The Mortgage Corporation

Federal Home Loan Mortgage Corporation

Mortgage Participation Certificates

August 29, 1979

Federal Home Loan Mortgage Corporation

OFFERING CIRCULAR

FOR

MORTGAGE PARTICIPATION CERTIFICATES

(Guaranteed)

Sales of Mortgage Participation Certificates are conducted by the Federal Home Loan Mortgage Corporation on a continuous basis. Terms of current offerings may be obtained by contacting the Mortgage Corporation. (See pages 5 and 22-25.)

This Offering Circular contains important information concerning the Mortgage Corporation and the Mortgage Participation Certificates offered herein and should be read carefully by prospective purchasers.

OFFERING CIRCULAR DATED August 29, 1979

No bank, salesman, dealer, or other person has been authorized to give any information or to make any representation not contained in this Offering Circular in connection with the offer or sale of the Mortgage Participation Certificates described herein; and, if given or made, such information or representation must not be relied upon as having been authorized by the Federal Home Loan Mortgage Corporation (the "Mortgage Corporation" or "FHLMC"). The delivery of this Offering Circular at any time does not imply that the information given herein is correct at any time subsequent to the date hereof.

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SUMMARY: MORTGAGE PARTICIPATION CERTIFICATES

The following is a summary of certain pertinent information concerning the Federal Home Loan Mortgage Corporation's offerings of Mortgage Participation Certificates (sometimes referred to as "PCs") and is qualified in its entirety by the detailed information found elsewhere herein.

PCs OFFERED

The PCs	The PCs represent undivided interests in specified first lien residential conventional mortgages in groups aggregating at least $100 million underwritten and owned by the Mortgage Corporation. Fees may be paid to purchasers under certain programs as described at pages 5 and 22-23.
Interest	Passed through monthly at the Certificate Rate. See "Interest and Principal Payments", page 26, and "Group Factors", page 26.
Principal	Passed through monthly. See "Interest and Principal Payments", page 26, and "Group Factors", page 26.
Prepayment Fees	Passed through when and if received as additional income over and above interest at the Certificate Rate. See page 27.
Guarantees	The Mortgage Corporation unconditionally guarantees the timely payment of interest at the Certificate Rate and collection of principal as described at page 28.
Remittances	One itemized check per month containing principal, interest and prepayment fees is normally mailed five calendar days prior to the fifteenth day of each month. A purchaser of a PC will receive his first remittance on or before the fifteenth day of the second month following the month in which the purchaser becomes a registered holder of the PC on the records of the Mortgage Corporation.
Denominations and Registration	$100,000, $200,000, $500,000, $1,000,000 and $5,000,000; fully registered only.
Federal Tax Status	PCs owned by institutions that qualify as "domestic building and loan associations" constitute "loans secured by an interest in real property" within the meaning of Section 7701(a)(19)(C)(v) of the Internal Revenue Code; PCs also constitute "qualifying real property loans" within the meaning of Section 593(d) of the Code with respect to certain thrift institutions.
FHLBB Regulatory Matters	For institutions the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation, PCs are to be reported to the Federal Home Loan Bank Board in the asset classification "Mortgages, participations, or mortgage-backed securities insured or guaranteed by an agency or instrumentality of the U.S.", and PCs current with respect to guaranteed principal and interest payments are not "scheduled items", notwithstanding the performance of any underlying loan; for federally chartered savings and loan associations, PCs are exempt from all percent of assets lending limitations. See "FHLBB Regulatory Matters", page 31.
Secondary Market	Certain securities dealers make a market in PCs. The Mortgage Corporation also maintains a secondary market.

The Mortgage Corporation guarantees to each registered holder of a PC the timely payment of interest at the applicable Certificate Rate on the unpaid principal balance outstanding on the Mortgages (hereinafter defined) to the extent of such holder's pro rata share thereof. As described below, the unpaid principal balance on which interest is remitted by the Mortgage Corporation is an estimated amount. See "Group Factors", page 26. The Mortgage Corporation also guarantees to each registered holder of a PC collection of all principal on the Mortgages, without any offset or deduction, to the extent of such holder's pro rata share thereof. The PCs are not guaranteed by the United States or by any of the Federal Home Loan Banks and do not constitute a debt or obligation of the United States or any Federal Home Loan Bank.

FEDERAL HOME LOAN MORTGAGE CORPORATION

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

While the Mortgage Corporation believes that the maintenance of a reasonable level of profit is necessary to the accomplishment of its statutory objectives, its activities and operations are not necessarily conducted with a view toward making or maximizing profits. The Mortgage Corporation's status as a corporate instrumentality of the United States may lead it to maintain its mortgage purchase and financing activities under adverse economic conditions. Furthermore, by action of the Congress and the President, the FHLMC Act and other Federal legislation bearing on the Mortgage Corporation can be amended in a fashion that could materially affect the scope and results of the Mortgage Corporation's activities and operations. In addition, the Corporation's Board of Directors may implement policies which might have similar effects without the necessity for any statutory amendments. For a more complete description of the Mortgage Corporation and its activities, see "The Mortgage Corporation—History and Business", pages 8-20.

The principal office of the Mortgage Corporation is located at 1700 G Street, N.W., Washington, D.C. 20006 (telephone 202-789-4700). It has established five regions for administrative purposes, with offices located at Arlington, Virginia; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas and Los Angeles, California.

PURPOSE OF THE OFFERING

The proceeds to be received by the Mortgage Corporation from the sale of the Mortgage Participation Certificates described herein will provide funds for the Mortgage Corporation to engage in additional activities consistent with its statutory purposes, including the purchase of additional mortgages and interests in mortgages. Some portion of such proceeds may be used to repay part of FHLMC's borrowings.

The Mortgage Corporation sells mortgages and interests therein on a regular basis and borrows funds from time to time as its business may require. The amount, nature and cost of such sales or financing arrangements are dependent upon a number of factors, including the volume of mortgages purchased by it, general market conditions and the availability of funds.

PC SALES PROGRAMS

The Mortgage Corporation continuously offers PCs. As more fully described on pages 22-23, PCs are offered pursuant to one or more of the following mandatory delivery sales programs, and one or more of the following optional delivery sales programs. The availability of these programs may vary from time to time.

Type of Delivery Contract	Number of Days From Trade Date to Settlement Date	Fee Paid by The Mortgage Corporation
Mandatory	7-29	None
Mandatory	30-59	None
Mandatory	60-89	None
Mandatory	90-119	None
Mandatory	120-150	None
Optional (delivery in whole or part at the option of the Mortgage Corporation)	140+	up to .625%
Optional (delivery in whole or part at the option of the Mortgage Corporation)	270+	up to 1.000%

Fees paid to purchasers on optional delivery contracts are based upon the principal balance of the PC as of the trade date, multiplied by the applicable fee expressed as a percentage. The trade date is the date on which FHLMC accepts an offer to purchase PCs. Fees will be paid to qualified purchasers (see page 23) within five business days of receipt by the Mortgage Corporation of an executed confirmation of the transaction. The Mortgage Corporation reserves the right to discontinue at any time the payment of fees.

PRICE AND YIELD INFORMATION

The price at which PCs are offered may be at a discount, at par or at a premium, depending upon current market conditions and the Certificate Rate of the PC. All yields are quoted by the Mortgage Corporation based upon an assumed 30 year maturity and an assumed 12 year prepayment. See "Description of Mortgage Participation Certificates—Maturity and Average Weighted Life", page 28. The yield quoted includes the increase in yield resulting from the payment of any fee. More detailed information concerning the price and yield of PCs is set forth on page 24.

Daily price and yield information can be obtained from the Mortgage Corporation (outside Washington, D.C. metropolitan area telephone 800-424-5401; within Washington, D.C. metropolitan area telephone 789-4800).

FEDERAL HOME LOAN MORTGAGE CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS

The following statement of income and retained earnings of the Federal Home Loan Mortgage Corporation for each of the five years in the period ended December 31, 1978 has been examined by Arthur Andersen & Co., independent public accountants, whose report thereon is included elsewhere herein. The statement of income and retained earnings for the six month periods ended June 30, 1978 and June 30, 1979, not examined by independent public accountants, reflects, in the opinion of management of the Corporation, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results of operations for such periods. This statement should be read in conjunction with the financial statements and related notes appearing elsewhere in this Offering Circular.

	Years Ended December 31,					Six Months Ended June 30,	
	1974	1975	1976	1977	1978	1978	1979
	(000 omitted)					(Unaudited)	
Income:							
Interest and discount on mortgage loans, net	$257,115	$397,526	$369,928	$288,673	$235,393	$125,506	$148,717
Management and guarantee fee	1,904	3,285	3,271	8,956	13,595	6,461	8,501
Interest on temporary cash investments	35,581	41,053	66,657	13,338	44,693	13,301	18,941
Other income	885	3,535	4,059	3,394	2,576	865	1,669
Total income	295,485	445,399	443,915	314,361	296,257	146,133	177,828
Expenses:							
Interest on borrowings and related costs	250,362	407,745	419,058	270,784	242,478	122,076	142,797
Provision (credit) for losses, management fee and guarantees	32,577	11,386	(995)	8,218	12,874	5,331	9,118
Commitment fees	—	587	1,005	2,952	1,235	101	200
Administrative	7,554	10,173	10,686	11,744	14,279	6,337	8,303
Total expenses	290,493	429,891	429,754	293,698	270,866	133,845	160,418
Net income	4,992	15,508	14,161	20,663	25,391	12,288	17,410
Retained earnings, beginning of period	21,315	26,307	41,815	55,976	76,639	76,639	27,030
Transfer to capital in excess of par value	—	—	—	—	(75,000)	(75,000)	—
Retained earnings, end of period	$ 26,307	$ 41,815	$ 55,976	$ 76,639	$ 27,030	$ 13,927	$ 44,440

The Notes to Financial Statements on pages 36 through 40 are an integral part of this statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENT OF INCOME

The Mortgage Corporation's total income for the six months ended June 30, 1978 and 1979, was \$146,133,000 and \$177,828,000, respectively, and net income for such periods was \$12,288,000 and \$17,410,000, respectively. During the six months ended June 30, 1979, as compared to the six months ended June 30, 1978, the Corporation's total interest income and total interest expense increased due to growth in the size of the Corporation's retained portfolio of mortgages and a commensurate increase in the size of its related borrowings. Net income increased between the two periods primarily because of an increase in the size of the mortgage portfolio, including mortgages sold under the PC and GMC programs, from \$11.792 billion at June 30, 1978 to \$17.007 billion at June 30, 1979, and the improved spreads on the Corporation's total investment portfolio, including mortgages and temporary cash investments. See "Management's Discussion of Yields and Financing", page 14, and "Mortgage Purchase and Sales Discount" in Notes to Financial Statements, page 36 of this Offering Circular.

Net income for 1978 was \$25,391,000 compared to \$20,663,000 in 1977. This increase in earnings is directly attributable to the increase in the size of the mortgage portfolio, including loans sold under the PC and GMC programs, from \$10.032 billion at December 31, 1977 to \$15.108 billion at December 31, 1978. Earnings increased notwithstanding a decline in the composite spread on the total portfolio and an increase in the rate of amortization of purchase and sales discount. Total income and total expenses, including interest income and expense, for the period decreased due to reduction in the size of the Corporation's retained portfolio of mortgages and a commensurate reduction in the average size of its related outstanding borrowings.

Net income for 1977 was \$20,663,000 as compared to \$14,161,000 in 1976. The Corporation substantially improved the positive spread on its portfolio of mortgages and temporary cash investments, principally due to a decrease in the level of low yielding temporary cash investments which had been made in anticipation of the maturation of borrowings in 1976 and early 1977. (Net income for 1976 was favored by the downward adjustment of the reserve for possible loan losses as discussed below.) Total income and total expenses for 1977 were lower due to a reduction in the size of the Mortgage Corporation's retained portfolio of mortgages and other investments and a commensurate reduction in the size of its related borrowings. Total sales of mortgages and interests in mortgages for 1977 were \$4.665 billion, as compared to \$4.124 billion purchased. The funds for the Corporation's purchases of mortgages and interests in mortgages were provided predominantly by the proceeds of PC and GMC sales.

The Corporation retired \$2.1 billion of long term debt during 1977, as compared to \$1.1 billion retired during 1976. Of the total long term debt retired during 1977, \$1.2 billion represented the Advances for Special U.S. Treasury Program, the final payment of which was made on February 25, 1977. The debt retirements were funded by PC and GMC sales, and borrowings of \$537 million from the Federal Home Loan Bank in the form of a pass-through of consolidated obligations.

Net income for 1976 was \$14,161,000 compared to \$15,508,000 in 1975. The reserve for possible loan losses was adjusted downward during 1976, reflecting the overall reduction in the level of risk inherent in the Corporation's mortgage loan portfolio. This appears as a credit of \$995,000 to the Provision for Losses, Management Fee and Guarantees and compares to a provision of \$11,386,000 in 1975. During 1976 the spread increased between the interest the Mortgage Corporation earned on all mortgages and the interest paid on related borrowings; however, the rate of return on temporary cash investments declined. This decline of the rate of return, together with an increased level of temporary cash investments accumulated in anticipation of maturation of borrowings, produced a negative spread between the interest earned on such temporary cash investments and the related cost of borrowings. These two offsetting factors, namely, reduction of the loan loss reserve and the negative spread on temporary cash investments, resulted in a slight decrease in net income in 1976, as compared to 1975.

Net income for 1975 was \$15,508,000, compared to \$4,992,000 in 1974. Two factors caused this increase. Earnings increased due to a decrease in the Provision for Losses, Management Fee and Guarantees from \$32,577,000 in 1974 to \$11,386,000 in 1975. During the year ended December 31, 1974, consistent with its statutory purposes, FHLMC continued substantial purchases of mortgage loans, notwithstanding increased borrowing costs which, in certain instances, exceeded the return on the mortgages acquired. The amount by which the borrowing costs will exceed the return on such mortgages over the life of the borrowings was charged to income under Provision for Losses, Management Fee and Guarantees. The increase in earnings was partially offset by a decline in the spread between interest the Mortgage Corporation earned on all mortgages and the interest on its related borrowings. The decline in the spread was primarily the result of increased borrowing costs. In addition, the Mortgage Corporation experienced a negative spread between the interest earned on temporary cash investments and the cost of borrowings that supported such investments.

THE MORTGAGE CORPORATION—HISTORY AND BUSINESS

The Board of Directors of the Mortgage Corporation is composed of the three members of the Federal Home Loan Bank Board, whose Chairman is the Chairman of the Board of the Mortgage Corporation. See "Management", pages 20-21. The Members of the Federal Home Loan Bank Board are appointed by the President of the United States, with the advice and consent of the Senate, for four-year terms.

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

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

Purchase Programs

The Mortgage Corporation purchases first lien conventional mortgages ("whole loans") and participation interests in such mortgages ("participations") on a continuous basis. The participations purchased have varied from 50% to 95% on single-family loans, and from 50% to 85% on multi-family loans. Set forth below is information concerning the volume of such activities, as well as the volume of the FHA/VA purchase programs. Conventional whole loans and participations are combined in "Conventional mortgages" and "Forward programs". Mortgages purchased under the joint United States Treasury—Federal Home Loan Bank System program and the GNMA agency program, described below under "Other Activities", are excluded.

	Years Ended December 31,					Six Months Ended June 30, 1979
	1974	1975	1976	1977	1978	
			(000 omitted)			
Commitments and Contracts:						
FHA/VA	$ 260,798	$122,398	$ 17,651	$ 29,464	$ 30,560	$ —
Conventional mortgages	874,877	858,649	1,358,154	4,756,039	6,507,959	2,602,549
Forward programs (A)	411,592	—	102,175	715,805	972,485	393,894
Total	$1,547,267	$981,047	$1,477,980	$5,501,308	$7,511,004	$2,996,443
Purchases:						
FHA/VA	$ 260,671	$119,792	$ 21,243	$ 19,795	$ 40,495	$ —
Conventional mortgages	1,228,543	716,294	1,107,630	4,104,269	6,483,428	2,612,141
Total	$1,489,214	$836,086	$1,128,873	$4,124,064	$6,523,923	$2,612,141

(A) Mortgage commitments under the forward programs are for commitment periods of six or eight months, and delivery is at the option of the seller. Delivery is mandatory under all other programs, and must occur within 60 days of the contract date.

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

1. *Statutory restrictions.* All whole loans or participations purchased by FHLMC must meet certain standards set forth in the FHLMC Act. FHLMC is confined to the purchase of obligations secured by first mortgages, the outstanding principal balance of which at the time of purchase does not exceed 80% of the value of the real property securing the mortgage unless: (1) the seller retains a participation interest in the mortgage of not less than 10% of the mortgage; or (2) the seller agrees for such period and under such circumstances as FHLMC may prescribe, to repurchase or replace the mortgage obligations upon demand by FHLMC in the event that the mortgage is in default; or (3) the portion of the unpaid principal balance of the mortgage obligation which is in excess of 80% is insured by a qualified mortgage insurer as determined by FHLMC. At present, FHLMC purchases conventional mortgages with a loan-to-value ratio exceeding 80% only if the principal amount of the indebtedness in excess of 75% of the appraised value of the mortgaged property is insured by a qualified mortgage insurer.

The Mortgage Corporation may purchase a conventional mortgage which was originated more than one year prior to the purchase date only if the seller is currently engaged in mortgage lending or investment activities and if, as a result of such purchase, the cumulative aggregate principal balance of all conventional mortgages purchased by FHLMC which were originated more than one year prior to purchase does not exceed 20% of the cumulative aggregate principal balance of all conventional mortgages purchased by FHLMC. As of June 30, 1979, FHLMC had purchased $812 million aggregate principal amount of mortgages more than one year old which represents approximately 4.10% of all conventional mortgages purchased by FHLMC. Additionally, FHLMC is required to establish limitations governing the maximum principal obligation of conventional mortgages purchased by it, which shall not exceed by more than twenty five per centum the limitations contained in Section 5(c) of the Home Owners' Loan Act of 1933. At present, the limitations established by FHLMC for single-family loans are $60,000 for mortgages with respect to loans having loan-to-value ratios greater than 90% but not in excess of 95%, and $75,000 for mortgages with respect to loans not exceeding a 90% loan-to-value ratio. These limitations are increased by 50% for mortgages on properties located in Alaska, Hawaii or the Northern Mariana Islands, including Guam. With respect to multi-family loans, Section 5(c) provides that such limitations shall be in accordance with Section 207(c)(3) of the National Housing Act. FHLMC's present limitations on the principal obligation of conventional mortgages purchased by it, for multi-family structures, range from $19,500 to $43,758 per unit. In addition, FHLMC presently imposes an original loan amount limitation of $5,000,000 in connection with multi-family loans. Finally, FHLMC is confined to purchasing, so far as practicable, mortgages which it deems to be of such quality, type and class as to meet generally the purchase standards imposed by private institutional mortgage investors; this requirement applies to both single-family and multi-family loans.

2. *Eligible sellers.* FHLMC may purchase mortgages from any Federal Home Loan Bank, the Federal Savings and Loan Insurance Corporation, a member of any Federal Home Loan Bank, any other financial institution the deposits or accounts of which are insured by an agency of the United States and from certain financial institutions the deposits or accounts of which are insured under state law (chiefly certain Massachusetts institutions). If the mortgage is to be serviced by other than an eligible seller, FHLMC considers a mortgage to be owned by an eligible seller if the mortgage was originated by the seller (or through certain subsidiaries of a seller), or, in the case where a mortgage was not originated by an eligible seller, if the seller has owned the mortgage for at least three months prior to the date of the contract under which the mortgage is purchased by FHLMC. FHLMC purchases mortgages from Federal Home Loan Bank members whose mortgage origination and servicing experience is adequate and satisfactory. Approximately 76% of all active sellers from whom mortgages have been acquired by FHLMC have been Federal Home Loan Bank members. In the case of savings banks, commercial banks and other federally or state insured financial institutions, FHLMC, on an individual institution basis, determines whether such institutions will be approved as eligible seller/servicers. FHLMC, for these purposes, evaluates the depth of the mortgage origination and servicing experience of such sellers.

Recent amendments to the FHLMC Act, effective May 29, 1979, enlarge the category of eligible sellers to include any mortgagee approved by the Secretary of Housing and Urban Development for participation in any mortgage insurance program under the National Housing Act. FHLMC expects that the most active of the HUD-approved mortgagees in selling to FHLMC will be mortgage bankers. These amendments also permit FHLMC to impose fees upon different classes of sellers and to establish conditions under which different classes of sellers would be considered eligible to sell mortgages to FHLMC. Accordingly, FHLMC has established eligibility requirements for HUD-approved mortgagees. These requirements include financial standards, such as net worth and liquidity tests, and standards with respect to facilities and origination and servicing experience, and require HUD-approved mortgagees to furnish certain reports to FHLMC. Individual applications by HUD-approved mortgagees desiring to become eligible to sell mortgages to FHLMC are also required.

3. *Warranties of sellers.* A seller of whole loans or participations to FHLMC under any of the FHLMC purchase programs is required to give certain warranties to FHLMC for the benefit of FHLMC and purchasers from FHLMC. The warranties cover such matters as validity of the mortgage as a first lien, proper recordation of the mortgage, compliance by the seller with the requirements of all state and federal laws including those relating to settlement procedures, truth-in-lending and usury, absence of default of principal or interest payments on the mortgage, sale to FHLMC free of all liens and encumbrances prior to the first lien of the mortgage, and validity of title, hazard and private mortgage insurance policies. Sellers also warrant that the mortgage complies with all the terms and conditions of the FHLMC purchase program pursuant to which the mortgage is being purchased and with such requirements as are generally imposed by private institutional mortgage investors in the area in which the mortgaged property is located.

4. *Servicing.* Sellers of whole loans or participations to FHLMC agree, subject to FHLMC's general supervision, to perform diligently all services and duties customary to the servicing of mortgages. FHLMC discharges its supervisory responsibility by monitoring servicers' performance on a reporting and exception basis. The duties performed by servicers include collection and remittance of principal and interest payments, administration of escrow accounts, collection of insurance claims, and, if necessary, foreclosure. Sellers may contract with other eligible sellers or in certain instances with service corporations, bank subsidiaries or with mortgagees approved by the Secretary of Housing and Urban Development to have such servicing performed; however, such use of servicing agents does not relieve the seller of its obligations to FHLMC.

FHLMC supervises the servicing of the mortgages in its mortgage portfolio (including those mortgages which it has sold but as to which FHLMC has guaranteed payment of principal and interest) in a manner consistent with prudent servicing standards. FHLMC has developed detailed servicing policies and procedures as an aid to the efficient and uniform servicing of mortgages in its mortgage portfolio. These policies and procedures are set forth in the FHLMC Servicers' Guide, and relate to a considerable range of matters, including assumption of a mortgage by a new borrower, liquidating plans to correct delinquencies, and foreclosures. All of FHLMC's servicing policies and procedures are subject to change at any time and in FHLMC's sole discretion so long as the policies and procedures as modified continue to be prudent. Such changes may occur formally—i.e., by amendment of the FHLMC Servicers' Guide—or informally in connection with the servicing of a particular mortgage.

Set forth below is a brief description of certain aspects of FHLMC's current servicing policies and procedures concerning assumptions, liquidating plans, and foreclosures. This description is not intended to be complete, and is qualified in its entirety by the FHLMC Servicers' Guide (as amended from time to time), a copy of which may be obtained from FHLMC. Further, in view of the highly individualized nature of many servicing situations, informal adaptation of the policies and procedures in the FHLMC Servicers' Guide to fit particular situations can be expected to occur with some frequency.

As set forth in its Servicers' Guide, FHLMC's assumption policy includes a credit review of the assuming borrower by either FHLMC or the servicer. Mortgage loan assumptions frequently involve a change in the mortgage interest rate in jurisdictions where such changes are legal. However, for administrative and other reasons, FHLMC does not permit interest rate modifications in connection with assumptions of mortgages which it has purchased. If the assuming borrower and the servicer agree on an interest rate increase, FHLMC requires such mortgage to be repurchased by the servicer. The proceeds of any such repurchase are passed through to PC holders as a prepayment of principal. See "Interest and Principal Payments", page 26 of this Offering Circular.

The FHLMC Servicers' Guide requires servicers to make a corrective recommendation to FHLMC with respect to any mortgage delinquent for more than 60 days. FHLMC believes that effective servicing should involve individual knowledge of the borrower, the location and type of property securing the mortgage, and the extent of any delinquency, and expects such recommendations to reflect familiarity with such matters. Based on such knowledge, FHLMC encourages the use of written liquidating plans and other measures (e.g., forbearance and/or modification of mortgage loan terms) to resolve any delinquencies which may occur in connection with the mortgages in FHLMC's portfolio. While FHLMC does not insist upon use of particular servicing measures, liquidating plans executed by the borrower and the servicer are a common servicing technique. When liquidating plans are employed, FHLMC's general policy is that mortgages subject to such plans should be amortizing on a current basis within one year of the commencement of the plan.

The FHLMC Servicers' Guide also sets forth policies and procedures for instituting and monitoring foreclosure proceedings, including demand upon the mortgagor (borrower) for accelerated payment of principal—the typical initial step in the foreclosure process. Because many state foreclosure laws are complex and time consuming, FHLMC prefers to accept a voluntary deed in lieu of foreclosure in those jurisdictions in which this practice is authorized. The length of both the foreclosure process and the deed in lieu of foreclosure process varies significantly from state to state. Further, many state laws provide mortgagors with an equity of redemption following foreclosure, and the foreclosure process typically is not final until the expiration of any such right. To the extent that the foreclosure process in connection with a particular mortgage continues for more than one year following demand for acceleration upon the mortgagor, FHLMC's guarantee of collection of principal becomes applicable. See "Guarantees", page 28 of this Offering Circular.

5. *Qualified mortgage insurers.* FHLMC purchases conventional mortgages with a loan-to-value ratio exceeding 80% if the principal amount of the indebtedness in excess of 75% of the appraised value of the mortgaged property is insured by a qualified mortgage insurer. Pursuant to the FHLMC Act, FHLMC has established minimum requirements which a mortgage insurer must meet in order to be approved as a qualified mortgage insurer under the various purchase programs. As of June 30, 1979, FHLMC had approved 20 mortgage insurers as insurers whose insurance was eligible under FHLMC purchase programs. Mortgages with principal balances aggregating approximately 55% of the principal balance of all mortgages purchased by FHLMC, as of June 30, 1979, had, at the time of purchase, some portion of their principal balance insured by a qualified mortgage insurer. Under certain circumstances, a servicer may, but is not required to, cancel mortgage insurance applicable to a particular mortgage if the loan-to-value ratio of that mortgage has been reduced to 80% or less.

6. *Credit, appraisal, and underwriting guidelines.* Each whole loan or participation purchased by FHLMC must be in conformity with the credit, appraisal, and underwriting guidelines established by FHLMC. These guidelines are designed to evaluate the credit standing of the mortgagor and the value of the real property securing the mortgage and are administered by FHLMC on the basis of procedures which FHLMC believes are adequate to determine that the mortgages meet FHLMC credit, appraisal, and underwriting guidelines. During 1974, 1975, 1976, 1977, 1978, and the first six months of 1979, approximately 9.8%, 9.2%, 7.7%, 9.0%, 7.8% and 7.3% respectively, of the conventional whole loans or participations offered for sale to FHLMC have been either withdrawn or rejected for failure to meet the guidelines and requirements of the FHLMC purchase program under which the whole loan or participation was to be purchased.

7. *Purchase prices.* FHLMC purchases all participations at their face amount (par) to yield a specified interest rate. Sellers are required as part of their servicing of the underlying mortgages to remit to FHLMC sufficient interest payments to yield the specified rate. To the extent that the stated interest rate on the mortgages exceeds the yield specified by FHLMC, sellers retain the excess interest. To the extent

that the stated interest rate is less than the yield specified, sellers make up the difference from interest payments attributable to their retained interest in the mortgage. FHLMC will not purchase a participation which would require more than 100% of the income from the retained interest to be paid over to FHLMC.

All whole loans purchased by FHLMC are purchased at a specified percentage of their outstanding principal balances, adjusted for accrued or prepaid interest, which, when applied to the stated interest rate of the mortgage, results in the yield (expressed as a percentage) established by FHLMC. The yield so established includes a minimum ⅜% servicing fee retained by the seller/servicer of the whole loan. However, no purchase is made at greater than 100% of the outstanding principal balance. The applicable percentage yield is established based upon the outstanding principal balance and an assumed term and a prepayment period as determined by FHLMC.

8. *Amortization of principal.* Substantially all of the mortgages purchased by FHLMC require monthly amortization of principal in increasing amounts over the life of the mortgage. FHLMC has purchased an insignificant principal amount of flexible payment mortgages, as to which amortization of principal is not required during an initial period (not to exceed five years) of the term of the mortgage.

9. *Variations in programs.* Consistent with the standards imposed by the FHLMC Act, the various FHLMC purchase programs have differed with regard to such matters as the percent retained by sellers (in participation purchase programs), permissible loan-to-value ratios, maximum unpaid principal amounts for individual mortgages, and the particular requirements of FHLMC's credit, appraisal and underwriting guidelines. FHLMC believes that these variations have had no material impact upon the quality of the whole loans or participations purchased in the various programs.

10. *Property improvement and energy conservation loans.* Recent amendments to the FHLMC Act expand FHLMC's purchase authority to include property improvement and energy conservation loans. A property improvement loan is a loan secured by improvements made to residential real property. These loans need not be first liens and are limited in principal amount to the maximum principal amount of such loans which can be made by Federal savings and loan associations. An energy conservation loan is a loan made for the purpose of financing residential energy conservation improvements or residential solar energy systems. Such a loan may be secured or unsecured and is not subject to any specific principal amount limitations. FHLMC has not yet established the standards under which it will purchase property improvement or energy conservation loans, and accordingly has not purchased any such loans. However, FHLMC has circulated for review and comment a draft of program characteristics for a property improvement loan program. The draft characteristics include requirements related to matters such as loan-to-value ratios and maximum loan limits and terms. The draft stipulates that FHLMC would purchase only secured energy conservation and property improvement loans. It is anticipated that the pilot program to purchase a limited amount of property improvement loans will be instituted in mid-1980. No prediction can be made as to the portion of FHLMC's future purchase activity which may consist of property improvement or energy conservation loans.

Sales Programs

As of December 31, 1978 and June 30, 1979, FHLMC had sold or had contracted to sell $13.377 billion and $15.646 billion, respectively, original principal balance of Mortgage Participation Certificates ("PCs") substantially similar to the PCs offered hereby. As of December 31, 1978 and June 30, 1979, the unpaid balances of outstanding PCs sold were approximately $10.152 billion and $11.529 billion, respectively.

As of December 31, 1978 and June 30, 1979, FHLMC had sold $2.200 billion and $2.600 billion, respectively, initial principal amount of Guaranteed Mortgage Certificates ("GMCs"). FHLMC warrants return on the GMCs at the rate stated thereon and warrants that payments of principal will be sufficient to return to GMC holders minimum annual principal reduction payments as scheduled. GMCs represent undivided interests in specified conventional whole loans and participations previously purchased by FHLMC. As of December 31, 1978 and June 30, 1979, the unpaid balances of outstanding GMCs were approximately $1.865 billion and $2.137 billion, respectively.

Set forth below is information concerning the volume of PC and GMC activity.

	Years Ended December 31,					Six Months Ended June 30,
	1974	1975	1976	1977	1978	1979
			(000 omitted)			
Contracts:						
PCs						
Mandatory programs	$52,100	$ 450,300	$1,121,000	$3,990,400	$4,937,800	$1,952,300
Optional programs	—	75,800	335,200	844,000	692,600	316,100
GMCs	—	500,000	400,000	600,000	700,000	400,000
Total	$52,100	$1,026,100	$1,856,200	$5,434,400	$6,330,400	$2,668,400
Settlements:						
PCs	$45,663	$ 450,359	$ 960,126	$4,057,421	$5,711,768	$1,846,721
GMCs	—	500,000	400,000	600,000	700,000	400,000
Total	$45,663	$ 950,359	$1,360,126	$4,657,421	$6,411,768	$2,246,721

Note—Delivery periods for the PC mandatory delivery programs range from 7 to 150 days. Contracts for PCs under which delivery is at FHLMC's option have had settlements ranging from minimums of 120 days to minimums of 270 days from the date of the contract.

At December 31, 1978 and June 30, 1979, FHLMC had accumulated a reserve of $33,500,000 and $42,424,000, respectively, with regard to its management fee and guarantees on outstanding PCs and GMCs.

During 1971-1973, FHLMC sold approximately $2.109 billion aggregate original principal amount of mortgage-backed bonds issued by FHLMC and guaranteed as to principal and interest by the Government National Mortgage Association ("GNMA"), for which FHA insured and VA guaranteed mortgages in a similar principal amount were placed in trust. As of December 31, 1978 and June 30, 1979, $702 million and $585 million, respectively, aggregate principal amount of these bonds remained outstanding. See "Notes and Bonds Payable" in Notes to Financial Statements, page 39 of this Offering Circular.

In addition, FHLMC has sold approximately $162 million of whole mortgages which were FHA insured or VA guaranteed. As these loans are insured or guaranteed when originated, FHLMC provides no additional guarantee in connection with the sale of such loans.

Other Activities

In 1974-1975, pursuant to a joint United States Department of the Treasury-Federal Home Loan Bank System program, FHLMC acquired $1.575 billion aggregate original principal balance of conventional single family residential mortgages. These mortgages were purchased pursuant to standards and requirements in all substantial respects the same as those used by FHLMC in its various conventional mortgage purchase programs. This program was financed by loans from the Treasury to the Bank System, which in turn advanced such funds to FHLMC as were necessary to acquire the mortgages purchased pursuant to the program. FHLMC's loan from the Bank System was secured by the mortgages purchased. The program provided in effect that FHLMC's borrowing costs would not exceed its return on the mortgages, and both the loan to FHLMC and the loan to the Bank System provided for repayment in semiannual installments in amounts equal to the principal collections on the related mortgage loans purchased. During 1976 and 1977, the outstanding principal balance of these advances was retired, with the final payment made on February 25, 1977.

GNMA has contracted with FHLMC for FHLMC to purchase and service, as GNMA's agent, up to $3.491 billion aggregate principal balance of conventional single family residential mortgages. As of June 30, 1979, FHLMC, as GNMA's agent, had purchased $2.822 billion principal balance of these mortgages, and commitments totaling $669 million had been cancelled or expired. As of June 30, 1979, $2.759 billion of these mortgages had been sold, and principal reductions and loans paid in full totaled $31 million, with FHLMC servicing the remaining $32 million of these mortgages as agent for GNMA. These purchases are for GNMA's account and are, therefore, excluded from FHLMC's balance sheet. FHLMC receives fees for the administration of the program as agent for GNMA. These fees are intended to offset FHLMC's expenses in connection with the program.

Management's Discussion of Yields and Financing

The profit or loss generated by the Corporation is substantially governed by the size of its total investment portfolio, including mortgage loans retained in inventory, mortgage loans sold under the PC and GMC sales programs, and temporary cash investments, and by the composite spread between the effective interest income rates on such portfolio and related financing rates. The composite spread can be affected by the level of principal payments received by the Corporation as they relate to discount amortization on the Corporation's total portfolio including mortgages sold under the PC and GMC sales programs. This spread may also fluctuate as a result of short term influences. Such influences include the timing of the Corporation's purchases and sales of mortgages, the mix between short and long term financing in relation to the composition of the Corporation's total investment portfolio and the level of principal payments and prepayments generated by the Corporation's mortgage portfolio in relation to the interest rates at which these funds can be invested pending monthly remittance to PC holders and semiannual or annual remittance to GMC holders. See "Mortgage Purchase and Sales Discount" and "Mortgage Loan Sales and Related Matters" in Notes to Financial Statements, pages 36-37.

The effective Interest Income Rates and Financing Rates table on page 16 reflects the weighted average spread on the total mortgage portfolio including mortgage loans sold under the PC and GMC sales programs. The weighted average spread on the total mortgage portfolio of $17.007 billion was 29 basis points as of June 30, 1979, compared to a weighted average spread of 31 basis points on a total mortgage portfolio of $15.108 billion as of December 31, 1978. As of December 31, 1977, FHLMC had a spread of 33 basis points on a total mortgage portfolio of $10.032 billion. The decline in the composite spread is attributable to the gradual decline in the amount of the mortgages retained in portfolio and supporting long term debt, and the significant increase in the amount of mortgage purchases and sales associated with FHLMC's PC and GMC sales programs, with their attendant lower risks to FHLMC.

In its early years, the Mortgage Corporation financed its mortgage purchases primarily by the issuance of debt. Because the borrowings required to finance this retained portfolio may mature more or less rapidly than the portfolio itself, certain risks accompany such a portfolio position. As a result, FHLMC has gradually implemented a policy of reducing its retained portfolio and financing mortgage purchases by the issuance of PCs and GMCs rather than by the issuance of debt. This strategy is reflected in the portions of FHLMC's total mortgage portfolio (including for this purpose the retained portfolio as well as loans sold under the PC and GMC sales programs) financed by each of the three financing methods. The percentages of the total portfolio financed by PCs, GMCs and debt at the end of each of the last five years and as of June 30, 1979 is presented below:

For the Period Ended	PCs	GMCs	Debt
December 31, 1974	16.81%	—	83.19%
December 31, 1975	22.50%	9.85%	67.65%
December 31, 1976	32.09%	14.61%	53.30%
December 31, 1977	53.91%	13.52%	32.57%
December 31, 1978	67.20%	12.34%	20.46%
June 30, 1979	67.79%	12.56%	19.65%

The effective interest rates which must be paid to PC and GMC holders are substantially determined by general capital market interest rates, while the effective interest income on mortgages purchased by the Corporation is substantially determined by general mortgage market interest rates. During periods of significant inflation or credit shortage, general capital market interest rates may rise more rapidly than mortgage market interest rates. Such conditions could result in a decrease in the weighted average spread on the Corporation's mortgage portfolio if the Corporation continues to finance mortgage purchases by sales of PCs and GMCs, or could result in increased refinancing and reinvestment risk to the Corporation if it finances purchases by the issuance of debt. See "Notes and Bonds Payable, Capital Debentures and Related Maturities", page 17.

Since January 1976, the funds for FHLMC's purchases of mortgages have been provided predominantly by the proceeds of PC and GMC sales. Management believes that the excess of the effective interest income rate on the loans it has purchased over the effective interest paid with respect to PCs and GMCs sold will be more than sufficient to absorb all administrative expenses in connection with the purchase, sale and servicing of those mortgages, as well as losses resulting from delinquencies, defaults and foreclosures. See "Mortgage Loan Sales and Related Matters" in Notes to Financial Statements, page 36, and "Delinquencies, Defaults and Foreclosures", page 19.

FHLMC committed to purchase $7.511 and $2.996 billion of mortgages during the year ended December 31, 1978 and the six months ended June 30, 1979, respectively, while committing to sell $6.330 and $2.668 billion, respectively, of PCs and GMCs. The mortgage loan purchase commitments accepted during 1978 and the first six months of 1979 had a weighted average effective income rate of 9.89% and 10.95%, respectively. The effective cost of the PCs and GMCs committed to be sold in 1978 and the first six months in 1979 was 9.54% and 10.46%, respectively. As of June 30, 1979, FHLMC had outstanding commitments to purchase $1.504 billion of mortgages with a weighted average effective income rate of 11.20% and outstanding commitments to sell $900 million of mortgages with a weighted average effective interest cost of 10.48%. Both the effective income rate and effective cost have been adjusted to semiannual yield equivalent and are based on the assumption that the mortgages will prepay in eight years. See "Commitments" in Notes to Financial Statements, pages 38-39.

The Mortgage Corporation follows a risk averse policy in the formation of PC sales pools. That is, PC pools usually are created by using the lowest yielding unsold loans in FHLMC's portfolio. Loans placed in PC sales pools accordingly may not be the ones most recently purchased by the Corporation. The result of this policy is that if market interest rates rise, more readily marketable higher yield loans are still available for sale. This risk averse policy caused a decline in the spread on PCs outstanding over the period from December 31, 1975 to December 31, 1978 and a corresponding improvement in the spread on the total retained mortgage portfolio. In addition, an increase in the rate of amortization of purchase and sales discount contributed to a decline in the composite spread between December 31, 1977 and December 31, 1978. See "Mortgage Purchase and Sales Discount" in Notes to Financial Statements, page 36.

FHLMC Mortgage Portfolio

Summarized below is certain statistical information on FHLMC's mortgage portfolio including, for this purpose, loans sold under the PC and GMC programs. The spread on the yields shown below is not necessarily indicative of the long-term relationships which may prevail. (Note (c))

Effective Interest Income Rates and Financing Rates (Note (a))

	December 31, 1974		December 31, 1975		December 31, 1976		December 31, 1977		December 31, 1978		June 30, 1979	
	Principal	Yield	Principal	Yield	Principal	Yield	Principal	Yield	Principal	Yield	Principal	Yield
	(000 omitted)		(000 omitted)		(000 omitted)		(000 omitted)		(000 omitted)		(000 omitted)	
FHA/VA Mortgages:												
Effective interest income....		7.73%		7.76%		7.78%		7.88%		8.11%		8.13%
Effective borrowing cost....		7.15		7.09		7.23		7.49		7.49		7.75
Net..............................	$1,956,115	.58	$1,877,166	.67	$1,672,076	.55	$ 1,450,321	.39	$1,298,895	.62	$1,227,247	.38
Participations in Conventional Mortgages:												
Effective interest income....		8.64		8.65		8.96		8.86		9.86		10.24
Effective borrowing cost....		8.63		8.63		8.55		8.38		8.25		8.49
		.01		.02		.41		.48		1.61		1.75
Adjustment (Note (b))....		.47		.47		.30		.23		.10		.04
Net..............................	1,206,297	.48	843,697	.49	808,635	.71	1,450,756	.71	1,599,536	1.71	1,944,292	1.79
Conventional Mortgages:												
Effective interest income....		8.58		8.58		8.64		8.87		9.79		9.99
Effective borrowing cost....		8.63		8.63		8.55		8.38		8.25		8.49
		(.05)		(.05)		.09		.49		1.54		1.50
Adjustment (Note (b))....		.47		.47		.30		.23		.10		.04
Net..............................	696,404	.42	713,578	.42	675,596	.39	365,892	.72	192,336	1.64	169,092	1.54
Total Mortgages Owned:												
Effective interest income....		8.17		8.16		8.27		8.43		9.14		9.47
Effective borrowing cost....		7.88		7.92		7.89		7.96		7.93		8.23
		.29		.24		.38		.47		1.21		1.24
Adjustment (Note (b))....		.23		.26		.18		.13		.06		.03
Net..............................	$3,858,816	.52	$3,434,441	.50	$3,156,307	.56	$ 3,266,969	.60	$ 3,090,767	1.27	$3,340,631	1.27
Mortgage Participation Certificates:												
Effective interest income....		7.65		8.28		8.46		8.63		8.99		9.20
Certificate rate (Note (d))..............................		7.37		7.85		8.04		8.10		8.53		8.78
Gross Interest Margin........		.28		.43		.42		.53		.46		.42
Discount Amortization		—		—		(.13)		(.37)		(.46)		(.43)
Net Interest Margin ...	$ 779,838	.28	$1,142,524	.43	$1,900,136	.29	$ 5,408,323	.16	$10,152,259	.00	$11,529,178	(.01)
Guaranteed Mortgage Certificates:												
Effective interest income....				8.64		8.78		8.76		9.12		9.39
Certificate rate				8.42		8.44		8.30		8.58		8.87
Gross Interest Margin........				.22		.34		.46		.54		.52
Discount Amortization				(.04)		(.04)		(.07)		(.18)		(.18)
Net Interest Margin ...			$ 500,000	.18	$ 865,200	.30	$ 1,356,400	.39	$ 1,864,500	.36	$ 2,136,800	.34
Weighted Average Yields on Mortgages Owned, Participation Certificates and Guaranteed Mortgage Certificates:												
Effective interest income....		8.28		8.41		8.50		8.64		9.10		9.33
Effective certificate rate and borrowing cost........		7.80		7.96		8.06		8.31		8.79		9.04
Net..............................	$4,638,654	.48	$5,076,965	.45	$5,921,643	.44	$10,031,692	.33	$15,107,526	.31	$17,006,609	.29

Notes for preceding table—

(a) The effective interest income rate on the mortgage portfolio is average contract interest income adjusted to semiannual yield equivalent and adjusted for the effect of discount amortization, less servicing fees where applicable. The effective borrowing cost is the weighted average of such rates on a semiannual basis, adjusted for discounts and concessions. With respect to PCs and GMCs the certificate rate is the weighted average of such rates on a semiannual basis. The adjustments to effective interest income and effective certificate rates (on PCs only) to reflect semiannual yield equivalents range from 11 to 21 basis points and apply to both effective interest income and interest paid.

(b) The adjustment represents additional yield resulting from the write-down of mortgage loans. To the extent a loss is indicated on the financing of mortgage loans, the loss attributable to such financing is charged against Allowance for Possible Losses and is reflected on the balance sheet as a reduction of mortgage loans. The periodic amortization of this reduction of mortgage loans results in additional yield which for financial reporting purposes is recognized in FHLMC's Statement of Income and Retained Earnings as additional interest income over the term of the related borrowing. See "Summary of Significant Accounting Policies" in Notes to Financial Statements, page 36 of this Offering Circular.

(c) Mortgages purchased under the joint United States Treasury—Federal Home Loan Bank System program previously described are excluded for the years ended December 31, 1974 and 1975. During 1976 and 1977, the debt associated with that program was retired, with the final payment made on February 25, 1977. Accordingly, the mortgages purchased under the program are included in the preceding table at the dates the U.S. Treasury debt was retired.

(d) The certificate rate has been adjusted downward for the effect of the delay in FHLMC's remittances to investors.

Notes and Bonds Payable, Capital Debentures and Related Maturities

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

The tables below set forth the maturities of FHLMC's Notes and Bonds Payable and Capital Debentures as of June 30, 1979.

Notes and Bonds Payable

Maturity	Amounts (000 omitted)	Maturity	Amounts (000 omitted)
1979	$ 142,392	1983	$ 215,727
1980	$ 211,683	1984	$ 315,817
1981	$ 375,544	1985-1989	$ 927,323
1982	$ 205,620	1990-1994	$ 472,500
		1995-1997	$ 465,025

Capital Debentures

Maturity	Amounts (000 omitted)
1988	$ 150,000

See "Notes and Bonds Payable" and "Subordinated Capital Debentures" in Notes to Financial Statements, pages 39 and 40 of this Offering Circular.

If FHLMC were to experience greater than anticipated principal payments (including prepayments) on portfolio mortgages, it would be required to invest in mortgages or other interest bearing investments which could have yields less favorable than required to pay the interest upon related borrowings.

Geographic Distribution of Mortgage Portfolio

The following table sets forth the general geographic location of the properties underlying the mortgage portfolio of the Mortgage Corporation at December 31, 1977, 1978 and at June 30, 1979 (including those mortgages which the Mortgage Corporation has sold but as to which the Mortgage Corporation has guaranteed payment of principal and interest). Mortgages purchased under the joint United States Treasury-Federal Home Loan Bank System program described on page 13 are included in the following table.

	Unpaid Principal Balance (000 omitted)									
	December 31,				June 30,					
	1977		1978		1979					
Geographic Area Designation	Total	Percentage of Total	Total	Percentage of Total	FHA/VA	Percentage of FHA/VA	Conventional Loans	Percentage of Conventional Loans	Total	Percentage of Total
Boston	$ 88,994	.90%	$ 83,424	.56%	$ 2,409	.19%	$ 89,356	.57%	$ 91,765	.54%
New York	124,916	1.26	160,269	1.07	15,476	1.25	182,003	1.16	197,479	1.17
Pittsburgh	146,641	1.48	153,419	1.02	5,655	.46	144,730	.93	150,385	.89
Atlanta	1,761,764	17.81	2,139,830	14.30	151,681	12.23	2,166,449	13.83	2,318,130	13.71
Indianapolis	378,705	3.83	533,719	3.57	48,818	3.93	556,552	3.55	605,370	3.58
Chicago	425,177	4.30	729,318	4.87	96,228	7.76	765,818	4.89	862,046	5.10
Des Moines	232,916	2.36	324,309	2.17	69,406	5.60	264,114	1.69	333,520	1.97
Little Rock	973,250	9.84	1,444,185	9.65	163,235	13.16	1,309,220	8.36	1,472,455	8.71
Denver	842,055	8.51	1,324,637	8.85	111,404	8.98	1,316,137	8.40	1,427,541	8.45
Los Angeles	3,847,204	38.90	6,426,771	42.94	463,937	37.40	7,145,585	45.61	7,609,522	45.01
Seattle	1,068,657	10.81	1,646,696	11.00	112,246	9.04	1,725,032	11.01	1,837,278	10.87
Total	$9,890,279	100.00%	$14,966,577	100.00%	$1,240,495	100.00%	$15,664,996	100.00%	$16,905,491	100.00%

States included under geographic area designations:

BOSTON

Connecticut
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

NEW YORK

New Jersey
New York
Puerto Rico
Virgin Islands

PITTSBURGH

Delaware
Pennsylvania
West Virginia

ATLANTA

Alabama
District of Columbia
Florida
Georgia
Kentucky
Maryland
North Carolina
South Carolina
Tennessee
Virginia

INDIANAPOLIS

Indiana
Michigan

CHICAGO

Illinois
Ohio
Wisconsin

DES MOINES

Iowa
Minnesota
Missouri
North Dakota
South Dakota

LITTLE ROCK

Arkansas
Louisiana
Mississippi
New Mexico
Texas

DENVER

Colorado
Kansas
Nebraska
Oklahoma

LOS ANGELES

Arizona
California
Nevada

SEATTLE

Alaska
The Northern Mariana Islands, including Guam
Hawaii
Idaho
Montana
Oregon
Utah
Washington
Wyoming

Delinquencies, Defaults and Foreclosures

Set forth below is certain information concerning FHLMC's default, delinquency and foreclosure experience with its mortgage portfolio (including those mortgages which FHLMC has sold but as to which FHLMC has guaranteed payment of principal and interest). Defaults, delinquencies and foreclosures on mortgages are in some measure related to general economic conditions and historically do not reach their peak until sometime after maximum unemployment rates are reached in an economic cycle. A peak in unemployment rates was reached in the second quarter of 1975. For the last half of 1975 and throughout 1976, while less than the peak, unemployment rates remained relatively high. From the beginning of 1977 through the fourth quarter of 1978, the unemployment rate declined gradually. The unemployment rate has remained fairly low during the first half of 1979, but a lower level of economic activity may cause an increase in the unemployment rate in the second half of this year.

Conventional Mortgages (a)

	Number of Delinquent Payments			Foreclosures approved and in process
As of December 31,	One	Two	Three or More	
1974	1,954 (1.46%)	315 (0.24%)	109 (0.08%)	108 (0.08%)
1975	3,014 (1.67%)	621 (0.34%)	330 (0.18%)	184 (0.10%)
1976	3,600 (1.83%)	656 (0.33%)	267 (0.14%)	181 (0.09%)
1977	5,132 (1.84%)	794 (0.28%)	354 (0.13%)	222 (0.08%)
1978	7,973 (2.02%)	1,343 (0.34%)	489 (0.12%)	358 (0.09%)
As of June 30, 1979	8,046 (1.84%)	1,362 (0.31%)	559 (0.13%)	441 (0.10%)

(a) The columns show aggregate numbers of mortgages in each category and the percentage that these numbers represent of FHLMC's conventional mortgage portfolio.

FHA/VA Mortgages (b)

	Number of Delinquent Payments			Foreclosures approved and in process
As of December 31,	One	Two	Three or More	
1974	4,603 (4.70%)	1,148 (1.17%)	511 (0.52%)	771 (0.79%)
1975	4,557 (4.91%)	1,121 (1.21%)	527 (0.57%)	550 (0.59%)
1976	4,507 (5.39%)	972 (1.16%)	483 (0.58%)	396 (0.47%)
1977	4,161 (5.66%)	900 (1.22%)	382 (0.52%)	280 (0.32%)
1978	3,750 (5.63%)	821 (1.23%)	353 (0.53%)	175 (0.26%)
As of June 30, 1979	2,822 (4.46%)	585 (0.92%)	255 (0.40%)	152 (0.24%)

(b) The columns show aggregate numbers of mortgages in each category and the percentage that these numbers represent of FHLMC's FHA/VA mortgage portfolio.

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

With respect to foreclosures resulting in a third party's acquisition of the real property securing the mortgage, FHLMC has received foreclosure sale proceeds at least equal to the unpaid principal and accrued interest owing on the mortgage, but FHLMC has not in all circumstances recovered all expenses incident to the foreclosure. In the aggregate, these unrecovered expenses are insignificant in amount and are therefore not included in the foreclosure loss data or the table below.

With respect to foreclosures resulting in FHLMC's acquisition of the real property securing the mortgage, FHLMC has, from commencement of operations in 1970 through June 30, 1979, experienced losses (net of gains) of $427,507 on conventional home mortgage loans (1-4 family) and $4,065,000 on conventional multifamily mortgage loans. During this period, there were 933 foreclosures of conventional home mortgages and eight foreclosures of conventional multifamily mortgages, with unpaid principal balances of $22,241,291 and $8,447,000, respectively, which resulted in FHLMC's acquisition of the real property securing the mortgage.

The table below sets forth losses (net of gains) for each of the five years ended December 31, 1978 and the period ended June 30, 1979 with respect to property acquired by FHLMC at foreclosure.

For the Period Ended	Single-Family	Multi-Family	Total
December 31, 1974	$ 5,519	$1,053,400	$1,058,919
December 31, 1975	13,544	—	13,544
December 31, 1976	51,400	3,011,600	3,063,000
December 31, 1977	65,703	—	65,703
December 31, 1978	187,316	—	187,316
June 30, 1979	101,155	—	101,155

As of June 30, 1979, FHLMC had $9,000,000 reserved for possible losses on mortgages owned (including losses resulting from foreclosures and from marketing/financing risks), and $42,424,000 reserved with regard to its management fee and guarantees on mortgage loans sold.

MANAGEMENT

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

Name	Age	Year of Affiliation	Position
Anita Miller	48	1978	Acting Chairman of Board of Directors
Andrew A. DiPrete	49	1979	Director
Philip R. Brinkerhoff	36	1973	President
Richard A. Mackey	36	1971	Executive Vice President—Chief Administrative Officer
William R. Thomas, Jr.	50	1970	Executive Vice President—Chief Operating Officer
Charles R. Williams	32	1979	Executive Vice President—Chief Financial Officer
Henry L. Judy	39	1975	Senior Vice President and General Counsel
Jerry Barrentine	45	1973	Vice President and Treasurer
Mary Bruce Batte	33	1978	Vice President—Congressional and Governmental Relations
Alan J. Blocher	41	1973	Vice President—Mortgage Programs and Services
William H. Boyle	36	1979	Vice President—Corporate Planning and Development
Edward S. Elles, Jr.	32	1975	Vice President—Financial Planning and Analysis
Russell E. Gray, Jr.	33	1978	Vice President—Human Resources
Richard Hadik	42	1975	Vice President—Systems
Donald G. Hill	49	1975	Vice President—Communications
Michael C. Rush	35	1978	Vice President—Marketing
Leady W. Seale, Jr.	56	1972	Vice President—Appraisal and Underwriting

Ms. Miller is acting Chairman of the Federal Home Loan Bank Board, and her term expires in 1982. Prior to May, 1978, Ms. Miller was Senior Program Officer, Department of Urban and Metropolitan Development, Division of National Affairs of the Ford Foundation. Mr. DiPrete is a member of the Federal Home Loan Bank Board, and his term expires in 1983. Prior to June, 1979, Mr. DiPrete was a partner in the Providence, Rhode Island law firm of Tillinghast, Collins & Graham. The position of Chairman of the Federal Home Loan Bank Board is currently vacant, and when filled the new Chairman will become Chairman of the Board of Directors of FHLMC.

Philip R. Brinkerhoff has been President since September, 1977. He was Executive Vice President of FHLMC from April 1975 and Vice President and General Counsel from June, 1973. Prior to his affiliation with FHLMC, he was an attorney with Streich, Land, Weeks, Cardon & French, Phoenix, Arizona. Richard A. Mackey has been Executive Vice President—Chief Administrative Officer of FHLMC since September, 1977 and was Vice President—Systems of FHLMC from June, 1974. Prior to his affiliation with FHLMC, he was a Systems Analyst for Tate Technologies, Inc. William R. Thomas, Jr. has been Executive Vice President—Chief Operating Officer of FHLMC since October, 1977. He was a Senior Regional Vice President from July, 1975 and was a Regional Vice President from February, 1971. Prior to his affiliation with FHLMC he was a Regional Director of Development for Mortgage Guaranty Insurance Corporation. Charles R. Williams has been Executive Vice President—Chief Financial Officer of FHLMC since June, 1979. Prior to his affiliation with FHLMC and since April, 1978, he was President of Charles Williams & Company, a management consulting firm. Between April, 1977 and March, 1978, he was Director of Financial Institution Management Services for Touche Ross & Company, and from August, 1972 until April, 1977 he was a Senior Consultant in the Management Counseling Division, Arthur D. Little, Inc.

Henry L. Judy has been Senior Vice President and General Counsel of FHLMC since June, 1979 and was Vice President—General Counsel from June, 1975. Prior to his affiliation with FHLMC, he was Deputy General Counsel of the Federal Home Loan Bank Board. Jerry Barrentine has been Vice President and Treasurer of FHLMC since October, 1973 and was Assistant Treasurer from January, 1973. Prior to his affiliation with FHLMC, he was a Manager with Peat, Marwick, Mitchell & Co. Mary Bruce Batte has been Vice President—Congressional and Governmental Relations since June, 1979 and was Director of Congressional Relations from June, 1978. Prior to her affiliation with FHLMC and since September, 1977, she was Special Assistant to the Deputy Assistant Secretary for Direct and Insured Loans, U.S. Department of Housing and Urban Development. Between November, 1973 and September, 1977, she was Assistant Managing Editor of the Housing and Development Reporter. Alan J. Blocher has been Vice President—Mortgage Programs and Services since May, 1977, prior to which he was Director of Servicing for FHLMC. Prior to his affiliation with FHLMC, Mr. Blocher was a Loan Servicing Officer for Dime Savings Bank. William H. Boyle has been Vice President—Corporate Planning and Development since July, 1979. Prior to his affiliation with FHLMC, he was a management consultant with Touche Ross & Co. Edward S. Elles, Jr. has been Vice President—Financial Planning and Analysis since June, 1977 and was a Financial Analyst from February, 1975. Prior to his affiliation with FHLMC, he was a Senior Accountant with Arthur Andersen & Co. Russell E. Gray, Jr. has been Vice President—Human Resources since June 1979 and was Director of Personnel from September, 1978. Prior to his affiliation with FHLMC, he was Personnel Manager, Eastern Division, The Hartford Insurance Group. Richard Hadik has been Vice President—Systems since October, 1977 and was Director—Systems Development from February, 1975. Prior to his affiliation with FHLMC, he was a Senior Associate—Vice President for Computer Performance Associates, Inc., Donald G. Hill has been Vice President—Communications since June, 1979 and was Director of Corporate Relations from December, 1975. Prior to his affiliation with FHLMC, he was Washington Bureau Chief, Landmark Newspapers. Michael C. Rush has been Vice President—Marketing of FHLMC since January, 1978. Prior to his affiliation with FHLMC, he was Executive Vice President of the Boston Company Advisors, Inc., Boston, Massachusetts. Leady W. Seale, Jr. has been Vice President—Appraisal and Underwriting since September, 1975 and has been affiliated with FHLMC since October, 1972. Prior to his affiliation with FHLMC, he was Chief Appraiser and Assistant Vice President of the Mortgage Loan and Real Estate Division, Equitable Life Insurance Company, Washington, D.C.

As of June 30, 1979, FHLMC had 387 employees.

DESCRIPTION OF MORTGAGE PARTICIPATION CERTIFICATES

The Mortgage Participation Certificates offered hereby represent undivided interests in specified conventional mortgages ("whole loans") and/or participation interests therein ("participations") underwritten and owned by the Mortgage Corporation. A conventional mortgage is a mortgage which does not have the benefit of any guarantee or insurance by, and is not an obligation of, the United States or any state, or any agency or instrumentality of either.

The Mortgage Corporation periodically forms groups of whole loans and/or participations in connection with its continuing PC sales programs. A particular PC group may also include an undivided interest in the whole loans and/or participations comprising other PC groups ("residual participations"). The aggregate of whole loans, participations and/or residual participations included in a PC group is referred to herein as the "Mortgages". PC groups are formed as the volume of the Mortgage Corporation's sales of PCs may require. The Mortgage Corporation in its sole discretion determines which PC will be delivered to a purchaser in the event that more than one PC group is available for delivery. Each group of whole loans, participations and/or residual participations is identified in the records maintained by the Mortgage Corporation, and such records also identify the Mortgages pertaining to each PC group.

The PCs are governed by the terms of the FHLMC Mortgage Participation Certificate Agreement, Series 600 (Revised August 1979), which is included in this Offering Circular as Exhibit A and to which reference is made for a complete description of the purchaser's rights and the Mortgage Corporation's obligations with respect to the PCs.

PCs are issued in fully registered form only, in original unpaid principal balances of $100,000, $200,000, $500,000, $1,000,000 and $5,000,000. The unpaid principal balance of a PC as of the trade date, *i.e.*, the date on which the Mortgage Corporation accepts an offer to purchase PCs, may be less than the face amount of the PC as reflected on the PC Certificate as a result of principal payments on the Mortgages made between the date of formation of the group of Mortgages and the trade date. The unpaid principal balance of the PC purchased may in turn be less than the principal balance contracted for as a result of principal payments on the Mortgages made between the trade date and the settlement date. In addition, the purchase amount of a PC to be paid at settlement may be either more or less than the unpaid principal balance of the PC on the trade date due to purchase discount or premium, as described below under "Ordering and Settlement". As used herein, the term "unpaid principal balance of a PC" refers to the pro rata share of the unpaid principal balance of the Mortgages represented by that PC.

PCs are designed to qualify for federal income tax treatment accorded certain investments in obligations secured by real property. See "Tax Status", page 30.

PC Sales Programs

The Mortgage Corporation currently offers PCs pursuant to one or more of the mandatory and optional delivery sales programs described below, the availability of which may vary from time to time. For purposes of calculating the date of settlement, the trade date is the date on which FHLMC accepts an offer to purchase PCs.

Mandatory Delivery Contracts. No fees are currently paid by the Mortgage Corporation in connection with its mandatory delivery contracts. Purchasers may contract for mandatory delivery of PCs under any of five programs:

(1) Purchasers agree with the Mortgage Corporation upon a settlement date not less than seven (7) nor more than twenty-nine (29) days from the trade date.

(2) Purchasers agree with the Mortgage Corporation upon a settlement date not less than thirty (30) nor more than fifty-nine (59) days from the trade date.

(3) Purchasers agree with the Mortgage Corporation upon a settlement date not less than sixty (60) nor more than eighty-nine (89) days from the trade date.

(4) Purchasers agree with the Mortgage Corporation upon a settlement date not less than ninety (90) nor more than one hundred nineteen (119) days from the trade date.

(5) Purchasers agree with the Mortgage Corporation upon a settlement date not less than one hundred twenty (120) nor more than one hundred fifty (150) days from the trade date.

Optional Delivery Contracts. Purchasers may contract for optional delivery of PCs under any of the optional programs which may be offered by the Mortgage Corporation from time to time. The Mortgage Corporation, at its option, may complete the sale of PCs under an optional delivery program by delivering either the entire principal amount subject to the contract, or any portion thereof, on the settlement date agreed upon with the purchaser. In the event that a purchase will be consummated, notice will be mailed to the purchaser at least five business days before the settlement date. Such notice will specify the principal amount of PCs to be delivered and the amount due at settlement. Currently, purchasers may contract for optional delivery under either of two programs:

(1) Purchasers agree with the Mortgage Corporation upon a settlement date not less than one hundred forty (140) days from the trade date. The Mortgage Corporation will pay the purchaser a fee of not more than ⅝ of 1%.

(2) Purchasers agree with the Mortgage Corporation upon a settlement date not less than two hundred seventy (270) days from the trade date. The Mortgage Corporation will pay the purchaser a fee of not more than 1.0%.

Settlements for purchases of PCs may be held on any business day mutually agreed upon by the purchaser and the Mortgage Corporation within the range of settlement dates applicable to any particular sales program. The settlement date is fixed on the trade date. Neither a mandatory delivery contract nor an optional delivery contract may be assigned or transferred by a purchaser without the prior written consent of the Mortgage Corporation.

Fees. As described above, fees vary under optional delivery programs depending upon the agreed settlement date. The specific amount of the fee will be stated in the confirmation of the order mailed to the purchaser. See "Ordering and Settlement", page 25. In addition, the Mortgage Corporation may reduce, eliminate or reinstate at any time the fees paid in connection with any of its programs. The fees payable by the Mortgage Corporation for optional delivery contracts are determined by multiplying the principal balance of the PC as of the trade date by the applicable fee expressed as a percentage. For example, if the fee for an optional delivery program were ⅝ of 1%, and if the principal balance of the PC committed to be purchased were $100,000, the fee would be $625.00. If a purchaser's ability to consummate the purchase is satisfactory to the Mortgage Corporation, any fee due the purchaser will be mailed by the Mortgage Corporation to the purchaser within five business days following receipt of a confirmation duly executed by the purchaser.

If the purchaser's ability to fulfill his obligations pursuant to either the mandatory or optional delivery programs is not known to the Mortgage Corporation, the Mortgage Corporation may require a good faith deposit of up to 5% of the unpaid principal balance of the PC on the trade date. A confirmation of the transaction will not be mailed to a purchaser until the deposit is received by the Mortgage Corporation, and such deposit must be received within five business days of the trade date. See "Ordering and Settlement", page 25. The amount of the deposit will be credited against the amount due from the purchaser at settlement or, in the case of an optional delivery program, will be returned to the purchaser if and at the time that the Mortgage Corporation elects not to complete the sale.

Federal Income Tax Consequences of Fees. A fee received by a prospective purchaser under an optional delivery program is not income for federal income tax purposes at the time of receipt. In the case of an optional delivery program, if the Mortgage Corporation elects to complete the sale by delivering the entire principal balance of the PC subject to the contract, the fee will be an offset against the selling price in determining the aggregate cost basis of the PC holder in his undivided interests in the Mortgages. If the Mortgage Corporation does not exercise, in whole or in part, its election to complete the sale under an optional delivery program, the fee will constitute income upon the termination of the option, which income may be ordinary income or may be characterized as short-term capital gain under Section 1234(b) of the Internal Revenue Code of 1954, as amended, and may not be qualifying income for purposes of the 75 percent of gross income test of Treasury Regulation §301.7701-13A(c)(3)(i) classifying an organization as a "domestic building and loan association." If the Mortgage Corporation elects to complete the sale under an optional delivery program by delivering less than the entire principal balance of the PC subject to the contract, the offset against the selling price, as described above, may be limited to that portion of the fee which is allocable to the principal balance of the PC delivered, in which case the remaining portion of the fee would constitute income or gain as described in the preceding sentence.

Federal Home Loan Bank Board Treatment of Fees. Fees received by PC purchasers the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation shall be recorded according to generally accepted accounting principles for loan commitment fees. If the commitment period is 30 days or less, the fee shall be deferred over at least ten years.

Special Circumstances. Under certain circumstances, the Mortgage Corporation is willing to entertain requests for modification of certain of the terms of the above programs to meet the specific needs of purchasers.

The terms upon which PCs are offered for sale are subject to change by the Mortgage Corporation without notice to prospective purchasers and all offers to purchase PCs are subject to acceptance by the Mortgage Corporation. See "Ordering and Settlement", page 25.

Price and Yield Information

The Certificate Rate shown on the face of PCs normally varies by increments of one-quarter of one percent. The price at which PCs are offered by the Mortgage Corporation may be at a discount, at par, or at a premium depending upon current market conditions and the Certificate Rate of the PC. The net price of a PC, after subtracting any fees which are paid by the Mortgage Corporation, may vary from program to program and may also vary depending upon the Mortgage Corporation's assessment of current and future economic and mortgage market conditions. The yield quoted by the Mortgage Corporation includes the increase in yield resulting from the payment of any fee.

The yields quoted by the Mortgage Corporation at various Certificate Rates and price levels are based upon a thirty-year maturity, twelve-year prepayment assumption. See "Maturity and Average Weighted Life", page 28. Yields also are quoted based on the assumption that there will be a 75-day delay in the receipt by a PC holder of the first remittance check. See "Interest and Principal Payments", page 26. Yield tables for PCs are available from Financial Publishing Co. in Boston, Massachusetts, and show yields at various Certificate Rates and price levels and under various payment assumptions.

Price and yield quotations are available from the Mortgage Corporation (outside Washington D.C. metropolitan area telephone 800-424-5401; within Washington D.C. metropolitan area telephone 789-4800).

Distribution Arrangements

PCs can be purchased from the Mortgage Corporation or from a selected group of securities dealers. The Mortgage Corporation presently allows a sales concession to such dealers in an amount no greater than .250% of the purchase price of the PCs sold to such dealers. If a PC is purchased from a dealer, such dealer is required to confirm sales to purchasers, to notify purchasers of settlement dates and amounts, to forward any optional fees, and to otherwise communicate and deal with purchasers within the time limits applicable to sales of PCs directly effected by the Mortgage Corporation. See "Ordering and Settlement", page 25.

Ordering and Settlement

PCs are available only in original unpaid balances of $100,000, $200,000, $500,000, $1,000,000 and $5,000,000. However, the purchase amount of a PC to be paid at settlement may be less than the unpaid principal balance of the PC as of the trade date because of principal payments made with respect to the Mortgages between the trade date and the settlement date. The purchase amount of a PC to be paid on a settlement date after the month of formation of the PC group will be based on the group factor for the month of settlement. See "Group Factors", page 26. Interest and principal payments made with respect to the Mortgages between the trade date and the settlement date are for the account of and are retained by the Mortgage Corporation. In addition, the purchase amount of a PC to be paid at settlement may be more or less than the principal balance of the PC on the settlement date because the PC has been purchased at a premium or at a discount.

At the time an offer to purchase is made, a purchaser will be asked which particular delivery program is desired, the principal balance of PCs to be purchased, the settlement date proposed, and also, in the case of a purchase made directly from the Mortgage Corporation, the denominations in which certificates should be issued and the purchaser's federal taxpayer identification number. Offers to purchase PCs will be considered firm offers by the Mortgage Corporation on the day on which the offer is received. The offer will be accepted or rejected on the business day following the day on which the offer is received. The date of acceptance of any offer is the trade date.

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

Notification of the exact amount due from the purchaser at settlement will be mailed at least 5 business days prior to settlement for all programs other than when settlement is scheduled for not more than 10 days from the trade date, i.e., under the mandatory delivery program with a settlement date of between 7 and 29 days. In the latter case, notification of the exact amount due at settlement will be mailed with the confirmation of the purchaser's order. Mortgage Participation Certificates are not mailed or otherwise delivered to purchasers until the Mortgage Corporation has received the purchase amount for the PC.

The Mortgages

Each PC represents undivided interests in a group of Mortgages identified on records maintained by the Mortgage Corporation having an original aggregate unpaid principal balance which is normally at least $100 million and which group normally is comprised of at least 2,000 residential mortgages. At least 95% of the aggregate principal balance of the Mortgages will consist of home mortgage loans (1-4 family) and not more than 5% will consist of multi-family loans. Not more than 2.5% of the home mortgage loans comprising the Mortgages will be flexible payment mortgages. Interest remittable on the Mortgages to the Mortgage Corporation will, except as described below, be equal to or greater than the interest remittable to PC holders at the Certificate Rate applicable to the PC. Under certain market conditions, the interest remittable to the Mortgage Corporation on certain groups of whole loans, participations or residual participations included in the Mortgages may be less than the Certificate Rate applicable to the PC. In that event, the Mortgage Corporation will retain a sufficient ownership interest in such groups so that the interest payments attributable to FHLMC's retained ownership will be sufficient to pay to PC holders any difference between the interest remittable to the Mortgage Corporation on such groups of whole loans, participations or residual participations and the Certificate Rate applicable to the PC.

The Mortgages are first liens which have been purchased by the Mortgage Corporation pursuant to its various conventional mortgage purchase programs and accordingly are, with the likely exception of geographic distribution, of the same general type, quality and characteristics as described under "History and Business—Purchase Programs". A particular PC is likely to represent undivided interests in Mortgages which have a geographic distribution which is different than, and a degree of geographic concentration which is greater than, the Mortgage Corporation's mortgage portfolio as described above under "History and Business—Geographic Distribution of Mortgage Portfolio". Due to the composition of the unsold portion of the Mortgage Corporation's mortgage portfolio at any particular time (and subject to the Mortgage Corporation's risk averse policy, see "Management's Discussion of Yields and Financing", pages 14-15), a particular PC may represent undivided interests in Mortgages which are serviced by seller/servicers located in a single Geographic Area Designation or in a single state. See page 18.

It is the Mortgage Corporation's experience to date that it purchases mortgages in significantly heavier volumes from areas of the United States that are mortgage capital deficit areas. Accordingly, purchasers of PCs normally should expect a significant degree of geographic concentration in the Mortgages represented by PCs. The area of geographic concentration may change as national or regional economic developments cause changes in areas of capital deficit and surplus. At the present time, the Mortgage Corporation's purchases are heavily concentrated in the states covered by the Los Angeles Geographic Area Designation. See page 18.

The Mortgages are comprised of participations, residual participations and/or whole loans. In the case of whole loans, the original mortgage notes are endorsed to and held by the Mortgage Corporation. Where local law or practice requires, assignments of the original mortgages are recorded in the Mortgage Corporation's name. The participations are evidenced by participation certificates conveyed by the sellers of the participations to the Mortgage Corporation and represent undivided interests in conventional mortgages. The participation certificates are held by the Mortgage Corporation, but the original mortgage notes and original mortgages with respect to participations are held by the sellers, and the original mortgages are recorded in the names of the sellers. The residual participations are evidenced by the Mortgage Corporation's internal accounting entries which indicate that more than one PC group owns a percentage of undivided ownership in certain whole loans and/or participation certificates. The sellers of whole loans and participation certificates to the Mortgage Corporation have agreed, subject to the Mortgage Corporation's general supervision, to perform diligently all services and duties customary to the servicing of mortgages. See "Servicing", pages 10-11.

With respect to any undivided interests in the Mortgages which the Mortgage Corporation acquires or retains in the form of a PC, the Mortgage Corporation shall share pro rata with the holders of all other PCs which represent those Mortgages.

Group Factors

As permitted by the FHLMC Mortgage Participation Certificate Agreement (the "PC Agreement"), the Mortgage Corporation's remittances to PC holders of principal and interest received by it on the Mortgages with respect to each PC group are based on monthly estimates of the amount of principal payments on these Mortgages to be received from seller/servicers, determined by the use of "group factors." The group factor procedure was developed by the Mortgage Corporation to facilitate secondary market trading of PCs.

The group factor is a seven digit decimal which the Mortgage Corporation uses to calculate the amount which the Mortgage Corporation estimates will be the unpaid principal balance of the Mortgages as of the end of any given month with respect to each PC group. The group factor for each PC group for a given month is published on or about the 25th day of the preceding month. The amount which the Mortgage Corporation estimates will be a holder's pro rata share of the unpaid principal balance of the Mortgages for a given month can be determined by multiplying the face amount, i.e., the original unpaid principal balance, of the PC Certificate by the current group factor.

To the extent a given month's group factor does not reflect the monthly principal amounts actually received by the Mortgage Corporation with respect to the Mortgages, as determined by the Mortgage Corporation during the month following the month of each group factor, the Mortgage Corporation corrects any difference by adjustment of subsequent group factors. The use of the group factor does not affect the Mortgage Corporation's guarantees of timely payment of interest at the applicable Certificate Rate and collection of all principal on the Mortgages, as provided in the PC Agreement.

Interest and Principal Payments

The Mortgage Corporation normally mails to each registered holder of PCs one check per month regardless of the number of PCs held or when such PCs were purchased. The first remittance check to the purchaser of a PC will normally be posted five calendar days prior to the fifteenth day of the second month following the month in which the purchaser became a registered holder of the PC on the records of the Mortgage Corporation. Thereafter, checks will be posted monthly to the registered holder, and this normally will be done five calendar days prior to the fifteenth day of each month. The principal, interest and prepayment fees (if any) attributable to each specific PC are itemized on a statement accompanying the check. Checks will be mailed to the addresses of the registered holders entitled thereto as the same shall appear in the register of holders of PCs. In order to take into account the impact upon the rate of return on a PC caused by the above described delay in the receipt by a holder of a PC of remittance checks, the yield quoted by the Mortgage Corporation includes an appropriate adjustment for such delay.

PC holders are entitled to receive a pro rata share of the interest received by the Mortgage Corporation on the Mortgages at the Certificate Rate on the unpaid principal balance of the Mortgages. By reason of his record ownership as of the last day of the month of purchase, the PC holder is entitled to such interest from the first day of the month in which settlement for a PC purchase is made; accordingly, the first PC remittance check will include interest for the entire month. However, the amount of interest attributable to the portion of the month prior to the settlement must be paid by the purchaser to the Mortgage Corporation at settlement. Under the group factor procedure, interest to the extent of the Certificate Rate is remitted based on the unpaid principal balance of the Mortgages as determined by the group factor published by the Mortgage Corporation for the second month prior to the month in which such remittance to PC holders is made.

Interest received with respect to the Mortgages in excess of the Certificate Rate will be retained by the Mortgage Corporation as compensation for its guarantee and as a management fee. Interest at the Certificate Rate is computed on the basis of a 360 day year, each month being assumed to have 30 days.

PC holders are also entitled to receive their pro rata share of all prepayment fees collected by the Mortgage Corporation with respect to the Mortgages. Such prepayment fees, if any, represent additional income to holders over and above interest at the Certificate Rate. However, with respect to single family mortgage loans purchased after December 31, 1979, the Mortgage Corporation, as a matter of policy, will no longer permit the collection of prepayment fees. Between the date of this Offering Circular and December 31, 1979, seller/servicers may impose prepayment fees in accordance with their servicing policies. Prepayment fees, if any, derived from multifamily mortgage loans, will continue to be remitted on a pro rata basis to PC holders as collected.

Holders of PCs are also entitled to receive their pro rata share of all principal payments on the Mortgages received by the Mortgage Corporation, including monthly amortization payments, full and partial prepayments of principal and principal received by virtue of condemnation, insurance, or foreclosure. Principal payments are remitted to PC holders by the Mortgage Corporation in an amount based on the difference between the group factor for the month prior to the month in which remittance is made to PC holders and the group factor for the second month prior to the month in which remittance is made to PC holders. To the extent principal amounts received by the Mortgage Corporation differ from principal amounts remitted in accordance with the group factor, the Mortgage Corporation corrects the determination of a subsequent group factor as described under "Group Factors", page 26.

The PC Agreement provides that the Mortgage Corporation shall remit to each registered holder of a PC his pro rata share of principal payments on the Mortgages, including full and partial prepayments, and condemnation, insurance, and foreclosure proceeds, interest to the extent of the Certificate Rate, and any other sums such as prepayment fees, within 60 days of the date on which such payments are received by the Mortgage Corporation. Late payment fees are retained by the seller/servicers and are not passed through to the Mortgage Corporation or to the holders of PCs. Under the group factor procedure, the correction of principal amounts described in the foregoing paragraph may occur more than 60 days after the related principal amounts are received by the Mortgage Corporation. For purposes of computing remittances of interest on full prepayments of principal and certain partial prepayments of principal, the PC Agreement further provides that all such prepayments which occur during a given FHLMC monthly accounting period are deemed to be made on the first day of the calendar month in which such monthly accounting period ends. FHLMC employs a fiscal month for accounting for receipt of payments with respect to the Mortgages.

Guarantees

The Mortgage Corporation guarantees to each registered holder of a PC the timely payment of interest by each mortgagor at the applicable Certificate Rate on the registered holder's pro rata share of the unpaid principal balance outstanding on the Mortgages, as determined by the applicable group factor. The Mortgage Corporation also guarantees to each registered holder of a PC collection (by such holder) of all principal on the Mortgages, without any offset or deduction, to the extent of such holder's pro rata share thereof. Pursuant to these guarantees, the Mortgage Corporation indemnifies holders of PCs against any diminution in principal by reason of charges for property repairs, maintenance and foreclosure.

The Mortgage Corporation may remit the amount due on account of its guarantee of collection of principal at any time after default on an underlying mortgage, but not later than the later of (i) thirty days following foreclosure sale, (ii) thirty days following payment of the claim by any mortgage insurer, or (iii) thirty days following the expiration of any right of redemption, but in no event later than one year after demand has been made upon the mortgagor for accelerated payment of principal. In taking actions regarding the collection of principal after default on underlying mortgages, including the timing of making demands upon mortgagors for accelerated payment of principal, the Mortgage Corporation will exercise its servicing judgment with respect to the Mortgages in the same manner as for unsold mortgages in its own portfolio. For further information concerning the Mortgage Corporation's servicing policies, see "Servicing", pages 10-11.

The Mortgage Corporation is subrogated to all the rights, interests, remedies, powers and privileges of each holder of a PC on which guarantee payments have been made by the Mortgage Corporation in respect of principal and/or interest.

The PCs are not guaranteed by the United States or by any of the Federal Home Loan Banks and do not constitute a debt or obligation of the United States or any Federal Home Loan Bank.

Maturity and Average Weighted Life

The PCs represent undivided interests in the Mortgages which have a maximum maturity of thirty years, subject to extension by virtue of forbearance. The average weighted life of an investment is dependent upon the amount of principal returned periodically. Historical data applicable to pools of Federal Housing Administration insured single family mortgages indicates that mortgagors' amortization payments and anticipated prepayments will result in an average weighted life for such mortgages of approximately twelve years. This twelve year average weighted life forms the basis for the twelve year prepayment assumption upon which the Mortgage Corporation bases its yield quotations with respect to PCs. A twelve year prepayment assumption is used in generally accepted yield tables and is the common mortgage industry norm for quoting yields.

General economic conditions, mortgage market interest rates and other factors influence prepayments and/or forbearance with respect to the Mortgages. See "PC Principal Payment Experience", below. In addition, due to the Mortgage Corporation's risk averse policy or to the inclusion of residual participations, loans placed in a particular PC pool may not be the ones most recently purchased by the Mortgage Corporation. See "Management's Discussion of Yields and Financing", page 14. Since the actual life of the Mortgages is influenced by such factors, the actual average weighted life of a PC may be greater or less than the twelve-year average weighted life described above. The limited experience of the Mortgage Corporation indicates that the average weighted life of a PC will be less than 12 years and internal FHLMC decisions are based on the assumption that the average weighted life will be 8 years. See "PC Principal Payment Experience", below. The Mortgage Corporation anticipates that holders of PCs will receive principal payments in excess of scheduled amortization payments applicable to the Mortgages, but that final payment of all principal may not be received until the maturity of the PC. The maturity of an investment is the point at which the last payment is due to the PC investor.

PC Principal Payment Experience

The table attached as Exhibit B to this Offering Circular sets forth with respect to sixty-eight groups of whole loans, participations and/or residual participations represented by PCs the cumulative percentage of the original principal balances which have been paid to PC holders at the end of various yearly intervals. The table includes all PCs, consisting of conventional mortages, sold by the Mortgage Corporation from

December 1, 1972 which have had at least one year of payment experience as of June 30, 1979. Neither the groups of whole loans, participations and/or residual participations listed in the table nor those represented by the PCs offered hereby have identical characteristics with regard to geographic distribution and home/multi-family mortgage mix. See "The Mortgages", pages 25-26. In addition, the average age of the loans comprising the Mortgage Corporation's unsold mortgage portfolio has differed during the history of its PC sales program, and the age mix of the groups of whole loans, participations and/or residual participations listed in the table are likely to differ from one another and from the PCs offered hereby.

Given the relatively short history of the PC sales programs, the Mortgage Corporation has formed no definitive view with regard to the factors which account for the variations in payment experience shown in the table attached as Exhibit B. However, interest rates which are sufficiently in excess of current market rates for newly originated mortgages may induce mortgagors to seek to refinance their mortgages; accordingly, groups of mortgages with mortgage yields in excess of current market rates may experience more rapid prepayment than groups of mortgages with weighted average interest rates less than current market rates. Prepayment of PCs also may be influenced by factors such as the age and geographic location of the Mortgages, population mobility and general demographic factors, general economic conditions, the level of new housing starts, and inflation in housing prices compelling buyers of homes to obtain new mortgages rather than assume existing mortgages. Servicing decisions may also have an impact upon the principal payment history of particular PC groups. For a description of the Mortgage Corporation's servicing policies, see "Servicing", pages 10-11. The Mortgage Corporation believes that its historical data with regard to principal payment experience is insufficient to enable it to make any representations as to the percentage of the original principal balance of the PCs offered hereby which will have been paid to holders at any particular point in time. The Mortgages applicable to any particular PC may experience a rate of principal payment which is greater than or less than the range shown in the table at Exhibit B.

Transfers and Exchanges

Mortgage Participation Certificates are sold in fully registered form only and are freely transferable. Any sale or transfer of a PC must be evidenced by completion of the form of transfer on the reverse side of the PC or the Form of Detached Assignment of FHLMC PCs (FHLMC 548), which may be obtained from the Mortgage Corporation, from any dealer in PCs or from the transfer agent for PCs, Manufacturers Hanover Trust Company, New York, New York. A charge may be made for any exchange or transfer of a PC. A charge will be made for any tax or other governmental charge imposed in connection with an exchange or transfer of a PC. **Form PD 1832 may not be used to effect transfers.** Notice with respect to a transfer shall be sent or delivered to the transfer agent at the address stated below or to such other agent as is subsequently designated by FHLMC for receipt of transfers of PCs:

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

The Mortgage Corporation maintains a register of the holders of PCs. A holder who acquires a PC from another holder acquires such PC subject to all the terms and conditions of the PC Agreement. Accordingly, any such subsequent holder will receive the first remittance of principal and interest payments with respect to the Mortgages on or before the fifteenth day of the second month following the month in which a purchaser becomes a registered holder. Thereafter, a holder will receive, on or before the fifteenth day of each month, monthly remittances with respect to the Mortgages. The Mortgage Corporation makes payments of principal, interest and any other payments with respect to a PC only to the registered holder of a PC, as his name and address appear on the PC register. Transfer of PCs duly presented for registration of transfer on or before the last business day of each month are registered effective as of the opening of business on the first day of that month.

Secondary Market

Certain securities dealers make a market in PCs. The Mortgage Corporation also maintains a secondary market in PCs, and information concerning this secondary market is available from the

Mortgage Corporation (telephone 800-424-5401 outside Washington, D.C. metropolitan area; telephone 789-4800 within Washington, D.C. metropolitan area). There may be a spread between the Mortgage Corporation's bid price for the repurchase of PCs and its offering price for currently issued PCs, as well as a differential between the Mortgage Corporation's bid price for the repurchase of PCs and bid prices of securities dealers making a market in PCs. Prospective PC purchasers and PC holders wishing to obtain more attractive prices may desire to contact securities dealers selling and making a market in PCs.

Tax Status

The income derived from the PCs does not have any exemption, as such, under the Internal Revenue Code of 1954, as amended (the "Code"). The PCs are subject to federal estate and gift taxes. The FHLMC Act does not contain any specific exemption with respect to taxes now or which may hereafter be imposed on the principal of or interest on the PCs by any state, or any of the possessions of the United States, or by any local taxing authority. It is suggested that purchasers residing in states or localities which impose intangible property or income taxes consult their own tax advisors as to the status of the PCs and the income thereon.

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

PCs have the following characteristics for federal income tax purposes:

(A) A PC held by a "domestic building and loan association" within the meaning of Section 7701(a) (19) of the Code represents "loans secured by an interest in real property" within the meaning of Section 7701(a) (19) (C) (v) of the Code. A PC also represents "qualifying real property loans" within the meaning of Section 593(d) of the Code with respect to certain thrift institutions.

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

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

(D) With respect to each mortgage, the amount by which interest at the Certificate Rate plus the Mortgage Corporation's management and guarantee fee (if any) exceeds interest at the coupon rate of the mortgage will be characterized as "discount".

(E) With respect to each mortgage, the amount by which interest at the Certificate Rate plus the Mortgage Corporation's management and guarantee fee (if any) is exceeded by interest at the coupon rate of the mortgage will be characterized as "premium".

With respect to certain federal income tax aspects of fees received by purchasers in connection with the optional or mandatory delivery programs, see "Description of Mortgage Participation Certificates—PC Sales Programs, Federal Income Tax Consequences of Fees", page 23.

Legality of Investments

National banks may deal in, underwrite and purchase PCs for their own account without regard to the limitations generally applicable to investment securities. However, Comptroller of the Currency Banking Circular No. 79, Supplement No. 1, may preclude national banks from participating in the Mortgage Corporation's optional delivery PC sales programs. Trust Banking Circular No. 14 sets forth certain procedures and limitations applicable to the administration by national banks of trust department investments in mandatory or optional delivery contracts for PCs and other securities.

Certain rules adopted by the Federal Home Loan Bank Board place percentage of asset limitations upon the level of commitments to purchase PCs and other securities for mandatory or optional delivery which can be assumed by institutions the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation. These rules also establish recordkeeping and accounting requirements for mandatory and optional delivery contracts.

Certain rules adopted by the National Credit Union Administration prohibit federal credit unions from purchasing PCs and other securities for delivery at the option of the seller and from purchasing PCs or other securities for mandatory delivery where the settlement date is more than 120 days from the trade date. A federal credit union may purchase PCs or other securities for mandatory delivery where the settlement date is between 31 and 120 days from the trade date if the credit union has prepared written cash flow projections evidencing its ability to purchase the PC or other security.

Additional information with respect to legality of investment by certain other institutions can be obtained from the Mortgage Corporation.

Collateral for Advances

PCs are eligible as collateral for advances for periods not exceeding 90 days to member banks by Federal Reserve Banks and are eligible as collateral for advances from the Federal Home Loan Banks of up to 65% of their unpaid principal balance for advances exceeding one year and 80% for advances one year or less.

Reverse Repurchase Agreements

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

FHLBB Regulatory Matters

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

The Director of the Office of Examinations and Supervision of the Federal Home Loan Bank Board has informed the Mortgage Corporation that PCs current with respect to guaranteed principal and interest payments are not "scheduled items" for institutions the deposit or accounts of which are insured by the Federal Savings and Loan Insurance Corporation, notwithstanding the performance of any underlying loan.

Pursuant to a letter ruling of the Federal Home Loan Bank Board, for federally chartered savings and loan associations, PCs are exempt from all percent of assets lending limitations.

A Supervisory Memorandum of the Federal Home Loan Bank Board Office of Examinations and Supervision states that discounts or premiums in connection with the purchase of PCs should be amortized in the same manner as permitted for mortgage loans. Amortization may be by any "approved method" as that term is defined in 12 C.F.R. § 563.23-1.

The Federal Home Loan Bank Board has taken the position that PCs constitute "home mortgage loans" for the purpose of computing a Federal Home Loan Bank member's stock requirement under section 6(c)(4) of the Federal Home Loan Bank Act.

Accounting Matters

A sale of PCs is treated by the Mortgage Corporation as a sale of assets and accordingly does not affect the Mortgage Corporation's capitalization. However, the Mortgage Corporation provides for losses as a consequence of its guarantees of principal and interest.

FEDERAL SECURITIES LAWS

The PCs offered hereby may be offered and sold without registration under the Securities Act of 1933, and constitute "exempt securities" within the meaning of the Securities Exchange Act of 1934.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Federal Home Loan Mortgage Corporation:

We have examined the balance sheet of Federal Home Loan Mortgage Corporation (a Federally chartered corporation exempt from income taxes) as of December 31, 1978, and the related statements of income and retained earnings (included on page 6 of this Offering Circular) and changes in financial position for each of the five years in the period ended December 31, 1978. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Federal Home Loan Mortgage Corporation as of December 31, 1978, and the results of its operations and the changes in its financial position for each of the five years in the period ended December 31, 1978, all in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

1666 K Street, N.W.,
Washington, D. C.,
February 2, 1979.

FINANCIAL STATEMENTS

FEDERAL HOME LOAN MORTGAGE CORPORATION

BALANCE SHEET

ASSETS

	December 31, 1978	June 30, 1979 (Unaudited)
	(000 omitted)	
Mortgage loans, at unpaid principal balances:		
Insured by Federal Housing Administration (FHA) or guaranteed by Veterans Administration (VA)	$1,298,895	$ 1,227,247
Participation in conventional mortgages	1,599,536	1,944,292
Conventional mortgages	192,336	169,092
	3,090,767	3,340,631
Less—Unamortized mortgage purchase discount	(53,105)	(50,832)
—Allowance for possible losses	(9,000)	(9,000)
Total mortgage loans	3,028,662	3,280,799
Cash and temporary cash investments	334,852	510,845
Accrued interest receivable	26,576	29,001
Accounts receivable and other assets	67,650	73,842
Claims against FHA and VA, net of allowance for losses of $100,000	1,012	833
Real estate owned, at the lower of cost or estimated realizable value	2,673	2,615
Unamortized mortgage sales discount and debt expense	235,701	241,847
	$3,697,126	$ 4,139,782

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1978	June 30, 1979
Notes and bonds payable	$3,065,586	$3,331,631
Mortgage securities sold under agreement to repurchase	—	149,000
Other liabilities:		
Accrued interest	43,657	51,913
Accounts payable and other accrued expenses	2,461	1,844
Principal and interest due to Mortgage Participation Certificate investors	199,892	193,530
	3,311,596	3,727,918
Reserve for management fee and guarantees	33,500	42,424
Contingencies:		
Mortgage Participation and Guaranteed Mortgage Certificates	12,016,759	13,665,978
Less—Underlying mortgage loans sold	(12,016,759)	(13,665,978)
	—	—
Subordinated capital debentures at 9.375%	150,000	150,000
Stockholders' equity:		
Common stock, nonvoting, $1,000 par value; no maximum authorization; 100,000 shares issued and outstanding	100,000	100,000
Capital in excess of par value	75,000	75,000
Retained earnings	27,030	44,440
	202,030	219,440
	$3,697,126	$4,139,782

The accompanying notes are an integral part of this statement.

FEDERAL HOME LOAN MORTGAGE CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years Ended December 31,					Six Months Ended June 30,	
	1974	1975	1976	1977	1978	1978	1979
	(000 omitted)					(Unaudited)	
FUNDS PROVIDED:							
Net income	$ 4,992	$ 15,508	$ 14,161	$ 20,663	$ 25,391	$ 12,288	$ 17,410
Charges (credits) to income not affecting funds:							
Amortization of mortgage purchase discount	(6,545)	(7,668)	(7,501)	(6,265)	(9,021)	(4,713)	(4,103)
Amortization of mortgage sales discount and debt expense	1,261	1,643	2,353	5,663	22,350	9,226	14,515
Provision (credit) for losses, management fee and guarantees	32,577	11,386	(995)	8,218	12,874	5,331	9,118
Funds provided from operations	32,285	20,869	8,018	28,279	51,594	22,132	36,940
Mortgage loan principal repayments	156,659	290,538	456,469	446,279	291,130	160,216	116,399
Proceeds from issuance of notes and bonds, net of debt expense	1,696,400	211,023	—	537,269	448,855	299,417	598,846
Proceeds from advances for Special U. S. Treasury Program	695,000	879,500	—	—	—	—	—
Mortgage loans sold:							
Mortgage Participation Certificates, net of repurchases	42,771	452,111	937,297	3,966,627	5,585,393	2,929,031	1,824,382
Guaranteed Mortgage Certificates	—	497,250	398,200	594,300	693,850	297,150	396,450
FHA/VA	—	66,939	35,425	7,064	—	—	—
Increase (decrease) in short-term notes	147,600	(147,600)	—	131,360	20,551	(20,145)	133,847
Total funds provided	$2,770,715	$2,270,630	$1,835,409	$5,711,178	$7,091,373	$3,687,801	$3,106,864
FUNDS APPLIED:							
Mortgage loans purchased, net of discount:							
Regular programs	$1,488,570	$ 828,808	$1,125,188	$4,116,007	$6,510,711	$2,436,770	$2,605,543
Special U. S. Treasury Program	677,196	875,672	—	—	—	—	—
Notes and bonds retired	554,935	2,023	698,878	913,482	368,006	313,365	316,505
Repayments of advances for Special U. S. Treasury Program	—	15,306	387,453	1,171,741	—	—	—
Increase (decrease) in cash and temporary cash investments	50,802	599,780	(394,635)	(462,800)	213,484	935,980	175,993
Other items, net	(788)	(50,959)	18,525	(27,252)	(828)	1,686	8,823
Total funds applied	$2,770,715	$2,270,630	$1,835,409	$5,711,178	$7,091,373	$3,687,801	$3,106,864

The accompanying notes are an integral part of this statement.

FEDERAL HOME LOAN MORTGAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

(Information, insofar as it relates to the six months ended June 30, 1979, has not been examined by independent public accountants.)

Summary of Significant Accounting Policies

Recognition of Gain (Loss) on Mortgage Loans

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

Mortgage Purchase and Sales Discount

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

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

Effective January 1, 1978, the Corporation increased the rate of amortization of mortgage purchase and sales discount based on its revised estimate of the average life of the related mortgage loans. The effect of this change was to decrease net income by $5.067 million for the year ended December 31, 1978.

Amortization of Debt Expense

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

Commitment Fees

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

Mortgage Loan Sales and Related Matters

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

Holders of PCs receive interest monthly at the certificate rate together with their pro rata share of principal payments received by the Corporation. The issued certificates have been accounted for as sales, and the mortgage loans and the certificates issued are accordingly excluded from the Corporation's mortgage portfolio. Unpaid balances of the outstanding certificates were approximately $10.152 billion and $11.529 billion at December 31, 1978 and June 30, 1979, respectively. At June 30, 1979, the weighted average remaining term to maturity of the related mortgage loans was 28 years. At December 31, 1978 and June 30, 1979, the excess effective interest income rate to the Corporation over that payable to the PC investor was .00% and (.01)%, respectively. The effective interest income rate to the Corporation and effective rate payable to the investor have been adjusted to semiannual yield equivalent.

Holders of GMCs are paid interest semiannually at the certificate rate, and annually their pro rata share of principal collected or specified minimum annual principal reductions, whichever is greater. Any GMC holder may, at his option, require the Corporation to repurchase such certificates on a designated "optional repurchase date" at the then unpaid principal balance. At June 30, 1979, such optional repurchase dates range from March 15, 1990, to March 15, 2004. At December 31, 1978 and June 30, 1979, outstanding GMCs totaled $1.865 billion and $2.137 billion, respectively, and the excess effective interest income rate to the Corporation over that payable to the GMC investor was .36% and .34%, respectively. The effective interest income rate to the Corporation has been adjusted to semiannual yield equivalent.

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

The maximum contingent liability of $13.666 billion at June 30, 1979, plus interest, is offset by a like amount of interest bearing mortgage loans underlying the PCs and GMCs, including principal collections held in the GMC Trusts of $146 million at December 31, 1978 and $116 million at June 30, 1979. In management's opinion the $42.4 million reserve for management fee and guarantees is adequate to absorb any losses anticipated at June 30, 1979. In addition, assuming that the mortgage loans underlying the PCs and GMCs have a weighted average life of 7.73 years (which approximates the weighted average life of the 8-year prepayment assumption), gross interest margin of $414 million, representing the excess of the mortgage coupon over the PC or GMC certificate rate, will become available to absorb future losses, unamortized mortgage sales discount, and administrative costs attributable to the PCs and GMCs outstanding at June 30, 1979. The $414 million is an estimate based on assumptions concerning the life of the mortgages. If the actual mortgage loan repayment experience should differ from the assumptions, the resultant amount of interest margin also would be different.

Reserve for Management Fee and Guarantees

An analysis of the changes in the Reserve for Management Fee and Guarantees for the year ended December 31, 1978 and the six months ended June 30, 1979 follows:

	December 31, 1978	June 30, 1979
	(000 omitted)	
Balance, beginning of period	$21,000	$33,500
Provision reflected in current earnings	12,848	9,118
Loss on mortgages sold	(348)	(194)
Balance, end of period	$33,500	$42,424

(Information, insofar as it relates to the six months ended June 30, 1979, has not been examined by independent public accountants.)

Mortgage Loans

As of December 31, 1978 and June 30, 1979, the effective net yield on mortgage loans, adjusted to semiannual yield equivalent and adjusted for the effect of discount amortization, less servicing fees, was as follows:

	December 31, 1978	June 30, 1979
FHA and VA mortgages	8.11%	8.13%
Participation in conventional mortgages	9.96%	10.28%
Conventional mortgages	9.89%	10.03%

Allowance for Possible Losses on Mortgage Loans

An analysis of the changes in the Allowance for Possible Losses on Mortgage Loans for the year ended December 31, 1978 and the six months ended June 30, 1979 follows:

	December 31, 1978	June 30, 1979
	(000 omitted)	
Balance, beginning of period	$ 9,000	$ 9,000
Provision charged to current earnings	26	—
Loss on mortgages sold	(26)	—
Balance, end of period	$ 9,000	$ 9,000

Commitments

The Corporation's outstanding commitments to purchase and sell mortgage loans at December 31, 1978 and June 30, 1979, are summarized, as follows:

Commitments to Purchase

The average contract rate on commitments to purchase mortgage loans is determined after deducting servicing fees. Delivery of mortgages under the six-month and eight-month forward commitment programs is at the option of the seller; delivery is mandatory under all other commitment programs and must occur within 60 days of the contract date.

	December 31, 1978		June 30, 1979	
	Average Contract Rate*	Amount	Average Contract Rate*	Amount
		(000 omitted)		(000 omitted)
FHA/VA	—	$ —	—	$ —
Conventional mortgages:				
Home	10.43%	896,595	11.23%	1,043,945
Multifamily	10.61%	27,125	11.43%	27,185
Forward programs	10.55%	486,608	11.14%	518,974
		$1,410,328		$1,590,104

* Note: The average contract rates have been computed based on an 8-year prepayment assumption, and have been adjusted to semiannual yield equivalent.

(Information, insofar as it relates to the six months ended June 30, 1979, has not been examined by independent public accountants.)

Commitments to Sell

The Corporation's PCs are continuously offered for sale under both mandatory and optional delivery programs. Delivery periods range from 7 to 150 days under the mandatory program. Offers where delivery is at the Corporation's option have settlements between 120 and 270 days from the date of the contract. The Corporation pays commitment fees ranging up to 1.0% depending on the length of delivery period and the specific program being offered at the time of sale.

	December 31, 1978		June 30, 1979	
	Average Effective Rate Payable To Investors**	Amount	Average Effective Rate Payable To Investors**	Amount
		(000 omitted)		(000 omitted)
Mandatory	9.89%	$210,600	10.43%	$459,500
Optional	10.14%	281,000	10.54%	440,900
		$491,600		$900,400

** Note: The average effective rate payable to investors has been computed based on an 8-year prepayment assumption, and has been adjusted to semiannual yield equivalent.

Notes and Bonds Payable

A summary of notes and bonds payable follows:

		December 31, 1978		June 30, 1979	
	Maturity	Effective Interest Rate	Balance	Effective Interest Rate	Balance
			(000 omitted)		(000 omitted)
Advances from Federal Home Loan Bank (pass-through of short-term discount notes)	1979	8.71%	$ 156,000	9.95%	$ 138,550
Bond payable to bank	1986	7.75	17,927	7.75	17,927
Notes to the Federal Home Loan Bank (pass-through of Consolidated Federal Home Loan Bank Obligations)	1979	8.54	200,000	—	—
	1981	8.69	360,000	8.69	360,000
	1982	8.65	190,000	8.65	190,000
	1983	—	—	9.34	200,000
	1984	8.78	300,000	8.78	300,000
	1985	7.84	440,000	8.32	640,000
	1986	—	—	9.58	200,000
	1983/1993	7.41	400,000	7.41	400,000
	1987/1997	7.91	300,000	7.91	300,000
			2,190,000		2,590,000
Mortgage-Backed Bonds	1979	6.06	103,580	—	—
	1980	5.36	197,593	5.36	196,543
	1985	5.33	3,461	5.33	3,461
	1983/1995	8.69	112,025	8.69	107,650
	1984/1996	7.84	135,000	7.84	127,500
	1982/1997	7.25	150,000	7.25	150,000
			701,659		585,154
Notes and Bonds Payable			$3,065,586		$3,331,631

(Information, insofar as it relates to the six months ended June 30, 1979, has not been examined by independent public accountants.)

Scheduled principal payments for all notes and bonds payable, due during the period July through December 31, 1979 and each of the next five years are as follows:

Year	Amount
	(000 omitted)
1979	\$ 142,392
1980	\$ 211,683
1981	\$ 375,544
1982	\$ 205,620
1983	\$ 215,727
1984	\$ 315,817

The bond payable to bank is collateralized by a like amount of FHA/VA mortgages and calls for specific annual principal repayments ranging from \$882,000 to \$1,408,000 over the remaining life of the bond with the balance due at maturity.

The 1982/1997, 1983/1995 and 1984/1996 Mortgage-Backed Bonds and the 1983/1993 and 1987/1997 Notes to the Federal Home Loan Bank are redeemable at the Corporation's option commencing 1982, 1983, 1984, 1983 and 1987, respectively, at their face value. On the 1983/1995 and 1984/1996 Bonds, a sinking fund provides for annual retirements of \$7.0 million and \$7.5 million principal amount of bonds, respectively, which commenced in 1976 and 1977. In addition, the Corporation has a noncumulative option to increase the sinking fund amounts each year by an amount not exceeding the annual retirement amounts. The 1980 Bond calls for specific semiannual principal repayments ranging from \$335,000 to \$1,115,000 over the remaining life of the Bond, with the balance due at maturity.

All Mortgage-Backed Bonds are guaranteed as to principal and interest by the Government National Mortgage Association (GNMA). Under the provision of a Trust Indenture with GNMA dated October 26, 1970, and supplements thereto, the Corporation conveyed mortgages to the Trust as security for the Mortgage-Backed Bonds. As of December 31, 1978 and June 30, 1979, Trust assets of approximately \$800 million and \$664 million, respectively, constituted primarily of principal balances of such mortgages, are restricted for the payment of principal and interest on the Mortgage-Backed Bonds and are included in the accompanying balance sheet.

The Federal Home Loan Banks are required to maintain certain assets equal to their outstanding consolidated obligations. With respect to \$200 million of the notes to the Federal Home Loan Bank maturing in 1983, \$400 million maturing in 1985, and \$200 million maturing in 1986, the Corporation may be required to pledge a portion of its mortgages retained in portfolio and/or temporary cash investments to collateralize a portion or all of the \$800 million obligation for the periods during which these Federal Home Loan Banks do not meet their aforementioned requirements.

Subordinated Capital Debentures

The Subordinated Capital Debentures, due December 27, 1988, are subordinated to all obligations and liabilities of the Federal Home Loan Mortgage Corporation, including obligations of others that the Corporation has guaranteed, whether existing on the date of issuance or thereafter incurred or created.

Recapitalization

On July 27, 1978, the Corporation's Board of Directors authorized a transfer of \$75 million from the Corporation's retained earnings to the Corporation's capital in excess of par value, effective June 30, 1978.

EXHIBIT A

Federal Home Loan Mortgage Corporation

FHLMC MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT (Guaranteed)

Series 600

AGREEMENT among the Federal Home Loan Mortgage Corporation ("FHLMC") and purchasers ("Holders") of undivided interests in certain mortgages (and/or interests therein) owned by and identified in the records maintained by FHLMC, which undivided interests in mortgages are represented by Mortgage Participation Certificates (the "PCs").

WHEREAS:

(a) Pursuant to Section 305 of the Emergency Home Finance Act of 1970 (the "Act"), FHLMC owns certain mortgages (as defined in Section 302 of the Act), including whole loan mortgages ("whole loans"), undivided participation interests in mortgages ("participations"), and undivided interests in the whole loans and/or participations comprising certain PC groups ("residual participations"), all of which are identified in the records maintained by FHLMC (hereinafter collectively called the "Mortgages"); and

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

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

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

1. The terms and conditions of this Agreement shall govern the creation by FHLMC of undivided interests in the Mortgages and the transfer, sale and assignment of such interests in the Mortgages as are represented by the PCs. FHLMC shall be bound to Holders under this Agreement at such time as it delivers PCs to such Holders. FHLMC shall have power and authority to determine the amount and identity of the whole loans, participations, and residual participations which comprise the Mortgages up to the time that the first settlement for the purchase of a PC by a Holder occurs (or, subject to the approval of the Internal Revenue Service, up to the date of the Holder's first remittance check), and the identity of Mortgages shall not thereafter be changed. FHLMC may, for the benefit of Holders, agree to a repurchase by the servicer of any whole loan or of any participation included in the Mortgages at its then unpaid principal balance, and, in the case of a material breach of warranty by a seller of any such whole loan or participation, or a material defect in documentation, FHLMC may require such a repurchase or may, within two years of the delivery of the first PC representing an undivided interest in such whole loan or participation, permit a substitution for such whole loan or participation of another whole loan or participation of comparable unpaid principal balance.

For purposes of this Agreement, the payments of principal, interest or any other sums with respect to the Mortgages reported to FHLMC by servicers for a monthly accounting period employed by FHLMC for the purpose of accounting for such payments, shall be deemed to be received within the calendar month within which such monthly accounting period ends. All full prepayments of principal with respect to the Mortgages, and all partial prepayments of principal with respect to the Mortgages which are credited to the mortgagor on a day other than the due date of the respective mortgage, made within such a monthly accounting period, shall be deemed to be made on the first day of the calendar month within which such monthly accounting period ends. For purposes of paragraphs 5, 6, and 7 of this Agreement, remittances of interest to Holders with respect to such full and partial prepayment of principal shall be determined in accordance with the assumptions stated in the two preceding sentences.

2. For purposes of determining entitlement to remittances of principal and interest pursuant to paragraphs 5, 6, 7, 11, 12 and 20 of this Agreement, a person registered as a Holder of a PC on the last day of the month pursuant to paragraph 15 of this Agreement acquires a pro rata share of the aggregate unpaid principal balance outstanding on the Mortgages as of the last day of that month and is entitled to a pro rata share of interest on such aggregate unpaid principal balance at the rate stated on the face of the PC ("Certificate Rate") from the first day of that month. For purposes of determining the Holder's pro rata share of the Mortgages evidenced by a PC, the original unpaid principal balance stated on the face of the PC shall be divided by the aggregate unpaid principal balance of the Mortgages as of the last day of the month of initial issue shown on the face of the PC. FHLMC shall make such post-settlement purchase adjustments with respect to the principal amounts of the whole loans and participations included in the Mortgages as may be necessary to reflect the principal amounts of such whole loans and participations as of the date of their purchase by FHLMC. Such adjustments shall not affect the Holder's entitlement to interest at the Certificate Rate and to receipt of the Holder's pro rata share of principal payments made with respect to the Mortgages.

3. To the extent that the Mortgages may be insured by a mortgage insurer, such insurer shall have no obligation to recognize or deal with any person with respect to the Mortgages, other than FHLMC, with regard to the rights, benefits and obligations of the mortgagee under the respective contracts of insurance relating to each of the Mortgages insured by such insurer; and FHLMC shall maintain or supervise custody of the mortgage documents.

Obligations of FHLMC

4. FHLMC shall pass through to each Holder such Holder's pro rata share of principal payments made in respect of the Mortgages, and such Holder's pro rata share of any net income, net profits or any proceeds of the Mortgages, and such Holder's pro rata share of the net proceeds realized from any property of whatever character received or acquired in substitution or realization thereof; provided, however, that FHLMC's obligations herein shall be subject to FHLMC's rights pursuant to paragraph 12 below in respect to payments made pursuant to FHLMC's guarantee. The proceeds of any repurchase described in paragraph 1 of this Agreement shall be treated in the same manner as a full prepayment of principal and shall be passed through to Holders in accordance with paragraphs 1, 7, 11, 12 and 20 of this Agreement.

5. With respect to such portion of the Mortgages as shall be comprised of whole loans purchased by FHLMC, FHLMC shall remit to each Holder such Holder's pro rata share of the interest income received by FHLMC with respect to each such whole loan in an amount sufficient to produce the Certificate Rate, including, if necessary for such purpose, interest income received by FHLMC attributable to its retained interest in accordance with paragraph 20 of this Agreement. The amount, if any, by which the amount so remitted is exceeded by the amount of interest income received by FHLMC with respect to the Holder's undivided interest in each such whole loan shall be retained by FHLMC as management and guarantee fees (interest at the coupon rate of each whole loan less fees deducted by the servicer and either less fees deducted by FHLMC or plus additional interest remitted by FHLMC equals interest at the Certificate Rate). In no event shall fees deducted by FHLMC or by servicers affect the Holder's entitlement to interest at the Certificate Rate on the PC.

6. With respect to such portion of the Mortgages as shall be comprised of participations or residual participations, FHLMC shall remit to each Holder such Holder's pro rata share of the interest income received by FHLMC with respect to each such participation or residual participation in an amount sufficient to produce the Certificate Rate, including, if necessary for such purpose, interest income received by FHLMC attributable to its retained interest in accordance with paragraph 20 of this Agreement. The amount, if any, by which the amount so remitted is exceeded by the amount of interest income received by FHLMC with respect to the Holder's undivided interest in each such participation or residual participation shall be retained by FHLMC as management and guarantee fees (interest at the rate received by FHLMC on each participation or residual participation less fees deducted by FHLMC or plus additional interest remitted by FHLMC equals interest at the Certificate Rate). In no event shall fees deducted by FHLMC or by servicers affect the Holder's entitlement to interest at the Certificate Rate on the PC.

7. A Holder shall receive the first remittance of principal and interest payments with respect to the Mortgages on or before the fifteenth day of the second month following the month in which the Holder becomes registered as such pursuant to paragraph 15 of this Agreement. Thereafter, a Holder shall receive on or before the fifteenth day of each month remittances with respect to the Mortgages. FHLMC shall remit to each Holder such Holder's pro rata share of principal received by FHLMC, including full and partial prepayments, and insurance, liquidation and condemnation proceeds, interest to the extent of the Certificate Rate, and any other sums, such as prepayment fees and net income or profits, within sixty days of the date on which such payments are received by FHLMC from servicers of the whole loans and participations comprising the Mortgages. Prior to the beginning of each month, FHLMC may publish a seven-digit decimal (the "group factor"), which, when multiplied by the original unpaid principal balance represented by the PC Certificate, represents the amount estimated by FHLMC to be the Holder's pro rata share of the unpaid principal balance of the Mortgages as of the last day of that month. Interest at the Certificate Rate may be remitted by FHLMC on the Holder's pro rata share of the unpaid principal balance of the Mortgages as determined by the group factor for the second month prior to the month in which payment to Holders is made. Principal payments may be remitted to Holders by FHLMC in an amount equal to the difference between the Holder's pro rata share of the unpaid principal balance of the Mortgages as determined by the group factor for the month prior to the month in which payment is made to Holders and such pro rata share as determined by the group factor for the second month prior to the month in which payment is made to Holders. To the extent a given group factor does not reflect the monthly principal amounts actually received by FHLMC in respect of the Mortgages, FHLMC shall correct any difference by adjustment of subsequent group factors. The group factor method of determining principal payments shall not affect FHLMC's guarantee of collection of principal as set forth in paragraph 11 of this Agreement.

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

9. FHLMC shall service, or supervise servicing of, the Mortgages in a manner consistent with and to the extent required by prudent servicing standards, including management of any property acquired through foreclosure or otherwise. FHLMC shall be entitled to discharge its responsibility to supervise servicing of the Mortgages by monitoring servicers' performance on a reporting and exception basis. FHLMC shall act as the representative of Holders in the control, management and servicing of the Mortgages or property acquired in realization or liquidation of the Mortgages. In discharging its responsibility pursuant to this paragraph 9, FHLMC shall not be subject to the control of the Holders in any manner whatsoever. Except with regard to its guarantee obligations pursuant to paragraph 11 below, FHLMC shall have no liability to any Holder other than for any direct damage resulting from FHLMC's failure to exercise that degree of ordinary care which it exercises in the conduct and management of its own affairs. FHLMC shall have no liability of whatever nature for consequential damages.

10. Any amounts expended by or on behalf of FHLMC for the protection, preservation or maintenance of the Mortgages, or property received in liquidation or realization thereof, shall be deemed expenses to be borne pro rata by FHLMC and the Holders as their interests may appear in each of the Mortgages; however, in no event shall the Holder's guarantee of principal or interest at the Certificate Rate as set forth in paragraph 11 below be affected.

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

(a) Timely payment of interest by each mortgagor at the applicable Certificate Rate on the Holder's pro rata share of the unpaid principal balance outstanding on the Mortgages (or, if FHLMC elects to use the group factor method of determining principal payments, the unpaid principal balance outstanding on the Mortgages as determined by the applicable group factor).

(b) Collection of principal, without offset or deduction of any fees due FHLMC or servicers hereunder. For purposes of this guarantee, principal balance outstanding shall include the Holder's pro rata share of the unpaid principal, plus the Holder's pro rata share of amounts expended by the servicer of the Mortgages or by FHLMC under paragraph 10 above. FHLMC shall remit the amount due on account of its guarantee of collection of principal at any time after default on an underlying mortgage, but not later than: (i) thirty (30) days following foreclosure sale, (ii) thirty (30) days following payment of the claim by any mortgage insurer, if applicable, or (iii) thirty (30) days following the expiration of any redemption period, whichever occurs later, but in no event later than one (1) year after demand upon the mortgagor for accelerated payment of principal.

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

Transfer, Registration and Lost PC's

13. Any sale, transfer or other disposition of a PC by a Holder shall be evidenced by completion of the form of transfer on the reverse side of the PC or by completion of such other document as may be provided for this purpose by FHLMC.

14. Holders shall comply with all requirements and limitations promulgated by FHLMC, if any, on the sale, transfer and registration of PCs. Holders shall, in the event of transfer, assign only their entire interest in any PC or only such portion of their interest in a PC as will correspond to any multiple of the minimum denomination in which PCs are issued, unless FHLMC otherwise consents in writing. For the purpose of permitting proper allocation of payments of principal and interest in the event that a PC is sold, each Holder of a PC expressly consents to the release by FHLMC of such Holder's name and address to any person who has acquired a PC owned by such Holder.

15. FHLMC and/or its designated agent shall maintain a register in which shall be registered the Holders of PCs. A purchaser of a PC from FHLMC is registered as a Holder of the PC effective as of the opening of business on the first day of the month of settlement for that purchase. Transfer of a PC duly presented for registration of transfer on or before the last business day of each month is registered effective as of the opening of business on the first day of that month. A charge may be made for any exchange or transfer. A charge will be made for any tax or other governmental charge imposed in connection with an exchange or transfer of a PC. Notice with respect to a transfer shall be sent or delivered to the transfer agent at the address stated below or to such other agent as is subsequently designated by FHLMC for receipt of transfers of PCs:

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

16. If any mutilated PC is surrendered to FHLMC or its designated agent, or evidence satisfactory to FHLMC of destruction, loss or theft of any PC is received by FHLMC or its designated agent, together with such security or indemnity as FHLMC may require to hold FHLMC harmless, FHLMC or its designated agent shall execute and deliver, in exchange for or in lieu of such mutilated, destroyed, lost or stolen PC, a new PC of like tenor.

Miscellaneous

17. FHLMC or its designated agent may deem and treat the person in whose name a PC shall be registered as the absolute owner of such PC for the purpose of receiving payment of or on account of principal or interest and for all other purposes; and FHLMC and its designated agent shall not be affected by any notice to the contrary. All such payments so made to any such person, or upon his order, shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the duty for monies payable by FHLMC upon any such PC.

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

19. FHLMC requires compliance by Holders with the provisions of Executive Order 11063 (Equal Opportunity in Housing), and the Civil Rights Acts of 1964 and 1968, as amended from time to time, together with applicable regulations and orders issued thereunder.

20. In the event that the interest income received by FHLMC on any group of whole loans, participations or residual participations included in the Mortgages shall be less than the Certificate Rate, FHLMC shall retain a sufficient ownership interest in such group so that the interest payments attributable to FHLMC's retained ownership shall be sufficient to remit to Holders pro rata any difference between the interest received by FHLMC with respect to such group of whole loans, participations or residual participations and interest payable to Holders pro rata at the Certificate Rate. FHLMC shall pay to Holders the interest payments attributable to FHLMC's retained interest in accordance with paragraphs 5, 6, 7, 11 and 12 of this Agreement.

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

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

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

(Revised August, 1979)

PC PRINCIPAL PAYMENT EXPERIENCE

		Cumulative Principal Payments					
Mortgage Yields (a)	Groups (b)	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year
7.659	17-001 ($175.4)	2.98%	7.25%	15.01%	25.21%	38.04%	46.77%
7.851	16-002 ($17.5)	7.99%	17.84%	25.48%	32.68%	40.14%	56.76%
7.889	16-003 ($101.2)	5.10%	10.98%	18.64%	27.39%	39.05%	46.82%
7.891	16-001 ($113.3)	7.15%	16.43%	22.65%	32.90%	40.88%	48.77%
7.914	16-004 ($38.3)	5.46%	10.03%	19.67%	31.32%	42.79%	51.00%
7.919	16-006 ($50.0)	6.38%	12.79%	24.14%	36.76%	45.81%	
7.998	16-005 ($249.7)	6.29%	13.64%	22.86%	34.10%	42.90%	49.42%
8.048	16-020 ($94.4)	15.09%	27.18%				
8.056	17-007 ($108.6)	13.97%	25.52%				
8.171	16-014 ($99.0)	10.75%	23.37%	31.74%			
8.448	16-021 ($111.3)	12.79%	25.26%				
8.484	17-008 ($100.0)	10.93%	23.40%				
8.500	17-003 ($191.8)	10.29%	23.92%	34.12%			
8.628	16-022 ($200.7)	12.52%	23.75%				
8.725	17-009 ($202.0)	17.04%	30.60%				
8.749	16-012 ($111.2)	13.83%	28.15%	39.09%			
8.750	17-011 ($155.8)	19.10%	31.39%				
8.750	16-011 ($100.0)	12.59%	27.03%	39.76%			
8.750	17-002 ($99.8)	10.20%	24.94%	35.50%			
8.750	17-012 ($201.9)	15.04%	27.89%				
8.750	17-013 ($203.0)	15.94%	28.63%				
8.776	17-010 ($20.0)	17.63%	36.46%				
8.868	17-020 ($101.8)	6.52%					
8.873	16-023 ($201.0)	10.01%	21.84%				
8.944	16-024 ($257.0)	9.78%	21.51%				
8.948	16-015 ($133.0)	10.17%	24.96%	35.15%			
8.953	16-025 ($107.5)	10.86%					
8.954	16-027 ($100.0)	11.67%					
8.961	17-015 ($101.8)	8.46%	18.88%				
8.974	16-028 ($296.0)	11.23%					
8.978	16-013 ($ 20.0)	9.66%	26.35%	41.07%			

(a) Weighted average mortgage coupon rate of the whole loans, participations and residual participations in various PC groups; computed as of a specific time during the calendar year 1978. The coupon rates on some underlying mortgages may be less than the Certificate Rate. See "Purchase Programs—Purchase Prices", pages 11-12 and "The Mortgages", pages 25-26.

(b) Group number digits (000001) and (000000) omitted; ($-) indicates the initial principal balance of the group in millions.

Mortgage Yields (a)	Groups (b)	Cumulative Principal Payments 1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year
8.982	16-019 ($100.6)	16.81%	31.12%				
8.986	16-008 ($118.6)	7.85%	22.18%	33.62%	41.69%		
8.990	16-035 ($100.9)	8.14%					
8.992	17-014 ($204.3)	16.57%	27.48%				
8.996	16-037 ($101.7)	7.90%					
8.997	16-026 ($308.0)	13.24%					
9.015	16-031 ($306.9)	9.74%					
9.017	16-036 ($156.2)	10.06%					
9.017	16-039 ($163.9)	8.83%					
9.032	16-032 ($202.7)	9.93%					
9.035	16-016 ($151.4)	14.39%	29.50%				
9.037	16-038 ($175.8)	8.87%					
9.046	16-030 ($201.2)	13.37%					
9.052	16-033 ($300.9)	8.74%					
9.054	16-034 ($200.6)	7.58%					
9.055	16-029 ($237.8)	12.79%					
9.093	17-018 ($126.7)	7.67%					
9.102	17-016 ($120.5)	12.16%	24.28%				
9.105	16-009 ($109.3)	8.72%	22.33%	34.44%			
9.105	16-041 ($108.4)	8.77%					
9.108	16-040 ($202.4)	9.47%					
9.114	16-044 ($103.7)	8.34%					
9.141	16-050 ($136.3)	6.14%					
9.158	17-019 ($100.0)	9.93%					
9.164	17-017 ($125.0)	11.46%					
9.171	16-042 ($152.9)	8.35%					
9.180	16-017 ($ 11.0)	15.92%	35.19%				
9.181	16-043 ($157.3)	9.57%					
9.246	16-045 ($176.7)	7.53%					
9.300	16-047 ($105.4)	6.22%					
9.301	17-022 ($102.2)	8.14%					
9.303	16-010 ($103.3)	12.27%	29.61%	43.27%			
9.347	16-046 ($204.9)	6.78%					
9.424	16-048 ($232.4)	5.73%					
9.463	17-006 ($102.2)	15.87%	28.96%				
9.500	16-007 ($112.8)	13.32%	29.93%	44.51%	54.77%		
9.592	17-004 ($ 4.0)	14.80%	29.88%				

(a) Weighted average mortgage coupon rate of the whole loans, participations and residual participations in various PC groups; computed as of a specific time during the calendar year 1978. The coupon rates on some underlying mortgages may be less than the Certificate Rate. See "Purchase Programs—Purchase Prices", pages 11-12 and "The Mortgages", pages 25-26.

(b) Group number digits (000001) and (000000) omitted; ($-) indicates the initial principal balance of the group in millions.