

Focus on:

Stripped Giant Certificates (Strips)

Freddie Mac is a market leader in large, liquid, syndicated strips, issuing more than \$14.4 billion in strips in 2002. With a modifiable and combinable feature, strips provide the investor with synthetic coupon options, an effective hedging tool and flexible exchanges.

Synthetic Coupon Options:

Gold MACS (Modifiable and Combinable Securities) are Freddie Mac strips. In addition to offering Interest-Only (IO) and Principal-Only (PO) classes, MACS have a modifiable and combinable feature that offer investors the ability to change the cash flows on their bonds for a small exchange fee. MACS offer a range of Interest-Principal (IP) coupon classes within a single strip that combine principal and interest cash flows in varying proportions to form new, synthetic coupon PCs.

Hedging Tool:

IOs, POs and IPs are formed by separating interest and principal cash flows on Giant PCs. Stripping Giant PCs into IO, PO, and IP classes produce securities with very different interest rate and prepayment profiles. Sensitivity to prepayment speed fluctuations can be an advantage to investors who need instruments to hedge against interest rate risk and market risk. For example, IOs may be used to hedge a fixed-income portfolio, while POs may be used to hedge a servicing portfolio.

Flexible Exchanges:

Gold MACS classes offer investors many hedging options when combined with the Gold MACS exchange feature. For a fee, investors can exchange their Gold MACS for a portion of the underlying Giant PC or obtain another class or classes of the Gold MACS that have different coupons. With Freddie Mac's Strip Program, investors may also exchange their Giant PC for a strip without incurring a fee. This is a key feature of all Freddie Mac strips. Investors can also change the coupon of their strip investment as market conditions warrant. This feature allows investors to select the yield and duration attributes that are consistent with their investment goals.

Wide array of strip products:

Known Collateral Strips:

Through the Known Collateral program, Freddie Mac's transaction managers work with strip traders to identify coupons that have investor demand. Freddie Mac then offers these syndicated strips with exact collateral stipulations (WAC, WAM and WALA) to dealers in exchange for TBA collateral.

TBA Strips:

A TBA strip provides an alternative vehicle to meet investor demand for a Freddie Mac strip. As with Known Collateral, Freddie Mac will work with dealers to identify the coupon to strip and to set the collateral stipulations.

Strip Characteristics:

Gold MACS, denoted by the prefixes S0 and S1, are backed by a single, newly-created Gold Giant PC that is backed by single-family, fixed-rate Gold PCs.

Freddie Mac GNMA-backed MACS, denoted by the prefixes S6 and S7, are backed by a single, newly created Giant PC security that is backed by single-family, fixed-rate GNMA certificates.

Freddie Mac Giant PC and stripped Giant PCs are issued and may be transferred by holders only on the book-entry system of a Federal Reserve Bank in minimum original amounts of \$1,000 and additional increments of \$1. All IOs, Inverse IOs, Floater IOs and POs have a minimum denomination of \$100,000 original notional or original principal face (or the total original notional or original principal balance if less than \$100,000).

Customer Support:

Freddie Mac takes pride in providing timely customer support. A variety of resources are available to provide investors with the most comprehensive information about their gold PC securities.

Investor Inquiry (800) 336-3672; Investor_Inquiry@FreddieMac.com:

Knowledgeable securities information specialists are available from 9:00 a.m. to 5:00 p.m., Eastern Standard Time, and will:

- Answer questions about Freddie Mac Gold PC securities and structured products
- Explain how to access factors and coupons for existing mortgage securities as well

www.FreddieMac.com/mbs:

A convenient and easy-to-use single source of information for the mortgage securities community, Freddie Mac's mortgage securities website provides quality information about Freddie Mac securities, including:

- Details about our products
- Product-specific CUSIP lookup
- Mortgage securities data and subscription services
- Legal documentation and tax information for mortgage securities

FMAC <GO>:

A wide range of information and data is available on Freddie Mac's Bloomberg site. View recently priced REMICs, collateral availability, reference pools, callable REMIC supply, estimated REMIC production, and other mortgage securities issuance reports. Product information, structured product fees, announcements regarding Freddie Mac's passthrough and REMIC products. PC prefixes are also available.

Strips – The Basics

Freddie Mac strips are formed from Giants of Gold PCs, the cornerstone product of Freddie Mac's mortgage-backed securities program, or from Giants of GNMA certificates. Gold PCs can be inexpensively aggregated into larger, highly liquid Giant PCs and used for collateral for strips.

In general, stripped mortgage-backed securities represent a mortgage pool's Interest-Only (IO) and Principal-Only (PO) cash flow components. Investors in the IO class usually receive 100% of the interest payments, but no principal payments from the underlying collateral. Investors in the PO class usually receive 100% of the principal payments and receive no interest payments from the underlying collateral.

IOs, consisting only of interest cash flows, generally increase in value in high interest rate environments, when prepayments are slow. The slower the principal payments, the longer a passthrough remains outstanding, and the longer an IO investor collects interest payments on the underlying collateral. When interest rates rise, the life of a current coupon mortgage extends. Except upon a sale of a home, a homeowner may have little intrinsic motivation to prepay a home mortgage financed at rates lower than the prevailing rate, so IO investors expect to receive interest payments for a longer period of time.

Generally, POs increase in value as interest rates decline and prepayments speed up. Investors who buy POs at a discount to par get their principal back quickly, as interest rates fall and homeowners have an incentive to refinance. Unlike IO investors, PO investors are guaranteed to recoup their original investments —although it is unknown when the principal will be returned.

As with any other mortgage-backed security, prepayment risks must be analyzed carefully. Strip yield, by its very nature, is more sensitive to changes in prepayment rates than the underlying collateral.



To execute a Stripped Giant Certificate:

Contact a Freddie Mac Transaction Manager at (866) 903-2767 or one of our REMIC dealers:

Banc of America LLC
Bear Stearns & Co. Inc.
CS First Boston Corporation
Countrywide Securities
First Tennessee National Corporation
Freddie Mac SS&TG
Goldman Sachs & Co.
Greenwich Capital Markets, Inc.
J.P. Morgan Chase & Co.
Lehman Brothers
Merrill Lynch & Co.
Morgan Keegan & Co., Inc.
Morgan Stanley
Nomura Securities
Salomon Smith Barney
UBS Warburg LLC

For additional information about Freddie Mac Strips,
contact a Transaction Manager at (866) 903-2767.

www.freddiemac.com/mbs



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