

➤ Product Overview: **Stripped Giant Certificates (Strips)**

Freddie Mac is a market leader in large, liquid, syndicated Strips. With a modifiable and combinable feature, Strips provide the investor with synthetic coupon options, an effective hedging tool and flexible exchanges.

What are Strips?

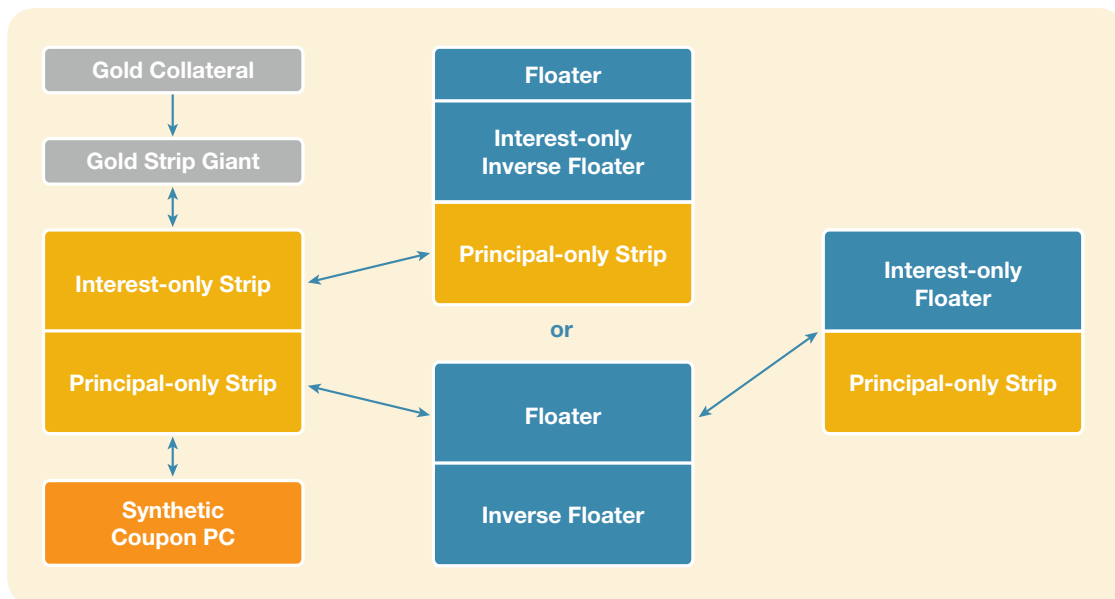
Freddie Mac Strips are formed from Giant PCs of Freddie Mac Gold PCs. In general, stripped mortgage-backed securities represent a mortgage pool's Interest-only (IO) and Principal-only (PO) cash flow components. Investors in the IO class usually receive 100 percent of the interest payments, but no principal payments from the underlying collateral. Investors in the PO class usually receive 100 percent of the principal payments and receive no interest payments from the underlying collateral.

IOs generally increase in value in high interest rate environments when prepayments are slow, and POs increase in value as interest rates decline and

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

Investor Benefits

Freddie Mac Strips are referred to as Gold Modifiable and Combinable Securities (MACS). Gold MACS have a modifiable and combinable feature that offers investors the ability to change the cash flows on their bonds for a small exchange fee. Investors can exchange a fixed-rate Giant PC for IO, PO or a variety of synthetic coupon PCs from a single strip offering. MACS offer a range of Interest-Principal (IP) coupon classes within a single strip that combine principal and interest cash flows in varying proportions to form new, synthetic coupon PCs. In addition to the synthetic coupon PCs, floater and inverse floater pairs may be produced.



Gold MACS allow the holders of both floating and inverse floating rate classes to exchange those classes for the underlying IO and PO Strips, and/or the underlying Gold Giant PC. Gold MACS also offer the ability to take the floater class, add the appropriate amount of IO, PO or inverse floater, and increase or decrease the margin and/or cap of the floater and inverse floater. The IO, PO and synthetic coupon classes may still be exchanged for the underlying Giant PC.

Hedging Tool

IOs, POs and IPs are formed by separating interest and principal cash flows on Giant PCs. Stripping Giant PCs into IO, PO and IP classes produce securities with different interest rate and prepayment profiles. Sensitivity to prepayment speed fluctuations can be an advantage to investors who need instruments to hedge against interest-rate risk.

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Flexible Exchanges

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

Strip Products

Known Collateral Strips

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

To Be Announced (TBA) Strips

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

Calendar Based Strips

Calendar Based Strips are intended to increase the demand for Gold PCs through greater predictability, greater transparency and a broad distribution. On the first business day of each offering month, Freddie Mac will announce offered coupons, minimum deal size, maximum deal size, collateral stipulations and transaction fees. With a pre-announced offering calendar and a longer offering period, Calendar Based Strips are aimed at improving investor access to participate in initial strip distributions.

Excess Servicing IO Strips

Through the Excess Servicing IO program, Freddie Mac provides servicers with liquidity for their retained servicing (above core). Excess yield cash-flow streams from loans sold to Freddie Mac are guaranteed and securitized. Freddie Mac will also provide structuring advice and a bid for the resulting securities. These transactions are negotiated on a case-by-case basis by servicer inquiry.

Strip Characteristics

Gold MACS, denoted by the prefixes S0 and S1, are backed by a single, newly-created Gold Giant PC that is backed by single-family, fixed-rate Gold PCs. Freddie Mac Giant PCs and stripped Giant PCs are issued and may be transferred by holders only on the book-entry system of the Federal Reserve Bank in minimum original amounts of \$1,000 and additional increments of \$1. All IOs, Inverse IOs, Floater IOs and POs have a minimum denomination of \$100,000 original notional or original principal face (or the total original notional or original principal balance if less than \$100,000).

Investor Tools

Because access to information is key to successful investment decisions, Freddie Mac offers a suite of informational tools to help investors decide which products are right for them.

- **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-backed securities data and legal documentation.

- **Bloomberg (FMAC <GO>)**

Experience the wide range of information available on Freddie Mac's Bloomberg site including product descriptions, product announcements and other mortgage securities issuance reports.

- **Gold Perspective®**

Gold Perspective®, a publication for the mortgage-backed securities investment community, features insights into the mortgage market and the products that Freddie Mac offers as well as a data bank with useful historical data for market participants.

For additional information about Freddie Mac Strips, visit Freddie Mac's Web site at www.FreddieMac.com/mbs/html/product/strips.html or contact Investor Inquiry at (800) 336-3672.

This product overview is not an offer to sell or a solicitation of an offer to buy any Freddie Mac securities. Offers for any given security are made only through applicable offering circulars and related supplements, which incorporate Freddie Mac's Information Statement and related supplements.

