Overview

Freddie Mac’s Weighted Average Coupon (WAC) ARM PC (“ARM PC”) program is popular among investors looking for short assets to match short-term liabilities and liabilities with floating rates. Investors value the liquidity and transparency of Freddie ARM securities. Fixed-income investors in the United States and abroad place a high value on the quality and liquidity of ARM PCs. Domestic and foreign ARM PC investors include money managers, thrift institutions, commercial banks, trust departments, pension funds, central banks and private investors.

ARM PCs differ from U.S. Treasury securities. First, they can be prepaid at any time since the underlying mortgages can be paid off by homeowners prior to a loan’s maturity. Because of this call option investors have implicitly sold to homeowners, mortgage-backed securities generally provide a higher nominal yield than comparable duration U.S. Treasury securities. Second, ARM PCs are not backed by the full faith and credit of the United States. Freddie Mac guarantees the timely payment of interest and ultimate payment of principal on all ARM PCs.

Monthly interest on ARM PCs is based on the weighted average of the note rates of the underlying mortgages, less the guarantee and servicing fees. ARM PC weighted averages may change monthly, reflecting possible changes in the underlying mortgage coupons.

Hybrid ARMs have an initial “fixed-rate” period, typically between two and ten years, followed by an adjustable-rate period. In recent years, Initial Interest™ ARM PCs have increased in volume and are offering investors an alternative to more traditional ARM products. Initial Interest ARM PCs are backed by mortgages, which require monthly payments of accrued interest only on the principal balance of the mortgage for a specified initial period, followed by fully amortizing monthly payments of principal and interest for the remaining term of the mortgage. The investment attributes and pooling parameters for Freddie Mac ARM PCs are available on our Web site at www.FreddieMac.com/mbs/docs/wac-arm_pool-parameters.pdf.

Certain Freddie Mac ARM PCs can be pooled together in a single Giant PC, enabling investors to manage their portfolios more efficiently. The flexibility of Freddie Mac’s ARM Giant PC program allows for a wide variety of assets to be used in Giant PC formation and maximizes the value and liquidity of Freddie Mac ARM PCs. All ARM Giant PCs bear interest at a pass-through coupon that adjusts monthly based on the weighted average of the note rates of the underlying mortgages in the ARM PCs. The pooling requirements for ARM Giant PCs can be found on our Web site at www.FreddieMac.com/mbs/docs/adjustable_rate_giant_pooling_req.pdf.

Investor Benefits

Liquidity

Freddie Mac ARM PCs provide superior liquidity in the market. Historically, Freddie Mac’s large issuance volume and high volume of ARM PCs outstanding have translated into a large and liquid market for Freddie Mac ARM PC securities.

Superior Credit Quality

ARM PCs may be appropriate for investors seeking an investment with high credit quality and an interest rate tied to market levels. Freddie Mac ARM PCs carry the strength of Freddie Mac’s guarantee of timely payment of interest and ultimate payment of principal.

Transparency

Freddie Mac provides loan-level disclosure on our mortgage-backed securities. This allows investors the ability to analyze our securities over time, including being able to better compare the prepayment behavior of the loans backing our securities.
Funding

ARM PCs are easily financed and are often used as collateral for repurchase transactions. ARM PCs can also be aggregated into larger, highly liquid Giant PC securities for a fee.

Timing of Payment for ARM PCs

Principal and interest for all Freddie Mac ARM PCs, including ARM Giant PCs, are paid on the 15th day (or next business day) of each month to holders of record on the last business day of the second month preceding the payment date. The following illustration demonstrates how the interest payment and principal payment are calculated:

Investor Tools

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

Investor Inquiry (800) 336-3672 or Investor_Inquiry@freddiemac.com

Speak with a knowledgeable securities information specialist available from 9:00 a.m. to 5:00 p.m., EST, Monday through Friday.

www.FreddieMac.com/mbs

Visit Freddie Mac’s Web site for quality information about Freddie Mac securities including product information, CUSIP lookup, mortgage securities data, subscription services and legal documentation.

Bloomberg (FMAC <GO>)

Experience the wide range of information available on Freddie Mac’s Bloomberg site, including product descriptions, PC prefix guide, security lookup and other mortgage securities issuance reports.

For additional information about Freddie Mac ARM PCs, visit Freddie Mac’s Web site at www.FreddieMac.com/mbs/html/product/arm-pc.html or contact Investor Inquiry at (800) 336-3672.