To address specific concerns surrounding prepayment speeds on Gold PC securities, Freddie Mac opened its May 21st Capital Markets Advisory Group meeting to the public via conference call. The meeting’s purpose was to reinforce Freddie Mac’s commitment to the performance of our mortgage-backed securities and investor satisfaction with all of our financing vehicles, as well as to assure that we are steadfast in developing policies aligned to the needs of investors, originators and servicers on behalf of America’s homeowners.

I want to reaffirm that immediate action is being taken to achieve our corporate objective regarding prepayment behavior. To achieve this objective, the following specific strategies have been defined and are already being implemented:

1) Immediate development of contractual incentives and penalties around sellers’ prepayment experience on outstanding and new PC securities

2) Return loan characteristics and seller/servicer diversity to more typical levels over the balance of the year

3) Expand REMIC opportunities for dealers and investors

On another note, you are all aware that on June 9th Freddie Mac’s Board of Directors elected Greg J. Parseghian as Chief Executive Officer and President and Paul T. Peterson, Executive Vice President, as Chief Operating Officer. Marty F. Baumann, Executive Vice President – Finance, was appointed Chief Financial Officer. The Board of Directors also elected Shaun F. O’Malley as non-executive Chairman of the Board. I am confident that Freddie Mac’s new management team possesses great vision and resilience, as well as a commitment to the company’s mission and its shareholders.

Finally, I would like to discuss our mandate to broaden and deepen the market for Freddie Mac’s structured products. Just as innovations in the mortgage origination process create opportunities for more Americans to own their homes, the structured product market provides an opportunity to create products that satisfy the needs of a broad range of investors. This Gold Perspective issue delves deeper into the guiding principles that drive our structured product programs. Responsible pooling, transparent disclosure and active market-making are essential to ensure that both pass-through and structured product securities markets operate efficiently. At core to all of our securities programs are guiding principles that promote predictability, transparency and liquidity. I’ve asked Mike Dawson, Vice President of Multiclass Issuance, to outline and describe the specific guiding principles that make us the premier structured product issuer in the market.

Mark Hanson
Vice President of Mortgage Funding
In Depth Look... Freddie Mac’s Structured Product Guiding Principles

By Michael Dawson, CFA
Vice President, Multiclass Issuance

The largest refinance market in years and a booming housing market fueled by the lowest mortgage rates in almost five decades contributed to the recent success of the structured product market. In addition to these factors, fueling Freddie Mac’s success is its deep distribution network, consistent disclosure policies, regular issuance, strength of service, and efficient processes. The program is the largest in the industry, with more than $470 billion outstanding.

Freddie Mac’s structured product guiding principles provide the framework for the program’s success:

1. **Execution**
   - Freddie Mac will meet commitments

2. ** Tradable Supply**
   - Manage issuance to tradable supply constraints

3. **Distribution**
   - Encourage broad participation and commitment to Freddie Mac structured products

4. **Innovation**
   - Strive to develop new products and continually improve processes

**Execution and Tradable Supply**

Freddie Mac pays particular attention to the collateral markets when determining the coupon and terms it will commit to underwriters. New collateral issuance, current available supply, and operational or capacity constraints are used in estimating the amount and timing of the structured products issued off the Freddie Mac structured product shelf.

Our overriding philosophy is to ensure adequate available tradable supply of Gold PCs so fails on newly-issued securities will not occur. Until recently, there was always adequate new issue or seasoned collateral in the market to meet the demand of structured securities. However, given the sustained rally in 2001 and 2002 and the corresponding drop in mortgage rates, the demand for structured product off current coupons has been high. The need for yield and prepayment protection in the form of REMICs is quickly outstripping the supply of near par priced collateral.

Because Freddie Mac believes disruptions in the collateral markets far outweigh the need to print REMIC deals, in October 2002 we took the unusual step of limiting both the number and amount of deals issued in these coupons by “capping” and allocating the total absorption of collateral. By May 2003, however, the allocation process was removed in order to provide dealers the flexibility to move with the market flows and demands. Once there is ample production of current coupon, Freddie Mac hopes to eliminate the capping process as well.

REMIC dealers face difficulty determining available supply in the REMIC market. Although dealers are excellent at managing their own positions, they do not know how other dealers manage theirs. Because Freddie Mac knows what each dealer has committed to on the Freddie Mac REMIC shelf, however, we can view the “total position,” including an estimate of forward production and a view of tradable supply. This information is used to establish caps on coupons and number of deals. While not completely taking away the risks of shorts developing in any given coupon, this practice reduces the risk of collateral problems for new issue Freddie Mac REMICs and Strips, and provides a tradable supply cushion of Gold PCs.

**Distribution**

Another critical component of Freddie Mac’s structured product program is our commitment to encouraging broad participation in the market. Freddie Mac looks to ensure that buyers of structured product securities understand the risks and rewards associated with these securities, including disclosure, minimum denominations, retail policies, and marketing support.

**Disclosure**

Freddie Mac Offering Circular Supplements are constructed to fully describe the characteristics of each REMIC bond created. The use of consistent and standardized naming conventions describe the nature and type of each REMIC bond. Decrement, Weighted Average Life, and Yield tables provide an illustrative view of how bonds behave at different prepayment and interest rate scenarios. Paydown rules fully describe the priority of principal payments, and collateral descriptions describe the characteristics of the mortgage securities used to back (or collateralize) the structured securities.
Increased Minimum Denominations

In January 2003, Freddie Mac increased the minimum denominations on several bond types to distinguish these securities as more complex than other structured bond types. Generally, bonds that have a shift in principal priority or notional amount will have an increased minimum denomination. These types of securities may have more complex paydown rules or receive no principal payments. More on minimum denominations can be found on Bloomberg at FMAC 21 <GO>.

Retail Policies

Bonds specifically targeted for retail distribution receive an RTL designation in the bond type description and usually a double alpha class name (i.e., LL or MM class). Freddie Mac only allows certain types of securities to be designated retail, and they must receive principal and interest payments. Principal payments on retail classes are issued in $1,000 units. Monthly interest rate payments are also paid until the retail class retires. Principal paydown tables for retail classes are provided in the applicable Offering Circular Supplement.

Marketing Support

From pricing and settlement through post-sale, Freddie Mac provides the help of responsive and knowledgeable professionals to assist dealers and investors every step of the way. Communication with business partners is important to us, providing quick turnaround of transactions and easy access to information post-sale.

Freddie Mac has developed educational materials specifically targeted to dealers to provide a better understanding of our products, programs and disclosures. Wall Street under-writers have also produced primers on REMICs and more in-depth materials on specific bond types and performance characteristics of REMIC securities.

To receive a copy of Freddie Mac’s Comprehensive Guide to Structured Products please contact Holly Sitzmann at (571) 382-4356 or holly_sitzmann@freddiemac.com

Hybrid WAC ARM Program Enhancement

For July 2003 delivery, select Freddie Mac sellers may opt to retain a minimum of 10 basis points of servicing on 5/1 Treasury and 5/1 LIBOR hybrid ARM PCs instead of the minimum 25 basis point servicing spread currently in place for Freddie Mac hybrid ARM PCs. Freddie Mac will issue 5/1 hybrid ARM PCs with a minimum of 25 basis points of servicing separately from the new reduced servicing 5/1 hybrid ARM PCs. For both types of servicing, all 5/1 Treasury-indexed hybrid ARMs will be pooled in the 78 prefix and all 5/1 LIBOR-indexed hybrid ARMs will be pooled in the 1B prefix. Additional disclosure in the Pool Legend field will identify the PCs that have a servicing spread that falls within a range from a minimum of 10 basis points to a maximum of 24.9 basis points.

Effective in September 2003, 5/1 hybrid ARM PCs with a servicing spread between 10 to 24.9 basis points will be eligible collateral for Freddie Mac Giant PCs. Assuming all other applicable pooling requirements are met, 5/1 hybrid ARM PCs with a servicing spread between 10 and 24.9 basis points will be eligible to be pooled only with other reduced servicing 5/1 hybrid ARM PCs for ARM Giant PC formation. Freddie Mac will continue to offer ARM Giant PCs backed exclusively by 5/1 hybrid ARM PCs with the traditional minimum 25 basis points of servicing.

For more information, please contact a Freddie Mac Transaction Manager at (866) 903-2767.
Freddie Mac takes a long-term view of its structured product issuance. We focus our attention on providing products customized to meet individual investment needs, while remaining true to our guiding principles. Freddie Mac’s issuance programs are designed and implemented to be understandable and recognizable to both investors and dealers. Table 1 provides a quick look at Freddie Mac’s structured product programs:

We are working on issuing new structures designated under different letter series to further define and differentiate structures and/or collateral. Our recent issuance of the H-Series and the SF-Series deals are examples of this innovation. By blending aspects of the ABS markets with the agency REMIC market, Freddie Mac has been able to reach a new type of investors not previously involved in agency securities. We have also defined the shelf to be easily recognizable by collateral type (i.e., H for Hybrid ARMs) and to allow investors to review prior performance and issuance in one straightforward series.

Hopefully this provides a glimpse into how Freddie Mac’s structured product issuance programs operate. We center our efforts on regular issuance, broad distribution, consistent disclosure, bond creation in the investors’ best interest, and innovative products and programs. Freddie Mac is the standard for the industry, and by using our guiding principles, we continually strive to provide the best solutions for our customers. For more information about Freddie Mac’s structured product programs, please contact a Transaction Manager at (866) 903-2767.

Table 1: Structural Product Issuance Programs

<table>
<thead>
<tr>
<th>Trusts</th>
<th>REMICs – (FHR)</th>
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<tbody>
<tr>
<td>• Strips (FHS)</td>
<td>• 45-Day Agency Series</td>
</tr>
<tr>
<td>• H-Deals (FSPC)</td>
<td>– 30 yr</td>
</tr>
<tr>
<td>– Hybrid ARMs</td>
<td>– 20 yr</td>
</tr>
<tr>
<td>• C-Deals (FCPC)</td>
<td>– 15 yr</td>
</tr>
<tr>
<td>– CPCs – callables</td>
<td>– ARMs</td>
</tr>
<tr>
<td>• T-Deals (FSPC)</td>
<td>– Re-REMICs</td>
</tr>
<tr>
<td>– HEQ</td>
<td>• 75-Day Agency Series</td>
</tr>
<tr>
<td>– HELOCs</td>
<td>– ARMs</td>
</tr>
<tr>
<td>– FHA/VA</td>
<td>– 30 yr</td>
</tr>
<tr>
<td></td>
<td>– 20 yr</td>
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<tr>
<td></td>
<td>• SF Series (FHSF)</td>
</tr>
</tbody>
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(Bloomberg ticker in parentheses)