

A Letter From

Mark Hanson
Vice President of Mortgage Funding

Welcome to the first issue of *Gold Perspective*, a quarterly publication generated by Freddie Mac's Mortgage Funding group to provide you with insight and information about contemporary issues facing mortgage-backed securities investors. Although we will no longer be publishing the *Securities Bulletin*, *Gold Perspective* will cover new and exciting developments from the agency mortgage-backed securities market while still providing timely, informative data that you have come to rely upon from the *Securities Bulletin*. This inaugural issue will provide you with an overview of Mortgage Funding's role within Freddie Mac as well as an in-depth look into its REMIC shelf.

Freddie Mac's Mortgage Funding department is the interface between the capital markets and other departments within Freddie Mac. We are also responsible for all aspects of mortgage securities in their many forms – Gold PCs, Adjustable Rate PCs and structured securities such as REMICs, Strips and Giants.

In 2001, we established the Capital Markets Advisory Group (CMAG), a group of representatives from major Wall Street dealer and investment firms that provide the opportunity for capital markets to provide feedback and perspective on current issues and to offer input into the design and implementation of Freddie Mac's securities programs.

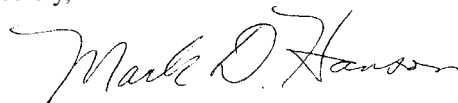
Freddie Mac continues to lead the market for agency-backed CMOs and REMICs. Our REMIC program is successful because we offer the most innovative products and we are very flexible in customizing security structures that meet investors' particular needs. In 2001, we issued more than \$192 billion in REMICs in addition to more than \$423 billion in Gold PCs and \$23.8 billion in ARMs. As the largest liquid source of

funding in the world, the mortgage market continues to grow. As the market evolves, we will continue to innovate and provide securities that meet the needs of all market participants. Our research and development professionals are constantly searching for new ways to transform mortgage security cashflows into investments that meet the needs of a diverse range of investors while continuing to provide an uninterrupted flow of capital to the American homeowner.

The structured mortgage securities market will take a more prominent role in financing America's homes. Just as innovations in the mortgage origination process have created opportunities for more Americans to own their own homes, our REMIC market allows us to create investments that better meet the needs of investors. We want to help educate investors in the United States and abroad about the strengths and risks inherent in mortgage securities.

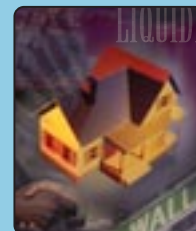
We hope that *Gold Perspective* will serve as a tool to provide the information that investors need to make good decisions. I invite you to take a few minutes to read this first issue. I think you will find it worthy of your time.

Sincerely,



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Developments In Freddie Mac's REMIC Program

Cash flows on mortgage-backed securities depend on prepayments of principal made by the homeowners in the pool of mortgages that serve as collateral. Faced with this prepayment risk, mortgage investors are constantly searching for ways to help better manage their portfolios. Investors encounter this risk in two ways: contraction risk and extension risk.

Contraction Risk—

The risk that the average life and duration of the investment shortens when mortgage interest rates fall

Extension Risk—

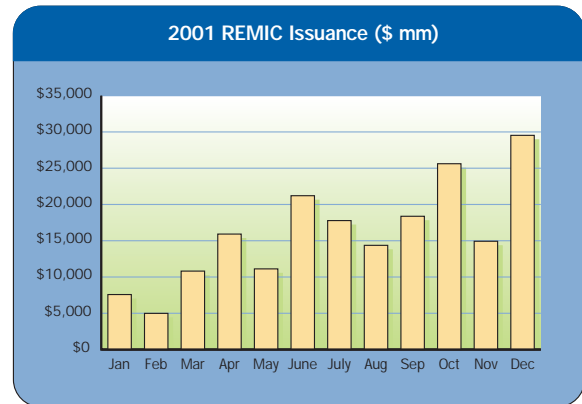
The risk that the average life and duration of the investment extends when mortgage interest rates rise

Contraction risk occurs when homeowners exercise their option to prepay their mortgage loans, resulting in negative convexity, central to the valuation of any mortgage security. On the other hand, extension risk occurs when homeowners are not exercising their prepayment options, resulting in longer than anticipated bonds. Extension risk was not an issue in 2001 because of the steady rally in the Treasury market. Going forward, however, extension risk may become more of an issue as the yield curve begins to flatten out. As more durations extend, then, strategies to mitigate extension risk will become more important.

Investors face extension risk on short, medium and long term securities. Structured product investments can help lessen this risk. For example, agency Interest Only (IO) and Principal Only (PO) Strip trust transactions break out prepayment risks definitively. The IO benefits from higher rates relative to origination rates to make the security longer, while the PO benefits from faster prepayments.

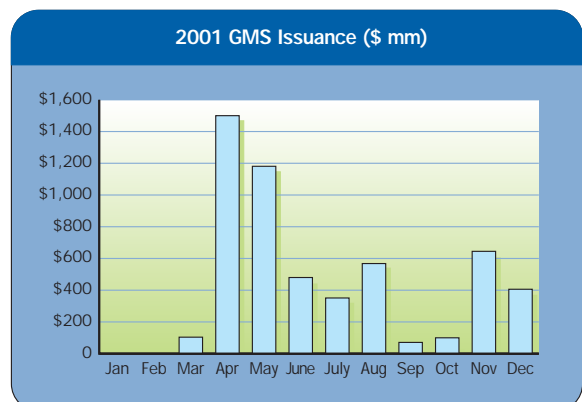
By creating new structured products that appeal to a variety of investors already involved in the REMIC market and most recently, those that had in the past been precluded from investing in REMIC bonds given the constraint of extension risk, Freddie Mac has started to delve deeper into the fixed income market.

Freddie Mac's REMIC program grew significantly in 2001. The steep yield curve, attractive carry, significant finance volume and new products have driven the



structured product market over the last 14 months. With more than \$192 billion in REMIC issuance in 2001, Freddie Mac reached its largest annual REMIC volume ever, far surpassing 2000's total of \$47.385 billion. Freddie Mac's REMIC program has achieved such success because of its commitment to new products, efficient processes and superior services. The REMIC market is long overdue for more liquidity and issuance of bonds that are easily understood, tailored to investor needs and easily traded. To fill this need, the REMIC team is embarking on a campaign in 2002 to further enhance investor awareness and education of structured products. Over the next several years, our mandate is to broaden and deepen the market for structured mortgage securities by supplying the market with products customized to meet individual investment needs.

Freddie Mac already offers a number of tools to investors to better acquaint them with our products. In 2002, we will be offering more material and information about REMIC securities, Strip Trusts, Modifiable and Combinable REMICs (MACRs), and Structured Pass-Through Certificates. We will also further enhance product offerings by expanding the Guaranteed Maturity Securities (GMS) program.



Since its beginning in March 2001, The GMS program has already issued more than \$5.3 billion in securities. GMS widen the market for REMIC buyers by satisfying the need of potential mortgage investors constrained by the long legal finals of 30-year mortgage-backed securities. GMS allow investors to receive the attractive yields of REMIC bonds with the added benefit of a stated legal final maturity. Those investors pursuing yield yet unable to find mortgage product due to supply constraints can look to GMS as a substitute for 15-year or short average life structured product.

Freddie Mac Guaranteed Maturity

Securities (GMS) are structured mortgage-backed securities with a shortened stated final maturity. Freddie Mac GMS are backed by either Gold PCs or Hybrid ARMs and have been issued with final dates of five to fifteen years. Shorter or longer finals are also possible. The GMS feature is available on a variety of bond types including PAC, TAC, Scheduled, Support and Sequential tranches. At the guaranteed final date, the investor is paid any outstanding principal on the bond, plus 30 days of accrued interest.

These securities offer the investor high credit quality, a competitive yield, and limited extension risk. Additionally, GMS appeal to investors with maturity restrictions that preclude them from buying mortgage-backed securities or CMOs with 30-year stated maturity dates.

Freddie Mac continues to look for ways to provide innovative products for the fixed income markets. For additional information on Freddie Mac's structured products, contact Structured Finance Marketing at (703) 903-2767.

• **FMAC <GO> Site Redesign**

FMAC <GO>, Freddie Mac's mortgage-backed securities Bloomberg site, has been redesigned to better serve investors and dealers in the mortgage industry. The site will provide a comprehensive list of MBS Issuance Reports including Collateral Availability, Reference Pools, Strip Configuration, and Recently Priced REMICs, as well as product information and back copies of Gold Perspective.

• **New Member of Money Manager Program**

Western Asset Management Company was recently selected as a member of Freddie Mac's Money Manager Program. Western Asset joins a select group of investment firms chosen to enhance the liquidity of Freddie Mac Gold PCs. We welcome Western Asset to our team.

• **2002 Loan Limits Increase**

Freddie Mac has increased its single-family mortgage loan limit from \$275,000 to \$300,700 effective January 1, 2002. The 9.3 percent change is consistent with the increase in the national average home price between October 2000 and October 2001 as recorded by the Federal Housing Finance Board (FHFB). "We are delighted," said Leland C. Brendsel, Chairman and CEO of Freddie Mac. "The increase in the single-family mortgage loan limit makes it possible for additional hard working families to obtain the lowest cost mortgage financing available and make the American Dream more affordable."

• **Payment Calculations Fact Sheet Available**

The new Payment Calculations fact sheet demonstrates how to calculate the interest payments and principal payments for Freddie Mac's mortgage-backed securities products. It also contains an example of how a June payment is calculated for PCs, REMIC Tranches, and Ginnie Mae backed REMICs.

The card is available online at www.freddiemac.com/mbs/data/paymentcalculation.pdf or as a quick reference laminated card through our Publications Express at www.freddiemac.com/mbs/html/cs_pub_express.html. You can also find it on Bloomberg at FMAC <GO>. For more information, please call Investor Inquiry at (800) 336-3672.

Volumes and Performance 2001

Total Freddie Mac Structured Product Volume 2001

Month	CPC	REMICs	Structured Passthroughs	Strips	Grand Total
January		\$4,325,489,698	\$1,257,300,000	\$2,000,000,000	\$7,582,789,698
February		\$4,987,024,544			\$4,987,024,544
March		\$10,814,558,200			\$10,814,558,200
April	\$200,000,000	\$12,059,591,195	\$1,410,750,000	\$2,250,000,000	\$15,920,341,195
May		\$11,119,708,156			\$11,119,708,156
June		\$16,374,950,877	\$334,986,000	\$4,500,000,000	\$21,209,936,877
July		\$13,890,346,600	\$2,610,237,000	\$1,279,170,208	\$17,779,753,808
August	\$100,000,000	\$14,267,443,844			\$14,367,443,844
September		\$18,374,078,603			\$18,374,078,603
October		\$23,081,023,637	\$2,537,250,000		\$25,618,273,637
November		\$14,928,267,046			\$14,928,267,046
December		\$26,952,182,788	\$880,650,000	\$1,700,000,000	\$29,532,832,788
Grand Total	\$300,000,000	\$171,174,665,188	\$9,031,173,000	\$11,729,170,208	\$192,235,008,396

Total Freddie Mac Giant Volume 2001

Month	Total
January	\$3,893,123,096
February	\$17,252,285,060
March	\$19,652,785,287
April	\$4,880,787,640
May	\$10,179,378,984
June	\$8,280,582,373
July	\$2,203,480,639
August	\$5,986,336,353
September	\$14,792,002,396
October	\$10,150,118,085
November	\$4,042,302,347
December	\$1,277,578,932
Grand Total	\$102,590,761,192

Primary Mortgage Market Survey

Summary page with all rate types - U.S. averages

Quarter	U.S. 30 yr FRM	30 yr fees & points	U.S. 15 yr FRM	15 yr fees & points	U.S. 1 yr ARM	ARM fees & points	U.S. ARM margin
Q1:2001	7.01	0.9	6.59	0.9	6.46	0.9	2.78
Q2:2001	7.13	0.9	6.66	1.0	5.93	0.9	2.78
Q3:2001	6.96	0.9	6.51	0.9	5.67	0.9	2.77
Q4:2001	6.77	0.8	6.25	0.8	5.23	0.8	2.76
Annual Average	6.97	0.9	6.5	0.9	5.82	0.9	2.77

Total Mortgage Participation Certificates (Total PCs)

Month	PC Issuances	Liquidations	Net Additions	Ending Balance	Annualized Growth Rate	PCs Held in Retained Portfolio	Total PCs, Net (1)	Annualized Growth Rate
January	\$ 15,364	\$ (9,532)	\$ 5,832	\$ 828,142	8.5%	248,803	\$ 579,339	6.7%
February	15,549	(14,457)	1,092	829,234	1.6%	256,834	572,400	-14.4%
March	23,367	(18,985)	4,382	833,616	6.3%	261,288	572,328	-0.2%
April	31,219	(20,668)	10,551	844,167	15.2%	263,634	580,533	17.2%
May	33,670	(21,883)	11,787	855,954	16.8%	266,749	589,205	17.9%
June	38,133	(20,337)	17,796	873,750	24.9%	269,693	604,057	30.2%
July	44,574	(19,380)	25,194	898,944	34.6%	278,825	620,119	31.9%
August	33,933	(19,060)	14,873	913,817	19.9%	287,521	626,296	12.0%
September	32,666	(18,993)	13,673	927,490	18.0%	291,646	635,844	18.3%
October	31,646	(26,887)	4,759	932,249	6.2%	296,499	635,750	-0.1%
November	38,958	(32,077)	6,881	939,130	8.9%	300,806	638,324	4.9%
YTD 2001	339,079	\$(222,259)	\$ 116,820	\$ 939,130				

(Total 2001 figures available online at www.freddiemac.com/shareholders/volsum. Subsequent issues of Gold Perspective will contain current quarterly information.)

(1) Equal to ending balance of Total PCs net of PCs held in the retained portfolio

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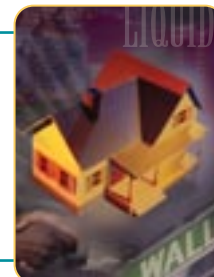
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