

Federal Home Loan Mortgage Corporation

Multiclass Mortgage Participation Certificates (Guaranteed) (Issuable in Series)

The Multiclass Mortgage Participation Certificates (Guaranteed) (the "Multiclass PCs") of each series (each, a "Series") will represent beneficial ownership interests in a pool (the "Multiclass PC Pool") to be formed by the Federal Home Loan Mortgage Corporation ("Freddie Mac") for each Series. Each Multiclass PC Pool will consist of one or more Freddie Mac Mortgage Participation Certificates (Guaranteed) (the "PCs"). The PCs represent undivided interests in specified fixed-rate, first lien, residential mortgages or participations therein (the "Mortgages") purchased by Freddie Mac and placed in discrete pools (the "PC Pools"). The general characteristics of the PCs are described in Freddie Mac's Offering Circular as in effect from time to time (the "PC Offering Circular"), and certain information relating to the PCs constituting the Multiclass PC Pool for a Series will be set forth in the Offering Circular Supplement relating to such Series.

Freddie Mac guarantees to each Holder of a Multiclass PC the timely payment of interest at the applicable Multiclass PC interest rate (the "Multiclass PC Coupon") on such Holder's Multiclass PC. Freddie Mac also guarantees to each Holder the payment of the principal amount of such Holder's Multiclass PC as payments are made on the PCs and as described in the applicable Offering Circular Supplement. With respect to the PCs, Freddie Mac guarantees to each holder thereof the timely payment of interest at the applicable PC interest rate on the holder's pro rata share of the unpaid principal balance of the related Mortgages as calculated by Freddie Mac under the Pool Factor method and the ultimate collection of all principal of the related Mortgages, all as and to the extent set forth in the PC Offering Circular.

Each Series will consist of one or more Classes of Multiclass PCs and may include one or more Classes of Accrual Class PCs, Floating Rate PCs, Inverse Floating Rate PCs, Adjustable Rate PCs, Planned Amortization PCs or Principal Only Class PCs (each as defined herein) or any combination of the above. Each Series will include a Class of Residual Class PCs, which may be Interest Only Class PCs (each as defined herein). Interest on each Class of Multiclass PCs (other than any Class of Principal Only Class PCs) will be passed through on each Payment Date specified in the related Offering Circular Supplement, except for interest on any Classes of Accrual Class PCs. Payments of interest on a Class of Accrual Class PCs will occur as provided in the related Offering Circular Supplement. Interest accrued but not paid on a Class of Accrual Class PCs will be added to the principal amount thereof on the applicable Payment Dates. Unless otherwise provided in the related Offering Circular Supplement, principal will be paid on each Payment Date to the Regular Class PCs (as defined herein) of a Series (on a pro rata basis among the Regular Class PCs of each Class) in the order of their respective Final Payment Dates, so that no payment in reduction of the principal amount of any such Class of such Series will be made until the principal amount of each such Class of such Series having an earlier Final Payment Date has been reduced to zero. Payments on Residual Class PCs will be made as described in the related Offering Circular Supplement.

Scheduled payments on the Mortgages underlying the PCs in the Multiclass PC Pool relating to a Series will be sufficient to make timely payments of interest on the Multiclass PCs of such Series and to retire each Class of such Series on or before its Final Payment Date. Because the rate of payment of principal of each Class of the Multiclass PCs of such Series will depend on the rate of payment (including prepayments) of the principal of the Mortgages underlying the PCs in the related Multiclass PC Pool, the actual final payment with respect to any Class of Multiclass PCs of such Series could occur significantly earlier than its Final Payment Date.

An election will be made to treat the Multiclass PC Pool related to each Series as a "real estate mortgage investment conduit" ("REMIC") pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). All Classes of Multiclass PCs of such Series will constitute "regular interests" in the REMIC, except for a single Class of Residual Class PCs, which will constitute the "residual interest" in the REMIC. See "Certain Federal Income Tax Consequences."

Unless otherwise specified in the Offering Circular Supplement relating to a Series, Regular Class PCs will be sold in book-entry form only, and Residual Class PCs will be sold in registered, certificated form only. See "Description of Multiclass PCs—Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers."

This Offering Circular should be read in conjunction with the Offering Circular Supplement applicable to each Series, the PC Offering Circular, Freddie Mac's current Information Statement and any supplements thereto. See "Availability of Information and Incorporation by Reference."

Multiclass PCs are not guaranteed by and do not constitute debts or obligations of the United States or any Federal Home Loan Bank. Income from the Multiclass PCs has no exemption under federal law from federal, state or local taxation. Multiclass PCs are exempt from the registration requirements of the Securities Act of 1933 and are "exempt securities" within the meaning of the Securities Exchange Act of 1934.

This Offering Circular may not be used to consummate sales of Multiclass PCs unless accompanied by an Offering Circular Supplement.

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No dealer, salesman or other person has been authorized by Freddie Mac to give any information or to make any representations on behalf of Freddie Mac other than those contained in this Offering Circular, the PC Offering Circular, Freddie Mac's current Information Statement, any subsequent Information Statement or any supplement to any of the foregoing prepared by Freddie Mac for use in connection with the offer made by this Offering Circular, and, if given or made, such information or representations must not be relied upon as having been authorized by Freddie Mac. Neither the delivery of this Offering Circular nor any sale of Multiclass PCs made hereunder shall under any circumstances create an implication that the information provided herein is correct at any time subsequent to the date hereof. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

OFFERING CIRCULAR SUPPLEMENT

The Offering Circular Supplement with respect to a Series of Multiclass PCs to be offered hereby and by means of such Offering Circular Supplement will, among other things, set forth with respect to such Series of Multiclass PCs: (i) the identity of each Class of Multiclass PCs of such Series; (ii) the original principal amount and the interest rate or method of determining the interest rate of each Class of Multiclass PCs of such Series; (iii) certain information concerning the Multiclass PC Pool for such Series; (iv) the Final Payment Date of each Class of Multiclass PCs of such Series; (v) the type of each Class of Multiclass PCs within such Series; (vi) the method used to calculate the aggregate amount of principal required to be passed through with respect to each Class of Multiclass PCs on each Payment Date; (vii) the order of payments to each of the Classes within such Series, whether sequential, pro rata, or otherwise; (viii) the Payment Dates with respect to such Series; (ix) information with respect to the terms of the Class of Residual Class PCs for such Series; and (x) additional information with respect to the plan of distribution of such Series of Multiclass PCs. Further information relating to the PCs constituting the Multiclass PC Pool may be made available, as described in the related Offering Circular Supplement.

OFFERING CIRCULAR SUMMARY

The summary information set forth below is qualified in its entirety by reference to the information appearing elsewhere in this Offering Circular and by reference to the information with respect to each Series of Multiclass PCs contained in the related Offering Circular Supplement.

Seller and Guarantor	Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States.
The Multiclass PCs	The Multiclass Mortgage Participation Certificates (Guaranteed) of each Series will be issued pursuant to a Multiclass Mortgage Participation Certificate Agreement dated as of March 1, 1988 in the form included in this Offering Circular as Exhibit A and a Terms Supplement relating to each Series in the form included as an annex to the related Offering Circular Supplement (the Multiclass Mortgage Participation Certificate Agreement, together with the Terms Supplement applicable to a Series, the "Multiclass PC Agreement"). The Multiclass PCs of each Series will evidence beneficial ownership interests in the Multiclass PC Pool relating to such Series formed by Freddie Mac pursuant to the Multiclass PC Agreement.
The PCs	Various Freddie Mac Mortgage Participation Certificates (Guaranteed) having the characteristics described in the PC Offering Circular under "Description of Mortgage Participation Certificates" and, as to a particular Series of Multiclass PCs, in the related Offering Circular Supplement. The Mortgages underlying the PCs are fixed-rate, first lien, residential mortgages, including whole mortgage loans and/or participation interests therein. The Mortgages in any PC Pool are all either conventional Mortgages or Mortgages insured by the Federal Housing Administration and/or guaranteed, in part, by the Veterans Administration.

Form of Multiclass PCs;

Holders

Unless otherwise specified in the Offering Circular Supplement relating to a Series, the Classes of Multiclass PCs of a Series that constitute "regular interests" in the Multiclass PC Pool for such Series (collectively, the "Regular Class PCs") will be issued and maintained, and may be transferred by Holders (as defined below), only on the book-entry system of the Federal Reserve Bank of New York and/or such other Federal Reserve Banks as may maintain Multiclass PCs in book-entry form (the Federal Reserve Bank of New York and/or such other Federal Reserve Banks are herein referred to as the "Federal Reserve Bank"). Regular Class PCs in book-entry form may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Bank. The Class of Multiclass PCs that constitute the "residual interest" in the Multiclass PC Pool for such Series (the "Residual Class PCs") will not be issued in book-entry form but will be issued in registered, certificated form. Multiclass PCs in certificated form will be transferable and exchangeable at an institution designated by Freddie Mac as its agent for such purpose (the "Registrar").

Entities whose names appear on the book-entry records of the Federal Reserve Bank as the entities for whose accounts Regular Class PCs have been deposited or whose names appear on the records of the Registrar as the registered holders of Residual Class PCs, as the case may be, are referred to herein as "Holders."

A Holder of a Regular Class PC is not necessarily the beneficial owner of such Regular Class PC. Beneficial owners ordinarily will hold Regular Class PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Regular Class PC, and each other financial intermediary in the chain between the Holder and the beneficial owner, will have the responsibility of establishing and maintaining accounts for their customers. The rights of a beneficial owner of a Regular Class PC with respect to Freddie Mac and the Federal Reserve Bank may be exercised only through the Holder of that Regular Class PC. Freddie Mac and the Federal Reserve Bank will have no direct obligation to a beneficial owner of a Regular Class PC that is not also the Holder of the Regular Class PC. The Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Regular Class PC. See "Description of Multiclass PCs—Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers."

Minimum Principal Amounts and Transfers

Multiclass PCs will be issued and must be maintained and transferred in the minimum original principal amounts and additional increments specified in the applicable Offering Circular Supplement. See "Description of Multiclass PCs—Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers."

Payment Dates; Method of Payment

Freddie Mac will pass through payments of principal and interest to Holders of Multiclass PCs of each Series on the 15th day of each month specified in the related Offering Circular Supplement or, if such day is not a Business Day (as defined in the Multiclass PC Agreement), on the next succeeding Business Day (a "Payment Date"), commencing on the date specified in the related Offering Circular Supplement. Unless otherwise specified in the Offering Circular Supplement relating to a Series, payments are credited on each Payment Date by the Federal Reserve Bank to the accounts of Holders of Regular Class PCs in book-entry form. The Holder and each other financial intermediary in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers. Payments of principal and interest on Multiclass PCs in certificated form will be made by check mailed by the Registrar to the address of the Holder, as it appears on the register maintained by the Registrar, not later than the applicable Payment Date; provided, however, that the final payment on a certificated Multiclass PC will be made only upon presentation and surrender

of such Multiclass PC at the office of the Registrar. See “Description of Multiclass PCs—Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers.”

Interest Interest will accrue on each Class of the Multiclass PCs of each Series at the applicable Multiclass PC interest rate (the “Multiclass PC Coupon”) (which may be zero) specified in, or determined as specified in, the related Offering Circular Supplement and will be passed through on each Payment Date, except for interest on any Classes of Accrual Class PCs contained in such Series. Payments of interest on each Class of Accrual Class PCs will be passed through to the extent provided in the related Offering Circular Supplement. The amount of any interest accrued and not passed through on any Payment Date on any Class of Accrual Class PCs will be added to the principal amount of each Accrual Class PC of such Class. Any accrued interest so added will accrue interest from such Payment Date or from such other date as may be specified in the related Offering Circular Supplement. Interest payable or added to principal on a Payment Date will accrue during the period specified in the related Offering Circular Supplement (an “Interest Accrual Period”). See “Description of Multiclass PCs—Payments of Interest.”

Principal Unless otherwise specified in the Offering Circular Supplement relating to a Series, principal payments on the Multiclass PCs of such Series will be made on each Payment Date in an aggregate amount equal to the sum of (i) the amount of interest, if any, accrued on any Classes of Accrual Class PCs contained in such Series during the related Interest Accrual Period but not then payable; and (ii) an amount equal to the PC Principal Payment Amount (as defined below). Unless otherwise specified in such Offering Circular Supplement, all payments of principal on the Regular Class PCs of such Series will be applied on each Payment Date to the Classes of the Regular Class PCs (on a pro rata basis among the Regular Class PCs of each Class) in the order of their respective Final Payment Dates, so that no payments in reduction of the principal amount of any Class of Regular Class PCs will be made until the principal amount of each Class of Regular Class PCs having an earlier Final Payment Date has been reduced to zero. All payments of principal on Multiclass PCs of a particular Class will be applied pro rata among all Multiclass PCs of such Class.

With respect to any Payment Date, the PC Principal Payment Amount will be the amount of principal payments made on the same Payment Date on the PCs in the related Multiclass PC Pool. See “Description of Multiclass PCs—Payments of Principal.”

Residual Class PCs Unless otherwise specified in the related Offering Circular Supplement, the Holders of the Residual Class PCs of a Series will be entitled to receive (i) on each Payment Date payments in an amount equal to the amount, if any, of payments received on the PCs in the related Multiclass PC Pool that are in excess of principal and interest payments due on the Regular Class PCs of such Series and (ii) the proceeds of the remaining assets of the related Multiclass PC Pool, if any, after the aggregate principal amount of all Classes of Regular Class PCs of such Series has been reduced to zero.

Record Date Unless otherwise specified in the Offering Circular Supplement relating to a Series, each payment on the Multiclass PCs will be made to Holders of record on the last day of the related Interest Accrual Period as set forth in the Multiclass PC Agreement.

Final Payment Date The Final Payment Date for each Class of Multiclass PCs of a Series is the Payment Date on or before which the entire principal amount of the Multiclass PCs of such Class will be paid and, unless otherwise specified in the related Offering Circular Supplement, is calculated assuming (i) timely receipt of scheduled payments (with no prepayments) on the Mortgages underlying the PCs in the Multiclass PC Pool relating to such Series and (ii) that each of the Mortgages underlying a PC has a remaining term to maturity equal to the longest remaining term to maturity of any of the Mortgages underlying such PC and bears interest

at the highest rate borne by any such Mortgage. The rate of prepayments on the Mortgages underlying the PCs in the Multiclass PC Pool relating to a Series will depend on their characteristics, as well as on the prevailing level of interest rates and other factors, and no assurance can be given as to the actual prepayment experience of the Mortgages underlying the PCs in the related Multiclass PC Pool. See "Description of Multiclass PCs—Final Payment Dates and Weighted Average Lives of the Multiclass PCs" herein and "Description of Mortgage Participation Certificates—Weighted Average Life and Payment Behavior" in the PC Offering Circular.

Guarantees Freddie Mac guarantees to each Holder of a Multiclass PC the timely payment of interest at the applicable Multiclass PC Coupon on such Holder's Multiclass PC. Freddie Mac also guarantees to each Holder the payment of the principal amount of such Holder's Multiclass PC, as payments are made on the PCs, as described in the related Offering Circular Supplement. See "Description of Multiclass PCs—Guarantees."

With respect to the PCs, Freddie Mac guarantees to each holder thereof the timely payment of interest at the applicable PC interest rate on the holder's pro rata share of the aggregate unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the "Pool Factor method" described in the PC Offering Circular. Freddie Mac also guarantees to each such holder ultimate collection of all principal of the related Mortgages, without offset or deduction, to the extent of such holder's pro rata share thereof. See "Description of Mortgage Participation Certificates—Guarantees" in the PC Offering Circular.

Multiclass PC Pool Factors . . . Unless otherwise set forth in the applicable Offering Circular Supplement, on or about the first day of each month, Freddie Mac will publish or otherwise make available for that month the Multiclass PC Pool Factor for each Class of Multiclass PCs of a Series. The Multiclass PC Pool Factor is a seven-digit decimal fraction calculated by Freddie Mac which, when multiplied by the original principal amount of a Multiclass PC, will equal the remaining principal amount of such Multiclass PC, after giving effect to the payment of principal to be made on the second following Payment Date, including any accretion of principal to be added thereto on such Payment Date. See "Description of Multiclass PCs—Multiclass PC Pool Factors."

REMIC Election and Tax Status of the Multiclass PCs

An election will be made to treat each Multiclass PC Pool as a "real estate mortgage investment conduit" ("REMIC") for federal income tax purposes. The Regular Class PCs will be designated as "regular interests" in a REMIC and the Residual Class PCs will be designated as the "residual interest" (which may or may not be offered by the related Offering Circular Supplement).

As a consequence of the REMIC election, the Multiclass PCs generally will be treated as "qualifying real property loans" for mutual savings banks and domestic building and loan associations, "regular or residual interests in a REMIC" for domestic building and loan associations, "real estate assets" for real estate investment trusts, and, except for the Residual Class PCs, as "qualified mortgages" for other REMICs. See "Certain Federal Income Tax Consequences — Status of Multiclass PCs."

Special tax considerations apply to an investment in Residual Class PCs for all types of investors. In certain circumstances, the method of taxation of Residual Class PCs can produce a significantly lower after-tax yield for Residual Class PCs than would be the case if no REMIC election were made for the Multiclass PC Pool or if the Residual Class PCs were taxable as debt instruments.

Legality of Investment Multiclass PCs described herein:

- will be acceptable as security for the deposit of public monies subject to the control of the United States or any of its officers;

- will be eligible as collateral for Treasury tax and loan accounts;
- will be among those securities which national banks may deal in, underwrite and purchase for their own accounts without limitation;
- will be eligible as collateral for advances by Federal Reserve Banks;
- will be legal investments for federal savings and loan associations and federal savings banks;
- will be eligible as collateral for advances from Federal Home Loan banks;
- will be legal investments for surplus and reserve funds of Federal Home Loan Banks;
- will be legal investments for federal credit unions; and
- will be considered plan assets for private pension funds under the Employee Retirement Income Security Act of 1974 (and neither the PCs nor the Mortgages underlying the PCs will be considered plan assets).

In addition, any person, trust or business entity created pursuant to or existing under the laws of the United States or any state is authorized to purchase, hold and invest in Multiclass PCs to the same extent that the investor is authorized to purchase, hold or invest in obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof.

Institutions whose investment activities are subject to review by certain regulatory authorities may hereafter become subject to restrictions, which may be retroactively imposed by such regulatory authorities, on investment by such institutions in Residual Class PCs. The Federal Home Loan Bank Board, for example, has indicated that it is studying the appropriateness of investment by FSLIC-insured savings institutions in various types of derivative mortgage-backed securities, including securities such as Residual Class PCs, representing residual interests in mortgage loans or mortgage-backed securities. In addition, certain state regulators have indicated that regulated institutions subject to their jurisdiction should not hold so-called "interest only" mortgage-backed securities, including "interest only" mortgage-backed securities previously purchased. See "Legality of Investment," "ERISA Considerations" and "Regulatory Constraints."

FEDERAL HOME LOAN MORTGAGE CORPORATION

Freddie Mac is a corporate instrumentality of the United States created pursuant to the Federal Home Loan Mortgage Corporation Act (Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459, the "Freddie Mac Act"). The principal activity of Freddie Mac consists of the purchase of first lien, conventional, residential mortgage loans and participation interests in such mortgage loans from mortgage lending institutions and the resale of the whole loans and participations so purchased in the form of guaranteed mortgage securities. Freddie Mac generally matches its purchases of mortgages and sales of guaranteed mortgage securities. Mortgages retained by Freddie Mac are financed with debt and equity capital.

AVAILABILITY OF INFORMATION AND INCORPORATION BY REFERENCE

Freddie Mac prepares an Information Statement annually which describes Freddie Mac, its business and operations and contains Freddie Mac's audited financial statements for the two most recent fiscal years ending prior to the date of such Information Statement. From time to time Freddie Mac prepares an Information Statement supplement which includes certain unaudited financial data and other information concerning the business and operations of Freddie Mac. Freddie Mac periodically prepares a PC Offering Circular with respect to its Mortgage Participation Certificates (Guaranteed) which describes the general characteristics of such securities, the related mortgages and other matters and which includes a copy of the Mortgage Participation Certificate Agreement (the "PC Agreement") pursuant to which such securities are created and sold. The current Information Statement, any supplements thereto and the current PC Offering Circular are incorporated by reference into this Offering Circular and made a part hereof. Any of these documents and any quarterly report prepared and made available by Freddie Mac can be obtained by writing or calling the Investor Relations Department at Freddie Mac at P.O. Box 4112, Reston, Virginia 22090 (outside Washington, D.C. metropolitan area, telephone 800/424-5401, extension 8160; within Washington, D.C. metropolitan area, telephone 703/759-8160).

DESCRIPTION OF MULTICLASS PCs

General

Multiclass PCs will be offered from time to time in Series pursuant to this Offering Circular and an Offering Circular Supplement relating to each Series.

Each Series of Multiclass PCs represents the beneficial ownership interest in the PCs which constitute the Multiclass PC Pool for such Series. Each Series of Multiclass PCs will be sold under the terms of the Multiclass PC Agreement, which qualifies this summary in its entirety. Holders and anyone having a beneficial interest in Multiclass PCs of any Series should refer to the Multiclass PC Agreement for a complete description of their rights and obligations and the rights and obligations of Freddie Mac with respect to such Multiclass PCs. Each Holder acquires a Multiclass PC subject to all the terms and conditions of the Multiclass PC Agreement.

Each Series of Multiclass PCs will consist of one or more Classes of Multiclass PCs which may include one or more Classes of Multiclass PCs on which interest will accrue but will not be payable until the time specified in the related Offering Circular Supplement (the "Accrual Class PCs"), one or more Classes of Multiclass PCs on which interest accrues at a floating rate which may be related to an index (the "Floating Rate PCs") or which may bear an inverse relationship to an index (the "Inverse Floating Rate PCs"), one or more Classes of Multiclass PCs for which the applicable interest rate changes over the life of such PCs (the "Adjustable Rate PCs"), one or more Classes of Multiclass PCs on which payments in reduction of the outstanding principal amount of the Multiclass PCs of such Class are made in amounts and on dates specified in the related Offering Circular Supplement (the "Planned Amortization PCs") and one or more Classes of Multiclass PCs entitled to receive payments of principal only on such Class (the "Principal Only Class PCs"). Each Series of Multiclass PCs will also contain a Class of Residual Class PCs. Residual Class PCs may be denominated by principal amounts, may be denominated by percentage interests in the residual interest in the

related Multiclass PC Pool or may not have principal amounts (other than a notional principal amount) and be entitled to receive payments of interest only (each such Residual Class PC, an "Interest Only Class PC"). Payments with respect to each Series of Multiclass PCs will be made on each Payment Date specified in the related Offering Circular Supplement.

Form of Multiclass PCs, Holders, Minimum Principal Amounts and Transfers

Unless otherwise specified in the Offering Circular Supplement relating to a Series, Freddie Mac will sell Regular Class PCs only in book-entry form. Freddie Mac's fiscal agent for Regular Class PCs in book-entry form will be the Federal Reserve Bank or such other institution as may be specified in the related Offering Circular Supplement. The Fiscal Agency Agreement between Freddie Mac and the Federal Reserve Bank will make generally applicable to Regular Class PCs the Freddie Mac book-entry regulations, 1 C.F.R. Part 462, and such procedures, insofar as applicable, as may from time to time be established by regulations of the United States Department of the Treasury governing United States securities, and such other procedures as may be agreed upon from time to time by Freddie Mac and the Federal Reserve Bank. These regulations and procedures relate primarily to the registration, transfer and pledge of Freddie Mac's book-entry securities. Each Series and Class of Multiclass PCs is assigned a unique nine-character designation used to identify such Series and Class on the records of the Federal Reserve Bank (the "CUSIP Number").

Unless otherwise specified in the Offering Circular Supplement relating to a Series, Regular Class PCs will be issued and must be maintained and transferred only on the book-entry system of the Federal Reserve Bank in minimum original principal amounts of \$1 and in additional increments of \$1. A Regular Class PC may not be transferred if, as a result of the transfer, the transferor or the transferee would have on deposit in its account Regular Class PCs of any Class having an original principal amount of less than \$1.

Regular Class PCs in book-entry form may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Bank. The Federal Reserve Bank's book-entry records will reflect a Holder's aggregate holdings of Regular Class PCs by account.

Unless otherwise specified in the Offering Circular Supplement relating to a Series, Residual Class PCs will not be issued in book-entry form but will be issued in fully registered, certificated form in minimum original principal amounts of \$10,000. Residual Class PCs will be transferable and exchangeable at the offices of the Registrar. A service charge may be imposed for any exchange or registration of transfer of Residual Class PCs, and Freddie Mac may require payment of a sum sufficient to cover any tax or other governmental charge.

Entities whose names appear on the book-entry records of the Federal Reserve Bank as entities for whose accounts Regular Class PCs have been deposited or whose names appear on the records of the Registrar as the registered holders of Residual Class PCs, as the case may be, are referred to herein as "Holders."

A Holder of a Regular Class PC is not necessarily the beneficial owner of such PC. Beneficial owners ordinarily will hold Regular Class PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. For example, an individual purchaser may hold a Regular Class PC through a brokerage firm which, in turn, holds the Regular Class PC through an entity eligible to maintain book-entry accounts with the Federal Reserve Bank. In such case, the beneficial owner of the Regular Class PC would be the individual purchaser and the entity whose name appears on the records of the Federal Reserve Bank as the entity for whose account the Regular Class PC was deposited would be the Holder. A Holder that is not the beneficial owner, and each other financial intermediary in the chain between the Holder and the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a Regular Class PC with respect to Freddie Mac and the Federal Reserve Bank may be exercised only through the Holder of the Regular Class PC. Freddie Mac and the Federal Reserve Bank will have no direct obligation to a beneficial owner of a Regular Class PC that is not also the Holder of the Regular Class PC. The Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Regular Class PC.

The Federal Reserve Bank credits interest and principal to Holders on each Payment Date. A Holder of a Regular Class PC on the books and records of the Federal Reserve Bank as of the 14th day of the preceding

month will be entitled to any payment of principal and interest on the Regular Class PC made on the related Payment Date. Payments of principal and interest on a Residual Class PC will be made by check mailed by the Registrar to the address of the Holder, as it appears on the register maintained by the Registrar, not later than the applicable Payment Date; provided, however, that the final payment on a Residual Class PC will be made only upon presentation and surrender of such Residual Class PC at the office of the Registrar.

The PCs

The PCs constituting the Multiclass PC Pool for each Series of Multiclass PCs represent undivided interests in specified fixed-rate, first lien, residential mortgages or participations therein purchased by Freddie Mac and placed in a PC Pool. The Offering Circular Supplement relating to each Series will contain certain information regarding the PCs constituting the Multiclass PC Pool for such Series.

Multiclass PC Pool Factors

On or about the first business day of each month, unless otherwise specified in the applicable Offering Circular Supplement, Freddie Mac will publish or otherwise make available the Multiclass PC Pool Factor for each Class of each Series of outstanding Multiclass PCs. The Multiclass PC Pool Factor is a seven-digit decimal fraction calculated by Freddie Mac which, when multiplied by the original principal amount of a Multiclass PC, will equal the remaining principal amount of such Multiclass PC, after giving effect to the payment of principal to be made on the second following Payment Date, including any accretion of principal to be added thereto on such Payment Date.

Payments of Interest

Unless otherwise specified in the related Offering Circular Supplement, interest will accrue on the Multiclass PCs of each Class of each Series (other than any Class of Principal Only Class PCs) during the Interest Accrual Period relating to each Payment Date on the principal amount remaining to be paid on each Class of the Multiclass PCs of such Series (or notional principal amount) as represented by the Multiclass PC Pool Factor for each such Class published in the second month preceding such Payment Date, at the applicable Multiclass PC Coupon specified in or determined as specified in the related Offering Circular Supplement. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on Multiclass PCs other than Accrual Class PCs will be passed through on the Payment Dates specified in the related Offering Circular Supplement. Interest accrued on each Class of Accrual Class PCs will be payable to the extent provided in the related Offering Circular Supplement, the amount of any interest accrued and unpaid as of any Payment Date being added to the principal amount of each such Accrual Class PC. Any accrued interest so added will accrue interest from such Payment Date or from such other date as may be specified in the related Offering Circular Supplement.

The effective yield to Holders of the Multiclass PCs will be reduced below the yield otherwise produced by the applicable Multiclass PC Coupons because interest accrues for periods that end prior to the day preceding each Payment Date.

Payments of Principal

Unless otherwise specified in the Offering Circular Supplement relating to a Series of Multiclass PCs, on each Payment Date for a Series, Freddie Mac will be obligated to make principal payments in the manner described below to the Holders of the Multiclass PCs of such Series as to which principal is then due. Each Class of Multiclass PCs of such Series will be fully paid no later than the Final Payment Date for such Class.

The total amount of each principal payment required to be made on the Multiclass PCs on a Payment Date will be equal to the sum of (i) the interest, if any, that has accrued on any Class or Classes of Accrual Class PCs during the applicable Interest Accrual Period but is not yet payable, and (ii) the PC Principal Payment Amount for such Payment Date.

For any Payment Date, the amount of principal to be paid on (or accrued to) any Class of a Series entitled thereto can be calculated by multiplying the original principal amount of such Class by the difference between the Multiclass PC Pool Factors for such Class published in the first and second preceding months.

The Regular Class PCs

Unless otherwise specified in the Offering Circular Supplement relating to a Series, principal payments will be made on each Payment Date to Classes of Regular Class PCs (on a pro rata basis among the Multiclass PCs of each such Class) in the order of their respective Final Payment Dates, so that no payment in reduction of the principal amount of any Class of Regular Class PCs will be made until the principal amount of each Class of Regular Class PCs having an earlier Final Payment Date has been reduced to zero.

The Residual Class PCs

Unless otherwise specified in the Offering Circular Supplement relating to a Series, the Holders of the Residual Class PCs of a Series will be entitled to receive (i) on each Payment Date payments in an amount equal to the amount, if any, of payments received on such Payment Date on the PCs in the Multiclass PC Pool that are in excess of principal and interest payments due on the Regular Class PCs and (ii) the proceeds of the remaining assets of the Multiclass PC Pool relating to such Series, if any, after the aggregate principal amount of all Classes of Regular Class PCs of such Series has been reduced to zero.

Residual Class PCs

The Residual Class PCs will be subject to certain transfer restrictions, prohibiting transfer to a tax-exempt entity (such as a state or local government) that is not subject to the tax on unrelated business taxable income or to a pass-through entity in which such a tax-exempt entity could hold an interest.

The Holders of the Residual Class PCs of a Series will be considered to be the holders of the residual interest in the Multiclass PC Pool for such Series. Pursuant to the Multiclass PC Agreement, Freddie Mac will provide to such Holders such information as Freddie Mac deems necessary or desirable to enable them to prepare federal income tax returns and any reports regarding the Multiclass PCs that may be required under the Code or applicable Treasury regulations. Freddie Mac has no present intention to hold the Residual Class PCs of any Series, and applicable law may not permit Freddie Mac to file the annual federal income tax return or perform tax administrative functions for the Multiclass PC Pool. Accordingly, the Holders of the Residual Class PCs of a Series may have certain tax administrative obligations (for which Freddie Mac will act as attorney-in-fact and agent). See "Certain Federal Income Tax Consequences."

Guarantees

Freddie Mac guarantees to each Holder the timely payment of interest at the applicable Multiclass PC Coupon on such Holder's Multiclass PC. Freddie Mac also guarantees to each Holder the payment of the principal amount of such Holder's Multiclass PC, as payments are made on the PCs, as described in the applicable Offering Circular Supplement.

With respect to PCs, Freddie Mac guarantees to each holder thereof the timely payment of interest at the applicable PC interest rate on such holder's pro rata share of the aggregate unpaid principal balance of the related mortgages, as calculated by Freddie Mac under the "Pool Factor" method described in the PC Offering Circular. Freddie Mac also guarantees to each holder ultimate collection of all principal of the related mortgages, without offset or deduction, to the extent of such holder's pro rata share of the unpaid principal balance of the mortgages. See "Description of Mortgage Participation Certificates—Guarantees" in the PC Offering Circular.

Freddie Mac may pay the amount due on account of its guarantee of ultimate collection of principal on PCs at any time after default on an underlying mortgage, but not later than 30 days following (i) foreclosure sale, (ii) payment of the claim by any mortgage insurer or the FHA, or payment of the guaranty claim by the VA, or (iii) the expiration of any right of redemption, whichever occurs later, but in any event no later than

one year after demand has been made upon the mortgagor for accelerated payment of principal or for payment of principal due on the maturity of a mortgage.

MULTICLASS PCs ARE NOT GUARANTEED BY AND DO NOT CONSTITUTE DEBTS OR OBLIGATIONS OF THE UNITED STATES OR ANY FEDERAL HOME LOAN BANK.

Reports to Holders

Freddie Mac will furnish, within a reasonable time after the end of each calendar year, in the case of Regular Class PCs, and after the end of each calendar quarter, in the case of Residual Class PCs, to each person or entity who was a Holder at any time during such year or quarter, such information as Freddie Mac deems necessary or desirable to enable Holders and beneficial owners of Multiclass PCs to prepare their federal income tax returns.

Prepayment Considerations

The rate of principal payments on the PCs constituting the Multiclass PC Pool for each Series of Multiclass PCs, and therefore of payments on such Multiclass PCs, is related directly to the rate of payments of principal on the underlying Mortgages, which may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations resulting from default, casualty, condemnation and payments made pursuant to any guarantee of payment by Freddie Mac). In general, when the level of prevailing interest rates declines significantly below the interest rates on mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors. See “Description of Mortgage Participation Certificates—Weighted Average Life and Payment Behavior” in the PC Offering Circular.

Acceleration of mortgage payments as a result of transfers of the mortgaged property is another factor affecting prepayment rates. The Mortgages underlying the PCs generally provide by their terms that, in the event of the transfer or prospective transfer of title to the underlying mortgaged property, the full unpaid principal balance of the Mortgage is due and payable at the option of the holder. As set forth under “Mortgage Purchase Standards—Assumption and Due on Transfer Policies” in the PC Offering Circular, Freddie Mac requires servicers of the Mortgages to enforce “due-on-transfer” clauses where permitted by applicable law.

Final Payment Dates and Weighted Average Lives of the Multiclass PCs

The Final Payment Date for each Class of Multiclass PCs in a Series is the date on or before which the final payment of principal thereof will be made, and is calculated assuming, among other things, no principal prepayments on the Mortgages underlying the PCs constituting the Multiclass PC Pool for such Series and such other assumptions specified in the Offering Circular Supplement relating to such Series.

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 of such security will be repaid to the investor. The weighted average lives of the Multiclass PCs will be influenced by, among other factors, the rate at which principal is paid on the Mortgages underlying the PCs in the Multiclass PC Pool for each such Series of Multiclass PCs. Principal payments on such Mortgages may be in the form of scheduled amortization or prepayments.

The Offering Circular Supplement for each Series of Multiclass PCs will contain a table setting forth the weighted average life of each Class of Multiclass PCs of such Series and the percentage of the original principal amount of each Class of Multiclass PCs of such Series that would be outstanding on specified Payment Dates for such Series, on the assumption that prepayments on the Mortgages underlying the PCs in the related Multiclass PC Pool are made at such rates and on such other assumptions as may be specified in such Offering Circular Supplement.

THE MULTICLASS PC AGREEMENT

The following summary describes certain provisions of the Multiclass PC Agreement not otherwise summarized in this Offering Circular. This summary does not purport to be complete and is subject to, and

qualified in its entirety by reference to, the more complete provisions of the Multiclass PC Agreement and the PC Agreement.

Transfer of PCs to Multiclass PC Pool

The PCs will be identified to the Multiclass PC Pool for each Series. The PCs will be deposited in Freddie Mac's name on the books of the Federal Reserve Bank and held for the Holders of each related Series of Multiclass PCs by Freddie Mac pursuant to the Multiclass PC Agreement.

Certain Matters Regarding Freddie Mac

The Multiclass PC Agreement provides that neither Freddie Mac nor any director, officer, employee, or agent of Freddie Mac will be under any liability to the Holders for any action taken, or for refraining from the taking of any action, in good faith pursuant to the Multiclass PC Agreement or for errors in judgment. However, neither Freddie Mac nor any such person will be protected against any liability imposed by reason of willful misfeasance, bad faith or gross negligence or by reason of reckless disregard of obligations and duties.

In addition, the Multiclass PC Agreement provides that Freddie Mac is not under any obligation to appear in, prosecute, or defend any legal action that is not incidental to its responsibilities under the Multiclass PC Agreement and that in its opinion may involve it in any expense or liability. Freddie Mac may, however, in its discretion undertake any such legal action that it may deem necessary or desirable in the interests of the Holders. In such event, the legal expenses and costs of such action will be expenses and costs of Freddie Mac.

The Multiclass PC Agreement will be binding upon and inure to the benefit of any successor to Freddie Mac.

Voting Under Any PC Agreement

To the extent set forth in the PC Agreement attached as Exhibit A to the PC Offering Circular, the record holders of PCs owning a majority of the remaining unpaid principal balance of any affected PC Pool may take certain actions, including termination of certain obligations and duties of Freddie Mac with respect thereto, if an Event of Default under and within the meaning of the PC Agreement has occurred and is continuing. The Multiclass PC Agreement provides that Holders of Multiclass PCs may, upon the occurrence of an Event of Default with respect to a PC in the related Multiclass PC Pool, take any such action rather than Freddie Mac. For this purpose, the Holders of Multiclass PCs will be deemed the holders of the affected PCs in proportion to the outstanding principal amounts of their Multiclass PCs.

As set forth in the PC Agreement, the holders of PCs owning a majority of the remaining unpaid principal balance of any affected PC Pool may consent to certain amendments to the PC Agreement. The Multiclass PC Agreement provides that Freddie Mac may consent to such an amendment as to any PC held in a Multiclass PC Pool so long as such amendment would not adversely affect in any material respect the interests of the Holders of Multiclass PCs. If the amendment would have such effect, Freddie Mac may consent thereto only with the written consent of Holders of each Class of Multiclass PCs so affected representing not less than 50% of the outstanding principal amount thereof.

Events of Default

Events of Default under the Multiclass PC Agreement will consist of (i) any failure by Freddie Mac to pay to Holders of Multiclass PCs of any Class any required payment that continues unremedied for 30 days; (ii) any failure by Freddie Mac duly to observe or perform in any material respect any other of its covenants or agreements in the Multiclass PC Agreement, which failure continues unremedied for 60 days after the giving of notice of such failure to Freddie Mac by the Holders of Multiclass PCs of any Class representing not less than 60% of the aggregate outstanding principal amount of the Multiclass PCs of such Class; and (iii) certain events of bankruptcy, insolvency or similar proceedings involving Freddie Mac.

Rights Upon Event of Default

As long as an Event of Default under the Multiclass PC Agreement remains unremedied, the Holders of Multiclass PCs of any Class representing principal amounts aggregating not less than 50% of the aggregate of the principal amounts of all Multiclass PCs of such Class may, in writing, remove Freddie Mac and nominate a successor to Freddie Mac, which nominee will be deemed appointed as successor to Freddie Mac (except as to its guarantee obligation) unless within 10 days after such nomination Freddie Mac objects thereto, in which case Freddie Mac may petition any court of competent jurisdiction for the appointment of a successor or any Holder who has been a bona fide Holder for at least six months may, on behalf of such Holder and all others similarly situated, petition any such court for appointment of a successor to Freddie Mac. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor to Freddie Mac.

Amendment

The Multiclass PC Agreement may be amended by Freddie Mac, without the consent of any Holder or Holders, (i) to cure any ambiguity, to correct or supplement any provision thereof which may be inconsistent with any other provision thereof, or to make any other provisions with respect to matters or questions arising under the Multiclass PC Agreement that are not inconsistent with the other provisions of the Multiclass PC Agreement, provided that any such amendment shall not adversely affect in any material respect the interest of any Holder; or (ii) to permit Freddie Mac to take any necessary or helpful action to maintain the qualification of any Multiclass PC Pool as a REMIC under the Code or to avoid the imposition of any state or federal tax on the Multiclass PC Pool.

The Multiclass PC Agreement also may be amended by Freddie Mac in any other respect with the consent of the Holders of Multiclass PCs of each affected Class representing not less than 50% of the principal amount of all Multiclass PCs of such Class. However, without the consent of a Holder, the Multiclass PC Agreement may not be amended to impair or affect the right of such Holder to receive payment of principal and interest (including any payment under any guarantee in respect thereof) due such Holder, on or after the due date of such payment, or to institute suit for the enforcement of any such payment on or after such date.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

General

The following is a general discussion of the anticipated material federal income tax consequences of the purchase, ownership and disposition of Multiclass PCs. The discussion below does not purport to address all federal income tax consequences that may be applicable to particular categories of investors, some of which may be subject to special rules. The authorities on which this discussion is based are subject to change or differing interpretations, and any such change or interpretation could apply retroactively. The discussion reflects the enactment of the Tax Reform Act of 1986 (the "1986 Act"), including, where applicable, the intended meaning ascribed to the provisions of the 1986 Act by the Conference Committee Report (the "Committee Report") accompanying the 1986 Act. No assurance can be provided that the interpretations herein will be reflected in applicable Treasury regulations, which have not yet been issued. Investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of Multiclass PCs, particularly with respect to federal income tax changes effected by the 1986 Act. For purposes of this tax discussion (other than the discussion of information reporting by the Multiclass PC Pool), references to a "purchaser" or a "Holder" mean the beneficial owner of a Multiclass PC.

Status of Multiclass PC Pool for Federal Income Tax Purposes

With respect to each Series of Multiclass PCs, an election will be made to treat the related Multiclass PC Pool as a REMIC within the meaning of Section 860D(a) of the Code. Qualification as a REMIC requires ongoing compliance with certain conditions. With respect to each Series of Multiclass PCs, Cadwalader, Wickersham & Taft, special tax counsel to Freddie Mac, has advised Freddie Mac that in the firm's opinion, assuming (i) the making of such an election, (ii) compliance with the Multiclass PC Agreement, and (iii)

compliance with changes in the law, including any amendments to the Code or applicable Treasury regulations thereunder, the Multiclass PC Pool will qualify as a REMIC. In such case, the Regular Class PCs will be considered to be “regular interests” in the REMIC and generally will be taxed as if they were newly originated debt instruments for federal income tax purposes, and the Residual Class PCs will be considered to be “residual interests” in the REMIC and will be subject to tax rules, described below, that differ from those that would apply if the Residual Class PCs were treated for federal income tax purposes as direct ownership interests in the Mortgages or as debt instruments issued by the REMIC.

Status of Multiclass PCs

Multiclass PCs held by a mutual savings bank or a domestic building and loan association will constitute “qualifying real property loans” within the meaning of Code Section 593(d)(1) in the same proportions that the assets of a REMIC would be so treated. Multiclass PCs held by a domestic building and loan association will constitute assets described in Code Section 7701(a)(19)(C) in the proportion that the assets of the REMIC would be treated as “loans . . . secured by an interest in real property” within the meaning of Code Section 7701(a)(19)(C)(v) or as other assets described in Code Section 7701(a)(19)(C). Multiclass PCs held by a real estate investment trust will constitute “real estate assets” within the meaning of Code Section 856(c)(5)(A), and interest on the Multiclass PCs will be considered “interest on obligations secured by mortgages on real property or on interests in real property” within the meaning of Code Section 856(c)(3)(B) in the same proportion that, for both purposes, the assets of the Multiclass PC Pool would be treated as “interests in real property” as defined in Code Section 856(c)(6)(C) (or, as provided in the Committee Report, as “real estate assets” as defined in Code Section 856(c)(6)(B)). If at all times 95% or more of the assets of the Multiclass PC Pool qualifies for any of the foregoing treatments, the Multiclass PCs will qualify for the corresponding status in their entirety. It is anticipated that the Multiclass PCs will qualify for the foregoing treatments in their entirety. Regular Class PCs will also be “qualified mortgages” within the meaning of Code Section 860G(a)(3) with respect to another REMIC to which they are transferred on or before such other REMIC’s startup day.

Taxation of Regular Class PCs

General

In general, interest, original issue discount, and market discount accrued on a Regular Class PC will be treated as ordinary income to the Holder. Each Holder must use the accrual method of accounting with regard to Regular Class PCs, regardless of the method of accounting otherwise used by such Holder.

Original Issue Discount

All Accrual Class PCs will be, and certain other Classes of Regular Class PCs in a Series may be, issued with “original issue discount” within the meaning of Code Section 1273(a). Holders of any Class of Regular Class PCs having original issue discount generally must include original issue discount in income for federal income tax purposes as it accrues, in accordance with a constant interest method that takes into account the compounding of interest, in advance of receipt of the cash attributable to such income. Based in part on proposed Treasury regulations issued on April 2, 1986 under Sections 1271 through 1273 and Section 1275 of the Code (the “Proposed Regulations”) and in part on the provisions of the 1986 Act, Freddie Mac anticipates that the amount of original issue discount required to be included in the income of a Holder of a Regular Class PC in any taxable year will be computed as described below.

The total amount of original issue discount on a Regular Class PC is the excess of the “stated redemption price” of the Regular Class PC over its “issue price.” The issue price of a Regular Class PC is the price at which a substantial amount of Regular Class PCs of that Class are first sold to the public. The issue price of a Regular Class PC may also include the amount paid by an initial Holder of a Regular Class PC for accrued interest that relates to a period prior to the issue date of the Regular Class PC. The stated redemption price of an Accrual Class PC will include all distributions. The stated redemption price of a Regular Class PC (other than an Accrual Class PC) always includes its original principal amount, but generally does not include distributions of stated interest. If the interval between the date on which the Regular Class PCs are originally

issued and the first Payment Date on such Regular Class PCs is longer than the interval between subsequent Payment Dates, however, the Internal Revenue Service could contend that the initial interval should be divided into a short accrual period followed by a period corresponding to the interval between subsequent Payment Dates, and that because no distribution of interest is made on the date the short accrual period ends, all stated interest distributions on such Regular Class PCs are included in the stated redemption price. Accordingly, such Regular Class PCs may be considered to be issued with original issue discount. In general, such treatment would result in more interest on such a Regular Class PC being allocated to this initial interval and less interest being allocated to all subsequent periods.

Under a *de minimis* rule, original issue discount on a Regular Class PC will be considered to be zero if such original issue discount is less than 0.25% of the stated redemption price of the Regular Class PC multiplied by the weighted average maturity of the Regular Class PC. For this purpose, the weighted average maturity of Regular Class PCs is computed as the sum of the amounts determined by multiplying the number of full years (*i.e.*, rounding down partial years) from the issue date until each distribution in reduction of the principal amount of the Regular Class PC is scheduled to be made by a fraction, the numerator of which is the amount of each distribution in reduction of the principal amount of the Regular Class PC and the denominator of which is the stated redemption price of the Regular Class PC. Although not entirely clear, it appears that the schedule of such distributions should be determined in accordance with the assumed rate of prepayment of the PCs in the Multiclass PC Pool used in pricing the Regular Class PCs (the "Prepayment Assumption"). The Prepayment Assumption with respect to a Series of Regular Class PCs will be set forth in the related Offering Circular Supplement, but no representation is made that the Regular Class PCs will prepay at this rate or at any other rate.

A holder of a Regular Class PC generally must include in gross income for any taxable year the sum of the "daily portions," as defined below, of the original issue discount on the Regular Class PC accrued during an accrual period for each day on which he holds the Regular Class PC, including the date of purchase, but excluding the date of disposition. With respect to each Regular Class PC, a calculation will be made of the original issue discount that accrues during each successive full accrual period (or shorter period from the date of original issue) that ends on the day in the calendar year corresponding to the Payment Dates on the Regular Class PC. Original issue discount is to be calculated initially based on a schedule of maturity dates that takes into account the Prepayment Assumption. The original issue discount accruing in any accrual period on a Regular Class PC would be the *excess*, if any, of (i) the sum of (a) the present value of all of the remaining distributions to be made on the Regular Class PC as of the end of that accrual period and (b) the distributions made on the Regular Class PC during the accrual period that are included in the Regular Class PC's stated redemption price at maturity, *over* (ii) the adjusted issue price of the Regular Class PC at the beginning of the accrual period. The present value of the remaining distributions referred to in the preceding sentence is calculated based on (i) the original yield to maturity of the Regular Class PC, (ii) events (including actual prepayments) that have occurred prior to the end of the accrual period, and (iii) the Prepayment Assumption. For these purposes, the original yield to maturity of the Regular Class PC will be calculated based on its issue price and assuming that the Regular Class PC will be prepaid in all periods in accordance with the Prepayment Assumption. The adjusted issue price of a Regular Class PC at the beginning of any accrual period equals the issue price of the Regular Class PC, increased by the aggregate amount of original issue discount with respect to the Regular Class PC that accrued in all such prior periods and reduced by the amount of distributions included in the Regular Class PC's stated redemption price at maturity that were made on the Regular Class PC in such prior periods. The original issue discount accruing during any accrual period will then be divided by the number of days in the period to determine the daily portion of original issue discount for each day in the period.

Under the method described above, the daily portions of original issue discount required to be included in income by a Holder of a Regular Class PC generally will increase to take into account prepayments on the PCs in the Regular Class PC Pool that exceed the Prepayment Assumption, and generally will decrease (but not below zero for any period) if the prepayments on such PCs are slower than the Prepayment Assumption.

A purchaser of a Regular Class PC at a price less than its stated redemption price also will be required to include in gross income the daily portions of the original issue discount on the Regular Class PC. If the cost of the Regular Class PC to such a subsequent purchaser is greater than its "revised issue price," however, the

daily portion for any day is reduced by the amount that would be the daily portion for such day (computed in accordance with the rules set forth above) multiplied by a fraction, the numerator of which is the amount by which the price paid by such purchaser for the Regular Class PC exceeds the revised issue price and the denominator of which is the sum of the daily portions for such Regular Class PC (computed in accordance with the rules set forth above) for all days after the date of purchase. The revised issue price of a Regular Class PC on any given day is equal to the sum of its adjusted issue price at the beginning of the accrual period during which such day occurs and the daily portions of original issue discount for all days during such accrual period prior to such day.

Variable Rate Regular Class PCs

Regular Class PCs may provide for interest based on a variable rate, such as Floating Rate PCs. Although not entirely clear, it is likely that the rules of the Code relating to original issue discount and premium would be applied to such a Regular Class PC by assuming that such Regular Class PC will bear interest in all periods after the first Payment Date at a fixed rate assuming the variable rate remains constant at its value as of the date of initial issuance (or possibly as of the pricing date of such Regular Class PC). If the interest that actually accrues in any accrual period differs from the assumed rate, then an adjustment would be made in the income for the period to reflect the actual rate. Absent clarification, original issue discount will be reported to the Internal Revenue Service and to Holders of Regular Class PCs in this manner using the Prepayment Assumption.

Market Discount

A purchaser of a Regular Class PC also may be subject to the market discount rules. Market discount is the amount by which the purchaser's basis in the Regular Class PC (i) is exceeded by the stated redemption price of the Regular Class PC (less any prior distributions included in the stated redemption price), or (ii) in the case of a Regular Class PC having original issue discount, is exceeded by the revised issue price. Such purchaser generally will be required to recognize accrued market discount as ordinary income as distributions includable in the stated redemption price of such Regular Class PC are received, in an amount not exceeding any such distribution. Such market discount would accrue in a manner to be provided in Treasury regulations and should take into account the Prepayment Assumption. The Committee Report provides that until such regulations are issued, such market discount would accrue either (i) on the basis of a constant interest rate (similar to the method described above for accruing original issue discount), or (ii) in the ratio of stated interest distributable in the relevant period to the total stated interest remaining to be distributed from the beginning of such period (computed taking into account the Prepayment Assumption), or in the case of a Regular Class PC issued with original issue discount, in the ratio of original issue discount accrued for the relevant period to the total remaining original issue discount at the beginning of such period. Such purchaser also generally will be required to treat a portion of any gain on a sale or exchange of the Regular Class PC as ordinary income to the extent of the market discount accrued, but unrecognized, to the date of disposition under one of the foregoing methods. As an alternative to the inclusion of market discount in income on the foregoing basis, the Holder may elect to include market discount in income currently as it accrues on all market discount instruments acquired by such Holder in that taxable year or thereafter.

In addition, deductions for a portion of a Holder's interest expense attributable to any indebtedness incurred or continued to purchase or carry the Regular Class PC purchased with market discount may be deferred. The deferred portion would not exceed the portion of market discount which accrues but which is not taken into account currently. Any such deferred interest expense is, in general, allowed as a deduction not later than the year in which the related market discount income is recognized.

Market discount with respect to a Regular Class PC will be considered to be zero if such market discount is less than 0.25% of the remaining stated redemption price at maturity of such Regular Class PC, multiplied by the weighted average maturity of the Regular Class PC (determined as described above in the fourth paragraph under "Original Issue Discount") remaining after the date of purchase. Treasury regulations implementing the market discount rules have not yet been issued, and therefore investors should consult their own tax advisors regarding the application of these rules as well as the advisability of making any of the elections with respect thereto.

Premium

A Regular Class PC, other than an Accrual Class PC, purchased at a cost (net of accrued interest) greater than its principal amount generally is considered to be purchased at a premium. The Holder may elect under Code Section 171 to amortize such premium under the constant interest method, using the Prepayment Assumption. In addition, though not set forth in the Code, the Committee Report indicates a Congressional intent that the methods for determining the accrual of market discount described above which are alternatives to accrual on the basis of a constant interest rate will also apply for purposes of amortizing bond premium under Code Section 171 on obligations such as the Regular Class PCs.

Taxation of Residual Class PCs

Taxation of REMIC Income

Generally, the "daily portions" of REMIC taxable income or net loss will be treated as ordinary income or loss for original Holders of Residual Class PCs ("Residual Holders"). The daily portions of REMIC taxable income or net loss for a Residual Holder are determined by allocating the REMIC's taxable income or net loss for each calendar quarter ratably to each day in such quarter and by allocating such daily portion among the Residual Holders in proportion to their respective holdings of Residual Class PCs in the REMIC on such day. REMIC taxable income is generally determined in the same manner as the taxable income of an individual (and subject to clarification in Treasury regulations in certain respects); however, REMIC taxable income must be determined under the accrual method of accounting. REMIC taxable income generally means the REMIC's gross income, including interest, original issue discount income and market discount income, if any, on the PCs owned by the REMIC, minus deductions, including interest and original issue discount expense on the Multiclass PCs, servicing fees on the PCs and Multiclass PC Pool, other administrative expenses, and deduction or amortization of premium, if any, with respect to the PCs.

A Holder of a Residual Class PC (other than an original Holder) also will be required to report on its federal income tax returns amounts representing a daily share of the taxable income of the REMIC for each day that such Holder owns a Residual Class PC. Those daily amounts generally would equal the amounts that would have been reported for the same days by an original Holder, as described above. The legislative history of the 1986 Act indicates that Congress may subsequently re-examine the REMIC provisions and provide that adjustments are appropriate to reduce (or increase) the income of a subsequent Holder that purchased such Residual Class PC at a price greater than (or less than) the adjusted basis such Residual Class PC would have in the hands of an original Holder. For the present, however, adjustments are apparently not permitted or required.

The taxable income recognized by a Residual Holder may also be greater in earlier years because the REMIC will use a constant yield in computing income from the Mortgages and interest deductions with respect to Regular Class PCs, expressed as a percentage of the outstanding principal amount of the Regular Class PCs, may increase over time as earlier Classes are paid. This method of taxation of Residual Class PCs can produce a significantly lower after-tax yield for a Residual Class PC than if it were taxed as a debt instrument.

A Holder of a Residual Class PC will not be permitted to amortize the cost of its Residual Class PC as an offset to its share of the taxable income of the REMIC. However, that taxable income will not include cash received by the REMIC that represents a recovery of the REMIC's basis in its assets, and, as described above, REMIC's initial basis in its assets equals the aggregate issue prices (*i.e.*, fair market values) of the Multiclass PCs. Such recovery of basis by the REMIC will have the effect of amortization of the issue price of the Residual Class PCs over their life. However, in view of the possible acceleration of the income of Holders of the Residual Class PCs described in the immediately preceding paragraph, the period of time over which such issue price is effectively amortized may be longer than the economic life of the Residual Class PCs. **The method of taxation of the Residual Class PCs described in this section can produce a significantly lower after-tax yield for the Residual Class PCs than would be the case if the Residual Class PCs were treated for federal income tax purposes as direct interests in the Mortgages or as debt instruments issued by the REMIC.**

Losses

The amount of any net loss of the REMIC that may be taken into account by a Residual Holder is limited to the adjusted basis of the Residual Class PC as of the close of the calendar quarter (or time of disposition of the Residual Class PC, if earlier), determined without taking into account the net loss for the quarter. Any loss that is disallowed on account of this limitation may be carried over indefinitely by the Residual Holder for whom such loss was disallowed, but only to offset any taxable income generated by the same REMIC.

Treatment of Certain Items of REMIC Income and Expenses

Original Issue Discount. Generally, the REMIC's deductions for original issue discount will be determined in the same manner as original issue discount income on Multiclass PCs as described above under "Taxation of Regular Class PCs—Original Issue Discount," without regard to the *de minimis* rule or the adjustments for subsequent Holders described therein.

Market Discount. The REMIC will have market discount income in respect of the Mortgages underlying the PCs held by the REMIC if, in general, the basis of the REMIC allocable to such Mortgages is exceeded by their revised issue prices. The REMIC's basis in such Mortgages is their fair market value immediately after their transfer to the REMIC (which will equal the aggregate initial fair market value of the Multiclass PCs) or at a time prior to such transfer (*e.g.*, reflecting the REMIC's cost of the Mortgages) as may be provided in Treasury regulations yet to be issued. In respect of Mortgages described above which have market discount to which Code Section 1276 applies, the accrued portion of such market discount would be recognized currently on the basis of a constant interest rate as an item of REMIC ordinary income.

Premium. Generally, if the basis of the REMIC in Mortgages underlying a PC held by the REMIC exceeds the unpaid principal balances of the Mortgages, the REMIC will be considered to have acquired such Mortgages at a premium equal to the amount of such excess. As described above under "Taxation of Regular Class PCs—Premium," a REMIC which holds Mortgages may elect under Code Section 171 to amortize premium on the Mortgages described above, under a constant interest rate method, using a prepayment assumption. Substantially all of the mortgagors on the Mortgages described above are expected to be individuals and Code Section 171 will not be available for premium on Mortgages originated on or prior to September 27, 1985. Premium with respect to such Mortgages may be deductible, in accordance with a reasonable method regularly employed by the REMIC. The allocation of such premium pro rata among principal payments or on the basis of a constant interest rate should be considered a reasonable method.

Limitations on Offset or Exemption of REMIC Income

A portion of the REMIC taxable income includable in determining the federal income tax liability of a Residual Holder will be subject to federal income tax in all events. That portion, referred to as the "excess inclusion," is equal to the excess of REMIC taxable income for the calendar quarter allocable to a Residual Class PC over the daily accruals for such quarterly period, which are equal to the product of (i) 120% of the long-term federal rate that would have applied to the Residual Class PC (if it were a debt instrument) on the Startup Day under Code Section 1274(d), and (ii) the adjusted issue price of such Residual Class PC at the beginning of such quarter. The adjusted issue price of a Residual Class PC at the beginning of a quarter is the issue price of the Residual Class PC, plus the amount of the daily accruals of REMIC income for all prior quarters, decreased (but not below zero) by any distributions made with respect to such Residual Class PC prior to the beginning of such quarter.

The portion of a Residual Holder's REMIC taxable income consisting of the "excess inclusion" may not be offset by unrelated losses or loss carryforwards of a Residual Holder. An exception applies to certain thrift institutions, but the Treasury Department has the authority to issue regulations providing that this exception will not apply to the extent necessary or appropriate to prevent avoidance of tax. This exception may not apply if the aggregate value of the Residual Class PCs is not considered to be "significant" as described below. Further, a Residual Holder's excess inclusion is treated as unrelated business taxable income for an organization subject to the tax on unrelated business income. In addition, under Treasury regulations yet to be

issued, if a real estate investment trust owns a Residual Class PC, a portion of dividends paid by the real estate investment trust would constitute excess inclusions.

If the aggregate value of the Residual Class PCs is not considered to be significant, then to the extent provided in Treasury regulations a Residual Holder's entire share of REMIC taxable income will be treated as an excess inclusion subject to the foregoing limitations. Such regulations may apply to Multiclass PCs issued before such regulations are issued. The Committee Report states the intention that Treasury regulations yet to be issued would take into account the value of the Residual Class PCs relative to the aggregate value of the Multiclass PCs and that the value of the Residual Class PCs would be considered significant in cases where such value is at least two percent of the aggregate value of the Multiclass PCs. Such regulations could provide, however, that this significant value test is a continuing or annual test so that a Residual Holder's entire share of REMIC taxable income for any year will be treated as excess inclusion if the relative value of the Residual Class PCs at the time is not significant.

The Offering Circular Supplement will set forth the anticipated value of the Residual Class PCs relative to the aggregate value of the Multiclass PCs on the Startup Day.

Prohibited Transactions

Income from certain transactions by the REMIC, called prohibited transactions, will not be part of the calculation of income or loss includable in the federal income tax returns of Residual Holders, but rather will be taxed directly to the REMIC at a 100% rate. Prohibited transactions generally include (i) the disposition of qualified mortgages other than pursuant to a (a) substitution for a defective mortgage within two years or for any qualified mortgage within three months of the Startup Day, (b) foreclosure, default, or imminent default of a qualified mortgage, (c) bankruptcy or insolvency of the REMIC, or (d) qualified (complete) liquidation, (ii) the receipt of income from assets that are not the type of mortgage loans or investments that the REMIC is permitted to hold, (iii) the receipt of compensation for services, or (iv) the receipt of gain from disposition of cash flow investments other than pursuant to a qualified (complete) liquidation. Where the REMIC holds PCs, as will be the case, it is uncertain whether for the foregoing purposes, the qualified mortgages held by the REMIC are the PCs themselves or the Mortgages underlying such PCs. Because of Freddie Mac's guarantee, in the event such tax is imposed on a REMIC, payments of principal and interest on the Regular Class PCs will not be affected.

Sale or Exchange of Multiclass PCs

If a Holder sells or exchanges a Multiclass PC, the Holder will recognize gain or loss equal to the difference between the amount received and his adjusted basis in the Multiclass PC (except that, in the case of a sale of a Residual Class PC, a loss may be deferred under the "wash sale" rules described below). The adjusted basis of a Multiclass PC generally will equal the cost of the Multiclass PC to the seller, increased by income previously included by the seller with respect to the Multiclass PC, and reduced (but not below zero) by the distributions previously received by the seller and by any amortized premium, in the case of a Regular Class PC, or net losses allowed as a deduction, in the case of a Residual Class PC.

Except as described above with respect to market discount, and except as provided in this paragraph, any gain or loss on the sale or exchange of a Regular Class PC realized by an investor who holds the Regular Class PC as a capital asset will be capital gain or loss and will be long-term or short-term depending on whether the Regular Class PC has been held for the long-term capital gain holding period (more than one year). Multiclass PCs will be "evidences of indebtedness" within the meaning of Code Section 582(c)(1), so that gain or loss recognized from the sale of a Multiclass PC by a bank or thrift institution to which such section applies would be ordinary income or loss. Gain from the disposition of a Regular Class PC that might otherwise be capital gain will be treated as ordinary income to the extent such gain does not exceed the excess, if any, of (i) the amount that would have been includable in the gross income of the Holder if his yield in such Regular Class PC were 110% of the applicable federal rate under Code Section 1274(d) as of the date of purchase, over (ii) the amount of income actually includable in the gross income of such Holder with respect to the Regular Class PC. Under the 1986 Act, the preferential rates applicable to long-term capital gains

generally have been eliminated with respect to taxable years of individuals beginning after December 31, 1987 and after June 30, 1987 in the case of corporations.

Whether the termination of the REMIC will be treated as a sale or exchange of a Holder's Residual Class PC is not clear; if it is, and if the Residual Holder has an adjusted basis in his Residual Class PC remaining when his interest in the REMIC terminates, and if he holds such Residual Class PC as a capital asset under Code Section 1221, then he will recognize a capital loss at the time in the amount of such remaining adjusted basis.

Except as provided in Treasury regulations, the wash sale rules of Code Section 1091 will apply to dispositions of Residual Class PCs where the seller of the interest, during the period beginning six months before the sale or disposition of the residual interest and ending six months after such sale or disposition, acquires (or enters into any other transaction that results in the application of Code Section 1091) any residual interest in any REMIC or any interest in a "taxable mortgage pool" (such as a non-REMIC owner trust) that is economically comparable to a Residual Class PC.

Administrative Matters

For purposes of the administrative provisions of the Code, each Multiclass PC Pool will be treated as a partnership and Residual Holders will be treated as partners. Each Multiclass PC Pool must file federal information returns (Form 1066, U.S. Real Estate Mortgage Investment Conduit Income Tax Return). Unless the Code or applicable Treasury regulations provide otherwise, a Residual Holder may be required to sign the REMIC's annual return. If Freddie Mac is a Residual Holder (as defined herein) with respect to any portion of a Class of Residual Class PCs, it will be obligated to sign the REMIC's returns and to act as a "tax matters partner," as defined in Code Section 6231(a)(7) and applicable Treasury regulations, with respect to the related Series. If at the appropriate time Freddie Mac is not a Residual Holder, the Residual Holder owning the largest percentage interest in the Residual Class PCs will be required to sign the REMIC's returns and to act as tax matters partner. Such Holder, however, by the acceptance of its Residual Class PC agrees to designate Freddie Mac as its agent in the performance of all the duties required of, or permitted to be taken by, the partner responsible for filing such tax return and by the tax matters partner for the REMIC and, if necessary, to execute a power of attorney to this effect. Freddie Mac also agrees to prepare such tax return and, if permitted by applicable law, to sign and file such tax return on behalf of the REMIC.

Treatment of Servicing Compensation

An investor who is an individual, estate, or trust will be subject to limitation with respect to certain itemized deductions described in Code Section 67, to the extent that such deductions, in the aggregate, do not exceed two percent of the investor's adjusted gross income. In the case of a REMIC, such deductions may include servicing compensation for the related Series, or servicing fees paid to the servicer of the Mortgages underlying the PCs in the Multiclass PC Pool, or to Freddie Mac as guarantor of the PCs. The Committee Report indicates an intention that Treasury regulations will provide that such deductions would be allocated entirely to Holders of the Residual Class PCs in the case of REMICs with multiple classes of interests that pay their principal amounts sequentially. However, such limitation on deductions will apply to the allocable portion of such deductions to Holders of Regular Class PCs where such Regular Class PCs are issued in a single Class that is similar to traditional single-class pass-through certificates. As a result, the REMIC will report additional taxable income to Holders of such Regular Class PCs in an amount equal to their allocable share of such servicing compensation, and individuals, estates, or trusts holding Regular Class PCs issued in a single class may have taxable income in excess of the cash received at the applicable Multiclass PC Coupon on such Regular Class PCs.

Taxation of Certain Foreign Investors

Regular Class PCs

Interest, including original issue discount, distributable to holders of Regular Class PCs who are non-resident aliens, foreign corporations or other non-U.S. persons ("foreign persons"), will be considered "portfolio interest" and, therefore, generally will not be subject to 30% United States withholding tax provided

that such foreign person (i) is not a "10-percent shareholder" within the meaning of Code Section 871(b)(3)(B) or a controlled foreign corporation described in Code Section 881(c)(3)(C) and (ii) provides an appropriate statement, signed under penalties of perjury, identifying the beneficial owner and stating, among other things, that the beneficial owner of the Regular Class PC is a foreign person. If such statement is not provided, 30% withholding will apply unless reduced or eliminated pursuant to an applicable tax treaty or unless the interest is effectively connected with the conduct of a trade or business within the United States by such foreign person. In the latter case, such foreign person will be subject to United States federal income tax at regular rates. Holders of Regular Class PCs who are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Regular Class PC.

Residual Class PCs

Amounts paid to Residual Holders who are foreign persons are treated as interest for purposes of 30% (or lower treaty rate) United States withholding tax. It is presently unclear whether such interest could qualify as "portfolio interest." If such treatment is unavailable, such amounts will be taken into account for purposes of withholding only when paid or otherwise distributed (or when the Residual Class PC is disposed of) under rules similar to withholding upon disposition of debt instruments that have original issue discount. However, the Code grants the Treasury Department authority to issue regulations requiring the amount includable be taken into account earlier than otherwise provided where necessary to prevent avoidance of tax. The Committee Report indicates the intention that this latter rule should apply where the Residual Class PCs do not have significant value. Further, a Residual Holder will not be entitled to any exemption from the 30% withholding tax or a reduced treaty rate to the extent of that portion of REMIC taxable income that constitutes an "excess inclusion." See "Taxation of Residual Class PCs—Limitations on Offset or Exemption of REMIC Income." Holders of Residual Class PCs who are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Residual Class PC.

Backup Withholding

Distributions made on the Multiclass PCs and proceeds from the sale of Multiclass PCs to or through certain brokers may be subject to a "backup" withholding tax of 20% of "reportable payments" (including interest accruals, original issue discount, and, under certain circumstances, distributions in reduction of principal amount) unless, in general, the Holder of the Multiclass PCs complies with certain reporting and/or certification procedures or is an exempt recipient under applicable provisions of the Code. Any amounts so withheld from distributions on the Multiclass PCs would be refunded by the Internal Revenue Service or allowed as a credit against the Holder's federal income tax.

Reporting Requirements

Reports will be made annually to the Internal Revenue Service and to Holders of record of Regular Class PCs that are not excepted from the reporting requirements as may be required with respect to amounts treated as interest or original issue discount for federal income tax purposes accrued on the Regular Class PCs and with respect to information necessary to compute the accrual of any market discount or the amortization of any premium on the Regular Class PCs. The Treasury Department has the authority to issue regulations requiring more detailed or more frequent reporting.

The 1986 Act provides that the Treasury Department will promulgate regulations requiring reporting of information that will permit Residual Holders to compute their taxable income accurately. The Committee Report states the intention that such regulations will require reporting of such information more frequently than annually. The Internal Revenue Service's recently released Form 1066, U.S. Real Estate Mortgage Investment Conduit Income Tax Return, has an accompanying Schedule Q, Quarterly Notice to Residual Interest Holders of REMIC Taxable Income or Net Loss Allocation. The instructions to Schedule Q require that it be furnished by the REMIC to each Residual Holder within 30 days of the close of each calendar quarter in which the REMIC is in existence.

Each Holder of a Residual Class PC is required to treat items on its returns consistently with their treatment of the REMIC's return, unless the Holder of a Residual Class PC either files a statement

identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the REMIC. The Internal Revenue Service may assess a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the REMIC level. The REMIC does not intend to register as a tax shelter pursuant to Code Section 6111 because it is not anticipated that the REMIC will have a net loss for any of the first five taxable years of its existence. Any person that holds a Residual Class PC as a nominee for another person may be required to furnish the REMIC, in a manner to be provided in Treasury regulations, with the name and address of such person and other information.

Legislative Developments

A technical corrections bill (the "Technical Corrections Bill"), passed by the House of Representatives on October 29, 1987, would have made several technical and other changes to the 1986 Act that could have affected Holders of Multiclass PCs. Although the Technical Corrections Bill was not passed as part of the recently enacted Revenue Act of 1987, it is likely that such legislation will be reintroduced in 1988.

Among the provisions of the Technical Corrections Bill that would have affected REMICs and investors therein are provisions that (i) would have imposed a 100% tax on the amount of any contribution of property made to the REMIC after the Startup Day (other than certain cash contributions); (ii) would have imposed a tax on the REMIC at the highest corporate rate on a REMIC's "net income from foreclosure property;" and (iii) would have imposed a tax on a REMIC at the highest corporate rate with respect to the "excess inclusion" income of any residual interest held (directly or through a pass-through entity) by a tax-exempt entity (such as a state or local government) that is not subject to the tax on unrelated business income. The effective date of such provisions, assuming the Technical Corrections Bill will be reintroduced, is not known at this time. By virtue of the last of these provisions, the Multiclass PC Agreement will be amended to provide for appropriate restrictions on the transfer of such Residual Class PCs. Prospective investors should consult their own tax advisors regarding the effect that such legislation may have on their investment in Multiclass PCs.

ERISA CONSIDERATIONS

The Department of Labor issued a final regulation on November 13, 1986, which provides that if an employee benefit plan ("plan") subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), acquires a "guaranteed governmental mortgage pool certificate" then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA and the Code, the plan's assets include the certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the plan's holding of such certificate, include any of the mortgages underlying such certificate. Under the regulation, the term "guaranteed governmental mortgage pool certificate" is specifically defined to include a certificate "backed by, or evidencing an interest in, specified mortgages or participation interests therein" and with respect to which interest and principal payable pursuant to the certificate are guaranteed by Freddie Mac. The effect of such regulations is to make clear that the sponsor (that is, the entity that organizes and services the pool, in this case Freddie Mac) and other persons, in providing services with respect to the assets in the pool, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, merely by reason of the plan's investment in a certificate. At the time this Labor Department regulation was originally issued, certificates similar to Multiclass PCs were not in existence. However, Freddie Mac has been advised by its counsel, Cadwalader, Wickersham & Taft, that the Multiclass PCs should qualify as "guaranteed governmental mortgage pool certificates," and thus investment in the Multiclass PCs by plans should not result in transactions prohibited either by ERISA or related provisions of the Code.

The purchase of a Residual Class PC, which is a REMIC residual interest, by a plan may give rise to "unrelated business taxable income" as described in Sections 511 through 515 and Section 860E of the Code. See "Certain Federal Income Tax Consequences—Taxation of Residual Class PCs—Limitations on Offset or Exemption of REMIC Income."

LEGALITY OF INVESTMENT

Multiclass PCs are lawful investments, and may be accepted as security, for all fiduciary, trust and public funds, the investment or deposits of which are under the authority and control of the United States or any officers thereof. 12 U.S.C. § 1452(f). Accordingly, Multiclass PCs are acceptable as collateral for Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.15(d)(1).

National banks may deal in, underwrite and purchase Multiclass PCs for their own accounts without regard to limitations generally applicable to investment securities. 12 U.S.C. § 24, seventh paragraph.

Federal Reserve Banks may accept Multiclass PCs as eligible security for advances to member banks for periods not exceeding 90 days. 12 U.S.C. § 347 and 12 C.F.R. § 201.108 (b)(16).

Federal savings and loan associations and federal savings banks may invest in Multiclass PCs without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(E).

Multiclass PCs are eligible as security for advances by Federal Home Loan Banks to federal savings and loan associations, federal savings banks and other members for which Multiclass PCs are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 525.7 (b)(2).

Federal Home Loan Banks may invest their surplus and reserve funds in Multiclass PCs. 12 U.S.C. §§ 1431(h) and 1436(a), respectively.

Federal credit unions may purchase Multiclass PCs without regard to limitations generally applicable to investments. 12 U.S.C. § 1757(7)(E).

In addition to the specific authorizations discussed above, pursuant to Section 106 of the Secondary Mortgage Market Enhancement Act of 1984, any person, trust, corporation, partnership, association, business trust or business entity created pursuant to or existing under the laws of the United States or any state (including the District of Columbia and Puerto Rico) is authorized to purchase, hold and invest in Multiclass PCs to the same extent that the investor is authorized to purchase, hold or invest in obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Prior to October 4, 1991, a state may enact legislation which specifically refers to Section 106 and either prohibits or limits an investor's authority to invest in Multiclass PCs. To Freddie Mac's knowledge, no state has enacted any such legislation. The enactment by any state of legislation which prohibits or limits authority to invest in Multiclass PCs will not affect the validity of any contractual commitment to purchase, hold or invest in Multiclass PCs made prior to the date of enactment, and such legislation cannot require the sale or other disposition of any Multiclass PCs acquired prior to the date of enactment.

The foregoing does not take into consideration the applicability of statutes, rules, regulations, orders, guidelines or agreements generally governing investments made by a particular investor, including, but not limited to, "prudent investor" provisions, percentage-of-assets limits, and provisions which may restrict or prohibit investments in securities which are issued in book-entry form or which are not "interest-bearing" or "income-paying." Investors should consult with their own legal advisors in determining whether and to what extent Multiclass PCs constitute legal investments for such investors.

REGULATORY CONSTRAINTS

Any financial institution which is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board ("FHLBB"), the National Credit Union Administration or other agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing Multiclass PCs. Institutions whose investment activities are subject to review by certain regulatory authorities may hereafter become subject to restrictions, which may be retroactively imposed by such regulatory authorities, on investment by such institutions in Residual Class PCs. The FHLBB, for example, has indicated that it is studying the appropriateness of investment by FSLIC-insured savings institutions in various types of derivative mortgage-backed securities, including securities such as Residual Class PCs, representing residual interests in mortgage loans on mortgage-backed securities. In addition, certain state regulators have indicated that

regulated institutions subject to their jurisdiction should not hold so-called "interest only" mortgage-backed securities, including "interest only" mortgage-backed securities previously purchased.

FHLBB REGULATORY MATTERS

The staff of the FHLBB has taken the following positions concerning PCs guaranteed by Freddie Mac that are held by institutions whose deposits or accounts are insured by the FSLIC or that are held by federal savings and loan associations or federal savings banks, and Freddie Mac believes that similar positions would be taken concerning Multiclass PCs held by such entities.

- Multiclass PCs are to be reported in the asset classification "Mortgage-backed pass-through securities insured or guaranteed by an agency or instrumentality of the U.S." (FHLBB Staff Memorandum R-29a).
- No loss need be reported for regulatory accounting purposes on sales of mortgages or interests in mortgages in exchange for Multiclass PCs backed by the same or substantially identical mortgages (FHLBB Staff Memoranda R-49 and R-49-1).
- Multiclass PCs current with respect to guaranteed principal and interest payments, regardless of the performance of any underlying mortgage, are not "scheduled items" for institutions the deposits or accounts of which are insured by FSLIC (FHLBB Staff Memorandum R-29a).
- Multiclass PCs constitute "home mortgage loans" for the purpose of computing a Federal Home Loan Bank member's stock requirement under Section 6(c)(4) of the Federal Home Loan Bank Act (FHLBB General Counsel Opinion dated October 30, 1972).
- Multiclass PCs are eligible collateral for use by savings and loan associations engaging in retail repurchase agreements (FHLBB Staff Memorandum R-51-1).

FEDERAL SECURITIES LAWS

The Multiclass PCs are exempt from the registration requirements of the Securities Act of 1933 and are "exempted securities" within the meaning of the Securities Exchange Act of 1934.

DISTRIBUTION ARRANGEMENTS

Each Series of Multiclass PCs will be offered pursuant to the terms set forth in the related Offering Circular Supplement.