, Freddie Mac from time to time (i) purchases Mortgages (as herein defined), all of which are identified in the records maintained by Freddie Mac and (ii) creates undivided interests in the Mortgages so acquired, sells and transfers such undivided interests by the sale of Mortgage Participation Certificates (Guaranteed) ("PCs") or Adjustable Rate Mortgage Participation Certificates (Guaranteed) ("ARM PCs"), and guarantees the payment of interest and principal for the benefit of the holders of such PCs or ARM PCs, all as provided in Freddie Mac's Mortgage Participation Certificate Agreement as in effect from time to time (the "PC Agreement") or the applicable Adjustable Rate Mortgage Participation Certificate Agreement as in effect from time to time (each, an "ARM PC Agreement"), as the case may be; and

(c) Freddie Mac may from time to time retain, or reacquire and hold, certain PCs or ARM PCs, form one or more discrete pools of Mortgage Securities (as defined herein) consisting of or supported by such PCs or ARM PCs ("Multiclass PC Pools"), create Regular Interests and Residual Interests (as herein defined) in such Multiclass PC Pools, sell and transfer such Regular Interests and Residual Interests to Holders by the sale of Multiclass PCs, and guarantee the payment of interest on and principal of such Multiclass PCs for the benefit of Holders, all as and to the extent herein more fully provided.

**NOW, THEREFORE**, in consideration of the premises and mutual covenants herein contained, it is hereby agreed that the following terms and conditions of this Agreement (including, as to each Multiclass PC Pool, the related Terms Supplement) shall govern the creation by Freddie Mac of Regular Interests and Residual Interests in Multiclass PC Pools, the transfer, sale and assignment of such Regular Interests and Residual Interests represented by Multiclass PCs, and the rights and obligations of Freddie Mac and Holders with respect to the Multiclass PCs.

**ARTICLE I**

**Definitions**

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

*Accrual PC*: A Multiclass PC on which interest accrues and is added to the principal amount of such Multiclass PC upon the terms and to the extent specified in the applicable Terms Supplement.

*Agreement*: This Multiclass Mortgage Participation Certificate Agreement (including, with respect to each Multiclass PC Pool, the related Terms Supplement), as it may be amended or supplemented from time to time.

**ARM PC:** An Adjustable Rate Mortgage Participation Certificate (Guaranteed) created and sold pursuant to an ARM PC Agreement, representing an undivided interest in a pool of Mortgages.

**ARM PC Agreement:** Any of Freddie Mac's Adjustable Rate Mortgage Participation Certificate Agreements, as in effect from time to time.

**ARM PC Agreement Default:** With respect to any ARM PC Agreement, an "Event of Default" as defined therein.

**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, which entry in the case of a Multiclass PC includes, but is not limited to, the name of the Holder, the original principal amount and the Class of the Multiclass PC owned by such Holder, the CUSIP Number and the Final Payment Date applicable to such Class and (ii) is evidenced only by such entry and is not evidenced by a certificated security.

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

**Business Day:** A day other than (i) a Saturday or Sunday, (ii) a day on which the Federal Reserve Bank of New York (or other agent acting as Freddie Mac's fiscal agent) or, as to Multiclass 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 Multiclass 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, (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.

**Class or Class of PCs:** All of the Multiclass PCs that together represent one of the Regular Interests in a particular Multiclass PC Pool or all of the Multiclass PCs that together represent the Residual Interest in such Multiclass PC Pool. All Regular Class PCs issued in respect of a Multiclass PC Pool that have the same Final Payment Date, the same Multiclass PC Coupon and the same method or schedule for the payment of principal shall constitute a single Class, and all Residual Class PCs issued in respect of a Multiclass PC Pool shall constitute a single Class. As to each Multiclass PC Pool, the designations, Original Principal Amounts (if any), Multiclass PC Coupons (if any) and other specific characteristics of each Class of Multiclass PCs shall be as set forth in the related Terms Supplement.

**Code:** The Internal Revenue Code of 1986, as in effect from time to time.

**CUSIP Number:** A unique nine-character designation assigned by the CUSIP Service Bureau to each Class of Multiclass PCs representing interests in a Multiclass PC Pool.

**Deposit Period:** With respect to each Payment Date, the period beginning immediately following the preceding Deposit Period (or, in the case of the Deposit Period that is applicable to the first Payment Date, beginning on the first day of the month in which such first Payment Date occurs) and ending at the close of business on such Payment Date.

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

**Final Payment Date:** As to each Class of Multiclass PCs, the Payment Date, determined by Freddie Mac and set forth in the applicable Terms Supplement, on or before which the final payment of any principal due on such Class will be made.

**Funding Note:** A debt obligation representing all or a portion of the "regular interest" in a REMIC, which obligation is secured by either PCs or ARM PCs and provides for Freddie Mac to receive payments on such PCs or ARM PCs in such amounts as are necessary to amortize the principal amount of, and pay accrued interest on, such debt obligation.

*Holder:* In the case of a Multiclass PC in Book-Entry Form, the entity which maintains an account with a Federal Reserve Bank and whose name appears on the books and records of such Federal Reserve Bank as the entity for whose account such Regular Class PC has been deposited; in the case of a Multiclass PC in certificated form, the person or entity whose name appears on the books and records of the Registrar as the record holder of such Multiclass PC.

*Interest Accrual Period:* As to any Payment Date and the Classes of the Multiclass PCs of a Series specified in the related Terms Supplement, the period from the 15th day of the second preceding month to the 15th day of the immediately preceding month, unless otherwise specified in such Terms Supplement.

*Interest Only PC:* A Multiclass PC, identified as such in the applicable Terms Supplement, that does not have a principal amount (other than a notional principal amount) and is entitled to payments of interest only. Unless the context otherwise requires, references in Article VI, Article VII and Section 8.05 to (i) principal amount shall be regarded as references to such notional principal amounts, (ii) specified percentages of outstanding principal amount shall be deemed to refer to such notional principal amount and (iii) payments of principal and interest shall be regarded as references to payments of interest on such Interest Only PCs.

*Mortgage:* A fixed or adjustable rate, first lien, residential mortgage or participation therein acquired by Freddie Mac.

*Mortgage Securities:* Any one of the following types of securities: (i) PCs; (ii) ARM PCs; (iii) certificates representing the "regular interest" in a REMIC, which REMIC consists of a pool of ARM PCs; (iv) Funding Notes; or (v) any other types of mortgage securities whose payments are derived from PCs or ARM PCs and that Freddie Mac may acquire for a Series of Multiclass PCs.

*Mortgage Security Principal Payment Amount:* As to each Multiclass PC Pool and Payment Date, unless otherwise specified in the related Terms Supplement, the amount of the principal payments on the Mortgage Securities received during the applicable Deposit Period.

*Multiclass PC:* A Multiclass Mortgage Participation Certificate sold pursuant to this Agreement, which is either a Regular Class PC or a Residual Class PC and which represents all or part of either a Regular Interest or a Residual Interest in a particular Multiclass PC Pool.

*Multiclass PC Coupon:* The annual rate (which may be zero, may be fixed or may vary) at which interest is paid on (or, in the case of an Accrual PC, accrued and added to the principal amount of) a Regular Class PC, as set forth in the applicable Terms Supplement. Interest at the applicable Multiclass PC Coupon shall be computed on the basis of a 360-day year, each month being assumed to have 30 days.

*Multiclass PC Pool:* A discrete pool of Mortgage Securities identified in the records maintained by Freddie Mac.

*Multiclass PC Pool Factor:* A seven-digit decimal calculated and published on or about the first Business Day of each month by Freddie Mac (i) as to each Class of Multiclass PCs having a stated principal amount, which, when multiplied by the original principal amount of a Multiclass PC, will equal the remaining principal amount of such Multiclass PC after giving effect to any payment of principal to be made on the Payment Date occurring in the next following month in respect of such Multiclass PC (including, in the case of any Accrual PC, any accretion of principal to be made thereon on such Payment Date); and (ii) as to each Class of Interest Only PCs, which, when multiplied by the original notional principal amount of an Interest Only PC, will indicate the remaining notional principal amount thereof after the Payment Date occurring in the next following month.

*Original Principal Amount:* As to each Class of Multiclass PCs representing interests in a Multiclass PC Pool, the aggregate of the original principal amounts of such Multiclass PCs, as set forth in the related Terms Supplement.

*Payment Date:* As to any Multiclass PC Pool, the 15th day (or if such 15th day is not a Business Day, the next succeeding Business Day) of each month commencing in the month specified in the related Terms Supplement.

*PC:* A Mortgage Participation Certificate (Guaranteed) created and sold pursuant to a PC Agreement, representing an undivided interest in a pool of Mortgages.

*PC Agreement:* Freddie Mac's Mortgage Participation Certificate Agreement as in effect from time to time.

*PC Agreement Default:* With respect to any PC Agreement, an "Event of Default" as defined therein.

*PC Pool:* A discrete pool of Mortgages identified in the records maintained by Freddie Mac and in respect of which one or more PCs or ARM PCs have been created.

*Registrar:* Texas Commerce Bank National Association, which has been appointed as such by Freddie Mac (which appointment shall be subject to change by Freddie Mac).

*Regular Class PC:* A Multiclass PC, the terms of which have been fixed by Freddie Mac on or prior to the Startup Day, which unconditionally entitles its Holder to receive a principal amount equal to the original principal amount thereof (plus, in the case of an Accrual PC, any amount added to the original principal amount in respect of accrued and unpaid interest) and interest at the applicable Multiclass PC Coupon, and which represents all or a pro rata share of a Regular Interest in a Multiclass PC Pool.

*Regular Interest:* An interest in a Multiclass PC Pool that is represented by a Class of Regular Class PCs.

*Remaining ARM PC Pool Balance:* With respect to any ARM PC constituting or supporting the Mortgage Securities in a Multiclass PC Pool, as defined in the related ARM PC Agreement.

*Remaining PC Pool Balance:* With respect to any PC constituting or supporting a portion of the Mortgage Securities included in a Multiclass PC Pool, as defined in the related PC Agreement.

*REMIC:* A real estate mortgage investment conduit within the meaning of Section 860D(a) of the Code.

*Residual Class PC:* A Multiclass PC representing all or a pro rata share of the Residual Interest in a Multiclass PC Pool. A Residual Class PC may be denominated by a principal amount, may be denominated by the percentage of the Residual Interest that it represents in the related Multiclass PC Pool or may be an Interest Only PC, in which case it may be denominated by a notional principal amount. In the case of Residual Class PCs that are denominated by percentage interest or that are Interest Only PCs, unless the context otherwise requires, references in Article VI, Article VII and Section 8.05 to (i) principal amount shall be regarded as references to such percentage interest or notional principal amount, (ii) specified percentages of outstanding principal amount shall be deemed to refer to such percentages of the Residual Interest or notional principal amount, and (iii) payments of principal and interest shall be regarded as references to payments of the amounts payable, however designated, on such Residual Class PCs.

*Residual Interest:* The interest in a Multiclass PC Pool, designated as such in the related Terms Supplement, that is not a Regular Interest and is represented by the Class of Residual Class PCs.

*Series:* With respect to each Multiclass PC Pool, the series of Multiclass PCs issued pursuant to this Agreement and having the numerical designation specified in the related Terms Supplement.

*Startup Day:* With respect to a Multiclass PC Pool, the first date on which Multiclass PCs are issued or, as permitted by applicable law, such other date as Freddie Mac may specify in the related Terms Supplement in connection with the offering of Multiclass PCs of such Multiclass PC Pool.

*Terms Supplement:* An instrument which, as to each Multiclass PC Pool, supplements the other provisions of this Agreement and identifies and establishes the particular Multiclass PC Pool and the particular Multiclass PCs issued in respect thereof. A Terms Supplement may, as to any particular Multiclass PC Pool, modify, amend or supplement the other provisions of this Agreement in any respect whatsoever.

*Variable Interest Accrual Period:* As to any Payment Date and the Classes of the Multiclass PCs of a Series specified in the related Terms Supplement, the period from the prior Payment Date (or from the

Startup Day in the case of the First Payment Date) to the current Payment Date, unless otherwise specified in such Terms Supplement.

## ARTICLE II

### Conveyance of Interests in Multiclass PC Pools

**Section 2.01. Sale of Multiclass PCs.** Sale of a Multiclass PC by Freddie Mac pursuant to this Agreement shall be deemed to occur upon the date of settlement and payment for such Multiclass PC and shall constitute a sale, assignment, transfer, and conveyance by Freddie Mac to the Holder of a beneficial ownership interest in the related Multiclass PC Pool to the extent of the Regular Interest or Residual Interest represented by such Multiclass PC. Freddie Mac shall be bound by all of the terms and conditions of this Agreement at such time as a Multiclass PC is sold by Freddie Mac to a Holder. Upon settlement of and payment for a Multiclass PC, a Holder shall, by virtue thereof, acknowledge, accept and agree to be bound by all of the terms and conditions of this Agreement.

**Section 2.02. Identity of the Mortgage Securities.** A Multiclass PC Pool will consist entirely of Mortgage Securities retained, reacquired or purchased by Freddie Mac. The specific Mortgage Securities constituting each Multiclass PC Pool shall be identified in the related Terms Supplement or an attachment thereto.

**Section 2.03. Registration of PCs and ARM PCs.** All PCs or ARM PCs constituting or supporting the Mortgage Securities included in a Multiclass PC Pool shall be maintained in Book-Entry Form and Freddie Mac or its agent shall be the record holder thereof.

**Section 2.04. Multiclass PCs Held or Acquired by Freddie Mac.** Multiclass PCs of any particular Class held or acquired by Freddie Mac from time to time shall have an equal and proportionate benefit to Multiclass PCs of the same Class held by other Holders, without preference, priority or distinction.

**Section 2.05. REMIC Election.** Freddie Mac hereby declares its intent that each Multiclass PC Pool formed under this Agreement shall constitute, and the affairs of each such Multiclass PC Pool shall be conducted so as to qualify as, a REMIC. The provisions of the Agreement shall be construed so as to carry out this intention of Freddie Mac. In furtherance of such intention, Freddie Mac is authorized to and covenants that it shall (a) prepare and file, or cause to be prepared and filed, REMIC federal tax returns, using the calendar year as the taxable year, for each such Multiclass PC Pool when and as required by the Code, electing on the first REMIC return to have the Multiclass PC Pool treated as a REMIC; (b) conduct the affairs of each Multiclass PC Pool so as to maintain the status thereof as a REMIC under the Code; (c) not knowingly or intentionally take any action or omit to take any action that would cause the termination of the REMIC status of any Multiclass PC Pool; and (d) hold harmless and indemnify the Holders of the Residual Class PCs against any liability on account of any federal tax (including interest and penalties), or any state or local tax (including interest and penalties) incurred by virtue of Freddie Mac's administration of the Multiclass PC Pool in Virginia, imposed on the related Multiclass PC Pool, to the extent that any such tax shall be paid or payable by such Holders or shall be payable out of the assets of the Multiclass PC Pool otherwise payable to the Holders.

## ARTICLE III

### Administration of the Multiclass PC Pools

**Section 3.01. Freddie Mac to Act as Principal Administrator.** Freddie Mac shall hold and administer, or supervise the administration of, each Multiclass PC Pool for the benefit of Holders and shall have full power and authority to do or cause to be done any and all things in connection therewith that it deems necessary or desirable, including, but not limited to, the right to substitute PCs or ARM PCs for the PCs or ARM PCs, respectively, originally placed into each Multiclass PC Pool on the Startup Day, provided that any such substitution is effected in accordance with applicable laws or regulations in effect at the time of such substitution and Freddie Mac receives an opinion of counsel to the effect that such substitution shall not cause such Multiclass PC Pool to fail to be classified as a REMIC for federal income tax purposes. Freddie Mac

shall act as the representative of Holders in the control, management, and administration of the Mortgage Securities in each Multiclass PC Pool.

**Section 3.02. Administrative Responsibilities.** Freddie Mac shall hold and administer, or supervise the administration of, the Multiclass PC Pools in a manner consistent with and to the extent required by standards of prudence and in substantially the same manner as it holds and administers Mortgage Securities of the same or similar type held for its own account. In performing its responsibilities hereunder, Freddie Mac may employ agents or independent contractors. Except as provided in Articles VI and VII of this Agreement, Freddie Mac shall not be subject to the control of Holders in any manner whatsoever in the discharge of its responsibilities pursuant to this Agreement. Except with regard to its guarantee obligation pursuant to Section 4.05 or pursuant to its indemnities under Sections 2.05 and 8.01, Freddie Mac shall have no liability to any Holder other than for any direct damage resulting from Freddie Mac's failure to exercise that degree of ordinary care which it exercises in the conduct and management of its own affairs. Freddie Mac shall have no liability of whatever nature for consequential damages.

## ARTICLE IV

### Payments; Freddie Mac Guarantee; Optional Redemption

**Section 4.01. Payments of Principal and Interest.** Payments on Multiclass PCs shall be made from the principal and interest payments made on the Mortgage Securities in the related Multiclass PC Pool, from any payment made by Freddie Mac pursuant to Section 4.05, and, if so provided in the related Terms Supplement, from any reinvestment by Freddie Mac of such principal and interest payments, during the applicable Deposit Period. On each Payment Date, Freddie Mac shall make such payments on (and in the case of any Accrual PC, such additions to the principal amount of) the Multiclass PCs issued in respect of any Multiclass PC Pool as shall be provided in the related Terms Supplement. Any payments or accruals of interest made on a Payment Date on the Regular Class PCs, and any payments or accruals in respect of interest on the Residual Class PCs, issued in respect of a particular Multiclass PC Pool shall be at the Multiclass PC Coupons, if applicable, set forth in the related Terms Supplement and in respect of the related Interest Accrual Period or Variable Interest Accrual Period. All payments on the Multiclass PCs of a particular Class shall be applied pro rata among all Multiclass PCs of such Class. Unless otherwise provided in the applicable Terms Supplement, principal payments on Multiclass PCs will be made on each Payment Date in an aggregate amount equal to the sum of (i) the amount of interest, if any, accrued on any Accrual PCs in respect of the related Interest Accrual Period but not then payable; and (ii) an amount equal to the Mortgage Security Principal Payment Amount for such Payment Date. All payments of principal on the Regular Class PCs issued in respect of a particular Multiclass PC Pool will be made as provided in the related Terms Supplement. All payments made on any Multiclass PC on any Payment Date shall be applied first to any interest payable thereon on such Payment Date and then to the principal thereof.

**Section 4.02. Payment Procedures.** Payments of principal and interest due to Holders of Multiclass PCs in Book-Entry Form shall be made by crediting the Holders' accounts at the Federal Reserve Banks on the applicable Payment Dates. Unless otherwise specified in the related Terms Supplement, payments due to the Holder of a Multiclass PC in certificated form shall be made by check mailed on or before the applicable Payment Date to the address of such Holder shown in the books and records maintained by the Registrar; provided, however, that the final payment on a Multiclass PC in certificated form shall be made only upon presentation and surrender thereof at the office of the Registrar. In addition, if the certificated Multiclass PC is a Residual Class PC and if the principal amount of the certificated Multiclass PC is reduced to zero before the principal amounts of all of the Regular Class PCs of the related Series are reduced to zero, the final payment of such principal shall be made only upon presentation of such certificated Multiclass PC at the office of the Registrar for notation that the principal amount of such certificated Multiclass PC has been reduced to zero. Any payment made on a Multiclass PC on any Payment Date shall be made to the Holder of record of such Multiclass PC at the close of business on the 14th day of the month preceding the month in which such Payment Date occurs unless the related Terms Supplement otherwise provides.

**Section 4.03. Multiclass PC Pool Factors.** Freddie Mac shall publish or cause to be published a Multiclass PC Pool Factor for each outstanding Class of Multiclass PCs having a stated principal amount and for each outstanding Class of Interest Only PCs on or about the first Business Day of each month.

**Section 4.04. Fees Retained by Freddie Mac.** As a fee for its administration of any Multiclass PC Pool, Freddie Mac shall be entitled to retain from principal payments made on the Mortgage Securities in such Multiclass PC Pool the amount, if any, provided for in the related Terms Supplement. Freddie Mac shall pay all expenses incurred by it in connection with its administration of a Multiclass PC Pool and the performance of its duties hereunder.

**Section 4.05. Freddie Mac Guarantee.** Freddie Mac hereby guarantees to each Holder of a Regular Class PC the timely payment of interest at the applicable Multiclass PC Coupon on such Holder's Multiclass PC, and to each Holder of a Residual Class PC the timely payment of interest. Freddie Mac also hereby guarantees to each Holder the payment of the principal amount of such Holder's Multiclass PC as payments are required to be made on the Mortgage Securities in the related Multiclass PC Pool in accordance with their terms, as set forth in this Agreement.

**Section 4.06. Optional Redemption.** Except as otherwise specified in the Terms Supplement relating to a Series, the outstanding Multiclass PCs of such Series may be redeemed in whole, but not in part, at the option of Freddie Mac, upon not less than 30 or more than 60 days' notice, on any Payment Date on or after the date on which, after giving effect to principal payments to be made on the Multiclass PCs of such Series on such date, the aggregate outstanding principal amount of the Multiclass PCs of such Series is less than 1% of the aggregate original principal amount of the Multiclass PCs of such Series. Any optional redemption shall be at a redemption price equal to 100% of the unpaid principal amount of the Multiclass PCs redeemed, plus accrued and unpaid interest for the Interest Accrual Period or Variable Interest Accrual Period, as the case may be, relating to the applicable Payment Date. In order to effect an optional redemption, Freddie Mac shall liquidate all of the Mortgage Securities in the applicable Multiclass PC Pool, at fair market value as determined by Freddie Mac, and apply the net proceeds of such liquidation (together with funds contributed by Freddie Mac if such net proceeds are insufficient) to pay the redemption price. Following such redemption, any remaining proceeds from the liquidation of the Mortgage Securities in the applicable Multiclass PC Pool (net of liquidation expenses) shall be distributed pro rata to the Holders of the Residual Class PCs of such Series upon surrender of their Residual Class PCs to the Registrar. All decisions as to the making of an optional redemption, including the timing of any optional redemption, shall be at Freddie Mac's sole discretion. Freddie Mac shall be under no obligation to any Holder to make an optional redemption, even if such redemption would be in such Holder's interest.

**Section 4.07. Freddie Mac Subrogation.** Freddie Mac shall be subrogated to all the rights, interests, remedies, powers and privileges of the Holders in respect of any guarantee payments made by Freddie Mac, to the extent of such payments.

**Section 4.08. Termination Upon Final Payment.** The obligations and responsibilities of Freddie Mac under this Agreement to a Holder in respect of any Multiclass PC shall terminate upon the payment to the Holder of all amounts of principal and interest due the Holder in respect of such Multiclass PC and all other amounts, if any, due the Holder hereunder.

## ARTICLE V

### The Multiclass PCs

**Section 5.01. Form.** Multiclass PCs may be issued in Book-Entry Form or certificated form, as specified in the related Terms Supplement. In the case of Multiclass PCs issued in certificated form, Freddie Mac reserves the right (i) to convert such Multiclass PCs to Book-Entry Form and (ii) upon such conversion, to require each Holder thereof, upon notice, to surrender such Holder's Multiclass PC and have such Multiclass PC reissued and evidenced only by a Multiclass PC in Book-Entry Form, pursuant to procedures prescribed and implemented by Freddie Mac (which may include the withholding of payments otherwise due the Holder, without any liability for interest thereon, until such surrender is made). Multiclass PCs in Book-

Entry Form shall at all times remain on deposit with a Federal Reserve Bank in accordance with the provisions of the Book-Entry Rules. Multiclass PCs in certificated form shall be evidenced by certificates in such form as Freddie Mac shall prescribe, registered in the names of the Holders thereof.

**Section 5.02. Minimum Original Principal Amounts.** Multiclass PCs shall be sold in the denominations set forth in the applicable Terms Supplement.

**Section 5.03. Transfer of Multiclass PCs.** Regular Class PCs may be transferred only in the denominations set forth in the applicable Terms Supplement. Regular Class PCs may not be transferred if, as a result of the transfer, the transferor or the new Holder would hold Regular Class PCs having an original principal amount of less than the minimum amount specified in such Terms Supplement in respect of such Class. The Federal Reserve Banks shall maintain a book-entry recordkeeping system for all transactions in Multiclass PCs in Book-Entry Form. The transfer, exchange or pledge of Multiclass PCs in Book-Entry Form shall be governed by the Book-Entry Rules and such procedures, insofar as applicable, as may from time to time be established by regulations of the Treasury Department governing obligations of the United States, and such other procedures as shall be agreed upon from time to time by Freddie Mac and the Federal Reserve Banks. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Multiclass PC in Book-Entry Form. A Multiclass PC in certificated form may be transferred as provided in Section 5.04. A charge may be made for any transfer or exchange of any Multiclass PC. A charge will be made for any tax or other governmental charge imposed in connection with a transfer or exchange of a Multiclass PC.

**Section 5.04. Certificated Multiclass PCs.**

(a) Freddie Mac shall maintain at its expense an office or agency where Multiclass PCs in certificated form may be surrendered for registration of transfer or exchange, the initial such office or agency being that of the Registrar unless otherwise specified in the related Terms Supplement. Upon surrender for registration of transfer of any Multiclass PC in certificated form at any office or agency of Freddie Mac maintained for such purpose, Freddie Mac shall execute and deliver, in the name of the designated transferee or transferees, one or more new Multiclass PCs evidencing a like principal amount (or like percentage of the Residual Interest). At the option of a Holder of a certificated Multiclass PC, such Holder's Multiclass PC may be exchanged for other Multiclass PCs of authorized denominations, upon surrender at such office or agency of the Multiclass PC to be exchanged. Whenever any Multiclass PC is so surrendered for exchange, Freddie Mac shall execute and deliver the Multiclass PCs which the Holder making the exchange is entitled to receive. Every Multiclass PC presented or surrendered for registration of transfer or exchange shall be duly endorsed by, or be accompanied by a written instrument of transfer in form satisfactory to Freddie Mac duly executed by, the Holder thereof or his attorney-in-fact duly authorized in writing. Notwithstanding any other provision of this Agreement, Residual Class PCs shall be sold and maintained only in certificated form, and Freddie Mac may impose, in the related Terms Supplement, on the face or reverse of any Multiclass PC or elsewhere, such limitations on and conditions to the transfer or exchange of Multiclass PCs as it deems appropriate in order to conform to applicable law or for any other reason.

(b) If (i) any mutilated certificated Multiclass PC is surrendered to Freddie Mac or (ii) Freddie Mac receives evidence to its satisfaction of the destruction, loss or theft of any certificated Multiclass PC, and there is delivered to Freddie Mac such security or indemnity as may be required by it to save it harmless, then, in the absence of notice to Freddie Mac that such Multiclass PC has been acquired by a bona fide purchaser, Freddie Mac shall execute and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Multiclass PC, a new certificated Multiclass PC of like tenor and representing a like principal amount (or like percentage of the Residual Interest). Upon the issuance of any new certificated Multiclass PC, Freddie Mac may make a charge for such issuance and will make a charge for any tax or other governmental charge imposed in connection therewith. Any duplicate Multiclass PC so issued shall constitute complete and indefeasible evidence of ownership of that portion of the Regular Interest or Residual Interest of the related Multiclass PC Pool represented thereby, whether or not the lost, stolen or destroyed Multiclass PC shall be found at any time.

## ARTICLE VI

### Remedies

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

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

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

(c) Failure on the part of Freddie Mac to observe or perform any other of its covenants set forth in this Agreement, continued for a period of 60 days after the date on which written notice of such failure, requiring Freddie Mac to remedy the same, shall have been given to Freddie Mac by the Holders of Multiclass PCs representing not less than 60 percent of the then outstanding principal amount of any affected Class of Multiclass PCs; or

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

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

**Section 6.02. Remedies.** If an Event of Default occurs and is continuing, then and in each and every such case, the Holders of Multiclass PCs representing not less than 50 percent of the then outstanding principal amount of any affected Class of Multiclass PCs may by written notice to Freddie Mac remove Freddie Mac and nominate a successor to Freddie Mac under this Agreement with respect to the related Multiclass PC Pool, which nominee shall be deemed appointed as successor to Freddie Mac unless within ten days after such nomination Freddie Mac objects thereto, in which case Freddie Mac may petition any court of competent jurisdiction for the appointment of a successor or any Holder of a Multiclass PC of any affected Class who has been a bona fide Holder for at least six months may, on behalf of such Holder and all others similarly situated, petition any such court for appointment of a successor to Freddie Mac. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor to Freddie Mac. Upon the appointment of any successor pursuant to this Section 6.02, Freddie Mac shall submit to its successor a complete written report and accounting as to the applicable Multiclass PC Pool and shall take all other steps necessary or desirable to transfer its interest in and administration of this Agreement with respect to such Multiclass PC Pool to the successor. Subject to the Act, such successor may take such actions with respect to such Multiclass PC Pool as may be reasonable and appropriate in the circumstances. Prior to any such designation of a successor, the Holders of Multiclass PCs representing not less than 50 percent of the then outstanding principal amount of any affected Class of Multiclass PCs may waive any past default or Event of Default. Appointment of a successor will not relieve Freddie Mac of its guarantee obligation as set forth in this Agreement.

**Section 6.03. Limitation on Suits by Holders.** Except as provided in Section 6.02, no Holder shall have any right to institute any action or proceeding at law or in equity or in bankruptcy or otherwise, upon,

under or with respect to this Agreement, the Multiclass PCs or the PCs, or for the appointment of a receiver or trustee, or for any other remedy whatsoever, unless such Holder previously shall have given to Freddie Mac written notice of an Event of Default and of the continuance thereof, as hereinbefore provided, and unless also the Holders of Multiclass PCs representing not less than 50 percent of the then outstanding principal amount of any affected Class of Multiclass PCs shall have made written request upon Freddie Mac to institute such action or proceeding in its own name and shall have offered to Freddie Mac such reasonable indemnity as it may request against the costs, expenses and liabilities to be incurred therein or thereby, and Freddie Mac for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action or proceeding, and no direction inconsistent with such written request shall have been given to Freddie Mac during such 60-day period by the Holders of Multiclass PCs representing not less than 50 percent of the then outstanding principal amount of any affected Class of Multiclass PCs. It is understood and intended, and expressly covenanted by each Holder of a Multiclass PC in any affected Multiclass PC Pool with every other Holder in such Multiclass PC Pool and with Freddie Mac, that no one or more Holders shall have any right in any manner whatsoever by virtue of or by availing themselves of any provision of this Agreement to affect, disturb or prejudice the rights of any other Holder, or to obtain or seek to obtain preference or priority over any other Holder except as expressly provided herein or to enforce any right under this Agreement, except in the manner herein provided and for the ratable and common benefit of all Holders of Multiclass PCs in any affected Class. For the protection and enforcement of the provisions of this Section 6.03, each and every Holder and Freddie Mac shall be entitled to such relief as can be given either at law or in equity. Notwithstanding the foregoing or any other provision of this Agreement, the right of any Holder to receive payment of principal or interest as herein provided, on or after the due date of such payment, or to institute suit for enforcement of any such payment on or after such date, shall not be impaired or affected without the consent of such Holder.

## ARTICLE VII

### **Rights of Holders of Multiclass PCs with Respect to PCs and ARM PCs**

**Section 7.01. Defaults Under PC Agreement or ARM PC Agreement.** In the event that there shall be a PC Agreement Default or ARM PC Agreement Default under the PC Agreement or ARM PC Agreement, as applicable, governing any PC or ARM PC constituting or supporting all or a portion of the Mortgage Securities included in a Multiclass PC Pool, the Holders of the Multiclass PCs issued in respect of such Multiclass PC Pool shall have the right to take such actions with respect thereto as the PC Agreement or ARM PC Agreement, as applicable, affords Freddie Mac or its agent as the record holder of the PC or ARM PC. For this purpose, each Holder of a Multiclass PC issued in respect of such Multiclass PC Pool shall be deemed to be the holder of a percentage of the Remaining PC Pool Balance or Remaining ARM PC Pool Balance, as applicable, of the affected PC Pool equal to the product of (i) the percentage obtained by dividing the then outstanding principal amount of such Holder's Multiclass PC (which shall be zero in the case of an Interest Only PC) by the then aggregate outstanding principal amount of all Multiclass PCs issued in respect of the same Multiclass PC Pool and (ii) the percentage of the Remaining PC Pool Balance or Remaining ARM PC Pool Balance, as applicable, of the affected PC Pool represented by the PC or ARM PC in the related Multiclass PC Pool. Freddie Mac hereby irrevocably authorizes the Holders to exercise all such rights in respect of a PC Agreement Default or ARM PC Agreement Default to the extent set forth in this Section.

**Section 7.02. Amendments of PC Agreement or ARM PC Agreement.** In the event that Freddie Mac desires to amend any PC Agreement or ARM PC Agreement governing any PC or ARM PC constituting or supporting all or a portion of the Mortgage Securities in any Multiclass PC Pool, Freddie Mac may give any such consent thereto as may need to be given by the record holder of such PC or ARM PC; provided, however, that if any such amendment would adversely affect in any material respect the interest of any Holder of a Multiclass PC, Freddie Mac may consent to such amendment only with the written consent of the Holders of Multiclass PCs so affected representing not less than 50 percent of the then outstanding principal amount of each affected Class of Multiclass PCs.

## ARTICLE VIII

### Miscellaneous Provisions

**Section 8.01. Tax Matters.** Freddie Mac and/or its designated agent shall furnish, within a reasonable time after the end of each calendar year (or at such times as required by applicable law), to each person that was a Holder at any time during such year, such information as Freddie Mac deems necessary or desirable to enable Holders and beneficial owners of Multiclass PCs to prepare their United States federal income tax returns, if applicable. If Freddie Mac is a Holder of a Residual Class PC issued in respect of any Multiclass PC Pool, or if permitted by applicable law, Freddie Mac will file the annual federal income tax return for such Multiclass PC Pool and will act as the tax matters partner thereof. In any other case, the Holder of the Residual Class PC having the largest principal amount or evidencing the largest percentage of the Residual Interest in the related Multiclass PC Pool is hereby designated as the partner responsible for filing such tax return and as the tax matters partner of such Multiclass PC Pool. Such Holder, however, by the acceptance of its Residual Class PC, agrees to designate Freddie Mac as its agent and attorney-in-fact in the performance of all the duties required of, or permitted to be taken by, the partner responsible for filing such tax return and the tax matters partner for such Multiclass PC Pool and, if requested by Freddie Mac, to execute a power of attorney to this effect. Freddie Mac also agrees to prepare such tax return and, if permitted by applicable law, to sign and file such tax return on behalf of the Multiclass PC Pool. Freddie Mac agrees to indemnify and hold harmless such Holder against any and all liabilities imposed upon such Holder as tax matters partner, including without limitation, any liabilities caused by Freddie Mac's failure to perform any duty on behalf of such Holder as the partner responsible for filing such returns and as tax matters partner under the Code or any liabilities associated with any action taken by Freddie Mac in its discretion with respect to such Multiclass PC Pool in the name of and on behalf of such Holder as the tax matters partner therefor.

The Residual Class PCs may not be sold or transferred to a "disqualified organization" (as defined below). Any attempted or purported transfer of a Residual Class PC shall be absolutely null and void and shall vest no rights in the proposed transferee unless (a) such transferee provides to Freddie Mac (i) an affidavit (in a form acceptable to Freddie Mac) that such transferee is not a disqualified organization and is not purchasing such Residual Class PC on behalf of a disqualified organization and (ii) if requested by Freddie Mac, an opinion of counsel (in a form acceptable to Freddie Mac) that the proposed transfer will not cause the Residual Class PC to be held by a disqualified organization, or (b) Freddie Mac gives its written consent to such transfer (which consent may apply to a specific transfer or, in Freddie Mac's discretion, may apply generally to classes of transfers or transferees). For these purposes, the term "disqualified organization" means (a) the United States, any state or political subdivision thereof, any foreign government, any international organization, any agency or instrumentality of any of the foregoing, (b) any organization (other than a cooperative described in Section 521 of the Code) that is exempt from taxation under the Code (unless such organization is subject to tax on excess inclusions) and (c) any organization that is described in Section 1381(a)(2)(C) of the Code. Notwithstanding clause (a) of the preceding sentence, neither Freddie Mac nor any entity treated as other than an instrumentality of the United States or of any state or political subdivision thereof for purposes of Section 168(h)(2)(D) of the Code is treated as a disqualified organization. In addition, the transferee shall be required to designate Freddie Mac as its fiduciary to act as the tax matters person for the related Multiclass PC Pool. On behalf of each Multiclass PC Pool, Freddie Mac shall make available information necessary for the application of Section 860E(e) of the Code or any similar Code provision that may be in effect in the future.

**Section 8.02. Limitations on Liability of Freddie Mac and Others.** Neither Freddie Mac nor any of its directors, officers, employees or agents shall be under any liability to Holders for any action taken by them or for their refraining from the taking of any such action in good faith pursuant to this Agreement, or for errors in judgment; provided, however, that this provision shall not protect Freddie Mac or any such person against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence in the performance of duties or by reason of reckless disregard of obligations and duties hereunder. Freddie Mac and any director, officer, employee or agent of Freddie Mac may rely in good faith on any document of any kind properly executed and submitted by any person with respect to any matter arising hereunder. Freddie Mac shall not be under any obligation to appear in, prosecute or defend any legal action which is not incidental

to its duties to administer the Multiclass PC Pools in accordance with this Agreement and which in its opinion may involve it in any expense or liability; provided, however, that Freddie Mac may in its discretion undertake any such action which it may deem necessary or desirable with respect to this Agreement, the Multiclass PCs, the PCs in any Multiclass PC Pool or the rights and duties of the parties hereto and the interests of the Holders hereunder. In such event, the legal expenses and costs of such action and any liability resulting therefrom shall be expenses of Freddie Mac.

**Section 8.03. Limitation of Rights of Holders.** The death or incapacity of any person having an interest, beneficial or otherwise, in a Multiclass PC shall not operate to terminate this Agreement or any Multiclass PC Pool, nor entitle the legal representatives or heirs of such person or any Holder for such person, to claim an accounting, take any action or bring any proceeding in any court for a partition or winding up of any Multiclass PC Pool, nor otherwise affect the rights, obligations and liabilities of the parties hereto or any of them.

**Section 8.04. Control by Holders.** Except as otherwise provided in Articles VI and VII, no Holder shall have any right to vote or in any manner otherwise control the administration, operation and management of any Multiclass PC Pool or the PCs or ARM PCs constituting or supporting the Mortgage Securities included therein, or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the Multiclass PCs, be construed so as to constitute the Holders from time to time as partners or members of an association; nor shall a Holder be under any liability to any third person by reason of any action taken by the parties to this Agreement pursuant to any provision hereof.

**Section 8.05. Amendment.**

(a) This Agreement (including any applicable Terms Supplement) may be amended from time to time by Freddie Mac, without the consent of any Holder or Holders, (i) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Agreement, which shall not be inconsistent with the other provisions of this Agreement, provided that any such amendment shall not adversely affect in any material respect the interests of any Holder; or (ii) to permit Freddie Mac to take any necessary or helpful action to maintain the qualification of any Multiclass PC Pool as a REMIC under the Code or to avoid the imposition of any state or federal tax on the Multiclass PC Pool.

(b) Except as provided in Section 8.05(c) of this Agreement, with respect to any Multiclass PC Pool formed pursuant to the terms hereof, any provision of this Agreement may be amended by Freddie Mac with the written consent of the Holders of Multiclass PCs representing not less than 50 percent of the then outstanding principal amount of each Class of Multiclass PCs affected by such amendment.

(c) Notwithstanding any other provision herein, without the consent of a Holder this Agreement may not be amended to impair or affect the right of such Holder to receive payment of principal and interest (including any payment under any guarantee in respect thereof) as herein provided, on or after the respective due date of such payment, or to institute suit for the enforcement of any such payment on or after such date.

(d) Solely for purposes of this Section, if the principal amount of a Residual Class PC has been reduced to zero prior to the principal amounts of all the other Classes of Multiclass PCs of the related Series having been reduced to zero, such Residual Class PC shall be deemed to have an aggregate outstanding principal amount of \$1,000.00.

**Section 8.06. Persons Deemed Owners.** Freddie Mac, the Registrar and the Federal Reserve Banks, or any agent of Freddie Mac, the Registrar or the Federal Reserve Banks, may deem and treat the Holder as the absolute owner of a Multiclass PC for the purpose of receiving payment 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, shall be affected by any notice to the contrary. All such payments so made to any such Holder or upon such Holder's order shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the duty for monies payable by Freddie Mac upon the Holder's Multiclass PC. A Holder is not necessarily the beneficial owner of a Multiclass PC. The rights of a beneficial owner of a Multiclass PC with respect to Freddie Mac, the Registrar and the Federal Reserve Banks

may be exercised only through the Holder. Freddie Mac, the Registrar and the Federal Reserve Banks will have no direct obligation to a beneficial owner that is not also the Holder of a Multiclass PC.

**Section 8.07. Governing Law.** This Agreement and the Holders' and Freddie Mac's rights and obligations with respect to Multiclass PCs shall be construed in accordance with and governed by the laws of the United States. Insofar as there may be no applicable precedent, and insofar as to do so would not frustrate the purposes of the Act or any provision of this Agreement or the transactions governed thereby, the local laws of the State of New York shall be deemed reflective of the laws of the United States.

**Section 8.08. Payments Due on Non-Business Days.** If the date fixed for any payment on any Multiclass PC shall be a day which is not a Business Day, then such payment need not be made on such date, but may be made on the next succeeding day which is a Business Day, with the same force and effect as though made on the date fixed for such payment, and no interest shall accrue for the period after such date.

**Section 8.09. Successors.** This Agreement shall be binding upon and shall inure to the benefit of any successor to Freddie Mac, including any successor by operation of law.

**Section 8.10. Headings.** The Article and Section headings are for convenience only and shall not affect the construction of this Agreement.

**Section 8.11. Notice and Demand.** Any notice, demand or other communication which by any provision of this Agreement is required or permitted to be given or served to or upon any Holder may be given or served in writing by deposit thereof, postage prepaid, in the United States mail addressed to such Holder as such Holder's name and address may appear in the records of Freddie Mac, the Registrar or a Federal Reserve Bank or, in the case of a Holder of a Multiclass PC in Book-Entry Form, by transmission to such Holder through the communication system linking the Federal Reserve Banks. Such notice, demand or other communication to or upon a Holder shall be deemed to have been sufficiently given or made, for all purposes, upon mailing or transmission.

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

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

FEDERAL HOME LOAN MORTGAGE CORPORATION

**Offering Circular Supplement  
(To Offering Circular Dated June 30, 1989)**

**Freddie  
Mac**

---

---

---

---

**Federal Home Loan  
Mortgage Corporation**

**Mortgage Participation Certificates  
(Guaranteed)**

Each Mortgage Participation Certificate ("PC") represents an undivided interest in a discrete pool ("PC Pool") of specified fixed rate, residential mortgages or participations therein (the "Mortgages") purchased by the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Capitalized terms used herein but not otherwise defined in this Supplement shall have the respective meanings given to them in Freddie Mac's Mortgage Participation Certificates (Guaranteed) Offering Circular dated June 30, 1989 (the "Offering Circular").

With respect to certain PCs ("Original PCs"), the period between the first day of the month in which the PC is issued and the initial Payment Date in respect of the PC is approximately 75 days. With respect to other PCs ("Gold PCs"), the period between the first day of the month in which the PC is issued and the initial Payment Date in respect of the PC is approximately 45 days. In addition to the shorter payment delay, Gold PCs differ from Original PCs in that the Record Date for payments of principal and interest on a Gold PC is the last day of the month immediately preceding the month in which the related Payment Date occurs. Freddie Mac will offer Gold PCs for settlement commencing on or about October 1, 1990. See "Description of Mortgage Participation Certificates—Pool Factors" and "—Book-Entry Form, Holders, Minimum Principal Amounts and Transfers" in this Supplement and in the Offering Circular. As used in this Supplement and in the Offering Circular, the term "PC" refers to Original PCs and Gold PCs unless the context requires otherwise.

Freddie Mac's guarantees with respect to Original PC's are described in the Offering Circular under "Description of Mortgage Participation Certificates—Guarantees." With respect to Gold PCs, Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the unpaid principal balance of the related Mortgages, as reflected by the applicable Pool Factor calculated by Freddie Mac, the timely payment of Monthly Principal Reduction (as defined under "Description of Mortgage Participation Certificates—Pool Factors" herein) due to be paid on the Mortgages, whether or not received by Freddie Mac, and the ultimate collection of all principal on the related Mortgages, without offset or deduction, to the extent of such Holder's pro rata share of the unpaid principal balance of the Mortgages, not later than the Payment Date occurring in the same month as the Final Payment Date of the related PC Pool.

This Supplement applies to sales by Freddie Mac of PCs, including Gold PCs, formed under both the Cash Program (including PCs formed under the MultiLender Swap Program) and the Guarantor Program. This Supplement provides additional information regarding the PCs and describes several types of Mortgages that may be included in PC Pools in addition to the Mortgages described in the Offering Circular.

## DESCRIPTION OF MORTGAGE PARTICIPATION CERTIFICATES

### The Mortgages

Each Mortgage provides for interest to be paid at a fixed rate of interest ("Mortgage Coupon").

#### *Second Mortgages and Non-Purchase Money First Mortgages*

Certain Guarantor PC Pools may contain Second Mortgages and/or Non-Purchase Money First Mortgages that are level payment, fully amortizing Mortgages with Original Maturities (i) of 60 months to 180 months or (ii) exceeding 180 months but not exceeding 360 months.

#### *Cooperative Share Mortgages*

Certain specified Guarantor PC Pools may contain "Cooperative Share Mortgages." Each Cooperative Share Mortgage is 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 ("Tenant-Stockholder") by a "cooperative housing corporation" ("Cooperative") as such term is defined in Section 216(b) of the Code, and (ii) the proprietary lease, occupancy agreement or right of tenancy granting the Tenant-Stockholder exclusive rights to occupy a specific dwelling unit in the project owned by the Cooperative. Each Cooperative Share Mortgage finances or refinances the Tenant-Stockholder's purchase of an ownership interest and related rights of occupancy in the Cooperative.

A lender originating a Cooperative Share Mortgage ordinarily takes possession of both the stock or membership certificate evidencing the Tenant-Stockholder's ownership interest in the Cooperative and the proprietary lease or occupancy agreement granting exclusive occupancy rights in the Tenant-Stockholder's dwelling unit. In certain states, the lender also files a financing statement under the Uniform Commercial Code to perfect its security interest. Because ownership interests and occupancy rights in a Cooperative generally are subject to restrictions on transfer, and because such interests and rights are also subject to claims by the Cooperative for unpaid "maintenance" (as defined below), the lender and the Cooperative ordinarily enter into a recognition agreement pursuant to which the Cooperative acknowledges the lender's rights and the Cooperative's responsibilities to the lender in the event of a default by the Tenant-Stockholder under either the Cooperative Share Mortgage or the proprietary lease or occupancy agreement.

As the owner of the project (including the land, dwelling units, acceptable leasehold estates and common areas), the Cooperative is responsible for the management thereof and typically pays the cost of real property taxes and insurance thereon. If, as is usually the case, there is a blanket mortgage on the project, the Cooperative is also responsible as borrower for payments on such mortgage. Tenant-Stockholders generally are required to make monthly payments to the Cooperative representing their pro rata share of "maintenance" with respect to the project, including payments on the blanket mortgage, real property taxes, insurance, maintenance costs and other capital and ordinary expenses. The lien of a Cooperative Share Mortgage on the ownership interest and rights of tenancy of a Tenant-Stockholder is subject to the lien of the Cooperative for unpaid maintenance and to the lien of the blanket mortgage with respect to the project.

Freddie Mac does not possess information from which conclusions may reasonably be drawn regarding whether, or the extent to which, PC Pools containing Cooperative Share Mortgages will exhibit rates of principal payment that are materially different from the principal payment rates for PC Pools containing Mortgages secured by other types of residential property. The Cooperative Share Mortgages in any particular PC Pool may experience a rate of principal payment that is different from the principal payment rates for Cooperative Share Mortgages in other PC Pools. Freddie Mac makes no representation as to the weighted average life of the Cooperative Share Mortgages in any PC Pool or the percentage of the original unpaid principal balance of such a PC Pool that will be paid to Holders at any particular time.

The payment behavior of Cooperative Share Mortgages may be influenced by the same economic, tax, social, geographic, demographic, legal and other factors that may influence the payment behavior of mortgages secured by other types of residential property. For example, Cooperative Share Mortgages

currently are located primarily in urban areas in the northeastern United States, particularly the New York City metropolitan area, where the payment behavior of mortgages secured by any type of residential property may differ from that experienced in other geographical regions. See "Weighted Average Life and Payment Behavior" below for a further discussion of the factors which may influence the payment behavior of Cooperative Share Mortgages.

### *Biweekly Mortgages*

Certain Guarantor PC Pools may contain Mortgages that are subject to separate agreements authorizing the borrower to make biweekly payments at the borrower's election ("Biweekly Mortgages"). Such an agreement generally provides for payment every two weeks of one-half of the monthly mortgage payment due pursuant to the terms of the Mortgage note (the "biweekly payment"). The amount of the biweekly payment is not calculated based on a biweekly amortization schedule, nor does it take into account that during a typical 12-month period, there will be 26 biweekly payments. The speed and frequency of the biweekly payments alter the original allocation of each payment between principal and interest contemplated by the amortization schedule of the Mortgage note, decreasing the interest portion of each payment and increasing the principal portion. As a result, the outstanding principal balance of the Mortgage is paid down more quickly than it would be were the payments made monthly in accordance with the amortization schedule specified in the Mortgage note. Freddie Mac generally will receive a single payment from the servicer combining the biweekly payments made by the borrower in each monthly reporting period. Any principal payments which exceed the scheduled amortization are partial prepayments of principal and will be passed through to Holders in accordance with the terms of the PC Agreement, as amended hereby.

The obligations of a borrower under the biweekly payment agreement are independent of the borrower's payment obligations under the Mortgage note, and the borrower's compliance with such agreement is voluntary. If at any time during the term of a Mortgage the borrower ceases to make payments pursuant to such agreement, payments on the Mortgage are made monthly thereafter pursuant to the terms of the Mortgage note.

The following chart compares the payments, principal curtailment and total interest paid for a hypothetical mortgage originated in June 1990, based on a 360-month amortization schedule and assuming that all payments are made according to schedule.

	<u>Monthly Payment Schedule</u>	<u>Biweekly Payment Schedule</u>
Principal .....	\$100,000.00	\$100,000.00
Mortgage Coupon .....	10%	10%
Term (Months) .....	360	250
Number of Payments .....	360	542
Payment Amount .....	\$ 877.57	\$ 438.79
Unpaid Principal Balance after:		
1 year .....	\$ 99,444.12	\$ 98,493.17
3 years .....	98,151.65	94,989.91
5 years .....	96,574.32	90,714.99
10 years .....	90,938.02	75,442.12
15 years .....	81,664.56	50,074.08
Payoff Date .....	6/2020	4/2011
Balance on 4/2011: .....	\$ 63,040.74	\$ 0.00
Total Interest Paid by Mortgage Maturity: ..	\$215,925.77	\$137,556.62

This chart is provided for illustration only; the data presented would change using a different Mortgage Coupon. See "Weighted Average Life and Payment Behavior" in this Supplement.

### 30-Due-in-5 Mortgages and 30-Due-in-7 Mortgages

Certain Guarantor PC Pools may contain “30-Due-in-5 Mortgages” or “30-Due-in-7 Mortgages” that have Original Maturities not exceeding 60 months or 84 months, respectively, (the “Original Term”) and that provide for level payments of principal and interest during the Original Term, with principal payments based upon an amortization schedule calculated to pay the original principal balance of the Mortgage in full in up to 360 months. At the expiration of the Original Term, a lump sum or “balloon” payment in an amount equal to the then-remaining unpaid principal balance is due to pay the Mortgage in full. Subject to the satisfaction of certain conditions by the borrower, each Mortgage provides the borrower with an option to extend the term of the Mortgage or to refinance the Mortgage (the “Option”), in each case with an interest rate adjustment at the end of the Original Term (the “Option Date”). The interest rate that will apply upon exercise of the Option will equal the sum of (a) either Freddie Mac’s or Fannie Mae’s required net yield (as specified in the mortgage instruments) for the purchase of 30-year fixed rate mortgages under 60-day mandatory delivery commitments as quoted on the date of receipt of notice of the borrower’s intention to exercise the Option plus (b) one-half of one percent (0.50%); provided that such interest rate may not be more than 5 percentage points (5%) higher than the interest rate in effect during the Original Term. If the borrower elects to exercise the Option, the Mortgage will be repurchased from the PC Pool no later than the 15th day of the month in which the Option Date occurs. See “Description of Mortgage Participation Certificates—The Mortgages” in the Offering Circular and “Certain Federal Income Tax Consequences” in this Supplement.

### PC Pools

Each PC Pool will consist of a specified type of Mortgage as described in the Offering Circular, as supplemented by this Supplement. Each PC Pool will be identified by a six-character reference number (“PC Pool Number”). The first two characters of each PC Pool Number (“Prefix”) identify certain characteristics of the PC Pool, such as the type of Mortgage contained in the PC Pool or certain other mortgage characteristics as described in the Offering Circular and any supplement thereto, the program under which the PC Pool was formed, or the type of PC representing interests in the PC Pool. The characteristics of each PC are determined by whether it is an Original PC (including a Scheduled Principal PC) or a Gold PC, as well as by the type of Mortgage contained in the related PC Pool. See “Description of Mortgage Participation Certificates—The PCs” in the Offering Circular. The following chart summarizes, by Prefix, PC type and Mortgage type, certain characteristics of the PCs described in the Offering Circular as supplemented by this Supplement.

Prefix <sup>(1)</sup>	Type of PC	Program	Maximum Mortgage Term (Years)	Type of Mortgage <sup>(2)</sup>	Minimum Original PC Pool Balance
B3	Gold PC	Guarantor	30	Conventional	\$ 250,000
B5	Gold PC	Guarantor	15	Conventional	250,000
B7	Gold PC	Guarantor	30	FHA/VA	1,000,000
B9	Gold PC	Guarantor	30	FHA/VA	250,000
C0	Gold PC	Cash	30	Conventional	1,000,000
D0	Gold PC	Guarantor	30	Conventional	1,000,000
E0	Gold PC	Cash	15	Conventional	1,000,000
E3	Gold PC	Guarantor	15	Conventional	1,000,000
M1	Gold PC	Guarantor	5	Conventional	1,000,000
M3	Gold PC	Guarantor	15	(30-Due-in-5) Conventional (Relocation)	1,000,000
M5	Gold PC	Guarantor	15	Conventional (Biweekly)	1,000,000

<u>Prefix<sup>(1)</sup></u>	<u>Type of PC</u>	<u>Program</u>	<u>Maximum Mortgage Term (Years)</u>	<u>Type of Mortgage<sup>(2)</sup></u>	<u>Minimum Original PC Pool Balance</u>
M7 .....	Gold PC	Guarantor	15	Conventional (Cooperative Share)	\$1,000,000
N1 .....	Gold PC	Guarantor	30	Conventional (Second/Non-Purchase Money First)	1,000,000
N3 .....	Gold PC	Guarantor	30	Conventional (Relocation)	1,000,000
N5 .....	Gold PC	Guarantor	30	Conventional (Biweekly)	1,000,000
N7 .....	Gold PC	Guarantor	30	Conventional (Cooperative Share)	1,000,000
N9 .....	Gold PC	Guarantor	7	Conventional (30-Due-in-7)	1,000,000
14 .....	Original PC	Guarantor	30	FHA/VA	1,000,000
26 .....	Original PC	Guarantor	30	Conventional	1,000,000
	(Scheduled Principal)				
32 .....	Original PC	Guarantor	15	Conventional	1,000,000
	(Scheduled Principal)				
33 .....	Original PC	Guarantor	30	FHA/VA	1,000,000
	(Scheduled Principal)				
36 .....	Original PC	Cash	30	Conventional	1,000,000
38 .....	Original PC	Cash	15	Conventional	1,000,000
43 .....	Original PC	Guarantor	30	Conventional	250,000
44 .....	Original PC	Guarantor	15	Conventional	250,000
45 .....	Original PC	Guarantor	30	FHA/VA	250,000
46 .....	Original PC	Guarantor	30	Conventional	250,000
	(Scheduled Principal)				
47 .....	Original PC	Guarantor	15	Conventional	250,000
	(Scheduled Principal)				
48 .....	Original PC	Guarantor	30	FHA/VA	250,000
	(Scheduled Principal)				
50 .....	Original PC	Guarantor	15	Conventional	1,000,000
55 .....	Original PC	Guarantor	30	Conventional	1,000,000
85-0001 to 85-5999 .....	Original PC	Guarantor	15	Conventional (Second/Non-Purchase Money First)	1,000,000

<u>Prefix<sup>(1)</sup></u>	<u>Type of PC</u>	<u>Program</u>	<u>Maximum Mortgage Term (Years)</u>	<u>Type of Mortgage<sup>(2)</sup></u>	<u>Minimum Original PC Pool Balance</u>
85-6000 to 85-7999 .....	Original PC	Guarantor	30	Conventional (Second/Non-Purchase Money First)	\$1,000,000
88-0001 to 88-0999 .....	Original PC	Guarantor	30	Conventional (Relocation)	1,000,000
88-1000 to 88-1999 .....	Original PC	Guarantor	15	Conventional (Relocation)	1,000,000
88-2000 to 88-2999 .....	Original PC	Guarantor	30	Conventional (Biweekly)	1,000,000
88-3000 to 88-3999 .....	Original PC	Guarantor	15	Conventional (Biweekly)	1,000,000
88-4000 to 88-4999 .....	Original PC	Guarantor	30	Conventional (Cooperative Share)	1,000,000
88-5000 to 88-5999 .....	Original PC	Guarantor	15	Conventional (Cooperative Share)	1,000,000
89 .....	Original PC	Guarantor	5	Conventional (30-due-in-5)	1,000,000
95 .....	Original PC	Guarantor	7	Conventional (30-due-in-7)	1,000,000

(1) May designate also a range of PC Pool Numbers specific to a particular Prefix.

(2) All Mortgages are first lien Mortgages unless otherwise specified.

*PC Pools formed under the Cash Program and the MultiLender Swap Program*

The range of Mortgage Coupons in each Cash PC Pool represented by Gold PCs will not exceed 50 basis points. With respect to each such Cash PC Pool, the minimum Mortgage Coupon on any Mortgage in the Cash PC Pool will be 50 basis points above the related PC Coupon, and the maximum Mortgage Coupon on any Mortgage will be no greater than 100 basis points above the related PC Coupon.

Effective October 1, 1990, Freddie Mac will purchase certain Mortgages under its Cash Program based on prices established by Freddie Mac by reference to the secondary market after taking into account the related Mortgage Coupons, remaining terms to maturity and other specified mortgage characteristics. Under this pricing methodology, Freddie Mac may purchase certain Mortgages at a price greater than 100% of the remaining unpaid principal balance (that is, a price above par).

*PC Pools formed under the Guarantor Program*

Any Guarantor PC Pool that contains Cooperative Share Mortgages, Biweekly Mortgages, or Relocation Mortgages, respectively, which comprise an aggregate unpaid principal balance of five percent (5%) or more of the Original Unpaid Principal Balance of the PC Pool will be designated by the Prefixes specified above for PC Pools containing that Mortgage type, and the percentage of Cooperative Share Mortgages, Biweekly Mortgages, or Relocation Mortgages, if less than 100%, will be specified in the related Pool Supplement or in a separate Supplement. Any Guarantor PC Pool that contains Cooperative Share Mortgages, Biweekly

Mortgages and/or Relocation Mortgages comprising an aggregate unpaid principal balance of less than five percent (5%) of the Original Unpaid Principal Balance of the PC Pool will not be designated by the Prefixes specified above for PC Pools containing that specified Mortgage type; however, if such PC Pools contain Cooperative Share Mortgages, the percentage of Cooperative Share Mortgages will be specified in the Pool Supplement or in a separate Supplement.

In addition to the PC Pools described in the Offering Circular, Freddie Mac may form PC Pools of the following types under the Guarantor Program.

*Second Mortgage Guarantor PC Pools—Conventional Mortgages.* These PC Pools consist of Conventional Home Mortgages that are Second Mortgages and/or Non-Purchase Money First Mortgages. Such PC Pools are identified by the Prefixes specified above and, if represented by Original PCs, are further identified by the ranges of PC Pool Numbers specified above. These PC Pools have minimum Original Unpaid Principal Balances of \$1,000,000.

*30-Year Guarantor PC Pools—Conventional Biweekly Mortgages.* These PC Pools consist of first-lien Conventional Home Mortgages with Original Maturities not exceeding 30 years, five percent (5%) or more of the Original Unpaid Principal Balance of which are Biweekly Mortgages. Such PC Pools are identified by the Prefixes specified above and, if represented by Original PCs, are further identified by the ranges of PC Pool Numbers specified above. These PC Pools have minimum Original Unpaid Principal Balances of \$1,000,000.

*15-Year Guarantor PC Pools—Conventional Biweekly Mortgages.* These PC Pools consist of first-lien Conventional Home Mortgages with Original Maturities not exceeding 15 years, five percent (5%) or more of the Original Unpaid Principal Balance of which are Biweekly Mortgages. Such PC Pools are identified by the Prefixes specified above and, if represented by Original PCs, are further identified by the ranges of PC Pool Numbers specified above. These PC Pools have minimum Original Unpaid Principal Balances of \$1,000,000.

*30-Year Guarantor PC Pools—Conventional Cooperative Share Mortgages.* These PC Pools consist of first-lien Conventional Home Mortgages with Original Maturities of more than 15 years up to and including 30 years, five percent (5%) or more of the Original Unpaid Principal Balance of which are Cooperative Share Mortgages. Such PC Pools are identified by the Prefixes specified above and, if represented by Original PCs, are further identified by the ranges of PC Pool Numbers specified above. These PC Pools have minimum Original Unpaid Principal Balances of \$1,000,000.

*15-Year Guarantor PC Pools—Conventional Cooperative Share Mortgages.* These PC Pools consists of first-lien Conventional Home Mortgages with Original Maturities not exceeding 15 years, five percent (5%) or more of the Original Unpaid Principal Balance of which are Cooperative Share Mortgages. Such PC Pools are identified by the Prefixes specified above and, if represented by Original PCs, are further identified by the ranges of PC Pool Numbers specified above. These PC Pools have minimum Original Unpaid Principal Balances of \$1,000,000.

*30-Year Guarantor PC Pools—Conventional Relocation Mortgages.* These PC Pools consist of first-lien Conventional Home Mortgages with Original Maturities not exceeding 30 years, five percent (5%) or more of the Original Unpaid Principal Balance of which are Relocation Mortgages. Such PC Pools are identified by the Prefixes specified above and, if represented by Original PCs, are further identified by the ranges of PC Pool Numbers specified above. These PC Pools have minimum Original Unpaid Principal Balances of \$1,000,000.

*15-Year Guarantor PC Pools—Conventional Relocation Mortgages.* These PC Pools consist of first-lien Conventional Home Mortgages with Original Maturities not exceeding 15 years, five percent (5%) or more of the Original Unpaid Principal Balance of which are Relocation Mortgages. Such PC Pools are identified by the Prefixes specified above and, if represented by Original PCs, are further identified by the ranges of PC Pool Numbers specified above. These PC Pools have minimum Original Unpaid Principal Balances of \$1,000,000.

*30-Due-in-5 Mortgage Guarantor PC Pools—Conventional Mortgages.* These PC Pools consist of Conventional Home Mortgages that are 30-Due-in-5 Mortgages. Such PC Pools are identified by the Prefixes specified above. These PC Pools have minimum Original Principal Balances of \$1,000,000.

*30-Due-in-7 Mortgage Guarantor PC Pools—Conventional Mortgages.* These PC Pools consist of Conventional Home Mortgages that are 30-Due-in-7 Mortgages. Such PC Pools are identified by the Prefixes specified above. These PC Pools have minimum Original Principal Balances of \$1,000,000.

#### **Pool Factors**

The PC Agreement permits Freddie Mac to make payments to Holders of principal and interest based on the unpaid principal balance of the related Mortgages as determined by the applicable Pool Factor.

In the case of Original PCs (including Scheduled Principal PCs), interest is paid based on the unpaid principal balance of the Mortgages as determined by the Pool Factor published in the second month prior to the month in which a payment is made. For any such PC, principal is paid based on the difference between the Pool Factor published in the second month prior to the month in which the payment is made and the Pool Factor published in the month prior to the month in which the payment is made. See “Description of Mortgage Participation Certificates—Interest and Principal Payments” in the Offering Circular.

In the case of Gold PCs, interest is paid based on the unpaid principal balance of the Mortgages as determined by the Pool Factor published in the month prior to the month in which a payment is made. For any Gold PC, principal is paid based on the difference between the Pool Factor published in the month prior to the month in which the payment is made and the Pool Factor published in the month the payment is made. See “Interest and Principal Payments” in this Supplement.

With respect to each Gold PC formed under either the Cash Program or the Guarantor Program, the Pool Factor published in a particular month represents the unpaid principal balance of the PC Pool on the books and records of Freddie Mac as of the 15th day of that month. However, such unpaid principal balance will not have been reduced by (i) full prepayments on the Mortgages occurring after the close of the monthly reporting period ending in the previous month or (ii) partial prepayments on the Mortgages occurring after the close of the monthly reporting period ending in the second previous month.

The Pool Factor calculation for any month for each PC Pool represented by Gold PCs, whether formed under the Cash Program or the Guarantor Program, will reflect: (i) full prepayments with respect to the related Mortgages reflected on the books and records of Freddie Mac as of the close of the monthly reporting period ending in the previous month, (ii) an adjustment for any difference between (A) the sum of the PC Pool balance as reflected by the Pool Factor for the PC Pool for the previous month plus the Monthly Principal Reduction calculated for the previous month and (B) the aggregate mortgage balance reported by servicers for the second previous month (including partial prepayments made during that monthly reporting period) other than differences resulting from mortgage defaults and delinquencies reflected in the books and records of Freddie Mac as of the close of the monthly reporting period ending in the second previous month, and (iii) Monthly Principal Reduction. For any month, Monthly Principal Reduction will be the amount of principal scheduled to be paid under the amortization schedules of the related Mortgages by borrowers in the month for which the Pool Factor is being calculated, as such scheduled amortization is calculated by Freddie Mac based upon the weighted average remaining term to maturity of the Mortgages contained in the PC Pool (“WARM”), the weighted average interest rate of the Mortgages contained in the PC Pool (“WAC”) and the PC Pool balance as reflected by the Pool Factor for the previous month adjusted for the amounts described in (i) and (ii) in the preceding sentence. The WAC and WARM used to calculate the Monthly Principal Reduction will be recalculated monthly. The Pool Factor for each such PC Pool in the month of pool formation is 1.0000000 and will not be published. Prepayments on the Mortgages contained in a PC Pool represented by Gold PCs will not be estimated or predicted.

The following illustrates the payment of principal and interest by application of the Pool Factor method to a hypothetical PC Pool represented by Gold PCs formed in April:

- April 1 . . . . . The initial Pool Factor, which is not published, is equal to 1.0000000.
- April 1-30 . . . . . Settlement on the PC Pool takes place and the PC Pool is formed. The Original Unpaid Principal Balance of a Cash PC Pool is equal to the unpaid principal balance of the Mortgages on the books and records of Freddie Mac as of March 15 reduced by Monthly Principal Reduction due for the month of April. The Original Unpaid Principal Balance of a Guarantor PC Pool is equal to the unpaid principal balance of the Mortgages as of March 15 reduced by the scheduled principal due to be paid on the Mortgages for the month of April, as reported to Freddie Mac by the servicer(s).
- On or about May 1 . . . . . The May Pool Factor is published, reflecting (i) Freddie Mac's calculation of Monthly Principal Reduction due on the Mortgages for the month of May and (ii) full prepayments on the Mortgages reflected on the books and records of Freddie Mac as of April 15, if any.
- May 15 . . . . . The first payment on the Gold PCs is made to Holders as of the April Record Date. The aggregate principal payment to Holders is equal to the difference between the April and May Pool Factors multiplied by the Original Unpaid Principal Balance. The aggregate interest payment to Holders is equal to one month's interest at the applicable PC Coupon on the Original Unpaid Principal Balance.
- By May 22 . . . . . Within five business days after May 15, servicers report the outstanding principal balance of the Mortgages as of May 15.
- On or about June 1 . . . . . The June Pool Factor is published, reflecting (i) Freddie Mac's calculation of Monthly Principal Reduction due on the Mortgages for the month of June, (ii) full prepayments on the Mortgages reflected on the books and records of Freddie Mac as of May 15, and (iii) an adjustment for any difference between (A) the unpaid principal balance of the PC Pool, as reflected by the May Pool Factor plus the Monthly Principal Reduction passed through to Holders in May, and (B) the aggregate mortgage balance reported by servicers for the monthly reporting period ended April 15 (other than differences resulting from mortgage defaults and delinquencies reflected on the books and records of Freddie Mac as of April 15).
- June 15 . . . . . The second payment on the Gold PCs is made to Holders as of the May Record Date. The aggregate principal payment to Holders is equal to the difference between the May and June Pool Factors multiplied by the Original Unpaid Principal Balance. The aggregate interest payment to Holders is equal to one month's interest at the applicable PC Coupon on the product of the Original Unpaid Principal Balance and the May Pool Factor.

Subsequent months follow the pattern illustrated for June. The Pool Factor calculation is identical whether the PC Pool represented by Gold PCs is formed under the Cash Program or the Guarantor Program and whether such PC Pool is formed before or after the 15th day of the month.

Use of the Pool Factor method affects the timing of receipt of payments by Holders but does not affect Freddie Mac's guarantees. Payments made on account of Freddie Mac's guarantee of timely payment of Monthly Principal Reduction constitute payments of principal for purposes of calculating the Pool Factor, the Holder's pro rata share of the unpaid principal balance outstanding on the Mortgages and interest payments at the PC Coupon.

With respect to Original PCs representing interests in PC Pools containing 30-Due-in-5 Mortgages or 30-Due-in-7 Mortgages, Freddie Mac will not estimate the principal payments on the Mortgages that occurred during a reporting period for which a servicer of the Mortgages fails to file an accurate or timely report of its collections of principal payments or for which such report cannot be processed. Accordingly, if a report is not filed or processed for any such reporting period, the Pool Factor published for the affected month will be the same as the Pool Factor for the prior month. Any principal payments that occurred on the

Mortgages during that reporting period will be accounted for by adjustment to subsequent Pool Factors, and, accordingly, to subsequent principal payments made to Holders.

### **Interest and Principal Payments**

A Holder of a Gold PC will receive interest monthly on each Payment Date at the applicable PC Coupon on its pro rata share of the unpaid principal balance of the related Mortgages, as reflected by the Pool Factor published in the immediately preceding month. A Holder of a Gold PC also will receive on any Payment Date its pro rata share of principal payments with respect to the related Mortgages based on the difference between the Pool Factor published in the month of such Payment Date and the Pool Factor published in the previous month.

### **Guarantees**

With respect to Gold PCs, Freddie Mac guarantees to each Holder the timely payment of (i) interest at the applicable PC Coupon on the Holder's pro rata share of the unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method, and (ii) Monthly Principal Reduction due to be paid on the Mortgages as calculated by Freddie Mac, to the extent of such Holder's pro rata share of the unpaid principal balance of the Mortgages. Freddie Mac also guarantees to each Holder of a Gold PC the ultimate collection of all principal on the related Mortgages, without offset or deduction, to the extent of such Holder's pro rata share of the unpaid principal balance of the Mortgages, not later than the Payment Date occurring in the same month as the Final Payment Date of the related PC Pool.

With respect to Original PCs representing interests in a PC Pool containing 30-Due-in-5 Mortgages or 30-Due-in-7 Mortgages, Freddie Mac will repurchase from each PC Pool, pursuant to its guarantee of ultimate collection of principal, no later than the 15th day of the month in which the Final Payment Date occurs, any and all Mortgages then remaining in the PC Pool for any reason, including Mortgages that are in default or that are subject to a repayment plan or period of forbearance. Accordingly, the related Pool Factor published in the month following the month in which the Final Payment Date occurs will be zero, and the final payment to Holders of the related PCs will be made on the 15th day of the second month following the month in which the Final Payment Date occurs. For example, for such a PC Pool having a Final Payment Date of May 1, 2020, Freddie Mac will repurchase the remaining principal amount of the Mortgages in the PC Pool as of May 15, 2020 and that principal amount will be passed through to Holders on July 15, 2020.

### **Final Payment Date**

The Final Payment Date of a PC Pool represented by Gold PCs corresponds to the first day of the month in which the last monthly payment on the latest maturing Mortgage in the related PC Pool is scheduled to be made. Holders will receive the final payment on each Gold PC on or before the Payment Date occurring in the same month as the applicable Final Payment Date.

### **Weighted Average Life And Payment Behavior**

The weighted average life of a PC will depend on the amount of principal, including both scheduled payments and unscheduled prepayments, which is periodically paid to Holders. The payment behavior of a PC Pool may be influenced by a variety of factors. See "Description of Mortgage Participation Certificates—Weighted Average Life and Payment Behavior" in the Offering Circular.

An investor seeking to maximize yield is urged to make an investment decision with respect to the PCs based on the anticipated yield to maturity of such PCs resulting from their price and such investor's own determination as to anticipated prepayment rates under a variety of scenarios. An investor should carefully consider the associated risks including, in the case of any PCs purchased at a discount, the risk that a slower than anticipated rate of principal payments on the Mortgages could result in an actual yield to such investor

that is lower than the anticipated yield and, in the case of any PCs purchased at a premium, the risk that a faster than anticipated rate of principal payments could result in an actual yield to such investor that is lower than the anticipated yield.

*Gold PCs*

The weighted average lives of Gold PCs are likely to be shorter than the weighted average lives of comparable Original PCs due to the shortening of the payment cycle and the operation of the guarantee of timely payment of Monthly Principal Reduction.

*Cooperative Share Mortgages*

With respect to PC Pools containing Cooperative Share Mortgages, additional factors may apply. Tenant-Stockholders may have purchased their interests in the Cooperative at below-market prices available only to persons who were residents of the project at the time of its conversion to cooperative ownership, and may therefore have an incentive to resell their interests at market prices in order to realize the resulting gain and/or “trade-up” to a single-family dwelling. Failure by a significant percentage of Tenant-Stockholders (including project sponsors or developers who hold interests in the Cooperative that were not sold at the time of its conversion to cooperative ownership) to pay their pro rata share of maintenance costs to the Cooperative could result, not only in termination of the Tenant-Stockholders’ individual interests, but also in default by the Cooperative under any blanket mortgage, foreclosure on the project by the blanket lender and termination of the interests even of those Tenant-Stockholders who had fully paid their pro rata share of maintenance costs. These factors could contribute to a higher rate of principal payment for Cooperative Share Mortgages than for mortgages secured by other types of residential property. On the other hand, transfers of ownership interests and occupancy rights in a Cooperative are generally subject to restrictions, including a requirement for prior approval by the Cooperative’s board of directors. In this connection, Tenant-Stockholders typically must satisfy the credit standards not only of the lenders who originate their Cooperative Share Mortgages, but also of the Cooperative’s board of directors, which may result in reduced levels of default as compared to mortgages secured by other types of residential property. These factors could contribute to a lower rate of principal payment for Cooperative Share Mortgages than for other types of mortgages.

*Biweekly Mortgages*

Freddie Mac is not aware of any publicly available statistics that set forth principal prepayment experience with respect to Biweekly Mortgages. Accordingly, Freddie Mac is unable to draw any conclusions with respect to the weighted average lives of PCs representing interests in Biweekly Mortgages.

Biweekly Mortgages typically prepay principal to the extent of an extra monthly payment each year, creating a term to maturity shorter than a similar monthly payment mortgage. The two (or, in certain years, three) extra biweekly payments made each year on a Biweekly Mortgage will accelerate the amortization of a mortgage by an amount determined by the size of the biweekly payments relative to the mortgage amount. The amount of reduction in the mortgage term will vary in a direct relationship with the interest rate of the mortgage. The table below indicates the scheduled maturities for hypothetical mortgages with original unpaid principal balances of \$100,000 at specified interest rates and illustrates the impact that biweekly payments would have on the amortization schedule were payments on each mortgage to be made to maturity according to the monthly or biweekly schedule, as well as the weighted average life of each mortgage (the “WAL”).

<u>Mortgage Coupon</u>	<u>Monthly Payment Mortgage: Scheduled Maturity; WAL</u>	<u>Biweekly Payment Mortgage: Revised Maturity; WAL</u>
8% .....	30 years; 20½ years	23 years; 15 years
9% .....	30 years; 21 years	22 years; 14½ years
10% .....	30 years; 21½ years	21 years; 14 years

Ultimately, the relationship between the weighted average life of a Biweekly Mortgage and a monthly payment mortgage also will depend on the manner in which the Biweekly Mortgage borrower responds to changing economic and other conditions. Freddie Mac makes no representation concerning whether or to what extent mortgage interest rates generally prevailing during the terms of the Biweekly Mortgages may affect the willingness of borrowers to continue making biweekly payments.

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

A Holder of a Gold PC on the books and records of a Federal Reserve Bank as of the close of business on the last business day of a month will be entitled to the payment of principal and interest on the Gold PC to be made on the Payment Date in the next succeeding month.

The first credit to a Holder's account will be made on the Payment Date in the first month following the month in which settlement on the Gold PC occurred. This payment procedure may result in a delay in the receipt of the initial payment of up to 45 days from the date of Gold PC purchase. Thereafter, payments will be received by the Holder on each succeeding Payment Date.

### **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

#### *Gold PCs*

For the tax consequences to Beneficial Owners of Gold PCs, see "Certain Federal Income Tax Consequences" in the Offering Circular.

#### *Cooperative Share Mortgages*

The Internal Revenue Service has ruled that Cooperative Share Mortgages constitute "loans . . . secured by an interest in real property" within the meaning of Section 7701(a)(19)(C)(v) of the Code, are "qualifying real property loans" within the meaning of Section 593(d) of the Code, are "real estate assets" for purposes of Section 856(c)(5)(A) of the Code, and that interest thereon is "interest on obligations secured by mortgages on real property" for purposes of Section 856(c)(3)(B) of the Code.

#### *30-due-in-5 Mortgages and 30-due-in-7 Mortgages*

The Internal Revenue Service has issued Revenue Rulings characterizing PCs as representing beneficial interests in the underlying Mortgages. However, such rulings do not address PCs representing interests in Mortgages subject to a mandatory repurchase such as PCs representing interests in 30-Due-in-5 Mortgages or 30-Due-in-7 Mortgages. There can be no assurance that such Revenue Rulings can be relied upon with respect to PCs that contain such a feature. No opinion is expressed as to whether the sale of PCs that provide for a mandatory repurchase of the underlying 30-Due-in-5 Mortgages or 30-Due-in-7 Mortgages at the Option Date should be treated for federal income tax purposes as a sale to PC holders of undivided beneficial interests in such Mortgages or as the issuance of a Freddie Mac debt obligation. Freddie Mac plans to report for federal income tax purposes assuming that these PCs represent undivided beneficial interests in the 30-Due-in-5 Mortgages or 30-Due-in-7 Mortgages contained in the related PC Pool. If such PCs were to be treated as debt of Freddie Mac, the PCs would not constitute "qualifying real property loans" within the meaning of Section 593(d) of the Code, interest income on the PCs would not be "interest on obligations secured by mortgages on real property" as that phrase is used in Section 856(c)(3)(B) of the Code, and ownership of such a PC by a real estate investment trust would not constitute ownership of "real estate assets" as that phrase is used in Section 856(c)(5)(A) of the Code. In addition, such PCs would not constitute "loans . . . secured by an interest in real property" within the meaning of Section 7701(a)(19)(C)(v) of the Code but would constitute "obligations of a corporation which is an instrumentality of the United States" within the meaning of Section 7701(a)(19)(C)(ii) for purposes of determining whether an institution qualifies

as a “domestic building and loan association.” Investors are advised to consult their own tax advisors regarding the federal tax treatment of such PCs.

## **MORTGAGE PURCHASE AND SERVICING STANDARDS**

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

Notwithstanding the statement in the Offering Circular at page 35 that Freddie Mac generally does not purchase “cash-out” refinance mortgages secured by second homes or investment properties, Freddie Mac purchases such Mortgages with loan-to-value ratios generally not exceeding 75% on a negotiated basis from time to time. In addition, Freddie Mac purchases on a negotiated basis from time to time such Mortgages and the other types of Mortgages described in the Offering Circular at higher loan-to-value ratios than those specified in the Offering Circular. Such purchases are based on Freddie Mac’s evaluation of and experience with the seller of the Mortgages, the presence of appropriate credit enhancements, and other factors.

### **Mortgage Amount**

The Freddie Mac Act establishes limits on the maximum original mortgage amount of any Conventional Mortgage which Freddie Mac may purchase. Currently, the original mortgage amount of Mortgages purchased by Freddie Mac may not exceed \$187,450 for a single family dwelling, \$239,750 for a two-family dwelling, \$289,750 for a three-family dwelling and \$360,150 for a four-family dwelling. In each such case, the applicable limitation may be increased by 50% for properties located in Alaska, Guam or and Hawaii.

Notwithstanding the statement in the Offering Circular at page 36, the current maximum original mortgage amount for a VA Mortgage is \$184,000.

## **ERISA CONSIDERATIONS**

### **Cooperative Share Mortgages**

29 C.F.R. Section 2510.3-101 (the “Regulation”), provides that if an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”; each such plan, an “ERISA Plan”), acquires a “guaranteed governmental mortgage pool certificate” then, for purposes of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code, the ERISA Plan’s assets include the certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the ERISA Plan’s holding of such certificate, include any of the mortgages underlying such certificate. Under the Regulation, the term “guaranteed governmental mortgage pool certificate” is specifically defined to include a certificate “backed by, or evidencing an interest in, specified mortgages or participation interests therein” and with respect to which interest and principal payable pursuant to the certificate are guaranteed by Freddie Mac. The effect of the Regulation is to make clear that the sponsor (that is, the entity that organizes and services the mortgage pool) and other persons, in providing services with respect to the assets in the mortgage pool, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, merely by reason of the ERISA Plan’s investment in a certificate. Although the Regulation does not explicitly state that PCs representing interests in Cooperative Share Mortgages would qualify as “guaranteed governmental mortgage pool certificates,” strong arguments can be made that such PCs do so qualify.

In light of the foregoing, fiduciaries of an ERISA Plan considering the purchase of PCs representing interests in Cooperative Share Mortgages should consult their own counsel regarding whether the assets of the PC Pool which are represented by such PCs would be considered “plan assets,” the consequences that would apply if the PC Pool’s assets were considered “plan assets” and the applicability of statutory or administrative exemptive relief from the prohibited transaction rules.

## DISTRIBUTION ARRANGEMENTS

### Secondary Markets

Certain securities dealers have informed Freddie Mac that they intend to make a secondary market in Gold PCs. In addition, Freddie Mac, through its Security Sales and Trading Group, intends to make a secondary market in Gold PCs. There is no assurance that such a secondary market will develop or, if it develops, that it will continue. Holders of Original PCs will be given the opportunity in the future to exchange such PCs for Gold PCs representing interests in the same PC Pools. Freddie Mac will publish materials describing the procedures for such exchanges.

## AMENDMENTS TO THE PC AGREEMENT

The Federal Home Loan Mortgage Corporation Mortgage Participation Certificate Agreement dated as of June 1, 1989 and included as Exhibit A to the Offering Circular (the "PC Agreement") is hereby amended, as of June 1, 1990, as follows:

Article I of the PC Agreement is amended by inserting the following definitions in alphabetical order:

*Gold PC:* A PC as to which there are approximately 45 days between the first day of the month in which the PC was issued and the date a Holder receives the initial payment in respect of the PC.

*Gold PC Pool:* A PC Pool in which the undivided interests are represented by Gold PCs.

*Monthly Principal Reduction:* For any month, the amount of principal scheduled to be paid by mortgagors on the Mortgages contained in a Gold PC Pool, as calculated by Freddie Mac based upon the weighted average remaining term to maturity of the related Mortgages ("WARM"), the weighted average interest rates of the related Mortgages ("WAC") and the security balance. For purposes of computing the Monthly Principal Reduction, the security balance is the Remaining PC Pool Balance for the previous month, less Unscheduled Principal Payments, less the Monthly Adjustment Amount. For purposes of computing Monthly Principal Reduction, the WARM and WAC are recalculated monthly.

*Monthly Adjustment Amount:* For any month, the difference between (a) the sum of the Remaining PC Pool Balance for the previous month and the Monthly Principal Reduction calculated for the previous month and (b) the aggregate unpaid principal balance of the Mortgages reported by servicers for the monthly reporting period ending in the second previous month (other than differences resulting from mortgage defaults and delinquencies reflected on the books and records of Freddie Mac as of the close of the reporting period ending in the second previous month).

*Unscheduled Principal Payment:* For any month, the sum of principal payments (excluding Scheduled Principal) made in respect of the Mortgages contained in a PC Pool representing full prepayments made, or deemed to be made pursuant to Section 4.01, as of the close of the monthly reporting period ending in the previous month, including prepayments attributable to insurance proceeds, liquidation proceeds and repurchase proceeds, and payments made as a result of a foreclosure sale, condemnation, the payment of insurance or guaranty claims by the FHA or VA, or payment by any other insurer.

*30-Due-in-5 Mortgage:* A Home Mortgage with an original term to maturity not exceeding 60 months having an option to refinance or extend the mortgage term and providing for level payments of principal and interest during the original term with principal payments 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.

*30-Due-in-7 Mortgage:* A Home Mortgage with an original term to maturity in excess of 60 months but not exceeding 84 months having an option to refinance or extend the mortgage term and providing for level payments of principal and interest during the original term with principal payments 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.

The following definitions contained in Article I of the PC Agreement are amended as follows:

(a) The term "Final Payment Date" is amended to read in its entirety as follows:

*Final Payment Date:* For a PC Pool formed under the Cash Program other than a Gold PC Pool, the first day of the month which is 15 or 30 years, as applicable, from the first day of the Month of Initial Sale of a PC in a given PC Pool. For any PC Pool formed under the Guarantor Program and for any Gold PC Pool, the first day of the month in which the last monthly payment is scheduled to be made on the latest maturing Mortgage included in the PC Pool as of the Month of Initial Sale.

(b) The term "Mortgages" is amended to read in its entirety as follows:

*Mortgages:* The Whole Loans and/or Participations identified in the records maintained by Freddie Mac as constituting a PC Pool, which Mortgages consist of or represent interests in promissory notes secured by residential real property consisting of one-to-four family dwelling units or by the stock or membership certificate and proprietary lease or occupancy agreement issued to a tenant-stockholder by a cooperative housing corporation ("Home Mortgages") or by residential real property consisting of five or more family dwelling units ("Multifamily Mortgages"). A "Mortgage" shall mean any Whole Loan or any Participation included in the Mortgages.

(c) The term "Participation" is amended to read in its entirety as follows:

*Participation:* A percentage undivided interest, purchased by Freddie Mac, in one or more fixed-rate first lien or second lien mortgages secured by residential real property or by the stock or membership certificate and proprietary lease or occupancy agreement issued to a tenant-stockholder by a cooperative housing corporation.

(d) The term "PC" is amended to read in its entirety as follows:

*PC:* A Mortgage Participation Certificate sold pursuant to this Agreement, representing an undivided interest in a pool of Mortgages identified by a particular PC Pool Number and CUSIP Number. For purposes of this Agreement, the term PC shall also include the term Gold PC unless the context requires otherwise.

(e) The term "PC Pool" is amended to read in its entirety as follows:

*PC Pool:* A discrete pool of Mortgages identified in the records maintained by Freddie Mac by a PC Pool Number. For purposes of this Agreement, the term PC Pool shall also include the terms Gold PC Pool and Scheduled Principal PC Pool unless the context requires otherwise.

(f) The term "Whole Loan" is amended to read in its entirety as follows:

*Whole Loan:* A fixed-rate, first lien or second lien mortgage secured by residential real property or by the stock or membership certificate and proprietary lease or occupancy agreement issued to a tenant-stockholder by a cooperative housing corporation, as to which mortgage the entire unpaid principal balance is purchased by Freddie Mac.

Section 2.02 of the PC Agreement is amended to read in its entirety as follows:

**Section 2.02. Identity of the Mortgages; Substitution and Repurchase.** A PC Pool shall consist entirely of Conventional Mortgages or shall consist entirely of FHA Mortgages and/or VA Mortgages. In the case of a PC Pool formed under the Cash Program, unless otherwise stated in connection with a particular offering of PCs, Freddie Mac shall have the power and authority to determine the amount and identity of the Mortgages which constitute the PC Pool until the day prior to the date the first payment of principal and interest is payable with respect to the PC Pool. Any Mortgage added to or withdrawn from a PC Pool after the Month of Initial Sale and prior to the date the first payment of principal and interest is payable to the Holders shall be added or withdrawn at its unpaid principal balance as of the last day of the Month of Initial Sale. A PC Pool formed under the Guarantor Program shall consist only of those Mortgages acquired by Freddie Mac from a single seller in exchange for PCs representing undivided interests in the same Mortgages. Except as provided in Section 2.03, once the

identity of the Mortgages has been determined, such identity shall not thereafter be changed; provided, however, that (i) Freddie Mac may, in connection with its performance of servicing responsibilities pursuant to Section 3.02, repurchase any Mortgage at its then unpaid principal balance, if such repurchase is necessary in order to maintain proper servicing of the Mortgages or to minimize loss; (ii) a seller to Freddie Mac of a Mortgage may repurchase such Mortgage at its then unpaid principal balance pursuant to such seller's obligation to Freddie Mac to do so in the event such Mortgage is in default; (iii) Freddie Mac may, in connection with the performance of its servicing responsibilities pursuant to Section 3.02, agree to the repurchase by the seller of any Mortgage at its then unpaid principal balance, if such repurchase is necessary in order to maintain proper servicing of the Mortgages or to minimize loss; (iv) if, in the event of the bankruptcy of a mortgagor, a bankruptcy court approves a plan which materially affects the terms of a Mortgage, authorizes a transfer of the underlying property or provides for substitution of collateral, Freddie Mac may repurchase such Mortgage at its then unpaid principal balance; (v) in the case of a material breach of warranty by a seller of any Mortgage, or a material defect in documentation as to any Mortgage, or a failure by a seller to comply with any requirements or terms set forth in the Purchase Documents (as defined in the Guide) as to any Mortgage, Freddie Mac may require the seller to repurchase such Mortgage or may, within six months of the purchase of such Mortgage, require or permit the seller to substitute for such Mortgage a mortgage of comparable type, unpaid principal balance, remaining term and yield; (vi) if any borrower exercises an option to extend or refinance a 30-Due-in-5 Mortgage or a 30-Due-in-7 Mortgage, Freddie Mac shall repurchase such Mortgage at its then unpaid principal balance no later than the 15th day of the month in which the original maturity date of the Mortgage occurs, which date shall be no later than 60 months or 84 months, respectively, after the date of the first scheduled monthly payment on such Mortgage; and (vii) in the event that the purchase of any Mortgage by Freddie Mac is determined by a court of competent jurisdiction to have been unauthorized, Freddie Mac may effectuate a cure by such means as Freddie Mac determines to be necessary and appropriate or, if Freddie Mac determines that a cure is not practicable without unreasonable effort or expense, or if such court so requires, Freddie Mac will repurchase such Mortgage at its then unpaid principal balance, or will, within two years of the purchase of such Mortgage, substitute for such Mortgage a mortgage of comparable type, unpaid principal balance, remaining term and yield. Any repurchase of a Mortgage by a seller from a PC Pool represented by Scheduled Principal PCs or Gold PCs shall be at its then unpaid principal balance, less any outstanding advances of Scheduled Principal which were paid by the seller to Freddie Mac. Any repurchase of a Mortgage by Freddie Mac from a Gold PC Pool shall be at its then unpaid principal balance, less any outstanding advances of Monthly Principal Reduction attributable to such Mortgage which were paid by Freddie Mac but not received by Freddie Mac from the seller. In determining whether a Mortgage shall be repurchased from a PC Pool as described in this Section 2.02, Freddie Mac considers such factors as it deems appropriate, including whether a repurchase will reduce Freddie Mac's administrative costs or will reduce Freddie Mac's possible exposure under its guarantee of ultimate collection of principal.

Section 2.04 of the PC Agreement is amended to read in its entirety as follows:

**Section 2.04. Custody of Mortgage Documents.** This Section 2.04 describes Freddie Mac's current policies and procedures for the custody of Mortgage documents as of the date of this Agreement, which policies and procedures are subject to change at any time, provided that such change shall be prudent and shall not materially and adversely affect the interests of Holders. Mortgage documents include the stock or membership certificate evidencing a tenant-stockholder's or resident-member's ownership interest in a cooperative housing corporation and the proprietary lease or occupancy agreement granting exclusive occupancy rights in the tenant-stockholder's or resident-member's dwelling unit. In the case of all Whole Loan Home Mortgages and certain Participations in Home Mortgages, the Mortgage notes are endorsed in blank and the Mortgage documents are held by Freddie Mac or by a custodian (which may be either a third party or a trust department of the servicer) acting as Freddie Mac's agent; related assignments are duly completed and executed in a form suitable for recording but not recorded. In the case of other Participations in Home Mortgages, Freddie Mac holds participation

certificates which evidence Freddie Mac's ownership interest in the Mortgages. If the Mortgage notes are not endorsed to and held by Freddie Mac, the originator or seller may hold the Mortgage notes, the Mortgages are recorded in the originator's or seller's name, and no assignment is made or recorded in Freddie Mac's name. In the case of all Multifamily Mortgages, the Mortgage notes are endorsed to and held by Freddie Mac or are held by a custodian acting as Freddie Mac's agent. Where local law or practice requires, assignments of the Mortgages are recorded in Freddie Mac's name.

Section 4.03 of the PC Agreement is amended to read in its entirety as follows:

**Section 4.03. Pass-Through of Principal.** Freddie Mac shall pass through to each Holder such Holder's pro rata share of (i) principal payments made in respect of the Mortgages including Scheduled Principal, in the case of Scheduled Principal PCs, and Monthly Principal Reduction due to be made in respect of the Mortgages, in the case of Gold PCs, (ii) any net income, net profits or proceeds of the Mortgages (including prepayment fees, if any), and (iii) net proceeds realized from any property of whatever character received or acquired in substitution for or upon realization on the Mortgages, whether through insurance, guaranty payment, condemnation, foreclosure, or otherwise; provided, however, that Freddie Mac's obligations herein shall be subject to Freddie Mac's rights pursuant to Section 4.10 with respect to payments made pursuant to Freddie Mac's guarantees. Freddie Mac may retain from any full or partial prepayment or payment of delinquent principal in respect of any Mortgage any amounts, not previously received by Freddie Mac, which it paid to Holders in respect of such Mortgage pursuant to its guarantees. With respect to Mortgages delivered to Freddie Mac in exchange for PCs under the MultiLender Swap Program, Freddie Mac shall retain principal payments made on such Mortgages in an amount equal to the difference between the aggregate unpaid principal balance as of the delivery date of the Mortgages delivered by such seller and the aggregate unpaid principal balance as of the settlement date of such Mortgages, and Freddie Mac shall purchase additional Mortgages with such principal payments and shall include such additional Mortgages in the related Cash PC Pool. Insurance proceeds, the proceeds of any liquidation of a Mortgage, including proceeds resulting from acquisition by Freddie Mac of the real property securing a Mortgage, and the proceeds of any repurchase of a Mortgage described in Section 2.02 shall be treated in the same manner as a full prepayment of principal and shall be passed through to Holders in accordance with this Article IV.

Section 4.05 of the PC Agreement is amended to read in its entirety as follows:

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

Subject to the provisions of this Article IV, Freddie Mac shall pay to each Holder of a PC such Holder's pro rata share of principal received by Freddie Mac (including Scheduled Principal, in the case of Scheduled Principal PCs, and Monthly Principal Reduction, in the case of Gold PCs), interest at the applicable PC Coupon, and any other sums due to Holders under this Agreement, within 60 days of the date on which such payments are deemed to be received by Freddie Mac from servicers of the Mortgages pursuant to Section 4.01. Freddie Mac reserves the right to change the period during which a servicer may hold funds prior to payment to Freddie Mac; provided, however, that any such change shall not delay the time of payments to Holders as otherwise provided in this Section 4.05. Pending payment to Holders of funds received by Freddie Mac from servicers, Freddie Mac shall be entitled to invest and reinvest such funds for Freddie Mac's sole risk and benefit. Freddie Mac's guarantees as set forth in Section 4.09 shall continue to be effective or shall be reinstated in the event that any payment of principal

or interest with respect to the Mortgages paid under this Agreement to a Holder is, for any reason, returned by the Holder pursuant to an order, decree or judgment of any court of competent jurisdiction that the Holder was not entitled to retain such payment pursuant to this Agreement.

Section 4.06 of the PC Agreement is amended to read in its entirety as follows:

**Section 4.06. Pool Factors.**

(a) Freddie Mac shall calculate and make payments to Holders pursuant to the Pool Factor method until such time as Freddie Mac shall determine that there is a more accurate and practicable method for calculating such payments, in which event Freddie Mac shall calculate and make payments to Holders pursuant to the more accurate method. As long as Freddie Mac shall use the Pool Factor method, it shall do so pursuant to the provisions of this Section 4.06.

(i) On or about the first business day of each month, Freddie Mac will publish or cause to be published for such month a Pool Factor with respect to each PC Pool.

(ii) In the case of a PC other than a Gold PC, interest at the applicable PC Coupon shall be paid by Freddie Mac on the Holder's pro rata share of the Remaining PC Pool Balance as determined by the Pool Factor for the second month prior to the month in which payment to Holders is made. In the case of a Gold PC, interest at the applicable PC Coupon shall be paid by Freddie Mac on the Holder's pro rata share of the Remaining PC Pool Balance as determined by the Pool Factor for the month prior to the month in which payment to Holders is made.

(iii) In the case of a PC other than a Gold PC, principal payments shall be paid to a Holder by Freddie Mac in an amount equal to the difference between the Holder's pro rata share of (w) the Remaining PC Pool Balance as determined by the Pool Factor for the second month prior to the month in which payment is made to a Holder, and (x) the Remaining PC Pool Balance as determined by the Pool Factor for the month prior to the month in which payment is made to the Holder. In the case of a Gold PC, principal payments shall be paid to a Holder by Freddie Mac in an amount equal to the difference between the Holder's pro rata share of (y) the Remaining PC Pool Balance as determined by the Pool Factor for the month prior to the month in which payment is made to a Holder, and (z) the Remaining PC Pool Balance as determined by the Pool Factor for the month in which payment is made to the Holder.

(b) Each Pool Factor shall be determined as follows:

(i) Each Pool Factor applicable to any PC Pool other than a Gold PC Pool or a Scheduled Principal PC Pool will be based upon the unpaid principal balances of the related Mortgages as reported to Freddie Mac by servicers or, except in the case of any 30-Due-in-5 Mortgage and 30-Due-in-7 Mortgage, upon an estimation of principal collections with respect to the Mortgages under such procedure for estimating such payments as may be adopted by Freddie Mac.

(ii) Each Pool Factor applicable to any Gold PC Pool will be based upon a reduction of the Remaining PC Pool Balance by the Unscheduled Principal Payments and the Monthly Adjustment Amount for the month in which the Pool Factor is being determined and a calculation of Monthly Principal Reduction with respect to the Mortgages contained in the related Gold PC Pool under such procedure for calculating Monthly Principal Reduction as may be adopted by Freddie Mac.

(iii) Each Pool Factor applicable to any Scheduled Principal PC Pool will be based upon reduction of the Remaining PC Pool Balance by the Unscheduled Principal Payments and Aggregate Scheduled Principal or upon an estimation of Aggregate Scheduled Principal under such procedure as may be adopted by Freddie Mac.

To the extent a given Pool Factor (adjusted as necessary for payments made pursuant to Freddie Mac's guarantees of timely payment of Scheduled Principal or Monthly Principal Reduction, as the

case may be) does not reflect the unpaid principal balance of the Mortgages, any difference will be accounted for as soon as practicable by adjusting subsequent Pool Factors.

(c) The Pool Factor method of determining payments will affect the timing of receipt of payments by Holders but will not affect Freddie Mac's guarantee of timely payment of interest and ultimate collection of principal or Freddie Mac's guarantee of timely payment of Scheduled Principal or Monthly Principal Reduction, as the case may be, if applicable, as set forth in Section 4.09. Freddie Mac's guarantees will not be affected by the implementation of any different method for calculating and paying principal and interest as permitted by this Section 4.06.

The third sentence contained in Section 4.07 of the PC Agreement is amended to read in its entirety as follows:

In the case of a Mortgage included in a Scheduled Principal PC Pool or, if applicable, a Gold PC Pool, a servicer may retain from full or partial prepayments or payments of delinquent principal any payments of principal, and from collections of delinquent interest any payments of interest, which the servicer made to Freddie Mac but did not receive from the mortgagor with respect to such Mortgage.

The last sentence contained in Section 4.08 of the PC Agreement is amended to read in its entirety as follows:

Expenses borne pro rata by Holders as described above may be paid by Freddie Mac from payments otherwise due to Holders, and therefore will affect the timing of receipt of payments by Holders, but in no event shall Freddie Mac's guarantees of timely payment of Scheduled Principal, Monthly Principal Reduction and interest at the applicable PC Coupon or Freddie Mac's guarantee of ultimate collection of principal, as set forth in Section 4.09, be affected by fees deducted by Freddie Mac or servicers or by amounts expended by Freddie Mac or servicers for the protection, preservation or maintenance of the real property securing the Mortgages.

Section 4.09 of the PC Agreement is amended as follows:

(a) by deleting the third sentence of subsection (b) thereof and inserting the following in its place:

Freddie Mac shall pay the amount due on account of its guarantee of ultimate collection of principal at any time after default on a Mortgage, but not later than 30 days following (i) foreclosure sale, (ii) payment of a claim for insurance or guaranty by the FHA or the VA, or by any other mortgage insurer, if applicable, or (iii) the expiration of any redemption period, whichever occurs later, but in any event no later than the earlier of one year after an outstanding demand has been made upon the borrower for accelerated payment of principal or for payment of the principal due on the maturity of a Mortgage. In the case of any PC Pool other than a Gold PC Pool which contains 30-Due-in-5 Mortgage and any 30-Due-in-7 Mortgage, Freddie Mac shall pay the amounts described in the preceding sentence not later than the 15th day of the second month following the month in which the Final Payment Date occurs.

(b) by inserting at the end thereof the following subsection:

(d) In the case of Gold PCs, in addition to the other guarantees contained in subsections (a) and (b) of this Section 4.09, Freddie Mac guarantees the timely payment of Monthly Principal Reduction due to be paid on the Gold PC Pool, whether or not received by Freddie Mac. Freddie Mac's guarantee of timely payment of Monthly Principal Reduction on any Gold PC shall be computed in accordance with such procedure as may be adopted by Freddie Mac. Monthly Principal Reduction with respect to each PC Pool will be deemed to have occurred on the first day of each month and will be paid to Holders pursuant to Section 4.05 on the basis of this assumption. Any payment made by Freddie Mac to Holders on account of Freddie Mac's guarantee of timely payment of Monthly Principal Reduction shall be considered to be payment of principal for purposes of calculation of the Pool Factor with respect to the related Gold PC Pool and to be a payment of principal for purposes of calculating the Holder's pro rata share of unpaid principal pursuant to subsection (b) of this Section 4.09.

Section 4.12 of the PC Agreement is amended to read in its entirety as follows:

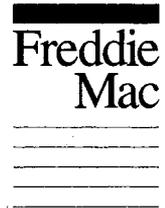
**Section 4.12. Modification of Final Payment Date.** The final payment in respect of a PC may occur prior to the month in which the Final Payment Date occurs by virtue of prepayments of principal or may occur after the Final Payment Date by virtue of the procedure for payment of principal and interest as described in Section 4.05. For PCs other than Scheduled Principal PCs, Gold PCs and any PCs representing interests in 30-Due-in-5 Mortgages and 30-Due-in-7 Mortgages, the final payment in respect of a PC may also occur after the month in which the Final Payment Date occurs by virtue of (i) forbearance or payment plans affecting any Mortgage, or (ii) payment under Freddie Mac's guarantee of ultimate collection of principal after a mortgagor default as described in Section 4.09(b).

Except as specifically amended above, the PC Agreement shall remain in full force and effect and is hereby ratified and confirmed.

Offering Circular

# Federal Home Loan Mortgage Corporation

## Mortgage Participation Certificates (Guaranteed)



Mortgage Participation Certificates ("PCs") represent undivided interests in specified fixed-rate, level payment, residential mortgages or participations therein purchased by the Federal Home Loan Mortgage Corporation ("Freddie Mac") and placed in a PC Pool (the "Mortgages"). See "Description of the Mortgage Participation Certificates—The Mortgages." Each PC Pool will consist entirely either of conventional Mortgages or of Mortgages fully insured by the Federal Housing Administration and/or Mortgages guaranteed, in part, by the Veterans Administration. Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC interest rate (the "PC Coupon") on the Holder's pro rata share of the unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method. Freddie Mac also guarantees to each Holder the ultimate collection of all principal of the related Mortgages, without offset or deduction, to the extent of the Holder's pro rata share thereof. With respect to certain PCs ("Scheduled Principal PCs"), in addition to Freddie Mac's other guarantees, Freddie Mac guarantees the timely payment of the monthly principal scheduled to be paid under the amortization schedule applicable to each Mortgage, based on servicers' reports of scheduled principal due on the Mortgages.

This Offering Circular applies to sales by Freddie Mac of PCs formed under its Cash Program and MultiLender Swap Program (collectively "Cash PCs") and PCs formed under its Guarantor Program ("Guarantor PCs"). Each Cash PC represents an undivided interest in Mortgages which Freddie Mac has purchased from a number of sellers and formed into a PC Pool. Each Guarantor PC represents an undivided interest in Mortgages which Freddie Mac has purchased from a single seller in exchange for PCs representing undivided interests in the same Mortgages. The characteristics of Cash PC Pools and Guarantor PC Pools are likely to differ in significant respects from each other. See "Description of Mortgage Participation Certificates—PC Pools." PCs are sold in book-entry form only. See "Description of Mortgage Participation Certificates—Book-Entry Form, Holders, Minimum Principal Amounts and Transfers."

---

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

Freddie Mac furnishes to initial purchasers of Guarantor PCs from Freddie Mac an Offering Circular supplement which sets forth, as of the date of delivery of the Mortgages to Freddie Mac for purchase, the weighted average remaining term to maturity and weighted average interest rate of the Mortgages, the location by state of the real property securing the Mortgages and the number of Mortgages included in the PC Pool (the "Pool Supplement"). If an initial purchaser of Guarantor PCs sells or offers such PCs for sale, such seller is required to furnish to prospective purchasers the Pool Supplement, as well as any other applicable Offering Circular supplements.

---

PCs are not guaranteed by and do not constitute debts or obligations of the United States or any Federal Home Loan Bank. Certain of the Mortgages are insured by the Federal Housing Administration or guaranteed by the Veterans Administration, both of which are federal agencies. Income from the PCs has no exemption under federal law from federal, state or local taxation.

---

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.

Offering Circular Dated June 30, 1989

## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Offering Circular Summary .....	3
Federal Home Loan Mortgage Corporation .....	7
Availability of Information and Incorporation by Reference .....	7
Application of Proceeds .....	7
Description of Mortgage Participation Certificates .....	7
The PCs .....	7
The Mortgages .....	8
PC Pools .....	10
PC Pools Formed Under the Cash Program and the MultiLender Swap Program .....	11
PC Pools Formed Under the Guarantor Program .....	12
Pool Factors .....	15
Interest and Principal Payments .....	20
Guarantees .....	21
Final Payment Date .....	22
Weighted Average Life and Payment Behavior .....	22
Book-Entry Form, Holders, Minimum Principal Amounts and Transfers .....	27
Remedies .....	28
Certain Federal Income Tax Consequences .....	29
General Tax Characteristics .....	29
Buydown Accounts .....	30
Discount and Premium .....	30
Backup Withholding and Foreign Withholding .....	32
Mortgage Purchase and Servicing Standards .....	33
Credit, Appraisal and Underwriting Guidelines .....	34
Loan-to-Value Ratio .....	34
Mortgage Insurance .....	35
Mortgage Amount .....	36
Special Financing Arrangements .....	36
Eligible Sellers, Servicers and Warranties .....	37
Mortgage Servicing .....	38
Prepayments .....	38
Assumption and Due-on-Transfer Policies .....	38
Fees .....	40
Defaults and Delinquencies .....	40
Foreclosures .....	41
Legality of Investment .....	42
Regulatory Constraints .....	43
Accounting Matters .....	43
Federal Securities Laws .....	43
Distribution Arrangements .....	43
Cash Program .....	43
MultiLender Swap Program .....	44
Guarantor Program .....	44
Secondary Market .....	44
Exhibit A—Mortgage Participation Certificate Agreement .....	A-1

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

### OFFERING CIRCULAR SUMMARY

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

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

**The Securities** . . . . . PCs representing undivided interests in specified Mortgages purchased by Freddie Mac and placed in a discrete pool ("PC Pool") identified by a PC Pool number. The first two characters of each PC Pool number ("Prefix") identify the type of Mortgages constituting the PC Pool, the program under which the PC Pool was formed or certain characteristics of the Mortgages in the PC Pool as summarized below. Each PC Pool formed under the Cash Program (a "Cash PC Pool") contains Mortgages purchased by Freddie Mac from a number of sellers in exchange for cash, or in the case of purchases pursuant to the MultiLender Swap Program, in exchange for Cash PCs representing an undivided interest in the Mortgages in the Cash PC Pool into which the seller's Mortgages were placed. Each PC Pool formed under the Guarantor Program (a "Guarantor PC Pool") contains Mortgages purchased by Freddie Mac from a single seller in exchange for Guarantor PCs representing an undivided interest in the same Mortgages. PCs are sold by Freddie Mac on a continuous basis.

Prefix	Program	Maximum Mortgage Term (Years)	Type of Mortgage <sup>(1)</sup>	Minimum Original PC Pool Balance	Scheduled Principal PCs
36	Cash	30	Conventional	\$10,000,000	No
53	Guarantor	30	Conventional	1,000,000	No
26	Guarantor	30	Conventional	1,000,000	Yes
43	Guarantor	30	Conventional	250,000	No
46	Guarantor	30	Conventional	250,000	Yes
38	Cash	15	Conventional	10,000,000	No
50	Guarantor	15	Conventional	1,000,000	No
32	Guarantor	15	Conventional	1,000,000	Yes
44	Guarantor	15	Conventional	250,000	No
47	Guarantor	15	Conventional	250,000	Yes
85	Guarantor	15	Conventional <sup>(2)</sup>	1,000,000	No
14	Guarantor	30	FHA/VA	1,000,000	No
33	Guarantor	30	FHA/VA	1,000,000	Yes
45	Guarantor	30	FHA/VA	250,000	No
48	Guarantor	30	FHA/VA	250,000	Yes

(1) All Mortgages are first lien Mortgages unless otherwise indicated.

(2) These PC Pools consist of Second Mortgages and Non-Purchase Money First Mortgages. See "Description of the Mortgage Participation Certificates—The Mortgages."

**The Mortgages** ..... The Mortgages are fixed-rate, level payment, residential mortgages, including whole mortgage loans and/or participation interests therein. Except for Second Mortgages (as defined herein), all Mortgages are first lien mortgages. The Mortgages in any PC Pool are all either conventional Mortgages or Mortgages fully insured by the Federal Housing Administration ("FHA") and/or guaranteed, in part, by the Veterans Administration ("VA"). See "Description of Mortgage Participation Certificates—The Mortgages."

**Book-Entry Form; Holders** ... PCs are issued and maintained, and may be transferred by Holders (as defined below), only on the book-entry system of a Federal Reserve Bank. PCs may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts PCs have been deposited are referred to herein as "Holders." A Holder is not necessarily the beneficial owner of a PC. Beneficial owners ordinarily hold PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a PC, and each other financial intermediary in the chain between the Holder and the beneficial owner, will have the responsibility of establishing and maintaining accounts for their customers. The rights of a beneficial owner of a PC with respect to Freddie Mac and a Federal Reserve Bank may be exercised only through the Holder of that PC. Freddie Mac and the Federal Reserve Bank will have no direct obligation to a beneficial owner of a PC that is not also the Holder of the PC. The Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a PC.

**Minimum Principal Amounts and Transfers** ..... PCs are issued and must be maintained and transferred in minimum original principal amounts for any PC Pool of \$1,000 and additional increments of \$1. Such amounts represent the Holder's pro rata share of the original unpaid principal balance of the PC Pool.

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

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

<b>Principal</b> .....	Principal is passed through pro rata monthly on the Payment Date, commencing on the Payment Date in the second month following the month in which the Holder becomes a holder of record. See "Record Date" below. All principal payments and determinations of the unpaid principal balance of the related Mortgages are calculated by Freddie Mac under the Pool Factor method. See "Description of Mortgage Participation Certificates—Interest and Principal Payments" and "—Pool Factors."
<b>Record Date</b> .....	A Holder of a PC on the books and records of a Federal Reserve Bank as of the close of business on the last business day of a month (the "Record Date") will be entitled to the payment of principal and interest on the PC for the entire month, which payment will be made on the Payment Date in the second succeeding month. See "Description of Mortgage Participation Certificates—Book-Entry Form, Holders, Minimum Principal Amounts and Transfers."
<b>Guarantees</b> .....	Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the aggregate unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method. Freddie Mac also guarantees to each Holder ultimate collection of all principal of the related Mortgages, without offset or deduction, to the extent of such Holder's pro rata share thereof. With respect to Scheduled Principal PCs, in addition to its other guarantees, Freddie Mac guarantees to each Holder the timely payment of the monthly principal scheduled to be paid under the amortization schedule applicable to each Mortgage ("Scheduled Principal"), whether or not received by Freddie Mac. Freddie Mac's monthly payments of Scheduled Principal are computed based upon the servicers' monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. See "Description of Mortgage Participation Certificates — Guarantees."
<b>Tax Status</b> .....	Income from the PCs has no exemption under federal law from federal, state or local taxation. PCs generally constitute (i) "loans secured by an interest in real property" for purposes of determining whether an institution qualifies as a "domestic building and loan association," (ii) "qualifying real property loans" with respect to certain thrift institutions, and (iii) "real estate assets" with respect to real estate investment trusts, and interest thereon constitutes "interest on obligations secured by mortgages on real property" with respect to real estate investment trusts. See "Certain Federal Income Tax Consequences."
<b>Legality of Investment</b> .....	PCs, described herein: <ul style="list-style-type: none"> <li>• are acceptable as security for the deposit of public monies subject to the control of the United States or any of its officers;</li> <li>• are eligible as collateral for Treasury tax and loan accounts;</li> <li>• are among those securities which national banks may deal in, underwrite and purchase for their own accounts without limitation;</li> <li>• are eligible as collateral for advances by Federal Reserve Banks;</li> <li>• are legal investments for federal savings and loan associations and federal savings banks;</li> </ul>

- are eligible as collateral for advances from Federal Home Loan Banks;
- are legal investments for surplus and reserve funds of Federal Home Loan Banks;
- are legal investments for federal credit unions; and
- are considered plan assets for private pension funds under the Employee Retirement Income Security Act of 1974 (and the underlying Mortgages are not considered plan assets).

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

**Offering Procedure** ..... PCs are initially offered for sale by Freddie Mac pursuant to Freddie Mac's Cash Program, MultiLender Swap Program and Guarantor Program under various distribution arrangements as described herein. See "Distribution Arrangements."

**Secondary Market** ..... Certain securities dealers make a market in PCs. Freddie Mac also buys and sells PCs in the secondary market through the Security Sales and Trading Group, a division of Freddie Mac. See "Distribution Arrangements—Secondary Market."

## FEDERAL HOME LOAN MORTGAGE CORPORATION

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

### AVAILABILITY OF INFORMATION AND INCORPORATION BY REFERENCE

Freddie Mac prepares an Information Statement annually which describes Freddie Mac, its business and operations and contains Freddie Mac's audited financial statements for the two most recent fiscal years ending prior to the date of such Information Statement. From time to time Freddie Mac prepares an Information Statement supplement which includes certain unaudited financial data and other information concerning the business and operations of Freddie Mac. The most current Information Statement and Information Statement supplements thereto, if any, are incorporated by reference into this Offering Circular and made a part hereof. Any of these documents and any quarterly report, statistical information on its mortgage purchase and securities sales volume and other relevant information prepared and made available by Freddie Mac can be obtained by writing or calling the Investor Inquiry Department at Freddie Mac at 1759 Business Center Drive, P.O. Box 4112, Reston, Virginia 22090 (outside Washington, D.C. metropolitan area, telephone 800/424-5401, extension 8160; within the Washington, D.C. metropolitan area, telephone 703/759-8160).

### APPLICATION OF PROCEEDS

The net proceeds received by Freddie Mac from the sale of the PCs described herein will provide funds for Freddie Mac to engage in activities consistent with its statutory purposes, including the purchase of additional mortgages and interests in mortgages, repayment of borrowings and satisfaction of working capital needs. In the case of PCs sold under the Guarantor Program and MultiLender Swap Program, such net proceeds are derived from Freddie Mac's management and guarantee fees and not from the sale of the PCs.

### DESCRIPTION OF MORTGAGE PARTICIPATION CERTIFICATES

#### The PCs

PCs represent undivided interests in the Mortgages which constitute the related PC Pools. PCs are sold under the terms of the Mortgage Participation Certificate Agreement, dated as of June 1, 1989 (the "PC Agreement"), included in this Offering Circular as Exhibit A, which qualifies this summary in its entirety. Holders and anyone having a beneficial interest in PCs should refer to the PC Agreement for a complete description of their rights and obligations and the rights and obligations of Freddie Mac with respect to the PCs. Each Holder and anyone having a beneficial interest in PCs unconditionally accepts all the terms and provisions of the PC Agreement and acquires a PC subject to all such terms and provisions.

Generally, the yield payable to Freddie Mac on the Mortgages in any PC Pool will be equal to or greater than the interest payable to Holders at the PC Coupon, with the difference retained by Freddie Mac as its management and guarantee fee. Any excess of the interest payable on a Mortgage over the remittance to Freddie Mac required under its agreement with the servicer of the Mortgage is retained by the servicer as its servicing fee. See "PC Pools—PC Pools formed under the Cash Program and the MultiLender Swap Program" and "—PC Pools formed under the Guarantor Program."

## The Mortgages

The Mortgages are fixed-rate, level payment, residential Mortgages or participations therein secured by one-to-four family dwellings ("Home Mortgages"). Except for Second Mortgages (as defined herein), all Mortgages are first lien mortgages. Up to five percent of the original unpaid principal balance of certain Cash PC Pools described below may consist of fixed-rate, level payment, first lien mortgages secured by properties containing five or more dwelling units and designed in whole or in part for residential use ("Multifamily Mortgages").

Freddie Mac purchases either the entire interest in Mortgages ("whole loans") or participation interests in Mortgages ("participations"). Freddie Mac purchases participations in Home Mortgages from 50% to 95% of the unpaid principal balance of such Mortgages. Freddie Mac does not purchase participation interests in Multifamily Mortgages.

The Mortgages may be conventional mortgages, which do not have the benefit of any guarantee or insurance by the United States or any agency or instrumentality of the United States other than the Freddie Mac guarantees described herein ("Conventional" Mortgages) or Mortgages which are fully insured by the FHA under sections 203(b), or (h), or (i) (Home Unsubsidized); 222 (Servicemen) or 234 (Individual Condominium Unit) of the National Housing Act ("FHA Mortgages"), or guaranteed in part by the VA under 38 U.S.C. § 1810 ("VA Mortgages"). All Multifamily Mortgages are Conventional Mortgages.

The Mortgages may include mortgages which were originated as adjustable rate or graduated payment mortgages which have been modified to bear a fixed rate of interest and to provide for level monthly payments or have converted, under the terms of the mortgage instruments, to mortgages which pay at a fixed rate of interest in level monthly payments over their remaining terms ("Converted Mortgages"). Scheduled monthly payments on Converted Mortgages may be greater than the scheduled monthly payments due on the Mortgages prior to their conversion. The Converted Mortgages are not required to have been originated on mortgage instruments approved by Freddie Mac and the Federal National Mortgage Association ("Uniform Instruments"); however, an enforceable due-on-transfer clause or rider is required to be in effect with respect to each Converted Mortgage.

The Mortgages may include mortgages made to employees participating in corporate employee relocation programs ("Relocation Mortgages"). Relocation Mortgages are mortgages made to transferred employees of a corporation to finance home purchases at their new job location. Relocation Mortgages are made pursuant to a corporate employee relocation program administered by the corporate employer or its agent, involve a significant employer contribution to mortgage funding and are made by the lender pursuant to a contract or agreement with the employer or its agent.

The Mortgages in certain specified Guarantor PC Pools will be exclusively mortgages which are subordinate only to any first lien on the mortgaged property ("Second Mortgages") and/or mortgages made for a purpose other than the purchase of the property securing the mortgage and originated or underwritten on terms generally similar to second mortgages ("Non-Purchase Money First Mortgages").

Except as provided herein, Conventional Home Mortgages originated after January 1, 1976 must have been originated on Uniform Instruments. Such Uniform Instruments contain provisions which permit acceleration of the unpaid principal balance upon transfer of the property securing a Mortgage or any interest therein (a "due-on-transfer clause"). Such acceleration is permitted regardless of the creditworthiness of the

transferee. Under certain limited circumstances, Freddie Mac does not require acceleration of the unpaid principal balance upon transfer of the property to certain transferees. See "Mortgage Purchase and Servicing Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies." Under the Cash Program, Freddie Mac may waive the requirement that Conventional Home Mortgages included in 30-year Cash PC Pools have been originated on Uniform Instruments if such Mortgages were originated more than two years prior to the date of delivery to Freddie Mac and the Mortgages contain an enforceable due-on-transfer clause. Under the Guarantor Program, Freddie Mac does not require a Conventional Home Mortgage included in a 30-year Guarantor PC Pool to have been originated on a Uniform Instrument or to contain a due-on-transfer clause if it was originated more than two years prior to the date it was delivered to Freddie Mac for purchase. Freddie Mac does require a Conventional Home Mortgage included in a 15-Year Guarantor PC Pool to have been originated on a Uniform Instrument or to contain a due-on-transfer clause.

Certain Mortgages containing due-on-transfer clauses may be "window period" Mortgages, and therefore may be assumable by transferees. Except as set forth herein, Freddie Mac makes no representation concerning the extent to which the Mortgages contain due-on-transfer clauses or are window period Mortgages. See "Mortgage Purchase and Servicing Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies." Any Multifamily Mortgage must have been originated on a Multifamily Uniform Instrument accompanied by a Due-On-Transfer Rider permitting acceleration of the unpaid principal balance of the Mortgage upon sale or transfer of title to the property. Accordingly, the Multifamily Mortgages will not be assumable.

FHA and VA Mortgages are originated on mortgage instruments approved by the FHA or the VA. Such mortgage instruments may contain provisions different from those contained in the Uniform Instruments. FHA regulations require certain mortgage servicing policies, such as granting the right to reinstate a mortgage prior to foreclosure, even though such policies are not included in the terms of the mortgage documents. The sale or transfer of title to the property securing an FHA or VA Mortgage generally does not constitute an event entitling the holder of the mortgage to demand full payment of principal. Accordingly, subject to FHA and VA regulations, an FHA or VA Mortgage generally may be assumed by a purchaser of the real property at the existing mortgage interest rate for the remaining term of the Mortgage. See "Mortgage Purchase and Servicing Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies."

All of the Mortgages provide for level payments of principal and interest with principal payments based upon amortization schedules which result in payment of the original principal balances of the Mortgages in full over their respective terms.

The Mortgages may be "payment date to payment date" mortgages rather than "due date to due date" mortgages. Each monthly payment on a payment date to payment date mortgage is applied first to interest earned from the date the previous monthly payment was actually received to the date the current monthly payment was actually received (rather than from the due date of the previous monthly payment to the due date of the current monthly payment as in the case of a due date to due date mortgage), computed on the unpaid principal balance of the mortgage at the applicable mortgage interest rate. The remainder of each monthly payment is then applied as a reduction of the unpaid principal balance of the mortgage. If all monthly payments on a payment date to payment date mortgage are made on their respective monthly due dates, such payments will result in payment of the original principal balance of the mortgage in full over its term in the same manner as a due date to due date mortgage. If monthly payments on a payment date to payment date mortgage are made consistently less than one month apart, however, the original principal balance of the mortgage may be fully paid somewhat before expiration of its original term, because a lesser percentage of each of the early payments will be applied to interest and a greater percentage to principal than would be the case for payments made on the same day each month. Conversely, if monthly payments on a payment date to payment date mortgage are made consistently more than one month apart, such payments may not be sufficient to pay the original principal balance of the mortgage in full over its term, because a greater percentage of each of the late payments will be applied to interest and a lesser percentage to principal

than would be the case for payments made on the same day each month. The borrower may therefore be required to pay an additional amount at maturity equal to the then-remaining unpaid principal balance of the mortgage. In most cases, it is expected that any such additional amount will be a small percentage of the original principal balance of the mortgage.

The Mortgages must have original terms to maturity either not exceeding 180 months or exceeding 180 months but not exceeding 360 months, as applicable, except for Second Mortgages and/or Non-Purchase Money First Mortgages which may have original terms to maturity of as few as 60 months. The original term to maturity of a Mortgage ("Original Maturity") is calculated from the date one month prior to the date the first principal and interest payment is due on such Mortgage. If, prior to delivery to Freddie Mac, a Mortgage has been assumed or modified with respect to the term, interest rate, principal and interest payment or principal amount, the Original Maturity is calculated from the date one month prior to the date the first principal and interest payment is due on the assumed or modified Mortgage.

Home Mortgages may be secured by any combination of detached and semi-detached dwellings, rowhouses, condominium units, dwellings in a planned unit development, and on-site or manufactured housing units which are treated as real property under state law. Home Mortgages may be secured by properties that are not occupied by borrowers as primary residences, such as investment properties or second homes. Properties securing Second Mortgages must be occupied by borrowers as their principal residences. Multifamily Mortgages may be secured by high or low-rise buildings, garden apartments, townhouse apartments or any other dwellings designed primarily for residential use, including dwellings owned by cooperative corporations or associations. Under certain conditions, Multifamily Mortgages may be secured by properties subject to ground leases or to subordinate liens.

For a description of Freddie Mac's general mortgage purchase requirements, see "Mortgage Purchase and Servicing Standards."

### **PC Pools**

PC Pools may vary with respect to a variety of matters including, but not limited to: number of Mortgages; interest rates of the Mortgages; PC Coupon; Original Unpaid Principal Balance of the PC Pool (as defined in the PC Agreement); original unpaid principal balance of the Mortgages; geographic location of the mortgaged properties; remaining maturities and ages of the Mortgages; types of mortgage instruments; types of borrowers; types of properties securing the Mortgages; number of Mortgages purchased from a single seller; number of Mortgages made to employees of a single employer; number of Mortgages secured by properties that are not occupied by borrowers as their primary residences; number of Mortgages containing enforceable due-on-transfer clauses; and the nature and extent of buydowns and other special financing arrangements. The mortgaged properties in a particular PC Pool may be located in a single geographic area or in a single state. Except as specifically set forth herein or in any Offering Circular supplement or Pool Supplement prepared by Freddie Mac in connection with the sale of PCs, Freddie Mac makes no representation as to the characteristics of the Mortgages contained in any PC Pool. See "The Mortgages."

PC Pools formed under Freddie Mac's Cash Program are likely to differ from PC Pools formed under Freddie Mac's Guarantor Program. See "PC Pools formed under the Cash Program and the MultiLender Swap Program" and "PC Pools formed under the Guarantor Program." PC Pool information may be obtained from Freddie Mac's Investor Inquiry Department and is published in one or more publications used by Freddie Mac for the dissemination of PC Pool information. The names of the publication(s) used by Freddie Mac may be obtained from Freddie Mac's Investor Inquiry Department.

Once a Mortgage is identified to a PC Pool, the Mortgage will remain in that PC Pool unless paid in full, foreclosed upon, substituted for, or repurchased. A Mortgage may be repurchased from a PC Pool as a result of a material breach of warranty, representation or agreement by a seller; as a result of defects in documentation or other rights of recourse to a seller; in order to permit assumption of a Mortgage containing

an enforceable due-on-transfer clause; in connection with certain payment plans and bankruptcy court actions; by virtue of Freddie Mac's guarantee of principal collection; in order to maintain proper servicing of the Mortgages or to minimize loss; and under certain other circumstances. In determining whether a Mortgage should be repurchased, Freddie Mac considers a variety of factors, including whether a repurchase will reduce Freddie Mac's administrative costs or Freddie Mac's possible exposure under its guarantee of collection of principal.

The proceeds of any Mortgage repurchased will be passed through to the Holders as if the Mortgage had been prepaid. In the event of a material breach of a warranty, representation or agreement contained in Freddie Mac's *Sellers' & Servicers' Guide* or the Purchase Documents (as defined in the *Sellers' & Servicers' Guide*), a failure to comply with any term or condition in the Purchase Documents, or a defect in documentation, Freddie Mac may also require the seller, within six months of the purchase of the Mortgage, to substitute another Mortgage of comparable type, unpaid principal balance, remaining maturity and yield.

#### *PC Pools formed under the Cash Program and the MultiLender Swap Program*

PC Pools formed under the Cash Program consist of Mortgages purchased from a number of sellers. A Cash PC Pool contains Mortgages purchased for cash, or, under the MultiLender Swap Program, in exchange for Cash PCs representing undivided interests in the Mortgages contained in the Cash PC Pool into which the seller's Mortgages were placed. Under the MultiLender Swap Program the seller will receive a Cash PC with a principal amount equal to the aggregate unpaid principal balance of the Mortgages delivered by the seller as of the date of delivery, representing such seller's pro rata share of the related Cash PC Pool.

The range of the interest rates on the Mortgages in each Cash PC Pool will not exceed 100 basis points. The minimum interest rate on any Mortgage in a Cash PC Pool will be equal to or greater than the related PC Coupon, and the maximum interest rate on any Mortgage will be no greater than 200 basis points above the related PC Coupon. For example, with respect to a PC with a 9% PC Coupon, the Mortgages in the related Cash PC Pool will have interest rates which are at least 9% but not more than 11%, and will have interest rates within a 100 basis point range of each other, such as 9% to 10%, 9.5% to 10.5%, or 10% to 11%. Any difference between the yield required by Freddie Mac on the Mortgages in any Cash PC Pool and the interest payable at the PC Coupon is retained by Freddie Mac as its management and guarantee fee.

Cash Program Mortgages are purchased based on a required yield. A Mortgage may bear an interest rate equal to, greater than or less than the minimum gross yield required by Freddie Mac. The minimum gross yield is the required yield plus minimum servicing compensation to the servicer, expressed as a percentage. If the interest rate of a Mortgage is greater than or equal to the minimum gross yield, Freddie Mac will purchase the Mortgage at a price of 100% (par) of the remaining unpaid principal balance. If the interest rate of the Mortgage is less than the minimum gross yield, Freddie Mac will purchase the Mortgage at a specified percentage that is less than 100% of its unpaid principal balance, which, when applied to the interest rate on the Mortgage (after deduction of a minimum servicing fee) results in the yield, expressed as a percentage, required by Freddie Mac. Cash PC Pools may include Mortgages having a required yield to Freddie Mac that is less than interest payable at the PC Coupon. In such case, Freddie Mac will retain a sufficient undivided interest in the aggregate unpaid principal balance of the Mortgages so that the interest payments attributable to Freddie Mac's retained interest are sufficient to pass through to Holders any difference between the required yield on the Mortgages and the interest payable to Holders at the PC Coupon.

Under the Cash Program, Freddie Mac also will purchase a participation in a Mortgage at par or at an amount that will provide the required yield. To the extent that the Mortgage interest rate is less than the required yield, the seller makes up the difference from interest payments attributable to its retained participation interest. Freddie Mac will not purchase a participation if more than 100% of the interest income from the seller's retained participation interest would have to be paid to Freddie Mac to produce the required

yield. Under the MultiLender Swap Program Mortgages are purchased only at par since the unpaid principal balance of the PC received by the seller must be equal to the unpaid principal balance of the Mortgages sold to Freddie Mac.

For Cash PC Pools information on the weighted average interest rates (“WACs”), the weighted average remaining terms to maturity (“WARMs”) and the quartile distributions of the interest rates and remaining terms to maturity (“Quartiles”) of the Mortgages as of the date of PC Pool formation is made available approximately two months after the month of PC Pool formation in one or more publications used by Freddie Mac for the dissemination of PC Pool information. Freddie Mac determines the Quartiles by arranging the Mortgages in a PC Pool in ascending order according to the interest rate of each Mortgage, and separately, according to the remaining term to maturity of each Mortgage. The Mortgages are then segregated into four groups, each group consisting of 25% of the total unpaid principal balance of the Mortgages in the PC Pool, and Freddie Mac identifies the lowest and highest interest rates or remaining terms to maturity of the Mortgages within each grouping.

Effective for Cash PC Pools formed on or after July 1, 1989, Freddie Mac will provide information on the geographic distribution of the Mortgages by state as of the date of PC Pool formation approximately two months after the date of PC Pool formation. This information will consist of: (i) the original unpaid principal balance of Mortgages secured by properties located in a particular state; (ii) the unpaid principal balance of Mortgages secured by properties located in a particular state as a percentage of the total unpaid principal balance of the Mortgages in the PC Pool; (iii) the number of Mortgages secured by property located in a particular state; and (iv) the number of Mortgages secured by property located in a particular state as a percentage of the total number of Mortgages in the PC Pool.

*30-Year Cash PC Pools—Conventional Mortgages.* These PC Pools consist of first lien Conventional Mortgages with Original Maturities of more than 15 years and up to and including 30 years. Five percent or less of the Original Unpaid Principal Balance of such a PC Pool may consist of Multifamily Mortgages. These PC Pools may contain Relocation Mortgages. These PC Pools may also include Converted Mortgages. All Mortgages in 30-year Cash PC Pools originated after January 1, 1976 contain due-on-transfer clauses, although certain Mortgages may be subject to state laws prohibiting automatic acceleration. See “Mortgage Purchase and Servicing Standards—Mortgage Servicing-Assumption and Due-on-Transfer Policies.” These PC Pools have minimum Original Unpaid Principal Balances of \$10,000,000. The PC Pool numbers for 30-year Cash PC Pools begin with the Prefix 36.

*15-Year Cash PC Pools—Conventional Mortgages.* These PC Pools consist of first lien Conventional Home Mortgages which have Original Maturities of up to and including 15 years. These PC Pools may contain Relocation Mortgages. Each Mortgage contains an enforceable due-on-transfer clause which permits automatic acceleration and which is not subject to state laws prohibiting automatic acceleration. See “Mortgage Purchase and Servicing Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies.” These PC Pools have minimum Original Unpaid Principal Balances of \$10,000,000. The PC Pool numbers for 15-year Cash PC Pools begin with the Prefix 38.

#### *PC Pools formed under the Guarantor Program*

Each PC Pool formed under the Guarantor Program consists of Mortgages purchased from a single seller in exchange for Guarantor PCs representing undivided interests in the same Mortgages. The Original Unpaid Principal Balance of, and the number of Mortgages in a PC Pool formed under the Guarantor Program depends on the dollar amount a seller offers for sale to Freddie Mac, as well as the dollar amount and number of Mortgages accepted for purchase by Freddie Mac. The minimum purchase amount and minimum original PC Pool balance are fixed by Freddie Mac and are subject to change by Freddie Mac from time to time. The Original Unpaid Principal Balance of a PC Pool is equal to the aggregate unpaid principal balance of the related Mortgages as of the first day of the month of their delivery to Freddie Mac rounded down to the

nearest dollar. Principal payments on the Mortgages made during the period between delivery and settlement, or Freddie Mac's estimate thereof, are reflected in the Pool Factor of the related PC Pool for the month following the month of initial sale and are paid to the Holders accordingly.

The interest rate of any Mortgage in a PC Pool formed under the Guarantor Program may be up to 250 basis points greater than the related PC Coupon. The PC Coupon always will be lower than the lowest interest rate of any Mortgage in the PC Pool. The range of interest rates on Mortgages in a particular PC Pool can be identified by the Quartile information regarding the PC Pool in a separate publication available approximately two months after the month of PC Pool formation as discussed below.

Freddie Mac prepares a Pool Supplement for each Guarantor PC Pool which contains the preliminary WAC and WARM based upon the unpaid principal balances of the related Mortgages as of the date of delivery of the Mortgages. Principal payments on the Mortgages made subsequent to the date of delivery of the Mortgages may result in changes in these characteristics of the PC Pool. The Pool Supplement also contains information on the geographic distribution of the Mortgages consisting of: (i) the unpaid principal balance of Mortgages secured by properties located in a particular state; (ii) the unpaid principal balance of Mortgages secured by properties located in a particular state as a percentage of the total unpaid principal balance of the Mortgages in the PC Pool; (iii) the number of Mortgages secured by property located in a particular state; and (iv) the number of Mortgages secured by property located in a particular state as a percentage of the total number of Mortgages contained in the PC Pool. The initial purchaser of PCs sold under the Guarantor Program which sells or offers for sale such PCs is required to furnish to prospective purchasers the applicable Pool Supplement.

The preliminary WACs and WARMS of the Mortgages in Guarantor PC Pools are also published in one or more publications used by Freddie Mac for the dissemination of PC Pool information. This information is published in the month following the month in which the PC Pool was formed. Thereafter, Freddie Mac provides recalculated WACs and WARMS and the Quartiles of the Mortgages in Guarantor PC Pools based upon additional information regarding partial prepayments on the Mortgages occurring after delivery and prior to the date of PC Pool formation. This information becomes available to Freddie Mac after the disclosure of the preliminary WACs and WARMS in the applicable Pool Supplement and is published approximately two months after the month of PC Pool formation. For example, for a Guarantor PC Pool formed in June with Mortgages delivered to Freddie Mac for purchase in mid-June, the preliminary WACs and WARMS are published on or about the first business day in July, and the recalculated WACs, WARMS and Quartiles are published on or about the first business day in August. Freddie Mac believes that the differences, if any, between the preliminary WACs and WARMS and the recalculated WACs and WARMS generally should be small.

Guarantor PC Pools may contain Relocation Mortgages. Effective for Guarantor PC Pools formed on or after September 1, 1989, such Guarantor PC Pools containing Relocation Mortgages with an aggregate original unpaid principal balance of five percent or more of the Original Unpaid Principal Balance of the PC Pool will be identified in the related Pool Supplement or in a separate Offering Circular supplement and the percentage of Relocation Mortgages in the PC Pool, if less than 100%, will be specified.

PC Pools designated by Prefix 85 (see below), consisting of Second Mortgages and/or Non-Purchase Money First Mortgages, will consist exclusively of such Mortgages. Second Mortgages will not be placed in PC Pools other than those designated by Prefix 85. Non-Purchase Money First Mortgages may be placed in PC Pools with a Prefix other than Prefix 85 if such Mortgages conform to the standards for such other PC Pools.

*30-Year Guarantor PC Pools—Conventional Mortgages.* These PC Pools consist of first lien Conventional Home Mortgages with Original Maturities of more than 15 years and up to and including 30 years. These PC Pools may also include Converted Mortgages. Mortgages which were originated two or more years prior to delivery to Freddie Mac, may or may not have been originated on Uniform Instruments, may or may not contain due-on-transfer clauses permitting automatic acceleration, and may or may not be subject

to state laws prohibiting automatic acceleration. See “Mortgage Purchase and Servicing Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies.” The minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 53 is \$1,000,000; the minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 43 is \$250,000.

*30-Year Guarantor PC Pools—Conventional Mortgages—Scheduled Principal Guarantee.* These PC Pools have the same characteristics and consist of the same types of Mortgages as 30-Year Guarantor PC Pools—Conventional Mortgages. With respect to PCs representing interests in these PC Pools, in addition to Freddie Mac’s other guarantees, Freddie Mac guarantees to Holders the timely payment of the monthly principal scheduled to be paid under the amortization schedule applicable to each of the related Mortgages (“Scheduled Principal”), whether or not received by Freddie Mac. Freddie Mac’s payments of Scheduled Principal are computed based upon servicers’ monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. The minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 26 is \$1,000,000; the minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 46 is \$250,000.

*30-Year Guarantor PC Pools—FHA and/or VA Mortgages.* These PC Pools consist of first lien FHA and/or VA Mortgages with Original Maturities of up to and including 30 years. The minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 14 is \$1,000,000; the minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 45 is \$250,000.

*30-Year Guarantor PC Pools—FHA and/or VA Mortgages—Scheduled Principal Guarantee.* These PC Pools have the same characteristics and consist of the same types of Mortgages as 30-Year Guarantor Pools—FHA and/or VA Mortgages. With respect to PCs representing interests in these PC Pools, in addition to Freddie Mac’s other guarantees, Freddie Mac guarantees to Holders the timely payment of Scheduled Principal on the Mortgages, whether or not received by Freddie Mac. Freddie Mac’s payments of Scheduled Principal are computed based upon servicers’ monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. The minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 33 is \$1,000,000; the minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 48 is \$250,000.

*15-Year Guarantor PC Pools—Conventional Mortgages.* These PC Pools consist of first lien Conventional Home Mortgages with Original Maturities of up to and including 15 years. Each Mortgage contains an enforceable due-on-transfer clause which permits automatic acceleration and which is not subject to state laws prohibiting automatic acceleration. See “Mortgage Purchase and Servicing Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies.” The minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 50 is \$1,000,000; the minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 44 is \$250,000.

*15-Year Guarantor PC Pools—Conventional Mortgages—Scheduled Principal Guarantee.* These PC Pools have the same characteristics and consist of the same types of Mortgages as 15-Year Guarantor Pools—Conventional Mortgages. With respect to PCs representing interests in these PC Pools, in addition to Freddie Mac’s other guarantees, Freddie Mac guarantees the timely payment to Holders of Scheduled Principal on the Mortgages, whether or not received by Freddie Mac. Freddie Mac’s payments of Scheduled Principal are computed based upon servicers’ monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. The minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 32 is \$1,000,000; the minimum Original Unpaid Principal Balance of PC Pools beginning with the Prefix 47 is \$250,000.

*Second Mortgage Guarantor PC Pools—Conventional Mortgages.* These PC Pools consist of Conventional Home Mortgages that are Second Mortgages and/or Non-Purchase Money First Mortgages with Original Maturities of 5 years up to and including 15 years. The Prefix for such PC Pools is 85; the minimum Original Unpaid Principal Balance of such PC Pools is \$1,000,000.

## Pool Factors

A Pool Factor is a truncated seven-digit decimal calculated by Freddie Mac which represents the unpaid principal balance of the Mortgages in the related PC Pool for a particular month, stated as a fraction of the original unpaid principal balance of such Mortgages. The amount of a Holder's pro rata share of the unpaid principal balance of the Mortgages for a given month can be determined by multiplying the original unpaid principal balance of such Holder's PC by the Pool Factor published in that month. Pool Factors for PCs will be published on or about the first business day of each month. The names of the publishers from which a compilation of Pool Factors may be purchased may be obtained by calling Freddie Mac's Investor Inquiry Department.

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

The PC Agreement permits Freddie Mac to make payments to Holders of principal and interest based on the unpaid principal balance of the related Mortgages as determined by the Pool Factor. Interest is paid based on the unpaid principal balance of the Mortgages as determined by the Pool Factor for the second month prior to the month in which a payment is made. Principal is paid in an amount based on the difference between the Pool Factor for the second month prior to the month in which payment is made and the Pool Factor for the month prior to the month in which payment is made. For example, a Holder's April payment contains an interest payment at the PC Coupon on the Holder's pro rata share of the principal balance represented by the Pool Factor published in February and a principal payment based on the difference between the Pool Factors published in February and March. See "Interest and Principal Payments."

The Pool Factor applicable to a particular month for a Cash PC Pool represents Freddie Mac's estimate of the unpaid principal balance of the Mortgages as of the end of the monthly reporting period ending in that month. For example, the Pool Factor for a Cash PC Pool published on or about the first business day of March represents Freddie Mac's estimate of the unpaid principal balance of the related Mortgages as of March 15. The Pool Factor for a Cash PC Pool for a particular month is calculated by estimating all principal reduction on the underlying Mortgages for that month as a fraction of the original unpaid principal balance and subtracting that amount from the previous month's Pool Factor. The principal reduction includes estimates of scheduled amortization and, for Pool Factors published beginning with the fourth month after the month of PC Pool formation, estimates of prepayments expected to be made through the end of the monthly reporting period ending in that month (including repurchases by sellers and foreclosures). Estimates of prepayments are based on data relating to prepayments for the Mortgages in the PC Pool for the immediately preceding second, third and fourth months. Estimates are adjusted both for seasonal factors that are presumed to influence all PC Pools equally, and also for cyclical factors (i.e., changes in economic conditions such as changing interest rates and refinance activity) that are presumed to influence all mortgages in a given mortgage coupon range equally. Such cyclical factors are calculated for each one percent mortgage coupon range.

Effective for Cash PC Pools formed on or after October 1, 1989, the method of estimating the Pool Factor for the second and third months after the month of PC Pool formation will be changed to include an estimate of prepayments of Mortgages contained in the PC Pool (including repurchases by sellers and foreclosures) expected to occur in such months. In the case of the Pool Factor for the second month after the month of PC Pool formation, the estimate of prepayments will be based upon prepayment information relating to the month of PC Pool formation. In the case of the Pool Factor for the third month after the month of PC Pool formation, the estimate of prepayments will be based upon prepayment information relating to the month of PC Pool formation and the first month after the month of PC Pool formation. These estimates will be adjusted for seasonal and cyclical factors.

To the extent that a given Pool Factor for a Cash PC Pool may not reflect the actual unpaid principal balance of the Mortgages for a particular month, any difference will be accounted for as soon as practicable by adjustment of subsequent Pool Factors and, as a result, by adjustment of subsequent principal payments made to Holders. This adjustment is made to the Pool Factor for the month two months subsequent to the month in question. Freddie Mac's procedure for estimating Cash PC Pool Factors may result from time to time in a monthly principal payment to Holders for a given Cash PC Pool which differs significantly from the aggregate principal payments actually received by Freddie Mac on the related Mortgages for the comparable month. Based on Freddie Mac's experience, the amount of such difference is most likely to increase during periods of volatile mortgage interest rates.

To the extent that Freddie Mac's procedure for estimating Cash PC Pool Factors results in an underestimation or an overestimation of principal payments in a particular month, the yield that PC Holders receive will be affected because of the two month period required for making the adjustment in Cash PC Pool Factors. The effect on yield will depend upon the relationship between the PC Coupon and the reinvestment rate available to Holders. For example, if Freddie Mac overestimates principal payments in a particular month, and the PC Coupon is higher than the reinvestment rate available to a Holder at that time, the Holder would receive a lower yield than it otherwise would have received on the PC. Conversely, if Freddie Mac underestimates principal payments in a particular month, and the PC Coupon is higher than the reinvestment rate available to a Holder at that time, the Holder would receive a higher yield than it otherwise would have received on the PC.

The following illustrates the payment of principal by application of the Pool Factor method to a hypothetical Cash PC Pool formed in April:

- April 1** ..... The initial Pool Factor, which is not published, is equal to 1.0000000.
- On or about April 30** ..... The PC Pool is formed which will be based on the April 15 unpaid principal balance of the Mortgages as reported to Freddie Mac by servicers.
- On or about May 1** ..... The May Pool Factor is published, reflecting Freddie Mac's prediction of the May 15 unpaid principal balance of the Mortgages based upon Freddie Mac's calculation of scheduled amortization due on the Mortgages in the month of May. Freddie Mac does not reduce this Pool Factor for prepayments expected to be made in May. The preliminary unpaid principal balance of the PC Pool is published, reflecting the unpaid principal balance of the Mortgages as of the date of delivery.
- On or about June 1** ..... The June Pool Factor is published, reflecting Freddie Mac's prediction of the June 15 unpaid principal balance of the Mortgages based upon Freddie Mac's calculation of scheduled amortization due on the Mortgages through the month of June. Freddie Mac currently does not reduce this Pool Factor for prepayments expected to be made in June but will do so effective for Cash PC Pools formed on or after October 1, 1989. The Original Unpaid Principal Balance of the PC Pool is published, reflecting the unpaid principal balance of the Mortgages as of April 15.
- June 15** ..... The first payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the April and May Pool Factors multiplied by the Original Unpaid Principal Balance of the PC Pool published on or about June 1.
- On or about July 1** ..... The July Pool Factor is published, reflecting Freddie Mac's prediction of the July 15 unpaid principal balance of the Mortgages based upon Freddie Mac's calculation of scheduled amortization due on the Mortgages in the month of July, adjusted to reflect any differences between the unpaid principal balance of the Mortgages as represented by the May Pool Factor and the unpaid principal balance of the Mortgages as reported by servicers to Freddie Mac for the reporting period beginning April 16 and ending May 15. Servicers' reports to Freddie Mac for the reporting period ending May 15 include all prepayments made on the Mortgages during that period. Freddie Mac currently does not reduce this Pool Factor for prepayments expected to be made in July but will do so effective for Cash PC Pools formed on or after October 1, 1989.
- July 15** ..... The second payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the May and June Pool Factors multiplied by the Original Unpaid Principal Balance of the PC Pool published on or about June 1.
- On or about August 1** ..... The August Pool Factor is published, reflecting Freddie Mac's prediction of the August 15 unpaid principal balance of the Mortgages based upon Freddie Mac's calculation of scheduled amortization due on the Mortgages in the month of August, adjusted to reflect any differences between the unpaid principal balance of the Mortgages as represented by the June

Pool Factor and the unpaid principal balance of the Mortgages as reported by servicers to Freddie Mac for the reporting period beginning May 16 and ending June 15. Servicers' reports to Freddie Mac for the reporting period ending June 15 include all prepayments made on the Mortgages during that period. Freddie Mac reduces this Pool Factor for prepayments expected to be made in August. In calculating expected prepayments for the month of August, Freddie Mac considers the amount of prepayments made on the Mortgages in the months of April, May and June, prepayment behavior likely to be experienced during August, and cyclical factors as discussed above.

**August 15** ..... The third payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the June and July Pool Factors multiplied by the Original Unpaid Principal Balance of the PC Pool published on or about June 1.

**On or about September 1** .... The September Pool Factor is published, reflecting Freddie Mac's prediction of the September 15 unpaid principal balance of the Mortgages based upon Freddie Mac's calculation of scheduled amortization due on the Mortgages in the month of September, adjusted to reflect any differences between the unpaid principal balance of the Mortgages as represented by the July Pool Factor and the unpaid principal balance of the Mortgages as reported by servicers to Freddie Mac for the reporting period beginning June 16 and ending July 15. Servicers' reports to Freddie Mac for the reporting period ending July 15 include all prepayments made on the Mortgages during that period. Freddie Mac reduces this Pool Factor for prepayments expected to be made in September. In calculating expected prepayments for the month of September, Freddie Mac considers the amount of prepayments made on the Mortgages in the months of May, June and July, prepayment behavior likely to be experienced during September, and cyclical factors as discussed above.

**September 15** ..... The fourth payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the July and August Pool Factors multiplied by the Original Unpaid Principal Balance of the PC Pool published on or about June 1. Currently, this is the first payment to holders which includes Freddie Mac's estimate of prepayments expected to be received on the Mortgages. Effective for PC Pools formed on or after October 1, 1989, the July 15 and August 15 payments would include an estimate of prepayments.

Subsequent months follow the pattern illustrated for September. Because of the predictive nature of Cash PC Pool Factors, the Pool Factor calculation procedure is identical whether the Cash PC Pool is formed before or after the 15th day of the month.

The Pool Factor for a Guarantor PC Pool applicable to a particular month reflects the unpaid principal balance of the Mortgages in that PC Pool as of the end of the preceding monthly reporting period, based on the unpaid principal balances reported by the servicers. For example, the Pool Factor for a Guarantor PC Pool published in March represents the unpaid principal balance of the related Mortgages as of February 15. If a servicer fails to file an accurate or timely report of its collections of principal payments for a particular month or such report cannot be processed, the Pool Factor will reflect Freddie Mac's estimate of the principal payments on the Mortgages that occurred during that reporting period. Any difference between actual and estimated principal payments on the Mortgages will be accounted for by adjustment to subsequent Pool Factors and, as a result, to subsequent principal payments made to Holders.

The following illustrates the payment of principal by application of the Pool Factor method to a hypothetical Guarantor PC Pool formed on April 22 (i.e., after the 15th day of the month):

- April 1** ..... The initial Pool Factor, which is not published, is equal to 1.0000000. This is the date of PC Pool Inception.
- April 22** ..... Settlement on the PC Pool takes place and the PC Pool is formed. The Original Unpaid Principal Balance of the PC Pool is equal to the unpaid principal balance of the Mortgages as of April 1, as reported at delivery to Freddie Mac by the seller.
- By April 29** ..... Within five business days after PC Pool formation, servicers report and remit any prepayments in full of Mortgages received from April 1 through April 22 and repurchase any Mortgages that became delinquent during such period.
- On or about May 1** ..... The May Pool Factor is published, reflecting a reduction in the unpaid principal balance of the Mortgages equal to Freddie Mac's estimate of scheduled amortization on the Mortgages from April 1 through April 15.
- By May 22** ..... Within five business days after May 15, servicers report the outstanding principal balance of the Mortgages as of May 15. This balance will be used in calculating the June Pool Factor and will reflect principal payments received by servicers and paid to Freddie Mac, including full and partial prepayments and any repurchases of Mortgages by servicers, from April 1 through May 15.
- On or about June 1** ..... The June Pool Factor is published, reflecting the May 15 unpaid principal balance reported by servicers, including full and partial prepayments, and any repurchases of Mortgages as of May 15.
- June 15** ..... The first payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the April and May Pool Factors multiplied by the Original Unpaid Principal Balance.
- By June 22** ..... Within five business days after June 15, servicers report the outstanding principal balance of the Mortgages as of June 15. This balance will be used in calculating the July Pool Factor and will reflect principal payments received by servicers, including full and partial prepayments and any repurchases of Mortgages by servicers, from May 16 through June 15.
- On or about July 1** ..... The July Pool Factor is published, reflecting the June 15 unpaid principal balance reported by servicers, including full and partial prepayments, and any repurchases of Mortgages as of June 15.
- July 15** ..... The second payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the May and June Pool Factors multiplied by the Original Unpaid Principal Balance.

Subsequent months follow the pattern illustrated for July. Application of the Pool Factor method to a hypothetical Guarantor PC Pool formed on or before the 15th day of a month differs from the illustration set forth above. With respect to such Guarantor PC Pool, the second Pool Factor, which is published on or about the first day of the month after the month of PC Pool formation (May 1 in the illustration above), is not an estimate by Freddie Mac but reflects the unpaid principal balance of the Mortgages as of the 15th day of the month of PC Pool formation (April in the illustration above) as reported by servicers. This report reflects principal payments received by servicers, including full and partial prepayments, that were made between the 1st and the 15th days of the month of PC Pool formation as reported to Freddie Mac by the servicer within five business days of April 15.

Use of the Pool Factor method affects the timing of receipt of payments by Holders but does not affect Freddie Mac's guarantees of timely payment of interest at the applicable PC Coupon and ultimate collection of principal on the Mortgages, or Freddie Mac's guarantee of timely payment of Scheduled Principal, if applicable. Payments made on account of Freddie Mac's guarantee of timely payment of Scheduled Principal constitute payments of principal for purposes of calculating: (i) the Pool Factor; (ii) the Scheduled Principal PC Holder's pro rata share of the unpaid principal balance outstanding on the Mortgages; and (iii) interest payments at the PC Coupon.

### **Interest and Principal Payments**

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

A Holder will receive monthly its pro rata share of all principal payments on the related Mortgages received by Freddie Mac, including any scheduled principal payments, full and partial prepayments of principal, and principal received by virtue of condemnation, insurance or guaranty payments or foreclosure, and all proceeds of repurchases of the Mortgages by Freddie Mac or by the seller or the servicer. In the case of Scheduled Principal PCs, a Holder also will receive its pro rata share of monthly Scheduled Principal due with respect to the related Mortgages, as reported to Freddie Mac by servicers, whether or not received by Freddie Mac.

In the case of payment date to payment date Mortgages, servicers will report to Freddie Mac the amount applied to the reduction of the unpaid principal balance of each Mortgage during the related monthly reporting period, based on the dates on which the current and next previous monthly payments were actually received by the servicer from the borrower. Servicers will also report and remit to Freddie Mac one month's interest, at the constant yield required by Freddie Mac under its agreements with the servicers, on the unpaid principal balance of each Mortgage as of the beginning of the related monthly reporting period. Accordingly, the amount of interest that is remitted to Freddie Mac for each monthly reporting period will not be affected by fluctuations in the amount of interest actually collected from a borrower during any monthly reporting period as a result of the dates on which the current and next previous monthly payments were actually received.

Under the MultiLender Swap Program, a purchaser of a PC from Freddie Mac delivers Mortgages to Freddie Mac on or prior to the settlement date and on the settlement date receives a PC in an unpaid principal balance equal to the aggregate unpaid principal balance of such Mortgages as of the date of delivery. The Mortgage seller pays to Freddie Mac, and Freddie Mac retains, principal payments (including scheduled principal payments, and full and partial prepayments) on such Mortgages equal to the difference between the actual aggregate unpaid principal balance as of the delivery date of the Mortgages delivered by such seller and the aggregate unpaid principal balance as of the settlement date of such Mortgages. Freddie Mac purchases with such payments additional Mortgages for inclusion in the related PC Pool and, therefore, such principal payments will not be passed through to the seller in the same manner as other principal payments received by Freddie Mac on the Mortgages.

Under the Cash Program, a purchaser of a PC from Freddie Mac pays Freddie Mac on the settlement date interest computed at the PC Coupon for the period from the first day of the month of settlement to the day prior to the date of settlement, inclusive. Under the Guarantor Program and the MultiLender Swap Program, Freddie Mac pays to the Mortgage seller on the settlement date an amount of interest equal to the difference between (i) the amount of interest at Freddie Mac's required yield on the Mortgages, and (ii) the amount of interest at the PC Coupon, in each such case for the period from the first day of the month of settlement to the day prior to the date of settlement, inclusive.

In the case of Home Mortgages, Freddie Mac normally receives payments from servicers of principal (including partial prepayments) and interest made with respect to the Mortgages on the first Tuesday of the month following the monthly reporting period in which the payments are made. Servicers who elect to remit to Freddie Mac on an accelerated remittance cycle remit such funds on the third business day following the end of the monthly reporting period in which the payments are made. Servicers remit all full prepayments of principal on Home Mortgages within five business days of the date on which such payments are made. Freddie Mac may permit sellers to remit funds on an extended remittance cycle. Any arrangement for extended remittance of funds will have no effect on the timing or amount of monthly payments made to Holders. In the case of Multifamily Mortgages, Freddie Mac normally receives payments from servicers of principal and interest made with respect to the Mortgages within five business days after the end of the monthly reporting period in which the payments are made. Pending payment to Holders as described above, Freddie Mac may invest funds received from servicers at its own risk and for its own benefit.

If Freddie Mac acquires any PC for its own account, Freddie Mac shares in all payments of principal and interest on a pro rata basis with all other Holders of PCs representing interests in the related Mortgages.

### **Guarantees**

Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method. Freddie Mac also guarantees to each Holder ultimate collection of all principal of the related Mortgages, without offset or deduction, to the extent of such Holder's pro rata share of the unpaid principal balance of the Mortgages, but does not guarantee timely payment of Scheduled Principal except in the case of Scheduled Principal PCs. With respect to Scheduled Principal PCs, Freddie Mac also guarantees to each Holder the timely payment of the monthly principal scheduled to be paid under the amortization schedule applicable to each Mortgage. Freddie Mac's monthly payments of Scheduled Principal are computed based upon servicers' monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. Pursuant to its guarantees, Freddie Mac indemnifies Holders against any diminution in principal by reason of charges for property repairs, maintenance and foreclosure.

Freddie Mac may pay the amount due on account of its guarantee of ultimate collection of principal at any time after default on an underlying Mortgage, but not later than 30 days following: (i) foreclosure sale; (ii) payment of the claim by any mortgage insurer or the FHA, or payment of the guaranty claim by the VA; or (iii) the expiration of any right of redemption, whichever occurs later, but in any event no later than the earlier of one year after an outstanding demand has been made upon the mortgagor for accelerated payment of principal or for payment of the principal due on the maturity of a Mortgage. See "Mortgage Purchase and Servicing Standards—Mortgage Servicing—Defaults and Delinquencies" and "—Foreclosures" for a description of the circumstances under which a demand for accelerated payment of principal may be made and, if made, withdrawn.

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

**PCS ARE NOT GUARANTEED BY AND DO NOT CONSTITUTE DEBTS OR OBLIGATIONS OF THE UNITED STATES OR ANY FEDERAL HOME LOAN BANK. CERTAIN OF THE MORTGAGES ARE INSURED BY THE FHA OR GUARANTEED BY THE VA, BOTH OF WHICH ARE FEDERAL AGENCIES.**

## **Final Payment Date**

In the case of a Cash PC Pool, the Final Payment Date of the Mortgages in the PC Pool corresponds to the first day of the month which is 15 or 30 years, as applicable, from the month of the first PC settlement against the PC Pool, which is the latest possible maturity date of any Mortgage in the PC Pool. The Final Payment Date of the Mortgages in a Cash PC Pool may not reflect the maturity date of any Mortgage in that PC Pool. In the case of a Guarantor PC Pool, the Final Payment Date corresponds to the first day of the month in which the last scheduled monthly payment on the latest maturing Mortgage in the PC Pool is scheduled to be made. The Mortgages in a Guarantor PC Pool are not required to have scheduled maturity dates within a limited range of years. Therefore, the Final Payment Date of a Guarantor PC Pool may reflect the maturity date of only a single Mortgage in that PC Pool.

Holders may receive payments after the Final Payment Date because of the up to 75 day delay in the pass through of payments on the Mortgages. For PCs other than Scheduled Principal PCs, payment plans, periods of forbearance or other actions which delay the receipt of payments by Freddie Mac may also result in payments to Holders after the Final Payment Date. See "Mortgage Purchase and Servicing Standards—Mortgage Servicing."

## **Weighted Average Life and Payment Behavior**

The weighted average life of a PC will depend upon the amount of principal, including both scheduled and unscheduled payments, which is paid periodically to Holders. Freddie Mac's experience suggests that the prepayment patterns of Conventional Mortgages included in 30-Year PC Pools and of the FHA and VA Mortgages included in PC Pools consisting of FHA and/or VA Mortgages will produce a weighted average life that is less than the weighted average life resulting from the 12-year prepayment assumption that sometimes has been used as the basis for yield quotations. To date, Freddie Mac's experience with respect to 15-Year PC Pools is insufficient to permit Freddie Mac to make any representations about the weighted average life of Mortgages included in 15-Year PC Pools or Second Mortgage Guarantor PC Pools.

For purposes of its financial statements, Freddie Mac currently amortizes any discount on purchases of Mortgages and sales of PCs based on the assumptions that the prepayment pattern of Mortgages included in 30-Year PC Pools will produce a weighted average life of approximately eight and one-half years and Mortgages in 15-Year PC Pools will produce a weighted average life of approximately six years. These estimates may be revised from time to time to better reflect both actual and projected payment experience on Freddie Mac's mortgage portfolio. Freddie Mac anticipates that Holders will receive principal payments in excess of scheduled amortization payments with respect to the Mortgages.

The payment behavior of a PC Pool may be influenced by a variety of economic, tax, social, geographic, demographic, legal and other factors. Freddie Mac believes that in a fluctuating interest rate environment the predominant factor affecting the payment rate on a large, newly originated, geographically diverse group of mortgages underwritten on a consistent basis is the difference between the interest rates of the mortgages in that group (giving consideration to the cost of any secondary financing) and prevailing mortgage interest rates generally available during the terms to maturity of the mortgages in that group. In general, Freddie Mac expects prepayment rates to be inversely correlated with changes in prevailing mortgage rates. Thus, in an environment of rising market mortgage rates, Freddie Mac would expect mortgage prepayment rates to decline. Conversely, in an environment of falling mortgage interest rates, Freddie Mac would expect prepayment rates to increase. Freddie Mac believes these expectations, which mirror Freddie Mac's experience, reflect both increased borrower refinancing activity and increased homeowner mobility in periods of declining or lower mortgage interest rates.

Freddie Mac believes that whether and the extent to which Relocation Mortgages would exhibit prepayment behavior materially different from Home Mortgages which are not Relocation Mortgages would depend on several factors. These include the number of Relocation Mortgages in a PC Pool, whether the

relocation of employees to whom Relocation Mortgages are made is in connection with relocation of a corporate headquarters, the likelihood that particular employees to whom relocation Mortgages are made will be again relocated, and the frequency with which such further relocation may occur. Freddie Mac does not collect information relating to these factors from sellers, and based upon available data, Freddie Mac can make no representation regarding the effect, if any, that inclusion of Relocation Mortgages in PC Pools may have on PC Pool prepayment behavior.

The principal payment experience of PC Pools containing Second Mortgages may be affected by differences between prevailing mortgage interest rates and the mortgage interest rates on the Second Mortgages. Differences between prevailing mortgage interest rates and the mortgage interest rates on the underlying first lien mortgages may also affect the payment behavior of such PC Pools, even if the mortgage interest rates on the Second Mortgages are themselves at or below the prevailing level, because any refinancing of the underlying first lien mortgages can be expected to result in prepayment of the Second Mortgages.

PC Pools containing Second Mortgages may experience payment behavior that is materially different from PC Pools consisting only of first lien mortgages. Such payment behavior may be influenced by the purposes for which the borrowers obtained the Second Mortgages. Second Mortgages that are used to increase the value of the mortgaged property may exhibit prepayment behavior different from Second Mortgages that are used to repay existing non-mortgage debts. Freddie Mac does not restrict the use of the proceeds of the Second Mortgages that it purchases and makes no representation as to the purposes for which borrowers have obtained such Second Mortgages. A Second Mortgage generally requires a borrower to perform all obligations with respect to the underlying first lien mortgage, including the obligation to make payments on the first lien mortgage when due. Borrower defaults on the first lien mortgage may therefore also constitute a default on the Second Mortgage, even if all payments on the Second Mortgage have been made on a timely basis by the borrower.

The number of foreclosures of Mortgages in a PC Pool and the number of repurchases of Mortgages also will affect payment behavior. For certain information concerning foreclosures of Mortgages, see “Business—Delinquencies, Defaults and Foreclosures” in the Information Statement. The amount of defaulting borrowers’ equity in real properties securing Mortgages may affect the frequency with which foreclosures occur. In addition, servicing decisions made with respect to the Mortgages, including the use of payment plans prior to demand for acceleration, negotiation of an acceptable schedule of reinstatement after a demand has been made, modification of terms of a defaulted Mortgage to avoid likely foreclosure of such Mortgage and the restructuring of Mortgages in bankruptcy proceedings, may also have an impact upon the prepayment behavior of the Mortgages in particular PC Pools. For a description of Freddie Mac’s servicing policies, see “Mortgage Purchase and Servicing Standards—Mortgage Servicing.”

Other factors affecting payment behavior of the Mortgages included in a PC Pool may include: the age, geographic distribution and payment terms of the Mortgages; characteristics of the borrowers; changes in local industry and population migration as they affect housing turnover; and the use of second-lien or other individualized financing arrangements, including, for example, buydown plans. See “Mortgage Purchase and Servicing Standards—Special Financing Arrangements.” Freddie Mac makes no representation as to the particular effect, if any, these factors may have on payment behavior of the Mortgages. The enforcement of due-on-transfer clauses in Mortgages may increase payment rates in certain periods. Payment on the Multifamily Mortgages also may be affected by such factors as: changes in local industry and population as they affect vacancy rates; the attractiveness of other investment alternatives; the tax treatment of investment in multifamily properties; the existence of rent controls; and the remaining depreciable life of the underlying properties. The relative effect of these factors may vary over time.

PC Pools consisting of Mortgages with similar characteristics have in some cases experienced differing prepayment behavior during the same period. Freddie Mac has not formed any opinion as to the reasons for such variations in prepayment behavior experience. Freddie Mac makes no representation as to the weighted

average life of any particular PC Pool or the percentage of the Original Unpaid Principal Balance of any particular PC Pool which will be paid to Holders at any particular point in time.

An investor seeking to maximize yield is urged to make an investment decision with respect to PCs based on the anticipated yield to maturity of such PCs resulting from their price and such investor's own determination as to anticipated Mortgage prepayment rates under a variety of scenarios. An investor should carefully consider the associated risks, including, in the case of any PCs purchased at a discount, the risk that a slower than anticipated rate of principal payments on the Mortgages could result in an actual yield to such investor that is lower than the anticipated yield and, in the case of any PCs purchased at a premium, the risk that a faster than anticipated rate of principal payments could result in an actual yield to such investor that is lower than the anticipated yield.

Summarized below is information concerning the rate of principal prepayments on certain fixed-rate, first lien, Conventional Mortgages secured by one-to-four family dwellings contained in PC Pools formed by Freddie Mac under its Guarantor Program. Each Guarantor PC Pool from which the data herein are derived has a minimum Original Unpaid Principal Balance of \$1 million and normally contains Mortgages within a limited geographical area. The information presents rates of principal prepayments made during stated calendar quarters with respect to Mortgages bearing various interest rates as described below. For the periods presented, the information reflects that principal prepayments were made in excess of scheduled amortization.

Comparable data are not presented below for Cash Program PCs. Comparable Cash PC data are not available due to differences in record retention and data processing procedures between the Cash and Guarantor Programs. Freddie Mac has no reason to believe that data with respect to Cash Program PCs would reveal prepayment behavior materially different from that reflected by the Guarantor Program data. As of December 31, 1988, the aggregate unpaid balance of Guarantor Program PCs represented approximately 69% of the aggregate unpaid balance of all outstanding PCs.

Mortgages delivered by sellers are placed by Freddie Mac in accounting groups in which each of the Mortgages carries a like yield to Freddie Mac. Freddie Mac prepared the data presented below by calculating the weighted average interest rates for each accounting group (the "group WAC") using the Mortgage interest rate and the unpaid principal balance of each of the Mortgages in the accounting group as of the date of delivery of the Mortgages to Freddie Mac. A full prepayment of a Mortgage within an accounting group subsequent to delivery of the Mortgage and prior to the calculation of the data presented herein does not result in deletion of the mortgage interest rate associated with the Mortgage paid in full from the group WAC calculation. Thus, all of the mortgage interest rates constituting the group WAC computed as of the date of delivery of the Mortgages are assumed to remain in the accounting group notwithstanding principal prepayments made on any particular Mortgages.

In preparing the data set forth below, Freddie Mac also calculated a weighted average remaining term to maturity for each accounting group (the "group WARM") based upon the remaining term to maturity and unpaid principal balance of each of the Mortgages in the accounting group as of the date of delivery of the Mortgages. In calculating the group WARM, Freddie Mac used the remaining terms to maturity stated by sellers at the time of delivery of the Mortgages; where such information was unavailable, Freddie Mac calculated a remaining term to maturity for a Mortgage using other data available for that Mortgage. The table presents data with respect to each accounting group in which sufficient Mortgage data were available to produce a group WAC and group WARM; however, a group WAC and a group WARM may represent only a single Mortgage within an accounting group. In the event mortgage data necessary for calculation of a group WAC or a group WARM for an accounting group were unavailable, the Mortgages in such accounting group are not represented in the tables below.

## Constant Prepayment Rates<sup>(1)</sup>

### Conventional First Lien Mortgages Purchased Under the Guarantor Program with Original Terms to Maturity of 30 Years or Less

Calendar Quarter	Weighted Average Coupon <sup>(2)</sup> (in %)								Average of Prevailing Mortgage Rates During the Period <sup>(3)</sup> (in %)
	06.00- 06.49	06.50- 06.99	07.00- 07.49	07.50- 07.99	08.00- 08.49	08.50- 08.99	09.00- 09.49	09.50- 09.99	
1983—1st Qtr.			4.49			2.93	4.30	3.87	13.03
—2nd Qtr.	8.14	6.43	5.30	4.73		4.72	5.46	5.78	12.76
—3rd Qtr.	7.82	7.10	7.20	6.54		10.31	8.19	17.33	13.64
—4th Qtr.	9.28	5.86	5.58	5.49		8.30	6.50	12.87	13.46
1984—1st Qtr.	6.11	4.56	4.51	4.24	4.86	6.05	5.75	9.15	13.33
—2nd Qtr.	7.32	7.62	5.76	6.05	6.71	10.26	8.34	11.45	14.04
—3rd Qtr.	7.59	6.46	7.08	5.66	7.09	7.50	7.91	10.10	14.49
—4th Qtr.	6.44	6.16	4.73	4.85	6.26	5.72	6.38	13.96	13.65
1985—1st Qtr.	7.19	6.27	4.23	4.75	5.03	4.83	5.62	5.69	13.06
—2nd Qtr.	7.27	7.20	5.87	6.47	6.62	6.65	7.63	7.81	12.79
—3rd Qtr.	10.03	12.14	7.90	7.51	8.38	8.60	9.42	9.65	12.14
—4th Qtr.	9.34	8.69	6.91	7.11	7.17	7.57	8.25	8.48	11.73
1986—1st Qtr.	7.81	7.78	5.94	5.93	6.50	6.46	7.05	7.56	10.58
—2nd Qtr.	8.93	9.20	7.39	7.66	8.01	8.84	10.05	10.67	10.25
—3rd Qtr.	11.65	12.19	10.06	11.00	11.52	12.84	14.04	11.64	10.24
—4th Qtr.	11.40	11.75	9.61	10.51	11.09	11.21	12.82	8.62	9.68
1987—1st Qtr.	11.42	11.48	8.24	9.20	9.28	9.47	10.56	6.10	9.15
—2nd Qtr.	10.86	11.72	9.90	10.29	11.39	10.72	9.86	8.19	10.34
—3rd Qtr.	0.00	11.32	9.58	9.81	10.26	8.01	0.00	7.57	10.47
—4th Qtr.	9.70	10.05	7.61	7.70	7.78	5.90	5.79	6.11	10.89
1988—1st Qtr.	0.00	8.90	6.34	6.40	6.04	4.82	4.70	5.18	10.10
—2nd Qtr.	11.72	10.50	8.40	8.84	8.41	7.22	7.65	8.18	10.36
—3rd Qtr.	0.00	10.09	0.00	8.97	9.04	8.37	0.00	8.95	10.50
—4th Qtr.	8.20	8.39	7.39	7.71	7.73	6.58	7.55	7.47	10.41
1989—1st Qtr.	7.21	7.46	6.57	6.39	6.56	5.48	6.19	5.90	10.82

Calendar Quarter	Weighted Average Coupon <sup>(2)</sup> (in %)								Average of Prevailing Mortgage Rates During the Period <sup>(3)</sup> (in %)
	10.00- 10.49	10.50- 10.99	11.00- 11.49	11.50- 11.99	12.00- 12.49	12.50- 12.99	13.00- 13.49	13.50- 13.99	
1983—1st Qtr.	5.94	4.11	4.88	5.17	7.50	3.37	8.88	5.99	13.03
—2nd Qtr.	6.09	7.51	7.53	8.52	8.14	5.88	5.80	9.49	12.76
—3rd Qtr.	8.63	7.27	8.63	8.79	10.41	11.63	10.33	13.25	13.64
—4th Qtr.	6.75	6.28	8.47	7.52	7.44	11.06	11.78	8.51	13.46
1984—1st Qtr.	7.89	5.48	6.48	6.79	6.41	7.72	9.60	7.19	13.33
—2nd Qtr.	9.57	8.09	9.31	10.14	9.52	13.38	13.69	11.68	14.04
—3rd Qtr.	8.99	8.24	8.75	8.81	8.69	6.79	9.10	9.35	14.49
—4th Qtr.	8.17	5.86	6.96	6.02	7.35	6.11	7.03	6.28	13.65
1985—1st Qtr.	6.43	5.63	6.58	6.20	6.41	5.51	6.93	6.98	13.06
—2nd Qtr.	9.06	8.29	8.97	8.88	9.55	8.14	9.38	9.98	12.79
—3rd Qtr.	10.39	10.08	10.66	11.49	11.39	10.75	14.90	20.95	12.14
—4th Qtr.	9.60	9.96	10.48	9.42	10.67	11.19	16.40	25.66	11.73
1986—1st Qtr.	7.83	9.13	9.05	8.07	11.74	16.61	25.10	30.52	10.58
—2nd Qtr.	10.90	11.02	14.72	19.87	33.23	47.73	54.33	56.81	10.25
—3rd Qtr.	11.83	14.69	21.46	30.75	47.92	61.83	65.97	66.86	10.24
—4th Qtr.	7.38	11.81	21.13	32.20	46.06	55.91	59.95	59.78	9.68
1987—1st Qtr.	6.10	12.54	24.49	38.87	44.33	48.72	50.21	48.97	9.15
—2nd Qtr.	11.21	23.83	40.03	53.35	56.35	58.78	56.93	54.51	10.34
—3rd Qtr.	8.80	13.50	20.95	27.53	34.17	38.63	41.73	40.57	10.47
—4th Qtr.	6.98	9.40	13.91	17.34	22.54	25.50	28.45	29.16	10.89
1988—1st Qtr.	5.37	7.33	10.37	12.27	15.27	17.70	19.42	22.61	10.10
—2nd Qtr.	9.11	11.31	16.48	23.97	27.68	30.31	30.96	29.66	10.36
—3rd Qtr.	10.00	12.36	15.50	19.67	24.09	27.18	28.93	28.19	10.50
—4th Qtr.	7.65	9.29	12.53	15.57	18.61	20.34	23.04	22.42	10.41
1989—1st Qtr.	5.71	6.88	9.78	11.27	14.15	15.72	18.34	16.97	10.82

Footnotes are set forth on the following page.

## Constant Prepayment Rates<sup>(1)</sup>

### Conventional First Lien Mortgages Purchased Under the Guarantor Program with Original Terms to Maturity of 30 Years or Less

Calendar Quarter	Weighted Average Coupon <sup>(2)</sup> (in %)						Average of Prevailing Mortgage Rates During the Period <sup>(3)</sup> (in %)
	14.00- 14.49	14.50- 14.99	15.00- 15.49	15.50- 15.99	16.00- 16.49	16.50- 16.99	
1983—1st Qtr. ....	8.98	10.81					13.03
—2nd Qtr. ....	12.53	24.64	40.92	38.99	51.17		12.76
—3rd Qtr. ....	17.50	31.65	31.15	42.34	48.68	61.00	13.64
—4th Qtr. ....	14.14	15.81	22.85	25.57	28.52	47.66	13.46
1984—1st Qtr. ....	10.93	16.64	18.63	22.54	27.76	44.13	13.33
—2nd Qtr. ....	17.79	24.76	30.31	41.44	33.87	48.14	14.04
—3rd Qtr. ....	15.63	16.20	21.47	26.66	27.98	35.21	14.49
—4th Qtr. ....	8.68	13.27	12.48	15.52	20.87	21.29	13.65
1985—1st Qtr. ....	10.17	16.00	21.42	27.06	30.90	30.31	13.06
—2nd Qtr. ....	16.53	26.32	27.52	37.33	35.99	24.39	12.79
—3rd Qtr. ....	30.50	36.83	40.24	48.96	37.92	39.71	12.14
—4th Qtr. ....	38.57	45.41	48.75	51.19	49.34	42.38	11.73
1986—1st Qtr. ....	36.83	35.81	38.81	44.99	31.83	38.96	10.58
—2nd Qtr. ....	58.03	55.80	53.59	59.01	48.14	46.48	10.25
—3rd Qtr. ....	67.79	64.70	63.42	64.28	56.03	51.90	10.24
—4th Qtr. ....	61.03	59.56	58.48	60.89	55.22	40.64	9.68
1987—1st Qtr. ....	50.45	47.71	50.05	44.31	50.38	37.67	9.15
—2nd Qtr. ....	52.95	53.04	53.57	51.85	54.21	46.98	10.34
—3rd Qtr. ....	44.92	41.67	43.04	39.82	54.02	49.02	10.47
—4th Qtr. ....	30.88	34.18	28.93	28.87	37.01	21.69	10.89
1988—1st Qtr. ....	23.20	26.29	24.04	20.85	31.46	59.15	10.10
—2nd Qtr. ....	28.16	34.84	33.13	32.96	37.73	37.54	10.36
—3rd Qtr. ....	28.20	27.55	35.94	29.78	55.15	32.50	10.50
—4th Qtr. ....	23.75	22.59	30.04	19.92	25.62	37.41	10.41
1989—1st Qtr. ....	23.70	20.53	24.02	13.18	31.25	36.61	10.82

(1) Constant Prepayment Rates were calculated as follows: accounting groups were segregated by group WAC into the categories displayed in the above table. For each accounting group, the actual unpaid principal balance at the end of a month was used to calculate an unpaid principal balance at the beginning of the next month. This calculation was based upon the group WAC, group WARM, and an assumption that only scheduled amortization had occurred on the group during the month. The difference between the actual unpaid principal balance at the beginning of the month and the calculated beginning of the month balance was deemed to be prepayments of principal on the mortgages in the accounting group which occurred during the month.

For each month, Freddie Mac added the amount of prepayments as calculated above, and divided by the sum of the actual unpaid principal balances of the accounting groups in each category as of the beginning of each month. This procedure was repeated for each month in each calendar quarter. The quotient for each month was subtracted from 1.0, and the three resulting numbers for each quarter were multiplied together. The result was annualized by raising it to the fourth power and subtracting it from 1.0. Converted to a percentage rate, the result is the Constant Prepayment Rate shown in the table.

- (2) Represents the group WACs of accounting groups comprising outstanding Guarantor PC Pools with a Prefix of 18, 25, 27, 28, 29, or 30 (These Prefixes are the predecessors to Prefix 53).
- (3) The average of the prevailing mortgage interest rates on first lien conventional 30-year mortgages during the period as published weekly by Freddie Mac in its "Primary Mortgage Market Survey."

## Constant Prepayment Rates<sup>(1)</sup>

### Conventional First Lien Mortgages Purchased Under the Guarantor Program with Original Terms to Maturity of 15 Years or Less

Calendar Quarter	Weighted Average Coupon <sup>(2)</sup> (in %)											Average of Prevailing Mortgage Rates During the Period <sup>(3)</sup> (in %)	
	08.50- 08.99	09.00- 09.49	09.50- 09.99	10.00- 10.49	10.50- 10.99	11.00- 11.49	11.50- 11.99	12.00- 12.49	12.50- 12.99	13.00- 13.49	13.50- 13.99		14.00- 14.49
1985—2nd Qtr. ....								10.32	6.22	2.17	12.17	12.79	
—3rd Qtr. ....							3.85	4.55	9.25	14.10	10.35	12.14	
—4th Qtr. ....				1.00	1.30	3.68	1.76	4.66	7.11	13.54	22.76	33.67	11.73
1986—1st Qtr. ....				2.80	1.29	2.17	3.28	7.80	13.66	29.86	30.23	41.18	10.58
—2nd Qtr. ....			1.27	1.57	3.22	7.88	14.46	33.81	47.76	62.93	58.06	68.93	10.25
—3rd Qtr. ....		6.24	1.85	2.81	5.29	15.30	27.00	50.78	61.85	69.58	68.42	69.11	10.24
—4th Qtr. ....	4.23	2.84	2.57	4.00	6.20	19.58	25.60	46.84	54.03	57.77	58.20	64.07	9.68
1987—1st Qtr. ....	3.83	2.28	2.89	4.64	13.59	31.92	39.44	46.73	47.12	52.63	44.63	55.96	9.15
—2nd Qtr. ....	1.58	3.21	5.95	11.48	31.62	64.42	60.19	60.00	61.22	57.98	63.23	52.54	10.34
—3rd Qtr. ....	1.98	3.74	6.28	7.99	12.82	25.66	26.26	31.39	34.90	38.24	38.43	42.17	10.47
—4th Qtr. ....	2.48	3.83	5.25	6.04	8.05	12.41	13.67	18.38	19.64	26.07	27.55	41.21	10.89
1988—1st Qtr. ....	2.52	3.47	4.24	5.31	6.03	8.11	9.35	12.96	14.82	22.02	11.72	11.23	10.10
—2nd Qtr. ....	4.56	5.87	7.51	8.16	10.95	17.57	23.36	23.68	27.91	26.58	34.18	35.80	10.36
—3rd Qtr. ....	6.04	7.11	8.74	9.72	11.17	14.51	15.61	21.18	21.33	26.48	20.92	16.14	10.50
—4th Qtr. ....	4.78	6.27	6.75	7.49	8.74	10.49	11.99	13.00	17.25	21.63	18.21	13.25	10.41
1989—1st Qtr. ....	4.18	5.78	5.61	6.55	7.97	8.59	11.72	11.76	12.30	9.50	14.25	29.07	10.82

(1) Constant Prepayment Rates were calculated as follows: accounting groups were segregated by group WAC into the categories displayed in the above table. For each accounting group, the actual unpaid principal balance at the end of a month was used to calculate an unpaid principal balance at the beginning of the next month. This calculation was based upon the group WAC, group WARM, and an assumption that only scheduled amortization had occurred on the group during the month. The difference between the actual unpaid principal balance at the beginning of the month and the calculated beginning of the month balance was deemed to be prepayments of principal on the mortgages in the accounting group which occurred during the month.

For each month, Freddie Mac added the amount of prepayments as calculated above, and divided by the sum of the actual unpaid principal balances of the accounting groups in each category as of the beginning of each month. This procedure was repeated for each month in each calendar quarter. The quotient for each month was subtracted from 1.0, and the three resulting numbers for each quarter were multiplied together. The result was annualized by raising it to the fourth power and subtracting it from 1.0. Converted to a percentage rate, the result is the Constant Prepayment Rate shown in the table.

- (2) Represents the group WACs of accounting groups comprising outstanding Guarantor PC Pools with a Prefix of 21. (Prefix 21 is the predecessor to Prefix 50.)
- (3) The average of the prevailing mortgage interest rates on 30-year first lien conventional mortgages during the period as published weekly by Freddie Mac in its "Primary Mortgage Market Survey."

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

Freddie Mac sells PCs only in book-entry form. Freddie Mac's fiscal agent for PCs is the Federal Reserve Bank of New York. Each of the Federal Reserve Banks maintains book-entry accounts for PCs. The Fiscal Agency Agreement between Freddie Mac and the Federal Reserve Bank of New York makes generally applicable to PCs the Freddie Mac book-entry regulations, 1 C.F.R. Part 462, and such procedures, insofar as applicable, as may from time to time be established by regulations of the United States Department of the Treasury governing United States securities, and such other procedures as shall be agreed upon from time to time by Freddie Mac and the Federal Reserve Bank of New York. These regulations and procedures relate

primarily to the registration, transfer and pledge of PCs. Each PC Pool is assigned a unique nine-character designation used to identify the PC Pool on the records of a Federal Reserve Bank (the "CUSIP Number").

PCs are issued and must be maintained and transferred only on the book-entry system of a Federal Reserve Bank in minimum original principal amounts, by PC Pool, of \$1,000 and in additional increments of \$1. Such amounts represent the Holder's pro rata share of the original unpaid principal balance of the Mortgages as of the date of formation of the related PC Pool. A PC may not be transferred if, as a result of the transfer, the transferor or the transferee would have on deposit in its account PCs having an original unpaid principal balance of less than \$1,000 with respect to the related PC Pool.

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

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

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

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

## **Remedies**

In the event of Freddie Mac's default in the payment of principal or interest or in the performance of any other covenant in the PC Agreement, all to the extent and as set forth in the PC Agreement, the Holders of a majority in aggregate unpaid principal balance of the PCs in respect of any affected PC Pool may, subject to certain notice requirements and the rights of Freddie Mac and other Holders, remove Freddie Mac and nominate a successor under the PC Agreement. Appointment of a successor does not relieve Freddie Mac of

its guarantee obligations as set forth in the PC Agreement. The right of a Holder to receive payment of interest or principal due in respect of the Holder's PC or to institute suit for enforcement of any such payment cannot be impaired without the consent of such Holder. For complete information concerning Holders' rights and remedies with respect to a PC, see the PC Agreement.

## CERTAIN FEDERAL INCOME TAX CONSEQUENCES

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

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

A beneficial owner of PCs ("Beneficial Owner") who delivers Mortgages under the MultiLender Swap Program in exchange for PCs should be aware that it may be required to recognize gain or loss with respect to all or a portion of such PCs, though there is conflicting authority in this regard. Any such recognition of gain or loss may depend in part on whether and to what extent the Mortgages delivered differ materially from the PCs received. Beneficial Owners should consult their own tax advisors regarding this matter.

Under the book-entry system, each Holder will be furnished with annual information for federal income tax purposes that will itemize with respect to each PC held the total gross interest at the interest rates on the underlying Mortgages, gross original issue discount, if any, servicers' fees and Freddie Mac's management and guarantee fees, the total amount of interest paid on the PC at the PC Coupon, federal income taxes withheld, if any, prepayment charges, if any, and distribution of principal on the PCs for the calendar year.

### General Tax Characteristics

PCs have the following characteristics for federal income tax purposes:

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

corporations, and grantor trusts, but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts, and publicly traded mutual funds. Generally, such deduction, when aggregated with certain of the Beneficial Owner's other miscellaneous itemized deductions, is allowable only to the extent that such aggregate amount exceeds two percent (2%) of the Beneficial Owner's adjusted gross income.

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

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

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

### **Buydown Accounts**

In connection with certain of the Mortgages, there may be maintained a buydown account which provides a source for the payment of interest for a part of the term of a Mortgage and which serves as security for the repayment of the Mortgage in addition to the residential real property that secures the Mortgage. The Internal Revenue Service may take the position that PCs representing ownership of such Mortgages do not constitute "qualifying real property loans" within the meaning of Section 593(d) of the Code to the extent the related buydown accounts are maintained with a beneficial owner.

Certain of the buydown accounts may consist of funds advanced by the originator of the Mortgage. It is not clear for federal income tax purposes whether such funds would be treated as funds of the borrower, with the borrower correspondingly treated as obligated for the full stated interest rate in the Mortgage, or whether the borrower should be treated as obligated to pay only the "bought down" interest rate. Freddie Mac plans to report for federal income tax purposes using the stated interest rate in the Mortgage. If the Internal Revenue Service were to view the borrower's obligation on a net basis, a Beneficial Owner would be treated as owning two separate debt instruments, one an obligation of the borrower and a separate obligation of the originator for the "bought down" accounts. In such event, there would be some acceleration of taxable income to the period of the buydown accounts. In addition, such issue could affect the status of PCs for purposes of qualifying as "loans . . . secured by an interest in real property" within the meaning of Section 7701(a)(19)(C)(v) of the Code, as "qualifying real property loans" within the meaning of Section 593(d) of the Code, and as "real estate assets" as that phrase is used in Section 856(a)(5)(A) of the Code and could affect the treatment of interest income on PCs as "interest on obligations secured by mortgages on real property" as that phrase is used in Section 856(c)(3)(B) of the Code. The status of the PCs for these purposes will be unclear only for the period and only to the extent of the buydown accounts.

### **Discount and Premium**

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

A Beneficial Owner will be required to report as ordinary income its pro rata share of any original issue discount with respect to the Mortgages in the relevant PC Pool pursuant to Sections 1271-1273 and 1275 of

the Code. Original issue discount with respect to a Mortgage could arise by virtue of the charging of points by the originator of the Mortgage if the points are not currently deductible under applicable Code provisions. In addition, original issue discount could arise with respect to a Mortgage which was originated as an adjustable rate or graduated payment Mortgage. Even if there is original issue discount with respect to a Mortgage, a Beneficial Owner will be required to accrue such original issue discount into income currently only if it exceeds a *de minimis* amount. The Mortgages 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. Unless the "stripped bond" rules apply, the original issue discount rules described above would not apply to Mortgages of individuals originated before March 2, 1984 and Mortgages of partnerships originated before July 2, 1982.

In general, a Beneficial Owner who is considered to have purchased its interest in any Mortgage at a market discount may be required to allocate the market discount among the principal payments on the Mortgage and include in income the discount allocated to each payment when the payment is received or comes due. The character of such income as ordinary income or capital gain will depend on the status of the issuer of the Mortgage and the date of issuance of the Mortgage. With respect to Mortgages originated on or prior to July 18, 1984, a Beneficial Owner will report the market discount as capital gain in the case of a Mortgage issued by a corporation or a Mortgage issued by a partnership after July 1, 1982, and as ordinary income in the case of a Mortgage issued by an individual (assuming the PC is held as a capital asset and subject to the discussion of Section 1277 and "stripped bonds" below). With respect to Mortgages originated after July 18, 1984, the market discount rules of Sections 1276 -1278 of the Code will apply to treat market discount (in excess of a *de minimis* amount) as ordinary income to the extent of the portion of such discount that is considered to have accrued during the period a Beneficial Owner held the 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. Partial principal payments will be included in income to the extent such payments do not exceed the accrued market discount. Under Section 1277, interest paid or accrued by a Beneficial Owner on indebtedness incurred or continued to purchase or carry Mortgages acquired at a market discount (whether such Mortgages were issued on or prior to or after July 18, 1984) is allowed as a deduction only to the extent such interest (reduced by the interest on the Mortgages includible in income) exceeds the market discount that accrued during the taxable year such interest was paid or accrued. Any such deferred interest expense will, in general, be allowed as a deduction when the related discount income is recognized. As an alternative, a Beneficial Owner may elect to include market discount in income currently, under either a straight-line method or a constant interest method, on all market discount obligations held by such Beneficial Owner (other than market discount obligations acquired in prior taxable years), in which event the foregoing ordinary income on disposition and interest deferral rules will not apply. The precise application of the market discount rules to the Mortgages is not clear. It is anticipated that the application of the market discount rules to obligations such as the Mortgages will be addressed in regulations to be issued by the United States Department of the Treasury. The legislative history of the 1986 Act indicates that, until the issuance of regulations, it is permissible for a Beneficial Owner to elect to accrue market discount as follows: (1) for Mortgages that have original issue discount, the amount of market discount that accrues during a period is equal to the product obtained by multiplying the total remaining market discount by a fraction, the numerator of which is the original issue discount for the period and the denominator of which is the total remaining original issue discount at the beginning of the period, and (2) for Mortgages that have no original issue discount, the amount of market discount that is deemed to accrue shall be the amount of market discount that bears the same ratio to the total amount of remaining market discount that the amount of stated interest paid in the accrual period bears to the total amount of stated interest remaining to be paid on the Mortgage as of the beginning of the accrual period. Investors should consult their own tax advisors regarding the application of the market discount rules as well as the advisability of making any of the above elections.

In the event a Beneficial Owner is considered to have purchased its interest in any Mortgage at a premium, such premium may, if the Mortgage is issued by a corporation or if the Mortgage is issued by

other than a corporation after September 27, 1985, be amortizable under a constant interest method at the election of the taxpayer under Section 171 of the Code.

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

In the case of a Beneficial Owner other than the seller of a Mortgage under the Guarantor Program, any difference between interest at the underlying interest rate on the Beneficial Owner's undivided interest in each Mortgage in the PC Pool (the Beneficial Owner's gross income) and the sum of the interest at the PC Coupon on the PC, Freddie Mac's management and guarantee fees, and servicer's fees with respect to such undivided interest is, except as described below, to be accounted for as discount income or premium expense, as described in Revenue Ruling 71-399, 1971-2 C.B. 433. When interest at the PC Coupon plus the fees exceeds interest at the underlying Mortgage interest rate, such additional gross income is characterized as "discount." When interest at the PC Coupon plus the fees is exceeded by interest at the underlying Mortgage interest rate, the difference is characterized as "premium expense." In Revenue Ruling 71-399, the Internal Revenue Service ruled that any such discount income is to be included in ordinary gross income in accordance with the Beneficial Owner's method of accounting, and that any such premium expense may be deductible in accordance with applicable rules.

The Internal Revenue Service may contend that, by reason of the enactment of the stripped bond rules of Section 1286 of the Code (or its predecessor, Section 1232B), Revenue Ruling 71-399 is no longer applicable to characterizing such differences in interest passed through. If this were the case, a Beneficial Owner would not be treated as having a pro rata undivided interest in the interest payments on the Mortgages, but rather an ownership interest in such payments to the extent of the PC Coupon plus reasonable servicing fees. Under the rules of Section 1286, the Beneficial Owner would be treated as if the payments to be received in respect of the ownership interest in the Mortgages were purchased at an original issue discount equal to the difference between the price at which such Beneficial Owner is considered to have purchased such payments and the aggregate amount of such payments. The Beneficial Owner would include in income such original issue discount in accordance with the normal Code provisions governing original issue discount. This would have the effect of requiring both interest and discount on the Mortgages to be reported as ordinary income as such income accrues under a constant interest method pursuant to Sections 1271-1273 and 1275 of the Code.

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

A Beneficial Owner who is a U.S. person (as defined below) may be subject to backup withholding tax at the rate of 20 percent under Section 3406 of the Code on payments made with respect to a PC. Backup withholding would apply if such Beneficial Owner fails to furnish certain information, including such Beneficial Owner's taxpayer identification number, to the person from whom such Beneficial Owner receives

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

Under temporary U.S. Treasury regulations, payments made to a Beneficial Owner who is not a U.S. person with respect to a PC that represents an undivided interest in a pool of mortgages all of which were originated after July 18, 1984 generally will not be subject to United States federal income tax, including withholding tax, if (i) such PC is not held by such Beneficial Owner in connection with a trade or business in the United States, (ii) such Beneficial Owner is not with respect to the United States a personal holding company or 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 PC to a Beneficial Owner who is not a U.S. person represent interest on obligations issued before July 19, 1984, such amounts will be subject to withholding of U.S. federal income tax at the rate of 30 percent or such lower rate as may be provided by applicable tax treaty. Regardless of the date of issuance of the Mortgages, backup withholding tax will not apply to payments with respect to a PC made to a Beneficial Owner who is not a U.S. person if an appropriate statement of non-U.S. beneficial ownership is furnished by such Beneficial Owner, as described in (iii) in the first sentence of this paragraph.

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

## MORTGAGE PURCHASE AND SERVICING STANDARDS

All mortgages purchased by Freddie Mac must meet certain standards set forth in the Freddie Mac Act. The Freddie Mac Act sets specific purchase requirements regarding mortgages with loan-to-value ratios in excess of 80% and limitations as to mortgage amount as discussed below. The Freddie Mac Act also confines Freddie Mac to purchasing, so far as practicable, mortgages which it deems to be of such quality, type and class as to meet generally the purchase standards imposed by private institutional investors. This aspect of the Freddie Mac Act requires that mortgages purchased be readily marketable to institutional mortgage investors. The mortgage purchase standards Freddie Mac has developed, including its credit, appraisal and underwriting guidelines, are set forth in Freddie Mac's Purchase Documents, including the *Sellers' & Servicers' Guide* and program announcements.

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

Set forth below is a general summary of certain aspects of Freddie Mac's mortgage purchase standards. Subject to Freddie Mac's right to waive or modify these standards, and except for differences specifically

described herein or in any related Offering Circular supplement, this summary is qualified in its entirety by Freddie Mac's Purchase Documents, including the *Sellers' & Servicers' Guide* and related documents. Copies of these materials may be obtained from Freddie Mac's Subscription Services Department upon payment of a prescribed fee.

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

The Mortgages conform to the credit, appraisal and underwriting guidelines established by Freddie Mac, except to the extent that certain of such guidelines have been modified or waived in connection with the purchase of specific Mortgages. These guidelines are designed to determine the value of the real property securing a Mortgage, the creditworthiness of the borrower, and, in the case of real property securing a Multifamily Mortgage, the ability of the rental income from the property to support the payments on the Mortgage and the quality of management of the mortgaged property.

Freddie Mac distinguishes among three types of property securing Home Mortgages and underwrites mortgages in accordance with standards established for each type of property: (i) an owner-occupied property; (ii) a second home; and (iii) an investment property. An owner-occupied property is a one-to-four unit property occupied by the borrower as a primary residence. A second home is a one unit property, occupied by the borrower for some portion of the year and not subject to any time sharing ownership arrangement. In addition, a second home must be suitable for year round occupancy as a primary residence and no income derived from the property will be considered for underwriting purposes. An investment property is a one-to-four unit property, owned by an individual and suitable for year round rental and occupancy.

All FHA and VA mortgages purchased by Freddie Mac must conform to the credit and appraisal guidelines established pursuant to applicable federal regulations for each of the FHA or VA programs pursuant to which the mortgages are insured or guaranteed.

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

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

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

In the application of its mortgage purchase standards, Freddie Mac does not purchase a first lien mortgage on a one-family primary residence if the mortgage has an original loan-to-value ratio exceeding 95% of the lower of the appraised value at origination or the purchase price of the real property securing the mortgage. Depending on certain factors, including the use of mortgage proceeds (e.g., purchase money or refinance) and type of property securing the mortgage (e.g., primary residence as compared to second home or investment property), Freddie Mac has established loan-to-value ratio requirements lower than 95% for mortgages it will purchase. Generally, Freddie Mac requires lower loan-to-value ratios (and thus greater

borrower equity) for second homes and investment properties than for primary residences. For example, Freddie Mac generally requires loan-to-value ratios not greater than 70% for investment properties, 80% for second homes, 80% for three- to four-family primary residences and 90% for two-family primary residences.

Freddie Mac also generally requires lower loan-to-value ratios for mortgages which refinance existing mortgages as compared to mortgages which finance the purchase of properties. The loan-to-value ratio of refinance mortgages secured by one- to two-unit owner-occupied residences generally may not exceed 90% and the loan-to-value ratio of refinance mortgages secured by three- to four-unit owner-occupied properties generally may not exceed 80%. The loan-to-value ratio of refinance mortgages secured by second homes or investment properties generally may not exceed 70%. Further, Freddie Mac imposes more stringent loan-to-value ratio requirements for refinance mortgages which permit borrowers to take cash out of refinance mortgage proceeds. For example, the loan-to-value ratio of "cash-out" refinance mortgages secured by owner-occupied residences generally may not exceed 75%, while "cash-out" refinance mortgages secured by second homes or investment properties generally are not purchased by Freddie Mac.

Generally, Freddie Mac does not purchase Second Mortgages that have total financing-to-value ratios exceeding 80%. The total financing-to-value ratio of a Second Mortgage is determined by dividing the sum of the outstanding principal balance of the first lien mortgage at the time the Second Mortgage was closed plus the original principal amount of the Second Mortgage by the lower of the appraised value of the mortgaged property at the time the Second Mortgage was closed or the purchase price of such property.

Currently, Freddie Mac does not purchase Multifamily Mortgages that have loan-to-value ratios exceeding 85%. The Freddie Mac Act permits Freddie Mac to purchase a Multifamily Mortgage that has a loan-to-value ratio up to 100% of the appraised value of the real property securing the Mortgage. Freddie Mac purchased Multifamily Mortgages with loan-to-value ratios up to 100% prior to January 30, 1987.

Freddie Mac purchases FHA mortgages having loan-to-value ratios and maximum principal amounts as determined under the National Housing Act, provided that such maximum principal amounts do not exceed those established by Freddie Mac for Conventional Home Mortgages. The FHA generally permits a maximum loan-to-value ratio of between 90% and 100% for owner-occupied properties and an 85% loan-to-value ratio for non-owner-occupied properties. The VA does not impose loan-to-value ratio limitations on mortgages which it guarantees. Freddie Mac will purchase a VA mortgage only if the portion of the mortgage which is not guaranteed by the VA does not exceed 75% of the lesser of (i) the purchase price of the real property securing the mortgage or (ii) the appraised value of such real property at the time the mortgage is closed. With respect to a VA mortgage being used to refinance an existing VA mortgage, the portion of the mortgage that is not guaranteed by the VA may not exceed 75% of such appraised value.

In formulating its credit and underwriting standards, Freddie Mac establishes loan-to-value ratios based on different parameters, including those described above, to reflect its assessment of credit risk posed by different types of mortgage purchases.

### **Mortgage Insurance**

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

For FHA and VA mortgages, the seller must provide assurances satisfactory to Freddie Mac that each Mortgage is fully insured by the FHA or is guaranteed by the VA as of the date of delivery. The insurance or guaranty must be as specified in the applicable FHA or VA regulations.

### **Mortgage Amount**

The Freddie Mac Act establishes limits on the maximum original mortgage amount of any Conventional Home or Multifamily Mortgage which Freddie Mac may purchase. For Home Mortgages delivered to Freddie Mac after January 1, 1989, the original mortgage amount may not exceed \$187,600 for a one-family dwelling, \$239,950 for a two-family dwelling, \$290,000 for a three-family dwelling and \$360,450 for a four-family dwelling. For Multifamily Mortgages delivered to Freddie Mac on or after February 5, 1988, the maximum original principal amount is, for a non-elevator structure, \$31,687 per unit without separate bedroom, \$35,100 per one-bedroom unit, \$41,925 per two-bedroom unit, \$51,675 per three-bedroom unit and \$58,500 per four-bedroom unit. For elevator structures, the amounts are \$36,562, \$40,950, \$50,212, \$62,887 and \$71,106, respectively. The applicable limitations for Conventional Home and Multifamily Mortgages may be increased by 50% for properties located in Alaska, Guam, and Hawaii. In any area which has been, or may in the future be, determined to be a high cost area by the Secretary of the Department of Housing and Urban Development pursuant to Section 207(c) of the National Housing Act, the original principal amount for a Multifamily Mortgage may be increased by 92%.

The maximum original mortgage amount for a Second Mortgage is \$93,800 for a one-to-four family dwelling (which may be increased by 50% for properties located in Alaska, Guam or Hawaii). This limit is one half of the current maximum mortgage amount for first lien mortgages on one-family dwellings. If Freddie Mac has purchased an interest in the first lien mortgage secured by the same property, the sum of the original amount of the first lien mortgage and the original amount of the Second Mortgage may not exceed \$187,600, the mortgage limit set forth above for a first lien mortgage on a one-unit dwelling.

The maximum original mortgage amount for a VA Mortgage is \$144,000. Freddie Mac purchases FHA Mortgages having maximum original principal amounts as determined under the National Housing Act, provided that the maximum original principal amounts do not exceed those established by Freddie Mac for Home Mortgages purchased by Freddie Mac in its Conventional Mortgage purchase programs.

### **Special Financing Arrangements**

Under conditions specified in the *Sellers' & Servicers' Guide* and any applicable FHA or VA regulations, Freddie Mac may purchase first lien mortgages on properties which are subject to secondary or special financing arrangements, including, for example, junior mortgages, buydown plans, other property seller contributions or shared equity plans. Any junior mortgages may contain features such as the absence of regular amortization of principal and deferred interest and/or principal payments. Freddie Mac may also purchase a Conventional Home or Multifamily Mortgage secured by a property on which a subordinate lien has been placed for an amount which includes the unpaid principal balance of the first lien where the holder of the subordinate lien may repay the first lien if market interest rates decline or at any other time.

The mortgaged premises securing a Second Mortgage may be subject to liens that are subordinate to the Second Mortgage, provided that the proceeds of the first lien mortgage and the Second Mortgage were applied to the purchase of the property, the total financing on the property (including the first lien mortgage, the Second Mortgage and all financing subordinate to the Second Mortgage) at the time of delivery of the Second Mortgage to Freddie Mac does not exceed 95% of the lesser of the property's original appraised value or its original purchase price, and the total financing-to-value ratio of the first lien mortgage and the Second Mortgage at the time of origination of the Second Mortgage does not exceed 80%. The first lien mortgage on a property that secures a Second Mortgage must be fully amortizing and must not permit negative amortization.

Under certain conditions, Freddie Mac permits special payment arrangements, sometimes referred to as "buydowns". Under this type of arrangement, funds are placed in a buydown account by a third party, the borrower or the lender, and are used to pay a portion of the scheduled monthly payment on a Home Mortgage for a specified period, generally 18 to 36 months. Buydowns temporarily reduce the effective interest rate paid by the borrower during the term of the buydown, enabling the borrower to make payments for the first few years of the mortgage at an amount less than rates prevailing for the same type of mortgage without a buydown feature. The difference between the effective rate paid by the borrower and the interest rate of the mortgage is paid monthly from funds in the buydown account. After expiration of the buydown term the interest payments required to be made by the borrower on the mortgage increase to the fixed mortgage rate, which rate is generally higher than the rate the borrower would have paid absent the buydown feature. During the term of the buydown the effective interest rate (the rate at which the borrower makes scheduled monthly payments) on the Home Mortgage increases at specified intervals, such as annually for two to three years, or semiannually for a shorter period such as 18 months. Freddie Mac believes that whether and the extent to which Home Mortgages with buydown features would exhibit prepayment behavior materially different from Home Mortgages without buydown features would depend primarily upon factors such as the ability of borrowers to adjust to both the rate of periodic payment increase as well as the total increase in scheduled monthly payments on the Home Mortgage.

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

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

Substantially all of the Mortgages are purchased from and serviced by financial institutions whose deposits are insured by the Federal Savings and Loan Insurance Corporation ("FSLIC") or the Federal Deposit Insurance Corporation ("FDIC"), or mortgage bankers approved by the U.S. Department of Housing and Urban Development ("HUD") for participation in any mortgage insurance program under the National Housing Act. Freddie Mac approves the institutions on an individual basis after consideration of factors such as financial condition, operational capability and mortgage origination and/or servicing experience. The seller of a Mortgage to Freddie Mac need not be the originator of that Mortgage. Any seller of an FHA or VA Mortgage to Freddie Mac or servicer of such Mortgages must be approved by the FHA or VA to originate and/or service FHA or VA mortgages.

Sellers are required to give certain warranties to Freddie Mac. These warranties cover such matters as the validity of the Mortgage as a first lien (or second lien, in the case of a Second Mortgage); the fact that payments on the Mortgage are current at the time of delivery to Freddie Mac; proper execution and recordation of the Mortgage; compliance by the originator with the requirements of all state and federal laws, including those relating to settlement procedures, authorization to do business in the state in which the mortgaged property is located, truth-in-lending and usury; existence and validity of title, hazard and mortgage insurance policies and, where applicable, insurance covering rent loss in the event of the damage or destruction of certain mortgaged property; and the enforceability of any FHA insurance or VA guaranty. Sellers also warrant that each Mortgage complies with the requirements of the applicable Freddie Mac purchase program, with such requirements as are generally imposed by private institutional mortgage investors in the area in which the mortgaged property is located, and with such requirements as are imposed under FHA or VA regulations, if applicable. Such warranties are made even if the seller is not the originator of the Mortgage. Sellers of Second Mortgages are also required to give warranties to Freddie Mac covering the absence of any rights which might give rise to intervening liens other than the first lien mortgage and the fact that the Second Mortgage is free of all defenses and claims of the borrower relating to unsatisfactory workmanship or materials in connection with any improvements financed by the Second Mortgage.

Under certain circumstances Freddie Mac may modify the warranties required to be made by a seller. This may occur, for example, in cases where Freddie Mac grants waivers or modifications to its purchase standards.

### **Mortgage Servicing**

Servicers agree, subject to Freddie Mac's general supervision, to perform diligently all services and duties customary to the servicing of Mortgages and, where applicable, in accordance with FHA or VA regulations. Servicers must retain a minimum servicing fee on whole loan Mortgages. Servicers are not required to retain a servicing fee on participations. The duties performed by servicers include, but are not limited to, collection and remittance of principal and interest, administration of escrow accounts, collection of insurance or guaranty claims, property inspections and, if necessary, foreclosure and disposal of property acquired through foreclosure. Subject to Freddie Mac's approval, servicers may contract to have servicing performed by, or sell their servicing rights to, other servicers acceptable to Freddie Mac. In addition, subject to Freddie Mac's approval, servicers may allow subservicers to perform servicing functions provided that the servicer agrees that servicing, including all remittance obligations, will be performed as required by Freddie Mac's policies and requirements.

Pursuant to the PC Agreement, Freddie Mac may service or supervise servicing of the Mortgages for the benefit of Holders and has full power and authority to do or cause to be done any and all things in connection with such servicing which it deems necessary or desirable.

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

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

#### *Prepayments*

A full prepayment of principal on a Mortgage may occur upon a transfer of the real property securing the Mortgage or a refinancing of the Mortgage. A borrower may prepay a Mortgage in full at any time subject to the payment of the applicable prepayment fee, if any.

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

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

A "due-on-transfer clause" is a provision in a security instrument which by its terms permits acceleration of the unpaid principal balance upon transfer of the property or an interest therein. To the extent permitted under the security instrument and state and federal law and except in the case of certain types of transfers

noted below, Freddie Mac requires its servicers to enforce due-on-transfer clauses and to demand full payment of the remaining principal balance of a Mortgage note upon the sale or transfer of the property securing the note, irrespective of the creditworthiness of the transferee (referred to as a policy of "automatic acceleration").

The Garn-St Germain Depository Institutions Act of 1982 (the "DIA") is the principal federal legislation addressing enforcement of due-on-transfer clauses. The DIA provides for federal preemption of state statutory or judicial law (except as noted below) that would otherwise restrict enforcement of due-on-transfer clauses. Except for cases in which enforcement of due-on-transfer clauses is expressly prohibited, the DIA permits a mortgage holder to enforce a due-on-transfer clause. Thus, under the DIA generally, a mortgage containing a due-on-transfer clause enforceable by its terms may be accelerated upon transfer of the mortgaged property and is thus not assumable.

The DIA, however, contains several provisions which prohibit enforcement of due-on-transfer clauses. First, mortgages originated or assumed on or between the date a state adopted a restriction on the enforcement of due-on-transfer clauses and October 15, 1982 (the "window period"), continued to be assumable but only until October 15, 1985. However, the DIA also granted states the authority to extend the October 15, 1985 deadline. Freddie Mac has identified four states in which window periods still exist. Michigan, New Mexico and Utah have enacted legislation, pertaining to mortgages securing property located in the state, extending the October 15, 1985 deadline indefinitely. Therefore, mortgages originated or assumed during the following periods are assumable throughout the life of the mortgage: Michigan—January 5, 1977 to October 15, 1982; New Mexico—March 15, 1979 to October 15, 1982; and Utah—May 12, 1981 to October 15, 1982. Minnesota has enacted legislation extending the October 15, 1985 deadline to September 30, 1990, but only for mortgages originated on or between June 1, 1979 and May 8, 1981. Federally chartered banks, savings and loan associations and credit unions must comply with federal regulations which permit the enforcement of due-on-transfer clauses. Freddie Mac requires automatic acceleration in accordance with such regulations.

Freddie Mac permits a window period Mortgage to be assumed by a transferee at the existing interest rate once the transferee's credit has been reviewed and found acceptable by either Freddie Mac or the servicer. If a servicer desires to permit the assumption of a Mortgage in circumstances where Freddie Mac requires automatic acceleration, including circumstances where a servicer, pursuant to state legislation extending the October 15, 1985 date, modifies the interest rate of a window period Mortgage as a condition of permitting the assumption, the servicer must repurchase such Mortgage.

Second, the DIA precludes enforcement of due-on-transfer clauses in the case of certain types of intra-family transfers. These include transfers between spouses (including transfers incident to marriage dissolution), transfers from a parent to a child and transfers to relatives upon the death of the transferor.

In addition to those cases in which enforcement of due-on-transfer provisions is prohibited under the DIA, Freddie Mac does not require enforcement of due-on-transfer provisions in the case of transfers of mortgaged properties from a child to a parent, between siblings, between a grandparent and a grandchild, or between original co-borrowers under the note, provided that, in each case, at least 12 months have elapsed from the date of mortgage origination to the date of transfer and that the transferee occupies the property as the transferee's primary residence.

The FNMA/FHLMC 1-4 Family Uniform Instruments permit automatic acceleration. The FNMA/FHLMC Multifamily Uniform Instruments used in connection with the Multifamily Mortgages described in this Offering Circular, including the FHLMC Multifamily Due-on-Transfer Rider, permit automatic acceleration. Accordingly, the Multifamily Mortgages are not assumable.

The security instruments for FHA and VA Mortgages generally do not contain due-on-transfer clauses. Therefore, the sale of, or transfer of title to, the real property securing an FHA or VA Mortgage does not constitute an event entitling the holder of the Mortgage to demand full payment of principal. Accordingly,

FHA and VA Mortgages generally can be assumed by a purchaser of the real property at the interest rate of the assumed Mortgage for the remaining term of the Mortgage.

There are two exceptions to the general rule that FHA and VA Mortgages are assumable. First, under certain circumstances, a Mortgage guaranteed by the VA for which a state, territorial or other local governmental agency provides assistance may require acceleration of maturity in the event of the sale or conveyance of the property to a person ineligible for assistance. Second, commencing with applications for FHA-insured mortgages made on or after December 1, 1986, a transferee seeking to assume any such mortgage must meet FHA credit requirements if the mortgaged property is transferred pursuant to a contract of sale executed within (i) one year of origination if the original borrower occupied the property as a primary or secondary residence or (ii) two years of origination if the original borrower held the property as an investment. Subject to FHA approval in each case, failure of the transferee to meet such credit requirements will constitute an event entitling the holder of the mortgage to demand full payment of principal.

#### *Fees*

Holders are entitled to receive their pro rata share of any prepayment fees received by Freddie Mac with respect to Home Mortgages. Freddie Mac collects prepayment fees on Home Mortgages which it purchased on or before December 31, 1979. Any such prepayment fees represent additional income to Holders over and above interest at the applicable PC Coupon. Other fees, such as late payment fees, application fees and credit underwriting charges on assumptions, are retained by the servicers and are not passed through to Freddie Mac or to Holders. Any prepayment fees collected by Freddie Mac on Multifamily Mortgages are retained by Freddie Mac and are not passed through to Holders.

#### *Defaults and Delinquencies*

A servicer is required to report to Freddie Mac any Home Mortgage which is delinquent 30 days or more and to make a recommendation for appropriate action. Freddie Mac requires such a recommendation to reflect the servicer's familiarity with and knowledge of the borrower, the location and type of property securing the Mortgage, and the extent of any delinquency. Information with respect to Freddie Mac's delinquency, default and foreclosure experience for all Conventional Home and Multifamily Mortgages and FHA/VA Mortgages sold pursuant to Freddie Mac's programs or retained in its portfolio is included in its Information Statement. See "Business—Delinquencies, Defaults and Foreclosures" therein.

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

Freddie Mac may also authorize a servicer to resolve a delinquency by permitting modification of the terms of the defaulted Mortgage. Such modification is allowed only in cases in which the defaulted Mortgage would likely proceed to foreclosure based upon evidence of the borrower's current inability to make principal and interest payments and in which circumstances indicate that the borrower would be able to make principal and interest payments under such modified Mortgage terms. Any defaulted Mortgage as to which the terms are modified under this servicing policy will be repurchased from the PC Pool by Freddie Mac prior to modification.

Servicers must follow applicable FHA or VA regulations when dealing with a defaulting borrower on an FHA or VA Mortgage. Each servicer warrants that it will comply with those regulations and that it will take

all necessary steps to ensure that Freddie Mac's rights under the insurance and guaranty provisions are protected. FHA and VA regulations and procedures encourage a servicer to enter into arrangements with delinquent borrowers to assist them in bringing defaulted mortgages current. Such workout arrangements may include periods of forbearance or repayment plans, either of which may extend the term of a mortgage beyond its original term.

All plans to resolve Multifamily Mortgage delinquencies must be approved by Freddie Mac. These plans are negotiated on a case-by-case basis and generally require payment of future installments when due, in amounts specified in the mortgage notes, and liquidation of past due installments within a specified time which may extend beyond 12 months.

Freddie Mac requires a servicer to take all reasonable steps to resolve any delinquency prior to Freddie Mac's authorizing a servicer to initiate foreclosure proceedings and to make demand upon a borrower for accelerated payment of principal. A demand is authorized when Freddie Mac believes that no reasonable prospect exists for payment of delinquent amounts within a reasonable period of time. The length of time necessary for Freddie Mac to determine that a Mortgage should be accelerated varies with the particular circumstances of each borrower, and Freddie Mac has adopted no servicing standards which require that the demand be made within any specified period. In the case of FHA Mortgages, if certain FHA requirements are met, servicers must request that HUD accept assignment of the Mortgage prior to commencement of foreclosure proceedings. Foreclosure proceedings may be instituted only after a decision by HUD not to accept assignment. If the servicer determines not to request that HUD accept an assignment, the borrower may request HUD to accept assignment. In this case the servicer is required to delay initiation of the foreclosure proceedings pending HUD's decision.

Freddie Mac's servicing discretion in connection with a borrower's bankruptcy may be limited by a court or by state legislation prohibiting or delaying acceleration. When a bankruptcy proceeding is instituted prior to demand for accelerated payment of principal, no demand for acceleration is permitted to be made without court approval, and the bankruptcy court has broad powers to delay or deny such approval. Similarly, pursuant to the Soldiers' and Sailors' Civil Relief Act of 1940, a borrower who has entered the military service may, upon application to the appropriate court, be granted relief from the payment of mortgage obligations for the term of the borrower's military service and a period of three months thereafter. The bankruptcy of a borrower on a Multifamily Mortgage may differ in significant respects from the bankruptcy of a borrower on a Home Mortgage because the mortgaged multifamily property is often the sole asset of a partnership or corporate borrower. A bankruptcy proceeding involving a multifamily property may occur, for example, when the property value decreases or when the revenues of the property become insufficient to pay debt service and operating expenses. If Freddie Mac is precluded from making a demand for acceleration, Freddie Mac has established a policy that, for purposes of Freddie Mac's guarantee of ultimate collection of principal, demand for acceleration shall be deemed to have been made on the later of the date on which the borrower's bankruptcy petition was filed or the due date of the last fully paid installment on the Mortgage.

Both prior and subsequent to a demand for accelerated payment of principal, a bankruptcy court has broad discretion to approve or deny various payment plans which could have the effect of delaying the payment of principal and interest on a Mortgage, and which, in certain circumstances, could result in a reduction of the aggregate amount paid with respect to a Mortgage. In the event a bankruptcy court approves a plan which materially affects the terms of a Mortgage, authorizes a transfer of the underlying property or provides for substitution of collateral, Freddie Mac will repurchase the Mortgage from the PC Pool.

### *Foreclosures*

Demand for accelerated payment of principal is typically the initial step in the foreclosure process and normally is made at or shortly after the time Freddie Mac approves the initiation of foreclosure proceedings. Freddie Mac's *Sellers' & Servicers' Guide* and applicable FHA or VA regulations set forth policies and procedures for instituting and monitoring foreclosure proceedings, including demand upon the borrower for accelerated payment of principal. Freddie Mac may accept a voluntary deed in lieu of foreclosure in those

jurisdictions in which this practice is authorized. If, after demand for accelerated payment of principal, a borrower pays all delinquent amounts or an acceptable schedule for reinstatement of the Mortgage is agreed upon, foreclosure proceedings may be terminated and the demand may be withdrawn. Foreclosure proceedings with respect to FHA or VA Mortgages are also subject to FHA or VA regulations which may affect, among other things, the circumstances under which and the manner in which Freddie Mac may terminate foreclosure proceedings or the ability of Freddie Mac to accept a deed in lieu of foreclosure. If, after a borrower has paid all delinquent amounts and foreclosure proceedings have been terminated, the borrower again becomes delinquent, a new demand for accelerated payment of principal generally must be made and new foreclosure proceedings commenced. The length of the foreclosure process varies significantly from state to state. Some state laws provide borrowers with a right to redeem after foreclosure, and the foreclosure process typically is not final until the expiration of any such right. In any event, payment pursuant to Freddie Mac's guarantee of ultimate collection of principal on a delinquent Mortgage is made no later than one year following demand upon the borrower for accelerated payment of principal (unless foreclosure proceedings are terminated prior to the expiration of the one year period) without regard to any delay in Freddie Mac's receipt of any insurance or guaranty payments. See "Description of Mortgage Participation Certificates—Guarantees."

Under the Guarantor Program, a seller of Mortgages to Freddie Mac may sell such Mortgages on a "recourse" basis. In the event of borrower default and foreclosure, such seller is required to repurchase the Mortgage from Freddie Mac upon completion of foreclosure or delivery to Freddie Mac of a deed in lieu of foreclosure. In addition, such seller may, at its option and under certain circumstances, repurchase the delinquent Mortgage prior to foreclosure. Payments received by Freddie Mac pursuant to a seller's obligation to repurchase Mortgages sold with recourse are passed through to Holders as prepayments. See "Description of Mortgage Participation Certificates—Interest and Principal Payments." Accordingly, in the event of default, payments to Holders in respect of defaulted Mortgages sold to Freddie Mac on a recourse basis may occur earlier than payments to Holders made in respect of defaulted Mortgages as to which Freddie Mac makes payment under its guarantee of ultimate collection of principal.

## LEGALITY OF INVESTMENT

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

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

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

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

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

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

Federal credit unions may purchase PCs without regard to limitations generally applicable to investments. 12 U.S.C. § 1757(7)(E).

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

In addition to the specific authorizations discussed above, pursuant to Section 106 of the Secondary Mortgage Market Enhancement Act of 1984, any person, trust, corporation, partnership, association, business trust or business entity created pursuant to or existing under the laws of the United States or any state (including the District of Columbia and Puerto Rico) is authorized to purchase, hold and invest in PCs to the same extent that the investor is authorized to purchase, hold or invest in obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Prior to October 4, 1991, a state may enact legislation which specifically refers to Section 106 and either prohibits or limits an investor's authority to invest in PCs. To Freddie Mac's knowledge, no state has enacted any such legislation. The enactment by any state of legislation which prohibits or limits authority to invest in PCs will not affect the validity of any contractual commitment to purchase, hold or invest in PCs made prior to the date of enactment and such legislation cannot require the sale or other disposition of any PCs acquired prior to the date of enactment.

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

### **REGULATORY CONSTRAINTS**

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

### **ACCOUNTING MATTERS**

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

### **FEDERAL SECURITIES LAWS**

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

### **DISTRIBUTION ARRANGEMENTS**

#### **Cash Program**

Under the Cash Program, Freddie Mac may offer PCs for mandatory and optional delivery for a variety of periods on a continuous basis through one or a combination of the following methods: auction; competitive bid offering or allocation to selected securities dealers in accordance with procedures established by Freddie Mac and re-offering or placement with investors; or direct placement with securities dealers or investors. The

purchase price of the PCs will be based on the unpaid principal balance of the Mortgages in the PC Pool as of the month of settlement as determined by the Pool Factor. See "Description of Mortgage Participation Certificates—Pool Factors."

The original unpaid principal balance of a PC represents the unpaid principal balance of a PC during the month of formation of the PC Pool. If the PCs are purchased at a premium or discount, the purchase price may be more or less than the unpaid principal balance of the PCs as of the month of settlement. The unpaid principal balance of a PC as of the month of settlement also may be less than the original unpaid principal balance of the PC and/or the unpaid principal balance contracted for on the trade date as a result of principal payments on the Mortgages made between the date of formation of the PC Pool and/or the trade date and the settlement date. Interest and principal payments made with respect to the Mortgages between the trade date and the settlement date are for the account of, and are retained by, Freddie Mac.

The settlement date for PC purchases will be established on the trade date by mutual agreement. Confirmation and settlement of PC purchases will be made in accordance with the Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities of the Public Securities Association ("Uniform Practices"). If a PC is purchased from a securities dealer, the dealer is required to confirm the sale; notify the purchaser of the settlement date, purchase price, concessions and fees; deliver a copy of the PC Offering Circular and any applicable Offering Circular supplement; and otherwise act in accordance with the Uniform Practices.

#### **MultiLender Swap Program**

Under the MultiLender Swap Program, Freddie Mac purchases Mortgages from a seller and, in exchange for the Mortgages purchased, sells to the seller PCs representing interests in a PC Pool formed under the Cash Program. Such PC Pool will include the Mortgages purchased from that seller as well as Mortgages purchased from other sellers. Freddie Mac will accept offers for delivery of Mortgages under the MultiLender Swap Program for a variety of periods on a daily basis in accordance with the terms and procedures set forth in Freddie Mac's *Sellers' & Servicers' Guide*. Freddie Mac's commitment to exchange PCs for Mortgages is conditioned on the seller's full compliance with the terms and conditions of the Purchase Documents as defined in Freddie Mac's *Seller's & Servicers' Guide*, including the seller's timely delivery of acceptable Mortgages in an amount equal to at least \$250,000.

#### **Guarantor Program**

Under the Guarantor Program, Freddie Mac purchases Mortgages from a seller and, in exchange for the Mortgages purchased, sells to the seller PCs representing interests in the same Mortgages. Freddie Mac will accept offers for mandatory and optional delivery of Mortgages under the Guarantor Program for a variety of periods on a daily basis in accordance with the terms and procedures set forth in Freddie Mac's *Sellers' & Servicers' Guide*. Freddie Mac's commitment to exchange PCs for Mortgages is conditioned on the seller's full compliance with the terms and conditions of the Purchase Documents as defined in Freddie Mac's *Sellers' & Servicers' Guide*, including the seller's timely delivery of acceptable Mortgages in an amount equal to at least \$250,000.

#### **Secondary Market**

Certain securities dealers make a market in PCs. Freddie Mac also buys and sells PCs in the secondary market through the Security Sales and Trading Group, a division of Freddie Mac. Freddie Mac makes no representation, however, as to the nature of the secondary market trading in any PCs. Prospective PC purchasers, Holders and beneficial owners wishing to obtain prices may contact the securities dealers selling and making a market in PCs or Freddie Mac (outside Washington, D.C. metropolitan area, telephone 800/424-5401; within the Washington, D.C. metropolitan area, telephone 202/789-4800).

**Federal Home Loan Mortgage Corporation**  
**MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT**  
**(Guaranteed)**

**AGREEMENT** dated as of June 1, 1989 among the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Holders of undivided interests in certain Mortgages which are identified in the records maintained by Freddie Mac and which are represented by Mortgage Participation Certificates ("PCs").

Whereas:

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

(b) Pursuant to Section 305 of the Act, Freddie Mac from time to time purchases certain fixed-rate residential Mortgages, including Whole Loans and/or Participations, which are Conventional Mortgages or Mortgages fully insured by the Federal Housing Administration ("FHA") or guaranteed in part by the Veterans Administration ("VA"), all of which are identified in the records maintained by Freddie Mac; and

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

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

**ARTICLE I**

**Definitions**

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

*Aggregate Scheduled Principal:* The aggregate amount of principal scheduled to be paid by the mortgagors based upon the amortization schedule applicable to each Mortgage included in a Scheduled Principal PC Pool, as reported by servicers by accounting group for each Freddie Mac monthly accounting period.

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

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

*Business Day:* A day other than (i) a Saturday or Sunday, (ii) a day on which the Federal Reserve Bank of New York (or other agent acting as Freddie Mac's fiscal agent) is authorized or obligated by law or executive order to remain closed, (iii) as to any Holder, a day on which the Federal Reserve Bank at which such Holder's account is maintained is authorized or obligated by law or executive order to remain closed, (iv) a day on which the offices of the federal government located in the District of Columbia generally are closed for business, or (v) a day on which the offices of Freddie Mac are closed.

*Cash Program:* A program pursuant to which Freddie Mac purchases Mortgages for cash from eligible sellers, holds the Mortgages and periodically forms PC Pools and sells PCs representing undivided interests in the Mortgages. The term "Cash Program" includes the MultiLender Swap Program, which is a program pursuant to which Freddie Mac purchases Mortgages from a seller in exchange for a PC in an original unpaid principal balance equal to the Mortgages delivered by such seller, and which PC represents an undivided interest in a pool of Mortgages purchased for cash and/or in exchange for PCs formed under the MultiLender Swap Program.

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

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

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

*FHA Mortgage:* A Mortgage fully insured by the FHA.

*Final Payment Date:* For a PC Pool formed under a Cash Program, the first day of the month which is 15 or 30 years, as applicable, from the first day of the Month of Initial Sale of a PC in a given PC Pool. For a PC Pool formed under a Guarantor Program, the date which is the first day of the month in which the last monthly payment is scheduled to be made on the latest maturing Mortgage included in the PC Pool as of the Month of Initial Sale.

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

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

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

*Month of Initial Sale:* The month in which occurs the first settlement of a PC against a PC Pool.

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

*Original Unpaid Principal Balance:* In the case of a PC Pool formed pursuant to a Cash Program, the Original Unpaid Principal Balance shall be the aggregate unpaid principal balance of the related Mortgages on the books and records of Freddie Mac as of (i) the last day of the Month of Initial Sale after the identity of all the Mortgages has been finally determined pursuant to Section 2.02, or (ii) if a different date is specified in the documents pursuant to which the related PCs are offered for sale, such date. In the case of a PC Pool formed pursuant to a Guarantor Program, the Original Unpaid Principal Balance shall be the aggregate unpaid principal balance of the related Mortgages as of the first day of the month in which the Mortgages are delivered to Freddie Mac, which shall be equal to the aggregate original unpaid principal balance of the related PCs.

*Participation:* A percentage undivided interest, purchased by Freddie Mac, in one or more fixed-rate, first lien or second lien mortgages secured by residential real property.

*PC:* A Mortgage Participation Certificate sold pursuant to this Agreement, representing an undivided interest in a pool of Mortgages identified by a particular PC Pool Number and CUSIP Number.

*PC Coupon:* The annual rate at which interest is passed through to a Holder of a PC. Interest at the PC Coupon shall be computed on the basis of a 360-day year, each month being assumed to have 30 days.

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

*PC Pool Number:* A unique numeric or alpha-numeric designation assigned to each PC Pool by Freddie Mac and used to identify the PC Pool on the books and records of Freddie Mac.

*Pool Factor:* A seven-digit truncated decimal calculated by Freddie Mac with respect to a calendar month which, when multiplied by the original unpaid principal balance of a PC, represents the amount determined by Freddie Mac to be the Holder's pro rata share of the Remaining PC Pool Balance of the related Mortgages on the books and records of Freddie Mac as of the end of the previous month (for PC Pools formed under a Guarantor Program) or as of the end of that month (for PC Pools formed under a Cash Program).

*Remaining PC Pool Balance:* The aggregate amount of principal not yet paid to Holders of PCs with respect to the Mortgages comprising the related PC Pool, after giving effect to any payments of principal made by Freddie Mac pursuant to Section 4.09, as calculated using the related Pool Factor.

*Scheduled Principal:* The amount of principal scheduled to be paid by a mortgagor under the amortization schedule applicable to a Mortgage.

*Scheduled Principal PC:* A PC as to which, in addition to its other guarantees, Freddie Mac guarantees timely payment of Scheduled Principal, whether or not received by Freddie Mac.

*Scheduled Principal PC Pool:* A PC Pool in which the undivided interests are represented by Scheduled Principal PCs.

*VA Mortgage:* A Mortgage guaranteed, in part, by the VA.

*Whole Loan:* A fixed-rate, first lien or second lien mortgage secured by residential real property as to which the entire unpaid principal balance is purchased by Freddie Mac.

## ARTICLE II

### Conveyance of Undivided Interests in Mortgages

**Section 2.01. Sale of PCs.** Sale of a PC by Freddie Mac pursuant to this Agreement shall be deemed to occur upon the date of settlement and payment for such PC and shall constitute a sale, assignment, transfer,

and conveyance by Freddie Mac to the Holder of a pro rata undivided interest in the Mortgages comprising the PC Pool in which such PC represents an undivided interest. Such pro rata undivided interest of a Holder shall be determined in accordance with Section 4.02. Freddie Mac shall be bound by all of the terms and conditions of this Agreement at such time as a PC is sold by Freddie Mac to a Holder. Upon settlement of and payment for a PC, a Holder shall, by virtue thereof, acknowledge, accept and agree to be bound by all of the terms and conditions of this Agreement. Under a Guarantor Program and with respect to a PC sold under the MultiLender Swap Program, payment for a PC shall be deemed to occur on the settlement date as of which such PC is sold to the initial Holder thereof.

**Section 2.02. Identity of the Mortgages; Substitution and Repurchase.** A PC Pool shall consist entirely of Conventional Mortgages or shall consist entirely of FHA Mortgages and/or VA Mortgages. In the case of a PC Pool formed under a Cash Program, unless otherwise stated in connection with a particular offering of PCs, Freddie Mac shall have the power and authority to determine the amount and identity of the Mortgages which constitute the PC Pool until the day prior to the date the first payment of principal and interest is payable with respect to the PC Pool. Any Mortgage added to or withdrawn from a PC Pool after the Month of Initial Sale and prior to the date the first payment of principal and interest is payable to the Holders shall be added or withdrawn at its unpaid principal balance as of the last day of the Month of Initial Sale. A PC Pool formed under a Guarantor Program shall consist only of those Mortgages acquired by Freddie Mac from a single seller in exchange for PCs representing undivided interests in the same Mortgages. Except as provided in Section 2.03, once the identity of the Mortgages has been determined, such identity shall not thereafter be changed; provided, however, that (i) Freddie Mac may, in connection with its performance of servicing responsibilities pursuant to Section 3.02, repurchase any Mortgage at its then unpaid principal balance, if such repurchase is necessary in order to maintain proper servicing of the Mortgages or to minimize loss; (ii) a seller to Freddie Mac of a Mortgage may repurchase such Mortgage at its then unpaid principal balance pursuant to such seller's obligation to Freddie Mac to do so in the event such Mortgage is in default; (iii) Freddie Mac may, in connection with the performance of its servicing responsibilities pursuant to Section 3.02, agree to repurchase by the seller of any Mortgage at its then unpaid principal balance, if such repurchase is necessary in order to maintain proper servicing of the Mortgages or to minimize loss; (iv) if, in the event of the bankruptcy of a mortgagor, a bankruptcy court approves a plan which materially affects the terms of a Mortgage, authorizes a transfer of the underlying property or provides for substitution of collateral, Freddie Mac may repurchase such Mortgage at its then unpaid principal balance; and (v) in the case of a material breach of warranty by a seller of any Mortgage, or a material defect in documentation as to any Mortgage, or a failure by a seller to comply with any requirements or terms set forth in the Purchase Documents (as defined in the Guide) as to any Mortgage, Freddie Mac may require the seller to repurchase such Mortgage or may, within six months of the purchase of such Mortgage, require or permit the seller to substitute for such Mortgage a mortgage of comparable type, unpaid principal balance, remaining term and yield. Any repurchase of a Mortgage by a seller from a PC Pool represented by Scheduled Principal PCs shall be at its then unpaid principal balance, less any outstanding advances of Scheduled Principal which were paid by the seller to Freddie Mac. In determining whether a Mortgage shall be repurchased from a PC Pool, as described in this Section 2.02, Freddie Mac considers such factors as it deems appropriate, including whether a repurchase will reduce Freddie Mac's administrative costs or will reduce Freddie Mac's possible exposure under its guarantee of ultimate collection of principal.

**Section 2.03. Post-Settlement Purchase Adjustments.** With respect to each PC Pool, Freddie Mac shall make such post-settlement purchase adjustments with respect to the aggregate unpaid principal balance of the related Mortgages as may be necessary to reflect the actual aggregate unpaid principal balance of such Mortgages as of the date of their purchase by Freddie Mac. Freddie Mac shall also make such post-settlement purchase adjustments with respect to a PC Pool formed pursuant to a Guarantor Program as may be necessary to reflect the difference between the Original Unpaid Principal Balance of such PC Pool and the actual aggregate unpaid principal balance of the related Mortgages as of the date of delivery to Freddie Mac. The foregoing adjustments may be made in such manner as Freddie Mac determines to be appropriate. The

foregoing adjustments shall not affect the Holder's entitlement to interest at the PC Coupon and to receipt of the Holder's pro rata share of principal payments made with respect to the related Mortgages. An amount equal to any adjustment that results in the reduction of the unpaid principal balance of a Mortgage will be passed through on a pro rata basis to Holders.

**Section 2.04. Custody of Mortgage Documents.** This Section 2.04 describes Freddie Mac's current policies and procedures for the custody of Mortgage documents, which policies and procedures are subject to change at any time, provided that such change shall be prudent and shall not materially and adversely affect the interests of Holders. In the case of all Whole Loan Home Mortgages and certain Participations in Home Mortgages, and in the case of all Multifamily Mortgages, the mortgage notes are endorsed to and held by Freddie Mac or are held by a custodian acting as Freddie Mac's agent. Where local law or practice requires, assignments of the Mortgages are recorded in Freddie Mac's name. In the case of other Participations in Home Mortgages, Freddie Mac holds participation certificates which evidence Freddie Mac's ownership interest in the Mortgages. If the mortgage notes are not endorsed to and held by Freddie Mac, the originator or seller may hold the mortgage notes, the Mortgages are recorded in the originator's or seller's name, and no assignment is made or recorded in Freddie Mac's name.

**Section 2.05. Retention of Undivided Interest by Freddie Mac.** In the event that the interest to be received by Freddie Mac on Mortgages constituting a PC Pool formed under the Cash Program shall be less than the PC Coupon, Freddie Mac shall retain ownership of a sufficient undivided interest in the aggregate unpaid principal balance of the Mortgages constituting such PC Pool so that interest payments attributable to Freddie Mac's retained undivided interest shall be sufficient to pass through to Holders pro rata any difference between the interest received by Freddie Mac with respect to such Mortgages and interest payable to Holders pro rata at the PC Coupon.

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

## ARTICLE III

### Administration and Servicing of the Mortgages

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

**Section 3.02. Servicing Responsibilities.** Freddie Mac shall service or supervise servicing of the Mortgages in a manner consistent with and to the extent required by prudent servicing standards and applicable FHA or VA regulations and in substantially the same manner as it services or supervises the servicing of unsold mortgages of the same type in its own portfolio. In performing its servicing responsibilities hereunder, Freddie Mac may employ servicer agents or independent contractors. Freddie Mac shall be entitled to discharge its responsibility to supervise servicing of the Mortgages by monitoring servicers' performance on a reporting and exception basis. Except as provided in Article VI of this Agreement, Freddie Mac shall not be subject to the control of Holders in any manner whatsoever in the discharge of its responsibilities pursuant to this Article III. Except with regard to its guarantee obligations pursuant to Section 4.09, Freddie Mac shall have no liability to any Holder other than for any direct damage resulting

from Freddie Mac's failure to exercise that degree of ordinary care which it exercises in the conduct and management of its own affairs. Freddie Mac shall have no liability of whatever nature for consequential damages.

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

**Section 3.04. Automatic Acceleration and Assumptions.**

(a) With respect to Conventional Mortgages, if the terms of the security instrument of a Mortgage taken as a whole accord the mortgagee the right to demand full payment of the unpaid principal balance of the promissory note upon sale or transfer of the property securing the note irrespective of the creditworthiness of the transferee (which right is herein referred to as a right of "automatic acceleration"), Freddie Mac's policy is to require a servicer to enforce such right to the extent permitted by law and to require the full payment of the principal balance of a Mortgage upon the sale or the transfer of the property securing the Mortgage or an interest therein. Notwithstanding the preceding sentence, Freddie Mac does not require automatic acceleration upon the sale or transfer of property securing the Mortgage in the case of a sale or transfer from a child to a parent, between siblings, between a grandparent and a grandchild, or between original co-borrowers under the Mortgage note, provided that in each case, at least 12 months have elapsed from the date of mortgage origination to the date of transfer and that the transferee occupies the property as the transferee's primary residence. In jurisdictions where the enforcement of such provisions is prohibited, or where the security instrument contains a due-on-transfer clause or is accompanied by a due-on-transfer rider which by its terms does not permit automatic acceleration, Freddie Mac will allow a transfer of the property if the transferee is found by Freddie Mac or the servicer to meet Freddie Mac's credit requirements. Where the security instrument contains no due-on-transfer clause or is not accompanied by a due-on-transfer rider and does not provide for a review of the creditworthiness of the borrower, Freddie Mac will allow a transfer of the property without a credit review of the transferee. Any fees charged by Freddie Mac or servicers in connection with the assumption of a Mortgage are retained by Freddie Mac or the servicers and are not passed through to Holders. Freddie Mac requires, in connection with any such Mortgage assumption, that no change be made in the rate of interest or the terms of payment applicable to the Mortgage.

(b) With respect to an FHA Mortgage or a VA Mortgage, Freddie Mac will, as required by applicable FHA or VA regulations, permit the assumption by a new mortgagor of such Mortgage upon the sale or transfer of the underlying property. Any such assumption shall be in accordance with applicable FHA or VA policies, procedures and credit requirements and shall not result in loss or impairment of the FHA insurance or VA guaranty.

**Section 3.05. Fees.** In the case of Conventional Home Mortgages, any prepayment fees collected by Freddie Mac shall be passed through to Holders pursuant to the procedures specified in Article IV. Any fees collected by servicers and not passed through to Freddie Mac and any prepayment fees or assumption fees on Multifamily Mortgages collected by Freddie Mac or servicers shall not be passed through to Holders.

**Section 3.06. Mortgage Insurance and Guarantees.**

(a) If a Conventional Mortgage is insured by a mortgage insurer, the insurer shall have no obligation to recognize or deal with any person with respect to such Mortgage, other than Freddie Mac, with regard to

the rights, benefits and obligations of the mortgagee under the contract of insurance relating to the Mortgage. If a mortgage insurer exercises an option under a contract of insurance to purchase a Mortgage, the proceeds of such purchase shall be considered to be repurchase proceeds for purposes of Article IV.

(b) Each FHA Mortgage or VA Mortgage shall have in full force and effect a binding FHA Certificate of Insurance or VA Certificate of Guaranty or such other evidence of FHA insurance or VA guaranty as may be issued by the respective agencies. The FHA or VA shall have no obligation to recognize or deal with any person with respect to such Mortgage, other than Freddie Mac, with regard to the rights, benefits and obligations of the mortgagee under the contract of insurance or guaranty relating to each such FHA Mortgage or VA Mortgage.

## ARTICLE IV

### Payments to Holders and Guarantees

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

**Section 4.02. Holder's Undivided Interest.** An entity recognized as a Holder of a PC on the Record Date, as defined in and pursuant to Section 5.03, shall be the owner of record of a pro rata share of the related Remaining PC Pool Balance as of such date, as calculated pursuant to this Agreement, and shall be entitled to interest at the PC Coupon on such pro rata undivided interest from such date. Such pro rata undivided interest in each of the Mortgages will change if any Mortgage is added to or removed from the PC Pool in accordance with Section 2.02. For purposes of determining a Holder's pro rata undivided interest in the Mortgages evidenced by a PC, the original unpaid principal balance of the PC shall be divided by the Original Unpaid Principal Balance of the related PC Pool.

**Section 4.03. Pass-Through of Principal.** Freddie Mac shall pass through to each Holder such Holder's pro rata share of principal payments made in respect of the Mortgages (including Scheduled Principal, in the case of Scheduled Principal PCs), such Holder's pro rata share of any net income, net profits or proceeds of the Mortgages (including prepayment fees, if any), and such Holder's pro rata share of the net proceeds realized from any property of whatever character received or acquired in substitution for or upon realization on the Mortgages, whether through insurance, guaranty payment, condemnation, foreclosure, or otherwise; provided, however, that Freddie Mac's obligations herein shall be subject to Freddie Mac's rights pursuant to Section 4.10 with respect to payments made pursuant to Freddie Mac's guarantees, and, provided further, that Freddie Mac may retain from any full or partial prepayment or payment of delinquent principal in respect of any Mortgage any amounts, not previously received by Freddie Mac, which it paid to Holders in respect of such Mortgage pursuant to its guarantees; and provided further, that with respect to Mortgages delivered to Freddie Mac in exchange for PCs under the MultiLender Swap Program, Freddie Mac shall retain principal payments made on such Mortgages in an amount equal to the difference between the

aggregate unpaid principal balance as of the delivery date of the Mortgages delivered by such seller and the aggregate unpaid principal balance as of the settlement date of such Mortgages, and Freddie Mac shall purchase additional Mortgages with such principal payments and shall include such additional Mortgages in the related Cash PC Pool. Insurance proceeds, the proceeds of any liquidation of a Mortgage, including proceeds resulting from acquisition by Freddie Mac of the real property securing a Mortgage, and the proceeds of any repurchase of a Mortgage described in Section 2.02 shall be treated in the same manner as a full prepayment of principal and shall be passed through to Holders in accordance with this Article IV.

**Section 4.04. Pass-Through of Interest.** Freddie Mac shall pass through to each Holder such Holder's pro rata share of the interest paid by mortgagors with respect to each Mortgage in an amount sufficient to produce the PC Coupon, including, if necessary for such purpose, interest received by servicers attributable to the seller's retained undivided interest in any Participation or interest received by Freddie Mac attributable to any interest retained by Freddie Mac pursuant to the provisions of Section 2.05. A partial month's interest retained by Freddie Mac or remitted to each Holder with respect to full and partial prepayments of principal deemed to have been made on the first day of a calendar month in accordance with Section 4.01 shall constitute an adjustment to Freddie Mac's management and guarantee fee.

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

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

**Section 4.06. Pool Factors.**

(a) Freddie Mac shall calculate and make payments to Holders pursuant to the Pool Factor method until such time as Freddie Mac shall determine that there is a more accurate and practicable method for calculating such payments, in which event Freddie Mac shall calculate and make payments to Holders pursuant to the more accurate method. As long as Freddie Mac shall use the Pool Factor method, it shall do so pursuant to the provisions of this Section 4.06. On or about the first business day of each month, Freddie Mac will publish or cause to be published for such month a Pool Factor with respect to each PC Pool. Interest at the applicable PC Coupon shall be paid by Freddie Mac on the Holder's pro rata share of the Remaining PC Pool Balance as determined by the Pool Factor for the second month prior to the month in which payment to Holders is made. Principal payments shall be paid to a Holder by Freddie Mac in an amount equal to the difference between the Holder's pro rata share of the Remaining PC Pool Balance as determined by the Pool Factor for the second month prior to the month in which payment is made to a Holder and such pro rata share as determined by the Pool Factor for the month prior to the month in which payment is made to the Holder.

(b) The Pool Factor applicable to each PC Pool (other than a Scheduled Principal PC Pool) will be based upon the unpaid principal balances of the related Mortgages as reported to Freddie Mac by servicers or upon an estimation of principal collections with respect to the Mortgages under such procedure for estimating such payments as may be adopted by Freddie Mac. The Pool Factor applicable to a Scheduled Principal PC Pool will be based upon reports of Aggregate Scheduled Principal as reported to Freddie Mac by servicers or upon an estimation of Aggregate Scheduled Principal under such procedure as may be adopted by Freddie Mac. To the extent a given Pool Factor (adjusted as necessary for payments made pursuant to Freddie Mac's guarantee of timely payment of Scheduled Principal) does not reflect the unpaid principal balance of the Mortgages, any difference will be accounted for as soon as practicable by adjusting subsequent Pool Factors.

(c) The Pool Factor method of determining payments will affect the timing of receipt of payments by Holders but will not affect Freddie Mac's guarantee of timely payment of interest and ultimate collection of principal or Freddie Mac's guarantee of timely payment of Scheduled Principal, if applicable, as set forth in Section 4.09. Freddie Mac's guarantees will not be affected by the implementation of any different method for calculating and paying principal and interest as permitted by this Section 4.06.

**Section 4.07. Amounts Retained by Servicers.** Pursuant to its contractual arrangement with Freddie Mac, the servicer of each Mortgage shall be entitled to retain each month as a servicing fee an amount equal to the excess, if any, of interest at the interest rate on the Mortgage over interest at the interest rate which the servicer is obligated by contract to remit monthly to Freddie Mac. Each servicer is required to pay all expenses incurred by it in connection with its servicing activities and shall not be entitled to reimbursement therefor, except as provided in Section 4.08. In the case of a Mortgage included in a Scheduled Principal PC Pool, a servicer may retain from full or partial prepayments or payments of delinquent principal any payments of principal, and from collections of delinquent interest any payments of interest, which the servicer made to Freddie Mac but did not receive from the mortgagor with respect to such Mortgage. The servicer is entitled to retain all incidental fees with respect to a Mortgage other than assumption fees or prepayment fees, if any, paid to Freddie Mac on the Mortgages.

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

deducted by Freddie Mac or servicers or by amounts expended by Freddie Mac or servicers for the protection, preservation or maintenance of the real property securing the Mortgages.

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

(a) Timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the Remaining PC Pool Balance as determined pursuant to this Agreement; and

(b) Ultimate collection of principal, without offset or deduction. For purposes of this guarantee, principal shall include the Holder's pro rata share of the unpaid principal balance plus the Holder's pro rata share of amounts expended by any servicer of the Mortgages or by Freddie Mac and deducted, pursuant to Section 4.08, from payments otherwise due such Holder. Freddie Mac shall pay the amount due on account of its guarantee of ultimate collection of principal at any time after default on a Mortgage, but not later than thirty days following: (i) foreclosure sale, (ii) payment of a claim for insurance or guaranty by the FHA or the VA, or by any other mortgage insurer, if applicable, or (iii) the expiration of any redemption period, whichever occurs later, but in any event no later than the earlier of one year after an outstanding demand has been made upon the borrower for accelerated payment of principal or for payment of the principal due on the maturity of a Mortgage. In the exercise of its servicing discretion, Freddie Mac may withdraw a demand for accelerated payment of principal or for payment of the principal due on the maturity of a Mortgage in order to maintain proper servicing of the Mortgage or to minimize loss.

(c) In the case of Scheduled Principal PCs, in addition to the other guarantees contained in this Section 4.09, Freddie Mac guarantees the timely payment of Scheduled Principal due on each Mortgage. Freddie Mac's guarantee of timely payment of Scheduled Principal shall be computed based upon information with respect to Aggregate Scheduled Principal furnished to Freddie Mac by servicers for each Freddie Mac accounting period or, in the event Freddie Mac does not receive from servicers or cannot process a timely report of Aggregate Scheduled Principal, upon an estimation of Aggregate Scheduled Principal with respect to the Mortgages under such procedure as may be adopted by Freddie Mac. Scheduled Principal with respect to each Mortgage will, for purposes of Freddie Mac's guarantee of timely payment of Scheduled Principal, be deemed to have been received by the servicer of the Mortgage on the date Scheduled Principal was due to be paid by the mortgagor and will be paid to Holders pursuant to Section 4.05 on the basis of this assumption. Any payment made by Freddie Mac to Holders on account of Freddie Mac's guarantee of timely payment of Scheduled Principal shall be considered to be payment of principal for purposes of calculation of the Pool Factor with respect to the related PC Pool and to be a payment of principal for purposes of calculating the Holder's pro rata share of unpaid principal pursuant to subsection (b) of this Section 4.09.

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

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

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

## ARTICLE V

### The PCs

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

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

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

**Section 5.04. Surrender of PCs on Final Payment.** Any PC held in certificated form shall be surrendered to the Federal Reserve Bank of New York (or other agency maintained by Freddie Mac for that purpose, the identity and location of which will be furnished by Freddie Mac on request) against the final payment of principal and interest due to the Holder of such PC as herein provided.

## ARTICLE VI

### Remedies

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

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

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

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

(d) A court having jurisdiction in the premises shall enter a decree or order for relief in respect of Freddie Mac in an involuntary case under any applicable bankruptcy, insolvency or other similar law.

now or hereafter in effect, or appoint a receiver, liquidator, assignee, custodian, or sequestrator (or other similar official) of Freddie Mac or for all or substantially all of its property, or order the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

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

**Section 6.02. Remedies.** If an Event of Default occurs and is continuing, then and in each and every such case, the Holders of a majority of the Remaining PC Pool Balance of any affected PC Pool may, by written notice to Freddie Mac, remove Freddie Mac and nominate a successor to Freddie Mac under this Agreement with respect to such PC Pool, which nominee shall be deemed appointed as successor to Freddie Mac unless within 10 days after such nomination Freddie Mac objects thereto, in which case Freddie Mac may petition any court of competent jurisdiction for the appointment of a successor or any Holder who has been a bona fide Holder for at least six months may, on behalf of such Holder and all others similarly situated, petition any such court for appointment of a successor to Freddie Mac. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor to Freddie Mac. Upon the appointment of any successor pursuant to this Section 6.02, Freddie Mac shall submit to its successor a complete written report and accounting of the Mortgages relating to any such affected PC Pool and shall take all other steps necessary or desirable to transfer its interest in and administration of this Agreement with respect to such PC Pool to the successor. Subject to the Act, such successor may take such action with respect to such Mortgages as may be reasonable and appropriate in the circumstances. Prior to any such designation of a successor, the Holders of a majority of the Remaining PC Pool Balance of any affected PC Pool may waive any past default or Event of Default. Appointment of a successor will not relieve Freddie Mac of its guarantee obligations as set forth in this Agreement.

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

## ARTICLE VII

### Miscellaneous Provisions

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

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

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

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

**Section 7.05. Amendment.**

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

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

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

(d) To the extent that any provisions of this Agreement differ from the provisions of any Mortgage Participation Certificate Agreement of Freddie Mac dated prior to the date of this Agreement, this Agreement shall be deemed to amend such provisions of the prior Mortgage Participation Certificate Agreement, but only if Freddie Mac, under the terms of such prior Agreement, could have effected such change as an amendment of such prior Agreement without the consent of holders of PCs thereunder.

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

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

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

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

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

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

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

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

FEDERAL HOME LOAN MORTGAGE CORPORATION



# Freddie Mac

---

---

---

---

---