



# Freddie Mac

## Giant and Other Pass-Through Certificates

**Giant Certificates**  
**Stripped Giant Certificates**  
**Stripped Interest Certificates**  
**Callable Pass-Through Certificates**  
**Structured Pass-Through Certificates**

### **The Pass-Through Certificates**

Freddie Mac issues and guarantees several types of Pass-Through Certificates. Pass-Through Certificates are securities that represent interests in pools of assets that are backed by residential mortgages.

### **Freddie Mac's Guarantee**

We guarantee the payment of interest and principal on the Pass-Through Certificates as described in this Offering Circular. We alone are responsible for making payments on our guarantee. Principal and interest payments on the Pass-Through Certificates are not guaranteed by and are not debts or obligations of the United States or any federal agency or instrumentality other than Freddie Mac.

### **Freddie Mac Will Provide More Information for Each Offering**

This Offering Circular describes the general characteristics of Pass-Through Certificates. For each offering of Pass-Through Certificates, we prepare an offering circular supplement. The supplement will describe more specifically the particular Pass-Through Certificates included in that offering.

### **Tax Status and Securities Law Exemptions**

The Pass-Through Certificates are not tax-exempt securities. Because of applicable securities law exemptions, we have not registered the Pass-Through Certificates with any federal or state securities commission. No securities commission has reviewed this Offering Circular.

**Pass-Through Certificates may not be suitable investments for you. You should consider carefully the risks of investing in Pass-Through Certificates. The *Risk Factors* section on pages 6 and 7 highlights some of these risks.**

If you intend to purchase Pass-Through Certificates, you should rely on the information in this Offering Circular and in the related supplement for those Pass-Through Certificates, including the information in any disclosure documents that we incorporate by reference. We have not authorized anyone to provide you with different information.

We are not offering the Pass-Through Certificates in any jurisdiction that prohibits their offer.

This Offering Circular, the related supplement and any incorporated documents may not be correct after their dates.

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The *Index of Terms* (Appendix I) shows where definitions of capitalized terms appear.

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## FREDDIE MAC

Freddie Mac is one of the largest participants in the U.S. mortgage market. We are a stockholder-owned government-sponsored enterprise chartered by Congress on July 24, 1970 under the Federal Home Loan Mortgage Corporation Act, as amended (the “**Freddie Mac Act**”).

Our statutory purposes are:

- To provide stability in the secondary market for residential mortgages;
- To respond appropriately to the private capital markets;
- To provide ongoing assistance to the secondary market for residential mortgages (including mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- To promote access to mortgage credit throughout the United States (including central cities, rural areas and other underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

We fulfill the requirements of our charter by purchasing residential mortgages and mortgage-related securities from mortgage lenders and securities dealers and by providing our credit guarantees of payment of the principal and interest on the mortgage-related securities we issue.

Our principal offices are located in McLean, Virginia. We have additional offices in Washington, D.C.; Reston, Virginia; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; New York, New York; and Woodland Hills, California.

## ADDITIONAL INFORMATION

We prepare annual Information Statements that describe our business and operations, and contain our audited financial statements. We also prepare Information Statement Supplements from time to time. As of any given date, this Offering Circular incorporates by reference the most recent Information Statement and any subsequent Information Statement Supplements. You should rely only on the most recent information provided or incorporated by reference in this Offering Circular and any applicable Pool Supplement.

You can obtain any of these documents, as well as the disclosure documents for our Pass-Through Certificates and other securities, from:

<p><b>Freddie Mac — Investor Inquiry</b> <b>1551 Park Run Drive, Mailstop D5B</b> <b>McLean, Virginia 22102-3110</b> <b>Telephone: 1-800-336-3672</b> <b>(571-382-4000 within the Washington, D.C. area)</b> <b>E-mail: <a href="mailto:InvestorInquiry@freddiemac.com">InvestorInquiry@freddiemac.com</a></b></p>
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We also make these documents available on our internet website at this address:

**Internet Website: [www.freddiemac.com](http://www.freddiemac.com)\***

\* We are providing this internet address solely for the information of prospective investors. We do not intend this internet address to be an active link and we are not using reference to this address to incorporate additional information into this Offering Circular or any supplement, except as specifically stated in this Offering Circular.

## SUMMARY

This summary highlights selected information about the Pass-Through Certificates. Before buying Pass-Through Certificates, you should read the remainder of this Offering Circular and the supplement for the particular offering. You should rely on the information in the supplement if it is different from the information in this Offering Circular.

<b>Issuer and Guarantor</b> . . . . .	Federal Home Loan Mortgage Corporation, or “ <b>Freddie Mac</b> ,” a shareholder-owned government-sponsored enterprise.
<b>Pass-Through Certificates</b> . . . . .	“ <b>Pass-Through Certificates</b> ” represent beneficial ownership interests in pass-through pools, which are pools of assets that we form.
<b>Assets and Mortgages</b> . . . . .	The assets in each pass-through pool include Freddie Mac PCs, GNMA Certificates, Pass-Through Certificates, other securities backed by residential mortgages that we have purchased or other mortgage-related assets. The mortgages underlying the assets may be secured by single-family or multifamily residential properties, and have either a fixed or an adjustable interest rate.

### Types of Pass-Through Certificates:

- **Giant Certificates** . . . . . Giant Certificates are single-class securities that receive principal and interest from their underlying assets. They may have either a fixed or an adjustable interest rate, called a class coupon, depending on the underlying mortgages.
  - **Giant PCs** . . . . . Giant PCs are Giant Certificates whose underlying assets are Freddie Mac PCs or other Giant PCs.
  - **Giant Securities** . . . . . Giant Securities are Giant Certificates whose underlying assets are GNMA Certificates or other Giant Securities.
- **Stripped Giant Certificates** . . . . . Stripped Giant Certificates are issued in series consisting of two or more classes that receive principal only, interest only or both principal and interest from their underlying asset. Each series is backed by a single Giant Certificate. If you own proportionate amounts of each of the classes from the same series, you may exchange them for an equivalent amount of the underlying asset, and vice versa.
  - **Modifiable And Combinable Securities (MACS)** . . . . . MACS are Stripped Giant Certificates issued in series consisting of one interest only class, one principal only class and multiple classes that receive both principal and interest with different class coupons, ranging from deep discount to high premium coupons. If you own appropriate amounts of MACS classes, you may exchange them for other classes of the same series with different class coupons, or for an equivalent amount of the underlying asset, and vice versa.
- **Stripped Interest Certificates** . . . . . Stripped Interest Certificates are issued in series consisting of one or more classes that receive interest payments from one or more assets. Each series is backed by a portion of interest payments from mortgages included in various pools that back Freddie Mac PCs.
- **Callable Pass-Through Certificates (CPCs)** . . . . . CPCs are issued in series consisting of pairs of callable and call classes, and are backed by Giant Certificates. The callable class receives principal and interest from the underlying assets. The call class receives no principal or interest, but has the right to call the related callable class for redemption and to receive the underlying securities.

• **Structured Pass-Through**

**Certificates (SPCs)** ..... SPCs are issued in series consisting of one or more classes. Each class receives payments from one or more assets. The assets usually are REMIC classes issued by Freddie Mac or another party.

**Payments** ..... Freddie Mac passes through any payment of principal and interest due on a Pass-Through Certificate monthly on the applicable Payment Date. As described in more detail later, Payment Dates fall on or about:

- The 15th of each month, for classes backed by PCs.
- The 17th or 20th of each month, for classes backed by GNMA Certificates.

• **Interest** ..... Freddie Mac pays interest on each class of Pass-Through Certificates at its class coupon. Interest payable on a Payment Date accrues during the monthly accrual period specified in this Offering Circular or the applicable supplement.

• **Principal** ..... Pass-Through Certificates receive principal payments in the same amounts and the same periods as their underlying assets. Holders of a class of Pass-Through Certificates entitled to principal receive principal payments proportionately with each other, based on the principal amounts of their Pass-Through Certificates.

**Form of Pass-Through**

**Certificates** ..... Pass-Through Certificates that are backed by PCs or GNMA Certificates in most cases will be issued, held and transferable on the book-entry system of the Federal Reserve Banks (the “**Fed System**”).

In some cases, Pass-Through Certificates may be issued, held and transferable on the book-entry system (the “**Depository System**”) of The Depository Trust Company or its successor (“**DTC**”).

Some classes, including call classes, will be issued in registered, certificated form. They will be transferable at our office, in our capacity as registrar, or at the office of any successor registrar we designate (the “**Registrar**”).

**Holders** ..... As an investor in Pass-Through Certificates, you are not necessarily the Holder of those Pass-Through Certificates. You will ordinarily hold your Pass-Through Certificates through one or more financial intermediaries. Your rights as an investor may be exercised only through the Holder of your Pass-Through Certificates, and Freddie Mac may treat the Holder as the absolute owner of your Pass-Through Certificates. The term “**Holder**” means:

- For a class held on the Fed System, any entity that appears on the records of a Federal Reserve Bank as a holder of that class.
- For a class held on the Depository System, DTC or its nominee.
- For a certificated class, any entity or individual that appears on the records of the Registrar as a registered holder of that class.

## RISK FACTORS

Although Freddie Mac guarantees the payments on Pass-Through Certificates, and so bears the associated credit risk, as an investor you will bear the other risks of owning mortgage securities. This section highlights some of these risks. *Prepayment, Yield and Suitability Considerations* discusses them in more detail.

**Pass-Through Certificates May Not be Suitable Investments for You.** Pass-Through Certificates are complex securities. You need to understand the risks of your investment, and you need to be able to analyze the information in the related offering documents as well as the economic and other factors that may affect your investment. If you require a definite payment stream, or a single payment on a specific date, Pass-Through Certificates are not suitable investments for you. If you purchase Pass-Through Certificates, you need to have enough financial resources to bear all of the risks related to your Pass-Through Certificates.

**Principal Payment Rates are Uncertain.** Principal payment rates on the Pass-Through Certificates will depend on the rates of principal payments on the underlying mortgages. Mortgage principal payments include scheduled payments and prepayments. Prepayment rates fluctuate continuously and (in some market conditions) substantially. In general, prepayments tend to increase when current interest rates decline, as more borrowers choose to refinance their existing mortgages. As current interest rates increase, refinancings and prepayments generally decline.

**Prepayments Can Reduce Your Yield.** Your yield on a class of Pass-Through Certificates will depend on its price, the rate of prepayments on its underlying mortgages and the actual characteristics of those mortgages. The mortgages may be prepaid at any time, in most cases without penalty. The yield on your class of Pass-Through Certificates could be lower than you expect if either:

- You buy your class at a discount to its principal amount and principal payments are slower than you expect.
- You buy your class at a premium over its principal amount and principal payments are faster than you expect.

If you purchase an interest only class (including a class of Stripped Interest Certificates) or any other class at a significant premium and prepayments are very fast, you may not even recover your investment.

**Reinvestment of Principal Payments May Produce Lower Yields.** Mortgages tend to prepay fastest when current interest rates are low. When you receive principal payments in a low interest rate environment, you may not be able to reinvest them in comparable securities with as high a yield as your Pass-Through Certificates.

**Index Levels Will Affect Yields of Your Adjustable Rate Pass-Through Certificates.** If your Pass-Through Certificates are backed by adjustable-rate mortgages, and the index level used to adjust the interest rates on those mortgages is lower than you expect, the yield on your investment could be lower than you expect, especially if prepayments are slow. Even if the index level is high but prepayments are fast, your yield could be lower than you expect.

**Pass-Through Certificates are Subject to Market Risks.** The market values of your Pass-Through Certificates will vary over time, primarily in response to changes in prevailing interest rates. If you sell your Pass-Through Certificates when their market values are low, you may experience

significant losses. A secondary market for some types of Pass-Through Certificates may not develop. Even if a market does develop, it may not be liquid enough to allow you to sell your Pass-Through Certificates easily or at your desired price.

**You May Not be Allowed to Buy Some Pass-Through Certificates.** If you are subject to legal investment laws and regulations or to review by regulatory authorities, you may not be allowed to invest in some types of Pass-Through Certificates. See *Legal Investment Considerations*.

## DESCRIPTION OF PASS-THROUGH CERTIFICATES

### GENERAL

We combine mortgage-related securities and other mortgage-related assets into pass-through pools and issue Pass-Through Certificates representing interests in those pools. Each pass-through pool has its own identification number. The securities in the pass-through pools are backed by mortgages that we have purchased.

A pass-through pool usually includes a single type of asset. These assets are typically:

- Freddie Mac PCs or Giant PCs.
- GNMA Certificates or Freddie Mac Giant Securities.
- Securities that represent “regular interests” in a Real Estate Mortgage Investment Conduit (“**REMIC**”).
- Other Pass-Through Certificates offered under this Offering Circular.
- Other mortgage-related assets identified in the related supplement.
- Other securities identified as assets in the related supplement.

We hold the assets in each pass-through pool for the benefit of the investors in the related Pass-Through Certificates. Below we describe more specifically the types of Pass-Through Certificates and the characteristics of their underlying assets. In addition, if we issue any other type of Pass-Through Certificates, we will describe them in the related supplement.

### GIANT CERTIFICATES

“**Giant Certificates**” are single-class securities entitled to payments of both principal and interest received on the related assets. When we issue Giant Certificates, we form a pass-through pool that typically consists of PCs or GNMA Certificates. If the assets are PCs, the Giant Certificates we issue are “**Giant PCs.**” If the assets are GNMA Certificates, the Giant Certificates we issue are “**Giant Securities.**” A pass-through pool for Giant Certificates also may include other Giant Certificates of the same type.

Giant Certificates may bear interest at a fixed rate or an adjustable rate. The assets underlying fixed-rate Giant Certificates usually have the same fixed interest rate as the related Giant Certificates. However, we sometimes issue fixed-rate Giant Certificates with an interest rate that is higher or lower than the rate payable on the related assets by retaining a portion of the principal or interest payments on the assets.

The interest rate of an adjustable rate Giant Certificate adjusts each month based on the weighted average of the interest rates of the related assets. The interest rates on all of the adjustable rate mortgages (“ARMs”) backing an adjustable rate Giant Certificate adjust based on the same index and using the same means of adjustment, but do not necessarily adjust on the same date.

The minimum original principal balance of a pass-through pool backing Giant Certificates is \$1 million.

## STRIPPED GIANT CERTIFICATES

“**Stripped Giant Certificates**” are issued in series, each consisting of two or more classes. These classes receive unequal proportions of the principal and interest paid on a single underlying asset. When the underlying asset is a Giant PC, the Stripped Giant Certificates we issue are “**Stripped Giant PCs.**” When the underlying asset is a Giant Security, the Stripped Giant Certificates we issue are “**Stripped Giant Securities.**”

Stripped Giant Certificates include interest only classes, principal only classes and interest/principal classes. Interest only classes, or “**IO Classes,**” receive all or a portion of the interest payments from the underlying asset and no principal. Principal only classes, or “**PO Classes,**” receive all or a portion of the principal payments from the underlying asset and no interest. Interest/principal classes, or “**IP Classes,**” receive a portion of both the principal and interest payments from the underlying asset.

IO and IP Classes may bear interest at a fixed rate or, if the mortgages underlying the asset are ARMs, at an adjustable rate.

In order to calculate the interest due each month, we assign a notional principal amount to each IO Class. The original notional principal amount will equal the original principal amount of the underlying asset, and will decline proportionately with the principal amount of that asset.

The minimum original principal balance of a pass-through pool backing Stripped Giant Certificates is \$1 million.

Stripped Giant Certificates include a feature that permits you to exchange them for their underlying asset. To exchange your Stripped Giant Certificates for an equivalent amount of the underlying Giant Certificate, you must own proportionate interests in the principal and notional principal amounts of all classes of the same series. Similarly, if you own a Giant Certificate that has been reconstituted by an exchange, you may exchange it for equivalent interests in the related Stripped Giant Certificates. Stripped Giant Certificates may be recombined and restripped in this manner repeatedly.

We may charge you a fee for an exchange. We have described the procedures for exchanging Stripped Giant Certificates in Appendix II.

“**Modifiable And Combinable Securities**” or “**MACS**” are Stripped Giant Certificates issued in a range of possible class coupons that are exchangeable for other classes of the same series having different class coupons. Each series of MACS is backed by a single fixed-rate Giant PC or Giant Security.

A series of MACS typically consists of an IO Class, a PO Class and multiple IP Classes with class coupons ranging in 50 basis point increments from 0.5% to 24.0%. We designate the IP classes

of each series by their class coupons, calling a class with a class coupon of 0.5% the “0.5 Class,” a class with a class coupon of 24.0% the “24.0 Class” and so forth.

We offer MACS classes in *maximum* original principal or notional principal amounts. The maximum amount for each class is considered individually for that class and without regard to the amounts of the other classes. It represents the largest amount of the class that the underlying asset could support.

You can exchange classes of MACS for one or more different classes of the same series. You can also exchange one or more classes of MACS for a portion of the underlying Giant Certificate, and vice versa. To make any of these exchanges, follow the procedures in Appendix II. Appendix III shows examples of exchanges involving MACS.

The classes of a series of MACS that are outstanding at any given time will depend upon which classes were issued initially and upon any exchanges that have occurred. The aggregate outstanding principal amount of all classes, not including the notional principal amount of the IO Class, will equal the remaining principal amount of the underlying asset at all times. Similarly, the outstanding classes will receive interest payments, in the aggregate, equal to the interest payments made on the underlying asset.

## **STRIPPED INTEREST CERTIFICATES**

“**Stripped Interest Certificates**” or “**SCs**” are issued in series, each consisting of one or more classes. These classes receive interest paid on their underlying assets. The underlying assets may consist of certain interest amounts payable on mortgages that have been included in Freddie Mac PCs.

SCs consist of IO Classes that receive a portion of the interest payments from the related mortgages and no principal. IO Classes may bear interest at a fixed rate, an adjustable rate or a weighted average rate.

In order to calculate the interest due each month, we assign a notional principal amount to each IO Class. The original notional principal amount will equal or be derived from the original principal amount of the underlying asset, and will decline proportionately with the principal amount of that asset or as otherwise described in the related supplement.

## **CALLABLE PASS-THROUGH CERTIFICATES**

“**Callable Pass-Through Certificates**” or “**CPCs**” represent interests in a pass-through pool that contains a single Giant PC or a Giant Security as its primary asset. Classes of CPCs are issued in pairs of “**Callable Classes**” and “**Call Classes**.” If you own a Callable Class, you will receive all of the interest and principal payments made on the asset. If you own a Call Class, you will not receive any payments of principal or interest because the Call Class does not represent an ownership interest in the underlying asset.

There can be only one Holder at a time of a Call Class. If you are the Holder of a Call Class, you will have the right (the “**Call Right**”):

1. To direct Freddie Mac to redeem the related Callable Class on any Payment Date during the period specified in the applicable supplement.
2. To exchange your Call Class for the related Callable Assets.

The “**Callable Assets**” will be:

- If the related pass-through pool contains a Giant PC, that Giant PC.
- If the related pass-through pool contains a Giant Security, the GNMA Certificates (and any Giant Securities) underlying that Giant Security.

You must pay a Call Fee and a Call Payment to exercise the Call Right. Appendix IV describes the procedures for exercising the Call Right.

## **STRUCTURED PASS-THROUGH CERTIFICATES**

“**Structured Pass-Through Certificates**” or “**SPCs**” represent interests in pass-through pools that contain one or more of the following:

- REMIC classes issued by Freddie Mac or a third party.
- Pass-Through Certificates.
- Freddie Mac debt instruments.
- Other securities described in the related supplement.

The pass-through pools typically contain, and the related SPCs represent interests in, separate classes or types of assets. The supplement for each series of SPCs will provide information on the assets for that series. A series of SPCs typically contains two or more classes, and each class of SPCs is backed by its own pass-through pool.

## **PASS-THROUGH POOL ASSETS**

### **General**

Each Pass-Through Pool will contain one or more assets. This section describes the general characteristics of PCs and GNMA Certificates, which directly or indirectly back most of our Pass-Through Certificates. Pass-Through Pools can also contain Giant Certificates, REMIC classes, other Pass-Through Certificates or any other securities or mortgage-related assets that are purchased by Freddie Mac and identified as assets in the related supplement.

### **PCs**

Freddie Mac Mortgage Participation Certificates, or “**PCs**,” are single-class securities, guaranteed by Freddie Mac, that represent undivided interests in pools of residential mortgages. Nearly all mortgages that back PCs are conventional mortgages, which means that neither the United States nor any federal agency or instrumentality guarantees or insures them.

If the underlying mortgages have a fixed rate of interest, the PCs may be either “**Gold PCs**” or “**Original PCs**.” If the underlying mortgages are ARMs, the related PCs are called “**ARM PCs**.”

For Gold PCs, there is a delay of approximately 45 days between the time interest begins to accrue and the time the PC investor receives his interest payment. This time period is a “**Payment Delay**.” For ARM PCs and Original PCs there is a Payment Delay of approximately 75 days.

Giant PCs have names — “**Gold Giant PCs**,” “**Original Giant PCs**” and “**ARM Giant PCs**” — that identify their underlying assets. Thus, if you invest in a Giant PC, the name of the Giant PC will identify for you the type of underlying PC and the applicable Payment Delay.

Some PCs represent interests in special types of mortgages, such as relocation mortgages, cooperative share mortgages, extended buydown mortgages, biweekly mortgages, newly originated assumable mortgages or prepayment protection mortgages. These types of mortgages may prepay differently than standard mortgages. If any one of these types of PCs represents more than 10%, or if any two or more of them represent more than 15%, of the original principal balance of a pass-through pool, the applicable supplement will say so.

We may issue Giant PCs backed by Gold PCs issued under our cash and multilender swap programs. In forming such Giant PCs, we will deposit mortgages purchased under those programs into PC pools and contribute the resulting Gold PCs to the Giant pass-through pool.

Under our cash program, we purchase mortgages for cash and contribute them to PC pools. Under our multilender swap program, a mortgage seller can sell mortgages to us in exchange for the same principal amount of Gold PCs backed by the mortgages transferred by that mortgage seller and/or by other mortgage sellers.

We prepare a **“PC Offering Circular”** which describes the characteristics of the various types of PCs. Supplements for Pass-Through Certificates backed by PCs will incorporate by reference the current PC Offering Circular.

### **GNMA Certificates**

**“GNMA Certificates”** are mortgage-backed securities that the Government National Mortgage Association (**“GNMA”**) guarantees. GNMA is a corporate instrumentality of the United States within the Department of Housing and Urban Development (**“HUD”**). GNMA guarantees the timely payment of principal and interest on certificates that are backed by pools of mortgages insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, the Rural Housing Service or HUD.

Investors in GNMA Certificates receive monthly payments of interest and scheduled principal, even if the borrowers on the underlying mortgages have not made their monthly payments. GNMA’s guarantee obligations, unlike Freddie Mac’s, are backed by the full faith and credit of the United States.

Mortgage banking companies and other financial concerns approved by GNMA issue and service GNMA Certificates. GNMA guarantees securities under its GNMA I program (**“GNMA I Certificates”**) and GNMA II program (**“GNMA II Certificates”**). Holders of GNMA I Certificates and GNMA II Certificates have substantially similar rights, although a few differences do exist.

Under the GNMA I program, a single GNMA issuer assembles a pool of mortgages and issues and markets GNMA I Certificates that are backed by that pool. The origination date of mortgages in the pool must be within two years of the date that the related GNMA I Certificates are issued. All mortgages underlying a particular GNMA I Certificate must be of the same type (for example, all single-family, level payment mortgages) and have the same fixed interest rate. The pass-through rate on each GNMA I Certificate is 50 basis points less than the interest rate on the mortgages included in the pool. Holders of GNMA I Certificates receive payments on or about the 15th of each month. GNMA I Certificates have a Payment Delay of approximately 45 days.

Under the GNMA II program, a pool may consist of mortgages submitted by more than one GNMA issuer. The resulting pool backs a single issue of GNMA II Certificates, which each participating issuer markets to the extent that it contributed mortgages to the pool. Each GNMA II Certificate issued from a multiple issuer pool, however, represents an interest in the entire pool, not just in mortgages contributed to the pool by a particular GNMA issuer. GNMA II Certificates also may be backed by a custom pool of fixed-rate mortgages formed by a single issuer. Holders of GNMA II Certificates receive payments on or about the 20th of each month. GNMA II Certificates have a Payment Delay of approximately 50 days.

Each GNMA II Certificate pool consists entirely of fixed-rate mortgages or entirely of ARMs. Fixed-rate mortgages underlying any particular GNMA II Certificate must be of the same type, but may have annual interest rates that vary from each other by up to 100 basis points. The pass-through rate on each fixed-rate GNMA II Certificate will be 50 to 150 basis points per annum, in the case of Ginnie II Certificates issued prior to July 1, 2003, and 25 to 75 basis points per annum, in the case of GNMA II Certificates issued on or after July 1, 2003, less than the highest per annum interest rate on any mortgage included in the pool.

ARMs underlying any particular GNMA II Certificate will have interest rates that adjust annually based on the one-year Treasury index. GNMA pooling specifications require that all ARMs in a given pool have an identical first adjustment date, annual adjustment date, first payment adjustment date, index reference date and means of adjustment. All of the ARMs underlying a particular GNMA II Certificate issued prior to July 1, 2003 must have interest rates that are 50 to 150 basis points above the interest rate of the GNMA II Certificate. In addition, the mortgage margin for those ARMs must be 50 to 150 basis points greater than the margin for the related GNMA II Certificate. All of the ARMs underlying a particular GNMA II Certificate issued on or after July 1, 2003 must have interest rates that are 25 to 75 basis points above the interest rate of the related GNMA II Certificate. In addition, the mortgage margin with respect to those ARMs must be 25 to 75 basis points greater than the margin for the related GNMA II Certificates. The ARMs and GNMA II Certificates have an annual adjustment cap of  $\pm 1\%$  and lifetime cap of  $\pm 5\%$  above or below the initial interest rate; provided however, that with respect to GNMA II Certificates issued on or after October 1, 2003 and backed by 7-year and 10-year hybrid ARMs, these GNMA II Certificates and the related mortgage loans will be subject to an annual adjustment cap of  $\pm 2\%$  and a lifetime cap of  $\pm 6\%$  above or below the initial interest rate. Thirty days after each annual adjustment date, the payment amount of an ARM resets so that its remaining principal balance would fully amortize in equal monthly payments over its remaining term to maturity, assuming its interest rate were to remain constant at the new rate.

Under its "Platinum" program, GNMA guarantees certificates that represent ownership interests in pools of GNMA I Certificates or GNMA II Certificates. The terms "GNMA I Certificates" and "GNMA II Certificates" include certificates guaranteed under the Platinum program.

## **PAYMENTS**

### **Class Factors**

#### *General*

For each month, we calculate and make available (including on our Internet Web-Site) the Class Factor for each class of Pass-Through Certificates having a principal amount.

The “**Class Factor**” for any class for any month is a truncated eight-digit decimal which, when multiplied by the original principal amount of a Pass-Through Certificate of that class, will equal its remaining principal amount. The Class Factor for any month reflects payments of principal to be made on the Payment Date:

- In the same month, for classes backed by Gold PCs or GNMA Certificates.
- In the following month, for classes backed by Original PCs or ARM PCs.

Class Factors will be available on or about:

- The fifth business day of each month, for classes backed by Gold PCs, ARM PCs or Original PCs.
- The tenth business day of each month, for classes backed by GNMA Certificates.

A Class Factor for a class that has a notional principal amount will reflect the remaining notional principal amount of a Pass-Through Certificate of that class in the same manner.

Each class of Stripped Giant Certificates has the same Class Factor as its underlying Giant Certificate. The Class Factor for a class of Stripped Giant Certificates may not reflect the outstanding amount of the class as a whole, because that amount may decrease or increase due to exchanges.

The Class Factor for each class for the month of issuance is 1.0000000.

#### *Class Factors for GNMA Certificates*

We calculate Class Factors for classes backed by GNMA Certificates by using GNMA Certificate factors reported each month. Currently, the reported factors that we use are preliminary and subject to revision. In addition, there may not be reported factors for some GNMA Certificates. If a factor has not been reported, we will estimate it on the basis of assumed mortgage amortization schedules. Our estimate will reflect payment factor information previously reported and estimated subsequent scheduled amortization (but not prepayments) on the related mortgages.

Because GNMA factors may be preliminary, and we must estimate factors when reported factors are not available, there may be variances between the principal payments we receive on the GNMA Certificates in any month and the amounts we pay on the related Pass-Through Certificates, as reflected by their Class Factors for that month. However, the Class Factor for any month will reconcile any variances that occurred in the preceding month. Our determination of the Class Factors in the manner described above will be final.

#### **Payment Dates**

We will make payments to the Holders of Pass-Through Certificates on each applicable Payment Date. The “**Payment Date**” will be:

- For classes backed by PCs, the 15th of each month or, if the 15th is not a Business Day, the next Business Day.
- For classes backed entirely by GNMA I Certificates, the 17th of each month or, if the 17th is not a Business Day, the next Business Day.

- For classes backed entirely or partly by GNMA II Certificates, the 20th of each month or, if the 20th is not a Business Day, the next Business Day after the 20th.

For this purpose, “**Business Day**” means a day other than:

- A Saturday or Sunday.
- For Pass-Through Certificates on the Fed System, a day when the Federal Reserve Bank of New York (or other agent acting as Freddie Mac’s fiscal agent) is closed or, as to any Holder, a day when the Federal Reserve Bank that maintains the Holder’s account is closed.
- For any Pass-Through Certificates on the Depository System, a day when DTC is closed.
- For any certificated classes, a day when the Registrar is closed.

### **Payments of Principal**

On each Payment Date, we will pay principal to the Holders of each class on which principal is then due. The Holders of Pass-Through Certificates of any class will receive principal payments on a pro rata basis.

Holders of IO Classes and Call Classes of CPCs will not receive principal payments.

For any Payment Date, you can calculate the amount of principal to be paid on a Pass-Through Certificate by multiplying its original principal amount by:

- The difference between its Class Factors for the preceding and current months, for a class backed by Gold PCs or GNMA Certificates.
- The difference between its Class Factors for the two preceding months, for a class backed by Original PCs or ARM PCs.

### **Payments of Interest**

Interest will accrue on each Pass-Through Certificate during each Accrual Period at the class coupon described in the related supplement. In the case of a fixed-rate Pass-Through Certificate, the class coupon is set at the time of issuance and does not change. In the case of an adjustable rate Pass-Through Certificate, the class coupon adjusts monthly based on the interest rate, or the weighted average of the interest rates, of the assets or as otherwise described in the applicable supplement. Generally, we compute interest on the basis of a 360-day year of twelve 30-day months.

Holders of PO Classes and Call Classes of CPCs will not receive interest payments.

Interest will accrue on the principal or notional principal amount of a Pass-Through Certificate as determined by its Class Factor for:

- The month preceding the Payment Date, for a class backed by Gold PCs or GNMA Certificates.
- The second month preceding the Payment Date, for a class backed by Original PCs or ARM PCs.

The “**Accrual Period**” relating to any Payment Date will be:

- The calendar month preceding the month of the Payment Date, for a class backed by Gold PCs or GNMA Certificates.
- The second calendar month preceding the related Payment Date, for a class backed by Original PCs or ARM PCs.

The class coupon for Pass-Through Certificates backed by ARMs adjusts as of the first day of each Accrual Period and will equal the weighted average of the interest rates of the assets as of the same date, truncated at the third decimal place. Investors can obtain the class coupons for the current Accrual Period on our Internet Web-Site or by contacting Investor Inquiry at Freddie Mac.

### **Record Dates**

We pass through payments on each Payment Date to Holders as of the related Record Date. The “**Record Date**” for any Payment Date is the close of business on the last day of:

- The preceding month, for a class backed by Gold PCs or GNMA Certificates.
- The second preceding month, for a class backed by Original PCs or ARM PCs.

### **Final Payment Date**

The “**Final Payment Date**” for each class of Pass-Through Certificates usually reflects the latest final payment date of the underlying PCs, GNMA Certificates or other assets. The final payment dates of the assets are determined by various methods depending upon their type and date of issuance, as described in the applicable offering materials. The actual final payment on any class of Pass-Through Certificates could occur significantly earlier than its Final Payment Date.

You will receive the final payment on your Pass-Through Certificates on or before the Payment Date that falls (a) in the same month as the applicable Final Payment Date, for Gold Pass-Through PCs and Pass-Through Securities, and (b) in the month after the applicable Final Payment Date, for Original Pass-Through PCs and ARM Pass-Through PCs.

## **GUARANTEES**

Freddie Mac guarantees to each Holder of a Pass-Through Certificate:

- The timely payment of interest at its class coupon.
- The payment of principal as principal payments are made on the underlying assets.
- The final payment of its entire principal amount by the Payment Date that falls (a) in the month of its Final Payment Date, for Gold Pass-Through PCs and Pass-Through Securities, and (b) in the month after its Final Payment Date, for Original Pass-Through PCs and ARM Pass-Through PCs.
- In the case of the Holder of a Call Class of CPCs, all proceeds due to the Holder upon exercise of its Call Right.

Freddie Mac also guarantees:

- For all PCs, the timely payment of interest and the full and final payment of principal on the underlying mortgages.

- For Gold PCs only, the timely payment of scheduled principal on the underlying mortgages, calculated as described in the applicable PC Offering Circular.
- For other assets issued by Freddie Mac, the payment of interest and principal as described in the applicable offering materials.

## **FORM OF PASS-THROUGH CERTIFICATES, HOLDERS AND PAYMENT PROCEDURES**

### **Form and Denominations**

*Fed System.* Investors who own Pass-Through Certificates held on the Fed System typically are not the Holders of those Pass-Through Certificates. Only banks and other entities eligible to maintain book-entry accounts with a Federal Reserve Bank (“**Fed Participants**”) may be Holders of Pass-Through Certificates held on the Fed System.

Pass-Through Certificates held on the Fed System are subject to the HUD regulations governing Freddie Mac’s book-entry securities (24 C.F.R. Part 81, Subpart H) and any procedures that Freddie Mac and a Federal Reserve Bank may agree to. These regulations and procedures relate to the issuance and recordation of, and transfers of interests (including security interests) in, all of Freddie Mac’s book-entry securities held on the Fed System, regardless of when the securities were issued. Fed Participants’ individual accounts are governed by operating circulars and letters of the Federal Reserve Banks.

*Depository System.* DTC is a New York-chartered limited purpose trust company that performs services for its participants (“**DTC Participants**”), mostly brokerage firms and other financial institutions. Pass-Through Certificates held on the Depository System will be represented by certificates registered in the name of the DTC or its nominee. Therefore, DTC or its nominee is the Holder of Pass-Through Certificates held on the Depository System.

*Certificated Classes.* Certificated classes will be transferable only at the office of the Registrar. A Holder may have to pay a service charge to the Registrar for any registration of transfer of a certificated class, and will have to pay any transfer taxes or other governmental charges. Each Call Class will be issued as a single certificate in an original notional principal amount equal to the original principal amount of its related Callable Class and will be held and transferable only as a single certificate.

*CUSIP Number.* Each class of Pass-Through Certificates will have a unique nine-character designation, known as a “**CUSIP Number**,” used to identify that class.

*Denominations.* Holders on the Fed System or the Depository System must hold and transfer their Pass-Through Certificates in minimum original principal or notional principal amounts of \$100,000 (for IO and PO Classes), \$1,000 (for other Classes) and additional increments of \$1. A Holder may not transfer a Pass-Through Certificate if, as a result of the transfer, the Holder would have remaining in its account Pass-Through Certificates of any class having an original principal or notional principal amount of less than \$1,000. A Holder of Pass-Through Certificates on the Fed System will also have to comply with any Federal Reserve Bank minimum wire transfer requirements.

### **Holders**

A Holder of a Pass-Through Certificate is not necessarily its beneficial owner. Beneficial owners ordinarily will hold classes through one or more financial intermediaries, such as banks,

brokerage firms and securities clearing organizations. For example, as an investor, you may hold a class through a brokerage firm which, in turn, holds through a Fed Participant. In that case, you would be the beneficial owner and the participant would be the Holder.

If your class is held on the Depository System, your ownership will be recorded on the records of the brokerage firm, bank or other financial intermediary where you maintain an account for that purpose. In turn, the financial intermediary's interest in the class will be recorded on the records of DTC (or of a DTC Participant that acts as agent for the financial intermediary, if the intermediary is not itself a DTC Participant).

A Holder that is not also the beneficial owner of a Pass-Through Certificate, and each other financial intermediary in the chain between the Holder and the beneficial owner, will be responsible for establishing and maintaining accounts for their customers. Freddie Mac and any Federal Reserve Bank will not have a direct obligation to a beneficial owner of a Pass-Through Certificate that is not also the Holder. A Federal Reserve Bank or DTC will act only upon the instructions of the Fed Participant or DTC Participant, as applicable, in recording transfers of a class.

Freddie Mac, the Registrar, the Federal Reserve Banks and DTC may treat the Holder as the absolute owner of a Pass-Through Certificate for the purpose of receiving payments and for all other purposes, regardless of any notice to the contrary. Your rights as a beneficial owner of a Pass-Through Certificate may be exercised only through the Holder.

### **Payment Procedures**

Federal Reserve Banks will credit payments on classes held on the Fed System to the appropriate Fed Participants.

We or, in some cases, the Registrar will make payments on classes held on the Depository System in immediately available funds to DTC. DTC will be responsible for crediting the payment to the accounts of the appropriate DTC Participants in accordance with its normal procedures.

The Registrar will make payments on a certificated class by check mailed to the addresses of the Holders shown on the Registrar's records or, if the related supplement provides, by wire transfer to the Holders. However, a Holder will receive the final payment on a certificated class only upon presentation and surrender of the Holder's certificate to the Registrar.

Each Holder and each other financial intermediary will be responsible for remitting payments to the beneficial owners of a class that it represents.

The Pass-Through Agreement provides that if a principal or interest payment error occurs, we may correct it by adjusting payments to be made on future Payment Dates or in any other manner we consider appropriate.

## PREPAYMENT, YIELD AND SUITABILITY CONSIDERATIONS

### PREPAYMENTS

The rates of principal payments on the assets and the Pass-Through Certificates will depend on the rates of principal payments on the related mortgages. Mortgage principal payments may be in the form of scheduled amortization or partial or full prepayments. Prepayments include:

- Prepayments by the borrower.
- Liquidations resulting from default, casualty or condemnation.
- Payments made by Freddie Mac or GNMA under their guarantees of principal (other than payments of scheduled amortization).

The mortgages may be prepaid at any time, in most cases without penalty. Freddie Mac cannot make any representation regarding the likely prepayment experience of the mortgages underlying any pass-through pool.

Mortgage prepayment rates are likely to fluctuate significantly over time. Prepayment rates are influenced by many factors, especially mortgage interest rates. In general, as mortgage interest rates decline, borrowers tend to refinance their current mortgages, which results in faster prepayment rates on a mortgage pool. On the other hand, as mortgage interest rates increase, borrowers tend not to refinance their mortgages, which results in slower prepayment rates on a mortgage pool. Either of these scenarios can affect the yield of your investment in a Pass-Through Certificate, as discussed in more detail below.

The characteristics of particular mortgages may also influence their principal payment rates. For example, ARMs tend to have higher default rates than fixed-rate mortgages. In addition, the rate of principal payments on Pass-Through Certificates backed by ARMs may be affected by changes in scheduled amortization resulting from adjustments in the interest rates and monthly payment amounts of the underlying ARMs.

Transfers of mortgaged properties also influence prepayment rates. The mortgages underlying fixed-rate PCs generally include “due-on-transfer” clauses which provide that the holder of the mortgage may demand full payment of the mortgage upon the transfer of the mortgaged property. Freddie Mac, in most cases, requires mortgage servicers to enforce these clauses where permitted by applicable law. PC Offering Circulars discuss this further. ARMs and mortgages underlying GNMA Certificates generally do not include due-on-transfer clauses.

If you are purchasing a Pass-Through Certificate backed by PCs, you should review the discussion of prepayments and yields in the PC Offering Circular.

### YIELDS

#### General

In general, your yield on any class of Pass-Through Certificates will depend on several variables, including:

- The price you paid for that class.
- The rate of principal prepayments on the underlying mortgages.

- The actual characteristics of the underlying mortgages.
- In the case of adjustable rate Pass-Through Certificates, the levels of the interest rates on the underlying ARMS, as adjusted from time to time.

You should carefully consider the yield risks associated with Pass-Through Certificates, including these:

- If you purchase a class at a discount to its principal amount and the rate of principal payments on the underlying mortgages is slower than you expect, you will receive payments over a longer period than you expect, so the yield on your investment will be lower than you expect. This is especially true for a PO Class.
- If you purchase a class at a premium over its principal amount and the rate of principal payments on the underlying mortgages is faster than you expect, you will receive payments over a shorter period than you expect, so the yield on your investment will be lower than you expect.
- If you purchase an IO Class or any other class at a significant premium over its principal amount and there are fast principal payments on the underlying mortgages, you may not even recover your investment in that class.
- In general, the rate of mortgage prepayments early in your investment has the greatest effect on your yield to maturity. As a result, a negative effect on your yield produced by principal prepayments at a higher (or lower) rate than you expect in the period immediately following your purchase of a Pass-Through Certificate is not likely to be offset by an equivalent reduction (or increase) in that rate in later periods.
- Mortgages tend to prepay fastest when prevailing interest rates are low. When this happens, you may not be able to reinvest your principal payments in comparable securities at as high a yield.

### **Yields of ARM Pass-Through Certificates**

If you invest in adjustable rate Pass-Through Certificates, you should consider the following additional risks:

- If the index levels used to adjust the underlying ARMs are lower than you expect, the yield on your investment could be lower than you expect.
- The interest rates on ARMs are subject to limits on the amount they can adjust on each adjustment date. The total amount that a mortgage can adjust may also be limited by lifetime ceilings and, in some cases, lifetime floors.
- Class coupons for adjustable rate Pass-Through Certificates generally adjust monthly, based on a weighted average of the interest rates on the underlying ARMs. The interest rates on the underlying ARMs may adjust monthly, semi-annually, annually or at other intervals. As a result, the class coupon of your Pass-Through Certificates may not fully reflect current interest rates.
- Disproportionate principal payments, including prepayments, on ARMs that have relatively low and high interest rates compared to the other ARMs in the same pool will

affect the level of the class coupons for the related Pass-Through Certificates, even if the interest rates on those ARMs remain unchanged.

- When mortgage interest rates are generally low, which usually results in faster prepayments, the index value may be high. On the other hand, when mortgage interest rates are generally high, which usually results in slower prepayments, the index value could be low. Either of these scenarios could result in a lower than expected yield on adjustable rate Pass-Through Certificates.
- No index will remain constant at any value. Even if the average value of an index is consistent with what you expect, the timing of any changes in that value may affect your actual yield. In general, the earlier a change in the value of the applicable index, the greater the effect on your yield. As a result, a negative effect on your yield produced by an index value that is higher (or lower) than you expect early in your investment is not likely to be offset by an equivalent reduction (or increase) in that value in later periods.

### **Payment Delay**

The effective yield on any interest-bearing Pass-Through Certificate will be less than the yield that its class coupon and purchase price would otherwise produce, because:

- On its first Payment Date, 30 days' interest will be payable on the Pass-Through Certificate even though interest began to accrue approximately 45 to 75 days earlier, depending on its Payment Delay.
- On each Payment Date after the first, the interest payable on the Pass-Through Certificate will accrue during its Accrual Period, which will end approximately 15 to 45 days before that Payment Date, depending on its Payment Delay.

### **SUITABILITY**

Pass-Through Certificates may not be suitable investments for you. You should consider the following before you invest in Pass-Through Certificates.

- Pass-Through Certificates are not appropriate investments if you require a single lump sum payment on a date certain, or if you require an otherwise definite payment stream.
- A market may not develop for the sale of some types of Pass-Through Certificates after their initial issuance. Even if a market develops, it may not continue. As a result, you may not be able to sell your Pass-Through Certificates easily or at prices that will allow you to realize your desired yield.
- The market values of your Pass-Through Certificates are likely to fluctuate, primarily in response to changes in prevailing interest rates. Such fluctuations may result in significant losses to you.
- The secondary markets for mortgage-related securities have experienced periods of illiquidity in the past, and can be expected to do so in the future. Illiquidity can have a severely negative effect on the prices of Pass-Through Certificates, especially those that are particularly sensitive to prepayment, redemption or interest rate risk or that have been structured to meet the investment needs of limited categories of investors.

- The Pass-Through Certificates of some classes may not be eligible to back Freddie Mac REMIC classes or other Freddie Mac structured transactions. This may impair the liquidity of those classes.
- Pass-Through Certificates are complex securities. Before investing in a Pass-Through Certificate, you should be able, either alone or with a financial advisor, to evaluate the information contained and incorporated in this Offering Circular and in the related supplement. You should evaluate the information in the context of your personal financial situation and your views on possible and likely interest rate and economic scenarios.

This Offering Circular does not describe all the possible risks of an investment in Pass-Through Certificates that may result from your particular circumstances, nor does it project how Pass-Through Certificates will perform under all possible interest rate and economic scenarios. You should purchase Pass-Through Certificates only if you understand and can bear the prepayment, redemption, yield, liquidity and market risks associated with your investment under a variety of interest rate and economic scenarios. If you purchase Pass-Through Certificates, you need to have enough financial resources to bear all the risks related to your Pass-Through Certificates.

#### **TABULAR INFORMATION IN SUPPLEMENTS**

In order to illustrate the effect of prepayments on classes of Pass-Through Certificates, the related supplements may include tables that show the following information, in each case under various prepayment scenarios:

- Pre-tax yields to maturity.
- Weighted average lives.
- Cash flows.
- Declining principal balances.

All of the tables shown in a supplement will be based on assumptions about the underlying mortgages. Because the mortgages will have characteristics that differ from those assumed in preparing any table, the actual weighted average lives, pre-tax yields, cash flows and declining principal balances are likely to differ from those shown, even in the unlikely event that all the underlying mortgages were to prepay at the assumed rates.

## **Yield Calculations**

We calculate pre-tax yields by:

1. Determining the monthly discount rates (whether positive or negative) that, when applied to the assumed stream of cash flows to be paid on a class, would cause the discounted present value of those cash flows to equal the assumed purchase price of the class.
2. Converting the monthly rates to corporate bond equivalent (semiannual payment) rates.

These yield calculations do not take into account any variations in the interest rates at which you might reinvest payments that you receive. Consequently, they will not reflect the return on any investment when those reinvestment rates are considered.

## **Weighted Average Lives**

The weighted average life of a security refers to the average amount of time that will elapse from the date of its issuance until each dollar of principal has been repaid to the investor. The weighted average lives of the classes of Pass-Through Certificates will depend primarily on the rate at which principal is paid on the mortgages. We calculate weighted average lives by:

1. Multiplying the assumed reduction, if any, in the principal amount on each Payment Date by the number of years from the date of issuance to that Payment Date.
2. Summing the results.
3. Dividing the sum by the aggregate amount of the assumed reductions in principal amount.

## **Prepayment Models**

Prepayments on pools of mortgages can be measured based on a variety of prepayment models. The models typically used in supplements for Pass-Through Certificates will be The Bond Market Association's standard prepayment (or "PSA") model and the constant prepayment rate (or "CPR") model.

The PSA model assumes that:

- Mortgages will prepay at an annual rate of 0.2% in the first month after origination.
- The prepayment rate will increase by an annual rate of 0.2% per month up to the 30th month after origination.
- The monthly prepayment rate will be constant at 6% per annum in the 30th and later months.

This assumption is called "100% PSA." For example, at 100% PSA, mortgages with a loan age of three months (mortgages in their fourth month after origination) are assumed to prepay at an annual rate of 0.8%. "0% PSA" assumes no prepayments; "50% PSA" assumes prepayment rates equal to 0.50 times 100% PSA; "200% PSA" assumes prepayment rates equal to 2.00 times 100% PSA; and so forth.

The CPR model assumes an annual constant mortgage prepayment rate each month relative to the then outstanding principal balance of a pool of mortgages for the life of that pool. For example, at 6% CPR, the CPR model assumes that the monthly prepayment rate will be constant at 6% per annum. (For mortgages in their 30th and later months, 6% CPR corresponds to 100% PSA.)

Neither the PSA nor the CPR model describes historical prepayment experience or can predict the prepayment rate of any actual mortgage pool.

Even though the tables in a supplement will use assumed mortgage prepayment rates, the underlying mortgages will not prepay at a constant rate until maturity, nor will all of those mortgages prepay at the same rate. You must make an independent decision regarding the appropriate principal prepayment scenarios to use in deciding whether to purchase Pass-Through Certificates.

## THE PASS-THROUGH AGREEMENT

We create Pass-Through Certificates under a Pass-Through Certificates Agreement dated the same date as this Offering Circular. We prepare a “**Terms Supplement**” for each offering of Pass-Through Certificates. For any particular offering, the Pass-Through Agreement and the applicable Terms Supplement together constitute the “**Pass-Through Agreement.**”

The following summary describes various provisions of the Pass-Through Agreement. This summary is not complete. You should refer to the Pass-Through Agreement if you would like further information about its provisions. You can obtain copies of the Pass-Through Agreement, including any Terms Supplements, from Investor Inquiry at Freddie Mac. Your receipt and acceptance of a Pass-Through Certificate constitutes your unconditional acceptance of all the terms of the Pass-Through Agreement.

## VARIOUS MATTERS REGARDING FREDDIE MAC

Freddie Mac and its directors, officers, employees and agents will not be liable to Holders for any action taken or omitted in good faith or for errors in judgment. However, they will not be protected against any liability that results from their willful misfeasance, bad faith, gross negligence or reckless disregard of their obligations.

The Pass-Through Agreement requires Freddie Mac to hold and administer pass-through pool assets using the same standards as for similar assets that it owns. Holders will not be able to direct or control Freddie Mac’s actions under the Pass-Through Agreement, unless an Event of Default occurs.

Except with regard to its guarantee obligations or other payment obligations, Freddie Mac will not be liable for any Holder’s direct damages unless Freddie Mac has failed to exercise the same degree of ordinary care that it exercises in the conduct of its own affairs. Freddie Mac will not be liable for any Holder’s consequential damages.

In addition, Freddie Mac need not appear in any legal action that is not incidental to its responsibilities under the Pass-Through Agreement and that we believe may result in any expense or liability. However, Freddie Mac may undertake any legal action that we believe is necessary or desirable in the interests of the Holders. Freddie Mac will bear the legal costs of any such action.

Freddie Mac may acquire all or part of the Pass-Through Certificates of any class. Pass-Through Certificates we hold will be treated the same as Pass-Through Certificates of the same class held by other Holders.

The Pass-Through Agreement will be binding upon any successor to Freddie Mac.

## **EVENTS OF DEFAULT**

“Events of Default” under the Pass-Through Agreement are:

- Any failure by Freddie Mac to pay principal or interest that lasts for 30 days.
- Any failure by Freddie Mac to perform in any material way any other obligation under the Pass-Through Agreement, if the failure lasts for 60 days after Freddie Mac receives notice from the Holders of at least 60% of the outstanding principal or notional principal amount of an affected class.
- Specified events of bankruptcy, insolvency or similar proceedings involving Freddie Mac (but not including the appointment of a conservator or similar official for Freddie Mac).

## **RIGHTS UPON EVENT OF DEFAULT**

If an Event of Default under the Pass-Through Agreement is not remedied, the Holders of at least 50% of the outstanding principal or notional principal amount of any affected class of Pass-Through Certificates may remove Freddie Mac and nominate a successor to Freddie Mac, except as to its guarantee obligations. That nominee will replace Freddie Mac unless Freddie Mac objects within ten days after the nomination. In that event, either Freddie Mac or anyone who has been a bona fide Holder of an affected class for at least six months may ask a court to appoint a successor. The court may then appoint a successor to Freddie Mac except as to its guarantee obligations.

## **VOTING UNDER ANY PC OR REMIC AGREEMENT**

Holders of PCs and Freddie Mac REMIC classes have various rights under the agreements governing their securities. For example, if an “event of default” occurs under one of these agreements, holders of a specified percentage of the affected PCs or REMIC classes may seek to remove Freddie Mac under that agreement. Freddie Mac itself holds the PCs and REMIC classes that back Pass-Through Certificates. However, the Pass-Through Agreement generally allows the Holders of the Pass-Through Certificates, rather than Freddie Mac, to act if an event of default occurs under the related PC or REMIC agreement. For this purpose, the Holders of Pass-Through Certificates will be treated as the holders of the affected PC or REMIC class in proportion to the outstanding principal amounts of their Pass-Through Certificates.

Holders of PCs and Freddie Mac REMIC classes also have the right to consent to amendments to their governing agreements. The Pass-Through Agreement provides that, as the holder of a PC or REMIC class that backs Pass-Through Certificates, Freddie Mac may consent to such an amendment. However, if the amendment would adversely affect in any material way the interests of the Holders of Pass-Through Certificates, Freddie Mac may not agree to it unless Holders of at least 50% of the outstanding principal or notional principal amount of each affected class consent in writing. Despite this rule, Freddie Mac may amend a PC agreement, without the consent of Holders, if the amendment changes Freddie Mac’s procedures for calculating payments or passing through prepay-

ments on PCs that back pass-through pools formed after September 1, 1995. See the PC Offering Circular for information about payments on PCs.

## AMENDMENT

Freddie Mac may amend the Pass-Through Agreement without the consent of any Holders to:

- Cure any ambiguity or to correct or add to any provision in the Pass-Through Agreement, if the amendment does not adversely affect Holders in any material way.
- Maintain the qualification of any pass-through pool as a grantor trust under the Internal Revenue Code of 1986 (the “Code”).
- Avoid the imposition of any state or federal tax on a pass-through pool.

With the consent of the Holders of at least 50% of the outstanding principal or notional principal amount of any affected class, Freddie Mac also may amend the Pass-Through Agreement in any other way. However, unless each affected Holder consents, Freddie Mac may not amend the Pass-Through Agreement to impair the rights of Holders to receive payments (including guarantee payments) when due or to sue for any payment that is overdue.

## GOVERNING LAW

The Pass-Through Agreement is to be interpreted in accordance with federal law. If there is no applicable federal precedent and if the application of New York law would not frustrate the purposes of the Freddie Mac Act, the Pass-Through Agreement or any Pass-Through Certificate transaction, then New York law will be deemed to reflect federal law.

## CERTAIN FEDERAL INCOME TAX CONSEQUENCES

### GENERAL

Any discussion of tax matters in this Offering Circular and any applicable supplement was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding tax penalties that may be imposed on such person. Such discussion was written to support the promotion and marketing of the Pass-Through Certificates. Investors should consult their own independent tax advisors regarding the Pass-Through Certificates and each investor’s particular circumstances.

The following is a general discussion of the material federal income tax consequences relating to the purchase, ownership and transfer of Pass-Through Certificates. It does not address all the federal income tax consequences that may apply to particular categories of investors. Some investors may be subject to special rules. **The tax laws and other authorities for this discussion are subject to change or differing interpretations, and any change or interpretation may apply retroactively. You should consult your own tax advisors to determine the federal, state, local and any other tax consequences that may be relevant to you.**

Although Freddie Mac is a government-sponsored enterprise, neither the Pass-Through Certificates nor the income received from them is exempt from federal income, estate or gift taxes under the Code. Further, neither the Code nor the Freddie Mac Act exempts the Pass-Through Certificates or income on them from taxation by any state, any United States possession or any local taxing authority.

If you exchange assets for Pass-Through Certificates (or for Pass-Through Certificates and cash) you may be required to recognize gain or loss on the exchange. If you enter into such an exchange, you should consult your own tax advisors about this matter.

We will report income on the Pass-Through Certificates to the Internal Revenue Service (the “**Service**”) and to Holders of Pass-Through Certificates based, in part, on the final Treasury Regulations under Sections 1271-1275 of the Code (the “**OID Regulations**”).

The federal income tax treatment of some classes of Pass-Through Certificates depends on the treatment of those classes under the “stripped bond” rules of Section 1286 of the Code. Debt instruments can be characterized in various ways under the stripped bond rules, including the possible application of the final regulations governing the taxation of contingent payment obligations. Because of this uncertainty and the relationship between the stripped bond rules and the contingent payment obligation rules, you should consult your own tax advisors regarding the proper tax treatment of these Pass-Through Certificates. The tax information we will provide for Pass-Through Certificates will assume that the contingent payment obligation rules are not applicable.

We will treat Stripped Giant Certificates and Stripped Interest Certificates (each, for tax purposes, a “**Strip**”) according to the rules discussed below under *Strips*. Also, if a class of Strips backs a Pass-Through Certificate, the same rules may apply indirectly to that Pass-Through Certificate. We will describe this in the applicable supplement.

The arrangements under which Giant Certificates, Strips, SPCs and CPCs are created and sold and the related pass-through pools are administered will be classified as grantor trusts under subpart E, part I of subchapter J of the Code and not as associations taxable as corporations.

If you own a Giant Certificate or a SPC, you will be treated for federal income tax purposes as the owner of a pro rata undivided interest in each of the assets of the related pass-through pool, subject to the discussion below under *Giant Certificates — Application of the Stripped Bond Rules*.

If you own a Strip, you will be treated for federal income tax purposes as the owner of the right to receive payments of principal and/or interest, as applicable, on the assets in the related pass-through pool.

## **Tax Status**

Giant Certificates will be considered to represent “loans . . . secured by an interest in real property” within the meaning of Section 7701(a)(19)(C)(v) of the Code and generally will be considered to represent “real estate assets” within the meaning of Section 856(c)(5)(B) of the Code. Interest income from the Giant Certificates generally will be considered to represent “interest on obligations secured by mortgages on real property” within the meaning of Section 856(c)(3)(B) of the Code. In the event that any Mortgage has a loan to value ratio (“**LTV**”) in excess of 100 percent (that is, the amount of any Mortgage exceeds the fair market value of the real property securing the Mortgage), the interest income on the excess portion of the Mortgage will not be “interest on obligations secured by mortgages on real property” within the meaning of Section 856(c)(3)(B) of the Code and such excess portion of the Mortgage will not be a “real estate asset” within the meaning of Section 856(c)(5)(B) of the Code. The excess portion should represent a “Government security” within the meaning of Section 856(c)(4)(A) of the Code. If a Giant Certificate contains a Mortgage with an LTV in excess of 100 percent, a holder that is a real

estate investment trust should consult its tax advisor concerning the appropriate tax treatment of such excess portion.

Although there is no specific precedent and the characterization of the Strips is not entirely free from doubt, Strips should be considered to represent “loans . . . secured by an interest in real property” within the meaning of Section 7701(a)(19)(C)(v) of the Code and generally should be considered to represent “real estate assets” within the meaning of Section 856(c)(5)(B) of the Code, and original issue discount and interest from the Strips generally should be considered to represent “interest on obligations secured by mortgages on real property” within the meaning of Section 856(c)(3)(B) of the Code. In the event that some portion of a Strip is backed by a Mortgage with an LTV in excess of 100 percent, a portion of the interest income on the Strip that is attributable to that Mortgage will not be “interest on obligations secured by mortgages on real property” within the meaning of Section 856(c)(3)(B) of the Code and a portion of the Strip that is attributable to a Mortgage with an LTV in excess of 100 percent will not be a “real estate asset” within the meaning of Section 856(c)(5)(B) of the Code. The portion of a Strip that does not qualify as a “real estate asset” within the meaning of Section 856(c)(5)(B) of the Code should represent a “Government security” within the meaning of Section 856(c)(4)(A) of the Code. If a Strip is backed by a Mortgage with an LTV in excess of 100 percent, a holder that is a real estate investment trust should consult its tax advisor concerning the appropriate tax treatment of such excess portion.

## **GIANT CERTIFICATES**

### **General**

If you own Giant Certificates, you must report on your federal income tax return your pro rata share of the entire income from the mortgages underlying the assets in the related pass-through pool, in accordance with your method of accounting. Income will include gross interest income at the interest rates on the mortgages and incidental fees, if any.

You generally will be able to deduct, under Section 162 or 212 of the Code, your pro rata share of servicers' fees or any Freddie Mac or GNMA guarantee fees, including incidental fees paid by the borrowers and retained by the servicers, Freddie Mac or GNMA, and all administrative and other expenses of the pass-through pool in accordance with your method of accounting. The Code limits the deductions for these miscellaneous itemized deductions for some investors.

### **Discount and Premium**

If you purchase a Giant Certificate, you will be treated as purchasing an interest in each of the underlying mortgages at a price determined by allocating the purchase price paid for that Giant Certificate among the mortgages in proportion to their fair market values at the time of purchase. To the extent that the portion of the purchase price allocated to a mortgage is less than or greater than the portion of the principal balance of the mortgage allocated to the Giant Certificate, the interest in the mortgage will be deemed to have been acquired with discount or premium, respectively. The treatment of any discount will depend on whether the discount represents original issue discount or market discount.

You should consult your own tax advisors to determine whether Section 1272(a)(6) of the Code, as expanded by the Taxpayer Reform Act of 1997, could affect the accrual of discount or

amortization of premium on your Giant Certificates or otherwise affect the tax accounting for your Giant Certificates.

If you recognize gain or loss attributable to discount or premium that is not characterized as original issue discount, market discount or amortizable bond premium (described below), your gain or loss will be treated as capital gain or loss.

*Original Issue Discount.* You will be required to report as ordinary income your pro rata share of any original issue discount related to the mortgages underlying the Giant Certificate pursuant to Sections 1271-1273 and 1275 of the Code. Original issue discount may arise as a result of initial incentive or “teaser” interest rates on ARMs or points charged at origination. You will be required to accrue original issue discount into current income only if it exceeds a *de minimis* amount. The mortgages also would be subject to the original issue discount rules if, as discussed below, the “stripped bond” provisions of the Code were determined to be applicable.

Freddie Mac intends to treat any negative amortization on an ARM underlying a Giant Certificate as original issue discount. You will be required to include any resulting deferred interest in income in the period in which it accrues.

*Market Discount.* The market discount rules of Sections 1276-1278 of the Code will apply to treat market discount in excess of a *de minimis* amount as ordinary income. You must recognize accrued market discount to the extent of gain realized on disposition or to the extent of principal payments that you receive. The market discount rules provide that:

- Market discount will be considered to accrue under a straight-line method unless you elect to calculate it under a constant interest method.
- Interest that you paid or that accrues on indebtedness that you incurred or continued to purchase or carry mortgages acquired at a market discount will be allowed as a deduction only to the extent that such interest, reduced by the interest on the mortgages includible in income, including original issue discount, is greater than the market discount that accrued but was not taken into account during the taxable year such interest was paid or accrued. Any such interest expense that is deferred will, in general, be allowed as a deduction when the related market discount income is recognized.
- Alternatively, you may elect to include market discount in income currently, under either a straight-line method or a constant interest method, on all market discount obligations you hold except those acquired in taxable years before the year of the election. An election to include market discount as income currently can be revoked only with the Service’s consent. In this event, the rules about ordinary income on disposition and interest deferral discussed above will not apply.

The exact application of the market discount rules is not clear.

*Premium.* If you have purchased your interest in any mortgage at a premium, the premium may be amortizable under a constant interest method at your election under Section 171 of the Code. The premium is treated as an offset to interest income includable with respect to the mortgage. An election to amortize premium will apply to all debt instruments you hold at the beginning of the tax year for which you make the election and to all such instruments acquired after the election. An election to amortize premium can be revoked only with the Service’s consent.

*Constant Yield Method.* You may elect to include in gross income all interest that accrues on a mortgage by using the constant yield method. For purposes of this election, interest would include stated interest, *de minimis* original issue discount, original issue discount, *de minimis* market discount and market discount, as adjusted by any premium. You should consider the relationship between this election and the elections described above under *Market Discount* and *Premium*.

### **Sale or Exchange of a Giant Certificate**

If you sell a Giant Certificate, you will recognize gain or loss equal to the difference between your adjusted tax basis in the Giant Certificate and the amount you realized in the sale (not including amounts attributable to accrued and unpaid interest, which will be treated as ordinary interest income).

In general, your adjusted tax basis in the Giant Certificate will equal what you paid for the Giant Certificate, plus the amount of any discount income you previously reported on the Giant Certificate, less the amount of any premium you previously offset against interest income on the Giant Certificate and the amount of any principal payments you received on it.

You must report accrued but unrecognized market discount as ordinary income, but your gain or loss otherwise will be a capital gain or loss if you held the Giant Certificate as a capital asset. The capital gain or loss will be long-term or short-term, depending on whether you owned the Giant Certificate for the long-term capital gain holding period (currently more than one year).

### **Application of the Stripped Bond Rules**

When we issue a class of Giant Certificates, Revenue Ruling 71-399, 1971-2 C.B. 433, issued to us by the Service, indicates that any difference between interest payable at the mortgage interest rate and the sum of (a) interest payable at the class coupon plus (b) fees applicable to the mortgages (servicers' fees or any Freddie Mac or GNMA guarantee fees) should be accounted for as discount income or premium expense. If such sum exceeds the mortgage interest rate, the difference is characterized as "discount" and considered additional gross income. If such sum is less than the mortgage interest rate, the net difference is characterized as "premium expense."

In Revenue Ruling 71-399, the Service ruled that discount income is to be included as ordinary income in accordance with the beneficial owner's method of accounting, and that premium expense may be deductible in accordance with applicable rules. The Service, however, may contend that by reason of enactment of the stripped bond rules of Section 1286 of the Code (or its predecessor, Section 1232B), Revenue Ruling 71-399 is no longer applicable in characterizing such difference.

The Service has issued guidance taking the position that, when mortgages are sold and the servicer is entitled to receive amounts that exceed reasonable compensation for the mortgage servicing to be performed, the mortgages are treated as stripped bonds within the meaning of Section 1286 of the Code. If this treatment applies, you would not be treated as having a pro rata undivided interest in the underlying mortgages, but rather you would be treated as owning "stripped bonds" to the extent of your share of principal payments and "stripped coupons" to the extent of the class coupon plus reasonable servicing fees and guarantee fees. The consequences of this characterization are described below under *Strips*.

The Service has also issued guidance providing that a purchaser of a mortgage that is a stripped bond must treat it as a market discount bond if the amount of original issue discount on the stripped

bond is considered to be zero after application of the *de minimis* rule of Section 1273(a)(3) of the Code or if the annual stated rate of interest payable on the stripped bond is 100 basis points or less below the annual stated rate of interest payable on the mortgage. These conditions apparently are based on the premise that the interest payments which remain associated with the stripped bond are treated, for purposes of the original issue and market discount provisions of the Code, as stated interest payable with respect to the stripped bond. If these conditions are met, you would be required to account for any market discount in accordance with the rules for market discount as described above under *Discount and Premium*.

It is unclear whether the position taken by the Service in the guidance would be upheld if challenged.

## **STRIPS**

### **General**

Under Section 1286 of the Code, “stripped bonds” are created as a result of the separation of the ownership of the right to receive some or all interest payments on an obligation from the right to receive some or all of the principal payments. If you own a Strip, you will be considered to own the following:

- Stripped bonds, to the extent of your share of principal payments on the underlying assets.
- Stripped coupons, to the extent of your share of interest payments on the underlying assets.

Section 1286 treats a stripped bond or a stripped coupon, for purposes of applying the original issue discount rules, as a debt instrument issued with original issue discount on the date that you purchase the stripped interest. While it is unclear whether the original issue discount calculations described below should be done separately for each principal and/or interest payment on a Strip, or by treating all such payments as if they were made on a single debt instrument, we intend to treat a Strip as a single debt instrument for purposes of information reporting.

### **Determination of Income on Strips**

You must include original issue discount on each Strip in your ordinary income for federal income tax purposes as it accrues, which may be prior to receipt of the cash attributable to such income. You must include this in accordance with a constant interest method that takes into account the compounding of interest. Although not free from doubt (see *Possible Alternative Characterizations*), the amount of original issue discount you are required to include in your income in any taxable year likely will be computed as described below. This computation will:

- Use the prepayment rate assumed in pricing the transaction as stated in the applicable supplement (the “**Pricing Speed**”).
- Assume, in the case of a Strip which includes rights to variable interest payments, a level of future payments on the underlying mortgages based on the initial level of the variable rate.
- Require periodic adjustments to take into account actual prepayment experience.

Generally, if you own a Strip, you must include in your gross income the sum of the “daily portions,” as defined below, of the original issue discount on the Strip for each day that you own it, including the date you purchased it, but not including the date you dispose of it.

You can determine the daily portions of original issue discount as follows:

1. Calculate the original issue discount that accrues during each month or, if applicable, the shorter period from the date of purchase to the end of the first month. For each period, you do this by:
  - Adding:
    - the present values at the end of the month of any payments to be received in future months, using the Pricing Speed (by using as a discount rate the yield to maturity of the Strip, as described below), and
    - any payments included in the stated redemption price of the Strip received during such month.
  - Subtracting from the above sum the “adjusted issue price” of the Strip at the beginning of the month.
    - The adjusted issue price of a Strip at the beginning of the first month, or shorter period, is its issue price.
    - The adjusted issue price of a Strip at the beginning of a month following the first month or shorter period is the adjusted issue price at the beginning of the immediately preceding month *plus* the amount of original issue discount allocable to that preceding month and *minus* the amount of any payment included in the stated redemption price made at the end of or during that preceding month and the amount of any loss recognized at the end of that preceding month.
2. Divide the original issue discount accruing during that month, or shorter period, by the number of days in the period.

The yield used in making these calculations should be the monthly rate (assuming monthly compounding) determined as of the date of purchase that, if used in discounting the remaining payments on the portion of the underlying mortgages allocable to the Strip, would cause the present value of those payments to equal your purchase price of the Strip.

It is not clear whether the Pricing Speed would be determined at the time you purchase the Strip or at the time the Strips are created and first sold. The Pricing Speed that we will use for purposes of information reporting will be the same for each class of Strips backed by the same pass-through pool, and will be determined based upon conditions at the time of the initial creation and sale of the related Strips.

Under the method for calculating the accrual of original issue discount described above, the rate at which you recognize original issue discount on a Strip and, in the case of an IO Class, the amount of such original issue discount depend on the actual rate of prepayment of the underlying mortgages and the relative amount of principal and interest on each mortgage represented by the Strip.

If the method for computing income for any particular month results in a negative amount, you may be entitled to deduct such amount as a loss only against future income from the Strip. However, you should be entitled to deduct a loss to the extent that your remaining basis would otherwise exceed the maximum amount of future payments which you are entitled to receive (determined by assuming that no future prepayments will occur on the underlying mortgages).

### **Treatment of Servicing Fee for Federal Income Tax Purposes**

For purposes of tax reporting, either of the following amounts will be allocated to related classes of Strips, based on relative amounts of original issue discount accrued during each accrual period on each class:

- The excess of the interest paid on the mortgages over the aggregate interest payable on the related Strips.
- The portion of that excess that represents reasonable servicing fees, as described above under *Giant Certificates — Application of the Stripped Bond Rules*.

If you own a Strip, you will be entitled to deduct each year, in accordance with your method of accounting, the amount of the servicing fee allocated to you to the same extent as if you paid the amount of the servicing fee directly. The Code limits the deductions for such servicing fees for some investors.

### **Sale of a Strip**

If you sell a Strip, you will recognize a gain or loss equal to the difference, if any, between the amount realized and your adjusted basis in the Strip. The gain or loss will be a capital gain or loss if you held the Strip as a capital asset. The capital gain or loss will be long-term or short-term, depending on whether you owned the Strip for the long-term capital gain holding period (currently more than one year). In general, your adjusted basis in the Strip will equal the amount you paid for the Strip, plus the amount of original issue discount you previously reported on the Strip, minus the amount of any payments included in the stated redemption price of the Strip received by you and the amount of any losses previously recognized by you with respect to the Strip.

### **Possible Alternative Characterizations**

The Service could assert that you must use a method other than the one described above to determine the accrual of original issue discount. For example, the Service might require that original issue discount for a month be calculated under the method described above except that both the yield and the remaining payments should be determined by assuming no further prepayments of the mortgages.

Further, the characterizations of Strips discussed above are not the only possible interpretations of the applicable Code provisions. For example, if you own a Strip, you may be treated as the owner of:

- One installment obligation consisting of the Strip's pro rata share of the payments attributable to principal on each mortgage and a second installment obligation consisting of the Strip's pro rata share of the payments attributable to interest on each mortgage.

- As many stripped bonds or stripped coupons as there are scheduled payments of principal and/or interest on each mortgage.
- A separate installment obligation for each mortgage, representing the Strip's pro rata share of payments of principal and/or interest to be made on that mortgage.

Alternatively, if you own Strips, you may be treated as owning (a) a pro rata fractional undivided interest in each mortgage to the extent that the Strip represents the same pro rata portion of principal and interest on each mortgage and (b) a stripped bond or stripped coupon, as applicable, to the extent of any disproportionate principal or interest.

In addition, the Service might assert that the contingent payment rules mentioned above under *General* should apply to certain Strips.

### **Purchase of More Than One Class of Strips**

Although the matter is not free from doubt, if you purchase more than one class of Strips issued from the same pass-through pool at the same time or in the same series of transactions, you should be treated for federal income tax purposes as having made a single purchase. If you purchase more than one class of Strips issued from the same pass-through pool in different transactions, it is unclear whether the federal income tax treatment of the Strips should be determined by treating each class separately or as described in the previous sentence.

### **SPCs**

If you own an SPC, you should review the applicable supplement for a description of the related assets, and the offering documents applicable to the assets for a description of the federal income tax consequences of owning the assets.

### **CPCs**

#### **Status of the CPC Classes**

*The Callable Class.* If you own a Callable Class, you will be treated as:

1. Owning an undivided interest in the underlying Callable Assets; and
2. Having written a call option on your interest in the underlying Callable Assets. The call option is represented by a proportionate part of the Call Right. You will be treated as having written the call option in exchange for an option premium equal to an amount computed under the rules described below.

Special considerations may apply to thrifts, REMICs, real estate investment trusts and regulated investment companies investing in a Callable Class.

*The Call Class.* If you own a Call Class, you will be treated as having purchased a call option on all the Callable Assets underlying the related Callable Class for an option premium equal to the price you paid for the Call Class.

If you own a Call Class and acquire an interest in the related Callable Class, the call option probably would be extinguished, to the extent of that interest, for at least as long as you held such interest, and you would be treated as holding a proportionate share of the underlying Callable Assets.

## Taxation of the CPC Classes

### *The Callable Class*

*Allocations.* If you own a Callable Class, you will be required, for federal income tax purposes, to account separately for the underlying Callable Assets and the call option you are deemed to have written. You must allocate your purchase price for the Callable Class between the Callable Assets and the call option based on the relative fair market values of each on the date of purchase. The (positive) amount that you allocate to the Callable Assets is your basis in the Callable Assets and the (negative) amount that you allocate to the call option is the option premium you are deemed to have received for writing the call option. Accordingly, your basis in the underlying Callable Assets will be *greater* than the amount you paid for the Callable Class.

Upon the sale, exchange or other disposition of the Callable Class, you must again allocate amounts between the underlying Callable Assets and the call option you were deemed to have written. This allocation is based on the relative fair market values of the Callable Assets and the call option on the date of sale. The (positive) amount that you allocate to the underlying Callable Assets is your amount realized with respect to the Callable Assets and the (negative) amount you allocate to the call option is the amount you are deemed to have paid to be relieved from your obligations under the call option. The amount realized with respect to the underlying Callable Assets will be *greater* than the amount actually received.

*Taxation of Underlying Callable Assets.* Except as described below under *Application of the Straddle Rules*, the anticipated material federal income tax consequences to you of purchasing, owning and disposing of your interest in the underlying Callable Assets will be as described in the offering materials for the Callable Assets.

*Taxation of Call Option Premium.* If you own a Callable Class, you will not be required to immediately include in your income the option premium that you were deemed to have received when you purchased the Callable Class. Rather, you need to take such premium into account only when the Call Right lapses, is exercised, or is otherwise terminated. As described above, an amount equal to that option premium is included in your basis in the Callable Assets. Your recovery of such basis will not occur at the same rate as the option premium is included in your income.

As the owner of a Callable Class, you will include the option premium in income as short-term capital gain when the Call Right lapses. Typically, the principal amount of the Callable Assets subject to the Call Right will be reduced over time due to principal payments. It is not entirely clear whether the Call Right would thus be deemed to lapse as the Callable Assets are paid down, and if so, at what rate. However, Freddie Mac intends to assume that the Call Right lapses, and you would recognize the related premium, proportionately as principal is paid on the Callable Assets (whether as scheduled principal payments or prepayments) after the first date on which the Call Right may be exercised. The Service may or may not agree with this method of determining income from the lapse of the Call Right.

If you own a Callable Class and the Call Right is exercised, you will add an amount equal to the unamortized portion of the option premium to the amount realized from the sale of the underlying Callable Assets. If you transfer your interest in a Callable Class, the transfer will be treated as a “closing transaction” with respect to the option you were deemed to have written. Accordingly, you will recognize a short-term capital gain or loss equal to the difference between the unamortized amount of option premium and the amount you are deemed to pay, under the rules

discussed above, to be relieved from such your obligation under the option.

*Taxation of Income from GIFC.* If a Callable Class is redeemed, the amount received by the pass-through pool from the Call Class Holder and not immediately payable to the Holders of the Callable Class will be invested by Freddie Mac in a Guaranteed Investment and Fee Contract (“GIFC”). The GIFC allows Freddie Mac to invest these amounts for the period from the date received to the date paid to Holders, and it provides for payment of a fee to Freddie Mac. If you own a redeemed Callable Class, you should treat your proportionate share of any accrued interest for the month of redemption as income earned under the GIFC for that period.

### ***The Call Class***

Since the purchase price paid by the investor in a Call Class will be treated as an option premium for the Call Right, it will be:

1. Added to the purchase price of the Callable Assets (in addition to any fee for the exchange) if the Callable Assets are purchased upon exercise of the Call Right.
2. Treated as a loss as the Call Right lapses.

For a discussion of when the Call Right may be deemed to lapse, see *The Callable Class — Taxation of Call Option Premium* above. Assuming that the underlying Callable Assets, if acquired, would be capital assets, then loss recognized on such lapse will be treated as a capital loss.

### **Application of the Straddle Rules**

If you own a Callable Class, the Service might take the position that your interest in the underlying Callable Assets and the call option constitute positions in a straddle. If this were correct, the straddle rules of Section 1092 of the Code would apply, with the following consequences:

- If you sell your Callable Class, you will be treated as selling your interest in the underlying Callable Assets at a gain or loss, which would be short-term because your holding period would be tolled. As discussed above, your gain or loss with respect to the option premium always will be short-term under the option rules, regardless of the application of the straddle rules.
- The straddle rules might require you to capitalize, rather than deduct, a portion of any interest and carrying charges allocable to your interest in a Callable Class.
- If the Service were to take the position that your interest in the underlying Callable Assets and the call option constitute a “conversion transaction” as well as a straddle, then a portion of the gain with respect to the underlying Callable Assets or the call option might be characterized as ordinary income.

### **Tax-Exempt Organizations**

In general, income or gain from the CPC classes will not be subject to the tax on unrelated business taxable income for a tax-exempt organization, if the CPC classes do not constitute “debt-financed property.”

### **EXCHANGE TRANSACTIONS**

If you surrender classes of Strips in return for an equivalent principal amount of the underlying Giant Certificate, or vice versa, you will not recognize gain or loss as a result.

If you surrender MACS in return for other MACS, you will not recognize gain or loss as a result.

## **BACKUP WITHHOLDING, FOREIGN WITHHOLDING AND INFORMATION REPORTING**

If you are a U.S. Person, you may be subject to federal backup withholding tax under Section 3406 of the Code on payments on your Pass-Through Certificate, unless you comply with applicable information reporting procedures or are an exempt recipient. Any such amounts withheld would be allowed as a credit against your federal income tax liability.

Payments made to an investor who is an individual, a corporation, an estate or a trust that is not a U.S. Person, or to a Holder on behalf of such an investor, generally will not be subject to federal income or withholding tax if:

- The mortgages underlying the investor's Pass-Through Certificates all were originated after July 18, 1984;
- The Pass-Through Certificate is not held by the investor in connection with a trade or business in the United States (or if an income tax treaty applies, is not attributable to a U.S. permanent establishment);
- The investor is not with respect to the United States a personal holding company or corporation that accumulates earnings in order to avoid United States federal income tax;
- The investor is not a U.S. expatriate or former U.S. resident who is taxable in the manner provided in Section 877(b) of the Code; and
- The investor provides a statement (on Internal Revenue Service Form W-8BEN or a similar substitute form) signed under penalties of perjury that includes its name and address and certifies that it is not a U.S. Person in accordance with applicable requirements.

Payments to an investor who is not a U.S. Person that represent interest on mortgages originated before July 19, 1984 may be subject to federal withholding tax at the rate of 30 percent or any lower rate provided by an applicable tax treaty.

Regardless of the date of origination of the mortgages, federal backup withholding tax will not apply to payments on a Pass-Through Certificate made to an investor who is not a U.S. Person if the investor furnishes an appropriate statement of non-U.S. status.

In general, an investor in a CPC will not be subject to federal withholding tax on amounts received or deemed received with respect to the option associated with the CPC.

We will make available to each Holder of a Pass-Through Certificate, within a reasonable time after the end of each calendar year, information to assist Holders and investors in preparing their federal income tax returns. The information made available to you may not be correct for your particular circumstances.

For these purposes, the term “**U.S. Person**” means one of the following:

- An individual who, for federal income tax purposes, is a citizen or resident of the United

States.

- A corporation (or other business entity treated as a corporation for federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia.
- An estate whose income is subject to United States income tax, regardless of its source.
- A trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. Persons have the authority to control all substantial decisions of the trust.
- To the extent provided in Treasury Department regulations, certain trusts in existence on August 20, 1996, and treated as U.S. Persons prior to such date, that elect to be treated as U.S. Persons.

If a partnership (or other entity treated as a partnership for federal income tax purposes) holds Pass-Through Certificates, the treatment of a partner will generally depend upon the status of the particular partner and the activities of the partnership. If you are a partner in such a partnership, you should consult your own tax advisors.

### **LEGAL INVESTMENT CONSIDERATIONS**

You should consult your own legal advisors to determine whether Pass-Through Certificates are legal investments for you and whether you can use Pass-Through Certificates as collateral for borrowings. In addition, financial institutions should consult their legal advisors or regulators to determine the appropriate treatment of Pass-Through Certificates under risk-based capital and similar rules.

If you are subject to legal investment laws and regulations or to review by regulatory authorities, you may be subject to restrictions on investing in some types of Pass-Through Certificates or in Pass-Through Certificates generally. Institutions regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Treasury Department or any other federal or state agency with similar authority should review applicable regulations, policy statements and guidelines before purchasing or pledging Pass-Through Certificates.

### **DISTRIBUTION ARRANGEMENTS**

Freddie Mac generally purchases assets from dealers and other customers, forms a pass-through pool consisting of those assets and sells the related Pass-Through Certificates through the same dealers or customers. Dealers and their affiliates may enter into other transactions with and provide other services to Freddie Mac in the ordinary course of business. Freddie Mac, the dealers or other parties may receive compensation, trading gain or other benefits in connection with transactions in Pass-Through Certificates. We typically receive a fee from the dealers and other customers for each offering.

Freddie Mac may retain or repurchase Pass-Through Certificates for its own portfolio, and may offer or re-offer such Pass-Through Certificates from time to time. These transactions may affect the market prices of Pass-Through Certificates.

Certain dealers may buy, sell and make a market in Pass-Through Certificates. The secondary market for Pass-Through Certificates may be limited. If a dealer sells a Pass-Through Certificate, the dealer is required to confirm the sale; notify the purchaser of the settlement date, purchase price, concessions and fees; and deliver a copy of this Offering Circular and the applicable supplement to the purchaser.

#### **INCREASE IN SIZE**

Before the settlement date for any offering of Pass-Through Certificates, Freddie Mac and any dealers or other customers may agree to increase the size of the offering. In that event, the Pass-Through Certificates will have the same characteristics as described in the applicable supplement, except that the original principal or notional principal amount of each class receiving payment from the same pass-through pool will increase by the same proportion.

**Appendix I**  
**INDEX OF TERMS**

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## Appendix II

### EXCHANGE PROCEDURES FOR STRIPPED GIANT CERTIFICATES

#### Information About Securities Eligible for Exchange

You can obtain the balances of classes of Pass-Through Certificates that are subject to exchange either from Freddie Mac's Internet Web-Site or from Investor Inquiry at Freddie Mac.

#### Notice

- If you want to enter into an exchange involving Stripped Giant Certificates (including MACS), you must notify Freddie Mac's Mortgage Funding and Investor Relations Department through a dealer that belongs to Freddie Mac's REMIC dealer group. The dealer must notify Freddie Mac by telephone (571-382-3767 or 866-903-2767) or by fax (571-382-4277).
- The notice must be received at least one business day before the proposed exchange date, and must include:
  - The outstanding principal or notional principal amounts of the securities to be exchanged and received.
  - The proposed exchange date, which is subject to Freddie Mac's approval.
- Your notice becomes irrevocable on the business day before the proposed exchange date.

#### Exchange Fee

- We may charge an exchange fee. If so, it will be calculated as described in the applicable supplement.
- Promptly after receiving your notice, Freddie Mac will call the dealer to give instructions for delivering the collateral. Freddie Mac will collect any exchange fee on a delivery versus payment basis.

#### Payments Following an Exchange

- Freddie Mac will make the first payment on the securities issued in an exchange in either the first or second month after their issuance, as determined by their Payment Delay.
- Freddie Mac will make the last payment on the securities surrendered in an exchange in either the month of the exchange or the following month, as determined by their Payment Delay.

#### Limitations on Ability to Exchange Classes

- You must own the right classes in the right proportions in order to enter into an exchange. The principal amount of the securities received in an exchange must equal the principal amount of the securities exchanged, and interest must be payable on the securities received in the same amount as would have been payable on the securities exchanged.
- If you do not own the right classes, you may not be able to obtain them because:
  - The owner of a class that you need for an exchange may refuse or be unable to sell that class to you at a reasonable price or at any price.
  - Some classes may be unavailable because they have been placed into other financial structures, such as a REMIC.
  - Principal payments and prepayments over time will decrease the amounts available for exchange.

### Appendix III

#### EXAMPLES OF MACS EXCHANGES

You may exchange one or more classes of a series of MACS (the “Old MACS”) for one or more different classes of MACS of the same series (the “New MACS”).

Freddie Mac will allow any exchange of MACS, so long as:

- The aggregate outstanding principal amount of the New MACS (rounded to whole dollars) immediately after the exchange equals that of the Old MACS immediately before the exchange. In this calculation, the outstanding principal amount of the IO Class always equals \$0.
- The aggregate Annual Interest Amount of the New MACS (rounded to whole dollars) equals that of the Old MACS. The “Annual Interest Amount” for any class equals its outstanding principal or notional principal amount times its class coupon.

The following examples illustrate some of the possible exchanges of Old MACS for New MACS. Assume that your Old MACS have the following characteristics. Also assume that the class coupon of the underlying Giant Certificate, and therefore that of the IO Class, is 8.5%.

#### *Old MACS*

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Class Coupon</u>	<u>Annual Interest Amount</u>
\$10,000,000	4.0	4.0%	\$ 400,000
10,000,000	8.0	8.0	800,000
<u>10,000,000</u>	18.0	18.0	<u>1,800,000</u>
<u>\$30,000,000</u>			<u>\$3,000,000</u>

#### *New MACS*

*Example 1:* You can receive New MACS consisting entirely of the 10.0 Class:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Class Coupon</u>	<u>Annual Interest Amount</u>
<u>\$30,000,000</u>	10.0	10.0%	<u>\$3,000,000</u>

*Example 2:* You can receive New MACS consisting of the PO and IO Classes:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Class Coupon</u>	<u>Annual Interest Amount</u>
\$30,000,000	PO	0.0%	\$ 0
<u>35,294,118 (notional)</u>	IO	8.5	<u>3,000,000</u>
<u>\$30,000,000</u>			<u>\$3,000,000</u>

*Example 3:* You can receive New MACS consisting of the 6.0, 9.0 and IO Classes:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Class Coupon</u>	<u>Annual Interest Amount</u>
\$20,000,000	6.0	6.0%	\$1,200,000
10,000,000	9.0	9.0	900,000
<u>10,588,236 (notional)</u>	IO	8.5	<u>900,000</u>
<u>\$30,000,000</u>			<u>\$3,000,000</u>

*Example 4:* You can receive New MACS consisting of the PO, 6.0, 9.0, and 20.0 Classes:

<u>Outstanding Principal Amount</u>	<u>Class</u>	<u>Class Coupon</u>	<u>Annual Interest Amount</u>
\$ 500,000	PO	0.0%	\$ 0
5,000,000	6.0	6.0	300,000
20,000,000	9.0	9.0	1,800,000
<u>4,500,000</u>	20.0	20.0	<u>900,000</u>
<u>\$30,000,000</u>			<u>\$3,000,000</u>

*Exchanges for Underlying Asset*

You also may exchange your Old MACS for an equivalent part of the underlying Giant Certificate. Continuing with the above examples, you could exchange \$10,000,000 of the 4.0 Class, \$10,000,000 of the 8.0 Class and \$5,263,158 of the 18.0 Class for \$25,263,158 of the underlying Giant Certificate, and vice versa. Such exchanges may occur repeatedly.

## Appendix IV

### REDEMPTION AND EXCHANGE PROCEDURES FOR CPCs

#### Notice

- If you own a Call Class and want to call the related Callable Class on any permitted Payment Date (the “**Redemption Date**”), you must notify Freddie Mac at least five business days (if the underlying asset is a Giant PC) or three business days (if the underlying asset is a Giant Security) before the related Record Date.
- You must notify Freddie Mac through a dealer that belongs to Freddie Mac’s REMIC dealer group. The dealer must notify Freddie Mac by telephone (571-382-3767 or 866-903-2767), followed by written confirmation (which may be by fax at 571-382-4277) on the same day in a form specified by Freddie Mac.

#### Related Fees and Payments

- The “**Initial Call Payment**” will equal:
  1. 5% of the principal amount of the Callable Class being redeemed, based on its Class Factor for the month preceding the Redemption Date, plus
  2. the amount of interest that would accrue on the Callable Class for the actual number of days from the first day of the month of redemption to the Redemption Date, calculated on the basis of its Class Factor for the month preceding the Redemption Date.

*Example:* If the Redemption Date falls on the 15th of a month, the Initial Call Payment would include 14 days of accrued interest. If it falls on the 16th of a month (because the 15th was not a Business Day), the Initial Call Payment would include 15 days of accrued interest. In each case, interest is based on a 360-day year.

- The “**Final Call Payment**” will equal 95% of the principal amount of the Callable Class being redeemed, based on its Class Factor that was published in the month preceding the Redemption Date.
- The “**Call Payment**” will equal the Initial Call Payment plus the Final Call Payment.
- The “**Redemption Price**” of a Callable Class will equal:
  1. 100% of the outstanding principal amount of the Callable Class, based on its Class Factor for the month preceding the redemption, plus
  2. accrued interest at its class coupon for the related Accrual Period on its outstanding principal amount, plus
  3. additional accrued interest at its class coupon for the actual number of days from the first day of the month of redemption to the Redemption Date, calculated on a reduced principal amount determined by the Class Factor that would have been published in the month of redemption were no redemption to occur.
- The “**Call Fee**” equals 1/32 of 1% of the outstanding principal amount of the Callable Class being redeemed (but not less than \$7,500).

### **Deposit of Initial Call Payment; Pledge**

- You must deposit the Initial Call Payment with Freddie Mac at the time that you notify Freddie Mac that you want to redeem the Callable Class.
- At the same time, you must pledge all of your interest in the underlying Giant Certificate to Freddie Mac as security for your obligation to pay the Final Call Payment and Call Fee. You must sign a pledge agreement prepared by Freddie Mac for this purpose.

### **Effect of Notice**

- Your notice of redemption and your pledge will become irrevocable when you deposit the Initial Call Payment.
- By the Record Date relating to the Redemption Date, Freddie Mac will post a notice on the Fed System that the Callable Class will be redeemed.
- In the month of redemption, Freddie Mac will reduce the Class Factors of both the Callable Class and the Call Class to zero to reflect the redemption that will occur in that month.

### **Exchange of Callable Assets**

- On the first Business Day of the month of redemption (the “**Exchange Date**”), Freddie Mac will transfer the related Callable Assets to you in exchange for:
  - The Call Class.
  - The Call Fee.
  - The Final Call Payment.
- Freddie Mac will give you instructions for delivery of the Call Class, Call Fee and Final Call Payment.
- Principal and interest on the Callable Assets received in the exchange will be payable to you in the month following the exchange.

### **Redemption of Callable Class**

- On the Redemption Date, Freddie Mac will redeem the Callable Class by paying its Holders, on a pro rata basis, the Redemption Price.
- Freddie Mac will not make any other payment on the Callable Class.
- Once redeemed, a Callable Class and its related Call Class will not be reissued.

### **Payment to Call Class Holder**

On the Redemption Date, Freddie Mac will pay to you:

- The excess of (a) the Call Payment plus payments received on the underlying Callable Assets in the month of redemption over (b) the Redemption Price.
- Interest on the Initial Call Payment and Final Call Payment from the dates you paid them to the Redemption Date. Freddie Mac will calculate interest at the prevailing federal funds rate determined daily as of the close of business, less 25 basis points.

### **Defaulting Call Class Holder**

If you fail to deliver the Call Class, Final Call Payment and Call Fee on the Exchange Date, then:

- On the next Business Day, Freddie Mac will liquidate the related Giant Certificate, in accordance with your pledge, in a commercially reasonable manner.
- Freddie Mac will charge you a liquidation fee in an amount equal to 1/2 of 1% of the proceeds of liquidation.
- Freddie Mac will apply the net proceeds of the liquidation, as necessary, to redeem the Callable Class.
- On the Redemption Date, Freddie Mac will pay to you the excess, if any, of:
  1. the Initial Call Payment, plus
  2. payments received on the underlying Callable Assets in the month of redemption, plus
  3. net proceeds to Freddie Mac from the liquidation of the Giant Certificate

*over*

  1. the Redemption Price for the related Callable Class, plus
  2. the liquidation fee.
- You will have no further right to or interest in the Call Class or the related Callable Asset.

### **Limitations**

Freddie Mac will permit the redemption of a Callable Class only if the underlying Giant Certificate has at least the market value specified in the related supplement.

- Freddie Mac will determine market value upon request of the dealer providing the redemption notice. The dealer must make the request at the same time as it gives the redemption notice by telephone.
- Freddie Mac will determine the market value based on bid quotations available at the time of the request.
- Freddie Mac's determination of the market value will be final and binding.

