Mortgage Securities
Product Overview

Freddie Mac
We make home possible®
In 1970, Congress chartered Freddie Mac to fulfill a public mission: to stabilize the nation’s mortgage markets and expand opportunities for homeownership and affordable rental housing. Since then, we’ve financed homes for more than 50 million American families.

Freddie Mac doesn’t make mortgage loans directly to homebuyers. Instead, we make it possible for primary market mortgage lenders — such as commercial banks, mortgage companies, savings institutions and credit unions — to make mortgage loans to homebuyers by creating a constant flow of funds that lenders can use to finance mortgages.

Freddie Mac buys mortgages from lenders across the country at astonishing rates — one mortgage every ten seconds in 2006 — to help finance one in six American homes. Because we help provide affordable rental housing, we’ve also helped make home possible for nearly four million renters by financing over 48,000 apartment communities. More than half of all Freddie Mac mortgage purchases support housing for low- and moderate-income families.
Investing in the U.S. Housing Market

Investors play an important role in helping Freddie Mac fulfill its mission.

When a homebuyer obtains a mortgage loan from a primary market mortgage lender, the lender may sell that loan in the secondary mortgage market, replenishing the supply of money to make new loans to other homebuyers.

As a leader in the secondary mortgage market, Freddie Mac is one of the largest buyers of mortgage loans in America. One of the means by which we fund purchases of mortgage loans is through the use of securitization-based financing. We issue a mortgage-related security that represents an undivided interest in the mortgage loans we purchase. We then provide a guarantee of the payment of principal and interest on all securities. Investors value our guarantee and the homogeneous quality and liquidity of our mortgage-backed securities. Lenders can sell our guaranteed mortgage-backed securities in the secondary market to replenish their funds to make additional loans.

Freddie Mac also purchases mortgage loans and mortgage-related securities and holds them in our Retained Portfolio for investment purposes. We finance these purchases by issuing short-, medium- and long-term debt and subordinated debt and equity securities.

Freddie Mac uses the funds from the sales of our mortgage-backed and debt securities to purchase more loans from primary market lenders. This provides a continuous flow of funds to primary market mortgage lenders, enabling them to originate new mortgage loans
and, ultimately, to make the lending process faster, more convenient and more affordable for homebuyers. The supply of cash the secondary mortgage market makes available to lenders through this process drives down mortgage rates by as much as one-quarter percent — saving the homeowner with a $200,000 mortgage around $12,000 in interest over the life of a 30-year loan. That savings helps make homeownership affordable for more families and individuals than would be possible without the secondary mortgage market. As a result, homeownership is a reality for many American families, and not just a dream.

**Growing Opportunities**

As the U.S. population grows and changes, there will be even greater demand for housing and innovation in housing finance. Freddie Mac is committed to meeting the needs of the next generation of homebuyers and renters.

By 2015, the homeownership rate is expected to exceed 69 percent. The rising homeownership rate will translate into 16 million new first-time homebuyers and as many as 68 percent of them will be minorities.

American families will need 15 million new homes by 2015 and approximately $10 trillion will be needed by these families to finance their homes.
A High Quality Investment

Freddie Mac’s mortgage-backed securities are among the most liquid and widely held in the world. When investors purchase Freddie Mac securities, they not only make a high quality investment, but they also expand opportunities for homeownership and affordable rental housing for millions of American families. Freddie Mac is a federally regulated, government-sponsored enterprise that must meet stringent capital standards. Equally important, we are committed to financial safety and soundness in order to fulfill our housing mission and fiduciary obligation to investors. We offer high quality, liquid mortgage securities products that attract a wide variety of investors from around the world. Freddie Mac securities are not guaranteed by and are not obligations of the United States or any federal agency or instrumentality other than Freddie Mac. Our mortgage-backed securities products include those listed below.

**Gold PCs:** The cornerstone of Freddie Mac’s mortgage-backed securities program. Each Gold PC represents undivided ownership interests in a pool of residential mortgages. Freddie Mac guarantees the timely payment of interest and principal on Gold PCs.

**ARM PCs:** Mortgage-backed securities representing an undivided interest in a pool of residential adjustable-rate mortgages (ARMs). Freddie Mac guarantees the timely payment of interest and the ultimate payment of principal on ARM PCs.

**Multifamily PCs:** PCs backed by loans covering residences with five or more units designed principally for
residential use. Multifamily PCs have attractive yields and a high level of call protection.

**Giant PCs:** Single-class pass-through securities that enable investors to manage their portfolios more efficiently by consolidating smaller PCs into larger Giant PCs.

**Strip PCs:** Stripped mortgage-backed securities representing a mortgage pool’s Interest-only (IO) and Principal-only (PO) cash flow components. Strips have features that can be modified and combined to provide investors with synthetic coupon options, an effective hedging tool and flexible exchanges.

**REMICs:** A multiclass, mortgage-backed security in which cash flows from the underlying assets are allocated to the individual bonds, called tranches, of varying maturities, coupons and payment priorities while catering to a variety of market demands.

**MACRs:** Modifiable and Combinable REMICs (MACRs) that allow investors to exchange their securities for different securities backed by the same cash flows.

**Reference REMIC® Securities:** A liquid, transparent and predictable REMIC offering distributed by a syndicate of dealers. Reference REMICs provide a variety of important features found in Freddie Mac’s Reference Notes® and pass-through security programs. These securities typically provide shorter guaranteed final maturities than the underlying collateral by utilizing Freddie Mac’s Guaranteed Maturity Class (GMC) product.
Gold PCs
The Gold Participation Certificate (PC) security is the cornerstone of Freddie Mac’s mortgage-backed securities program. Gold PCs are pass-through securities, each representing undivided ownership interests in a pool of residential mortgages. Liquidity, transparent disclosure, high credit quality and versatility make Freddie Mac’s Gold PCs attractive to investors.

Freddie Mac guarantees the timely payment of principal and interest of each Gold PC it issues. Gold PCs are easily financed with dollar rolls — a simultaneous agreement to sell a security held in a portfolio with a purchase of a similar security at a future date at an agreed upon price — and repos. They commonly back Giant PCs, REMICs and Strips, vehicles that generally customize their cash flows to meet investor needs.

ARM PCs
Keeping pace with the developing market and the increasing popularity of adjustable-rate mortgages (ARMs), Freddie Mac’s ARM PC program continues to appeal to investors looking for assets to match short-term liabilities and liabilities with floating rates. Most mortgages backing Freddie Mac ARM PCs are characterized by conventional first liens, original maturities of 30 years or less and originated on Freddie Mac/Fannie Mae Uniform Instruments.

Freddie Mac’s Weighted Average Coupon (WAC) ARM PC program is popular among investors due to the flexibility of mortgage delivery parameters. The PC coupon for a WAC ARM PC is the weighted average of the mortgage coupons of the underlying mortgages, less the sum of the applicable management and guarantee fees and servicing fees. The PC coupon adjusts monthly, reflecting changes in the weighted average of the mortgage coupons of the underlying mortgages. The most common securities issued under the WAC ARM PC are hybrid PCs and Initial InterestSM PCs. Hybrid ARM PCs blend an extended initial fixed-rate period with subsequent annual, semiannual or monthly interest rate adjustments after the initial period, thus a “blend” of fixed and adjustable-rate loans. Initial Interest ARMs 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.

Freddie Mac’s Giant PC program allows investors to pool multiple ARM PCs into larger ARM PCs called Freddie Mac ARM Giant PCs. The flexibility of Freddie Mac’s ARM Giant PC program allows for a wide variety of mortgage-backed securities to be used in Giant PC formation and maximizes the value and liquidity of Freddie Mac ARM PCs.

**Multifamily PCs**

Multifamily PCs are backed by loans on residences with five or more units designed primarily for residential use, with terms generally ranging from five to 30 years. All Multifamily Gold PCs and all Multifamily ARM PCs offer the Freddie Mac guarantee of timely payment of interest and full and final payment of scheduled principal. In addition to attractive yields, these securities offer a high level of call protection.

**Giant PCs**

Giant PCs are an efficient and profitable way to aggregate production and investment portfolios. These single-class pass-through securities enable investors to manage their portfolios more efficiently by consolidating smaller PCs into larger Giant PCs. Freddie Mac offers fixed-rate Gold Giant PCs and ARM Giant PCs.

Giant PCs allow for the ease of having one giant pool rather than many, resulting in lower security administration costs. Combining odd lot pools into a single pool possibly provides better pricing and liquidity. Standardized guidelines for forming Giant PCs allows for easier execution and the ability to customize pools to meet specific investor needs.

**Stripped Giant Certificates (Strips)**

With a modifiable and combinable feature, Freddie Mac Strips provide investors with synthetic coupon alternatives, an effective hedging tool and flexible exchanges. Freddie Mac Strips are formed from Giant PCs of Freddie Mac Gold PCs, or from Giant PCs of Ginnie Mae certificates. In general, stripped mortgage-backed securities represent
a mortgage pool’s Interest-only (IO) and Principal-only (PO) cash flow components.

Freddie Mac Strip products include Known Collateral Strips, Calendar Based Strips, Excess Servicing IO Strips and To Be Announced (TBA) 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 to dealers in exchange for TBA collateral. A TBA Strip provides an alternative vehicle to meet investor demand for a Freddie Mac Strip. As with Known Collateral, we work with dealers to identify the coupon to strip and to set the collateral stipulations.

Calendar Based Strips are intended to increase the demand for Gold PCs through greater predictability, greater transparency and broad distribution. 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.

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.
**Freddie Mac’s REMIC Program**

Real Estate Mortgage Investment Conduits (REMICs) are multiclass, mortgage-backed securities in which cash flows from the underlying assets are allocated to individual bonds, called tranches, of varying maturities, coupons and payment priorities. REMICs are sometimes referred to as CMOs, or Collateralized Mortgage Obligations. The Tax Reform Act of 1986 introduced REMICs to the market, which enabled great flexibility in structuring bond classes with varying maturities and risk profiles within a single transaction. Driven by a commitment to satisfying evolving market demands, efficient processes and superior service that provides outstanding investor and dealer support throughout the life of an investment, Freddie Mac’s REMIC program is successful because it is customer-focused. The highly experienced dealers in Freddie Mac’s REMIC Dealer Group serve as quality underwriters and liquidity providers of REMIC products.

**Modifiable and Combinable REMICs (MACRs)**

MACRs allow investors to exchange their securities for different securities backed by the same cash flows. MACRs use a variety of mortgage collateral and have the same tranche types as standard REMICs. MACR classes appeal to total rate-of-return investors who have traditionally purchased REMICs as well as other non buy-and-hold investors. REMICs with the MACR feature offer four distinct types of reconfigurations: maturity, scheduled/support, coupon stripping and floater/inverse floater.
Reference REMIC® Securities

Reference REMIC® securities offer investors a structured alternative to a traditional 30- or 15-year mortgage-backed security and feature a shortened stated final maturity through a Guaranteed Maturity Class (GMC). They are generally issued with guaranteed final payment dates ranging from three to 12 years. Freddie Mac GMCs are backed by either Gold PCs or Hybrid ARMs.

At the core of the Reference REMIC security are attributes that promote liquidity, transparency and calendar-based predictability. Freddie Mac's funding calendar includes optional monthly issuance windows for its Reference REMIC securities. Each month, Freddie Mac announces whether it plans to use the optional issuance window and, when relevant, confirms the timing of when it expects to issue a Reference REMIC security. Reference REMICs have a $1 billion minimum issue size, with collateral known at the time of pricing. Reference REMIC securities are distributed through a multi-tiered syndicate structure with daily closing prices posted by the lead managers to TradeWeb® and the Bloomberg terminal.
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 our 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.

**Glossary of Fixed Income Market Terminology**
Visit our Web site (www.FreddieMac.com/mbs) to view our glossary of fixed income market terminology.

**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.
Our mortgage-backed securities provide the market with liquidity, transparency and predictability. We continually strive to offer products that satisfy the needs of a broad range of investors, while making America’s mortgage markets liquid and stable, increasing opportunities for homeownership and affordable rental housing across the nation.

For more information about Freddie Mac products, call Investor Inquiry at (800) 336-3672 or visit our Web site at www.FreddieMac.com/mbs.

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Since Congress chartered Freddie Mac over 37 years ago, we’ve financed homes for more than 50 million families in America.