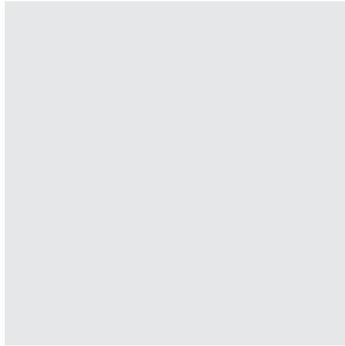
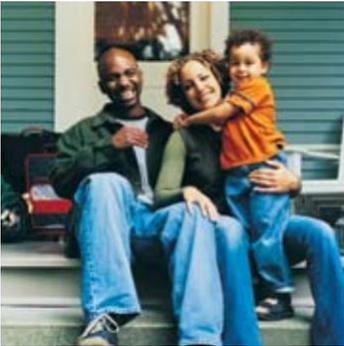
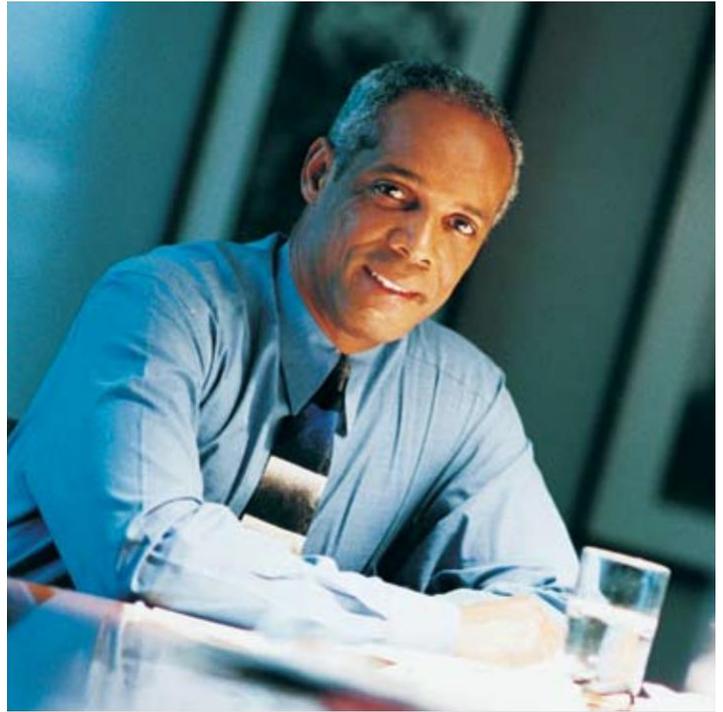


➤ Optimize Your  
Liquidity and  
Profitability



Create Investment Securities from  
Your Mortgage Pipeline



We make home possible®



## Optimize Your Liquidity and Profitability, and Manage Your Risks:

### Create Investment Securities from Your Mortgage Pipeline

Manage your risk, improve your liquidity and optimize your profitability by working with Freddie Mac to turn your mortgage pipeline and retained mortgage holdings into higher-yield investment securities. Exchange your mortgages for Freddie Mac Participation Certificates (PCs) through our swap execution and in return receive high-quality, AAA-rated, liquid securities — backed by your own loans — that attract investors from around the world.

# Manage Your Risks in the Changing Market

Community-based mortgage lenders always need to be prepared to adjust to the changing market. And this preparation includes understanding and using all of the secondary market sale options available to you as a Freddie Mac Seller/Servicer. Holding securities created from your mortgages, rather than holding whole loans in your portfolio, mitigates your credit, interest rate and market risk. When you exchange your mortgages for Freddie Mac securities, Freddie Mac takes on the risks while you continue to earn the yield on your asset. Investors typically receive payment on Freddie Mac PCs on the 15th of the month.

With a securities execution, you'll have more opportunities to:

- Address changes in interest rates and other trends that affect your net margins and the profitability of your mortgage holdings;
- Adjust your balance sheet based on market trends; and
- Earn higher yields for different mortgage types.

On an ongoing basis, a securities execution is a profitable companion to cash sale strategies. You can also ease any concerns you may have about the effect of interest rate changes on net interest margins and the market value of your mortgage portfolio, or the risks associated with delinquencies, non-performing loans and foreclosures. Swapping your mortgages for securities allows you to continue earning the principal and interest on your loans while Freddie Mac takes on the risks that come with market and economic changes.

## Improve Your Liquidity

Holding securities created from your mortgages provides more liquidity than holding whole loans in your portfolio. If the need arises, you can sell your securities faster and at more favorable prices than you'll receive for whole loans. Turning your mortgages into securities allows you to turn assets into cash—and fast. In addition, when you securitize your mortgage production, you have a greater ability to get higher market values for your assets.

## Optimize Your Profitability

With a securities execution you can also:

- **Optimize your balance sheet.** Sell discounted loans to reinvest at higher yields using all-in or note-level pricing. You can increase collateral by swapping premium loans for Freddie Mac PCs.
- **Reduce risk-based capital.** Holding a security can reduce your regulatory risk-based capital requirements because you're only required to apply a 20 percent risk weight for a security versus a minimum 50 percent risk weight for whole loans.

- **Increase current income.** Sell par plus or premium loans for a gain-on-sale and reinvest at market rates. You may have short-term value in your monthly revenue stream for premium loans as long as you own them, but to ensure you get the full premium value, you need to sell these loans.
- **Maximize origination fee income.** When you securitize mortgages, you'll realize the origination fee revenue right away rather than distributing it over the entire time you hold the loan.
- **Improve return on equity via servicing income.**

### An Example of How a Swap Transaction Can Work for You

#### The Challenge

Lender A traditionally retains a large percentage of their originations and has a \$90 million mortgage portfolio. They are now reaching their maximum loan-to-deposit ratio and need to restructure \$50 million of mortgage assets, reduce their risk-based capital requirements and retain servicing.

#### The Process

Lender A had little experience with swap transactions and called their Freddie Mac representative for guidance. After discussing the situation, their representative recommended a swap and hold securitization strategy to meet Lender A's business objectives. Lender A's representative explained how the transaction would work. Lender A then obtained a Master Commitment, pooled their mortgages together and delivered them to Freddie Mac using the selling system and a Fixed-rate Guarantor execution. In return, Lender A received a Freddie Mac Participation Certificate, backed by their own mortgages, to hold in their investment portfolio.

#### The Result

The swap and hold transaction allowed Lender A to:

- Create additional liquidity.
- Restructure their balance sheet to adjust their loan-to-deposit ratio and manage the assets on their books more effectively.
- Reduce regulatory risk-based capital requirements to apply a 20 percent risk weight by selling to Freddie Mac and retaining a security and the servicing, versus a minimum 50 percent risk weight required for the lender to hold whole loans.
- Pass on the credit, interest rate and market risk to Freddie Mac while continuing to earn yield on their assets.
- Maintain their borrower relationships and servicing revenue stream, with a transaction that was completely transparent to their borrowers.

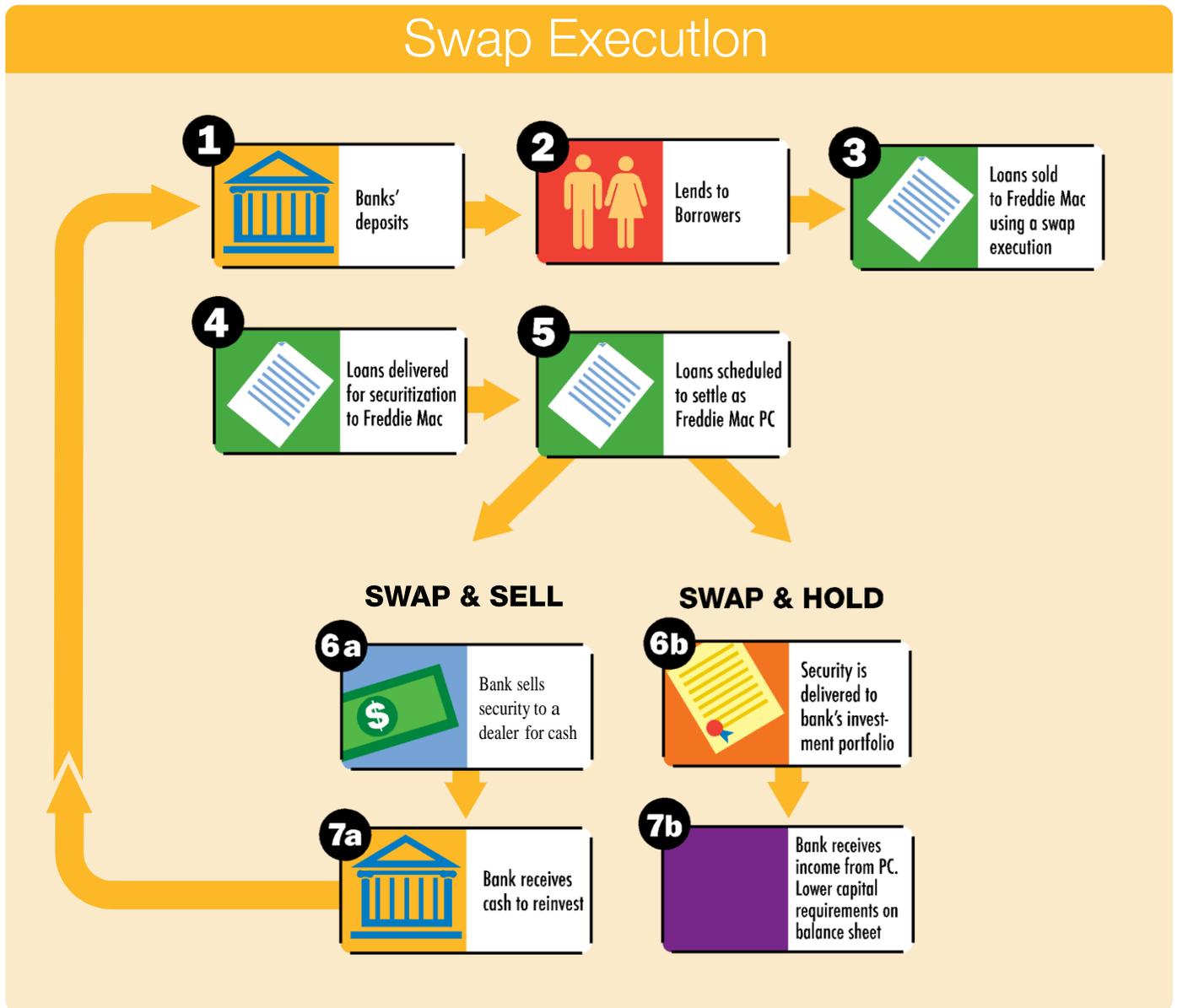
And the entire process was completed in over a month.

# How It Works

Through a swap execution, you sell your mortgages to Freddie Mac and receive a Freddie Mac PC backed by mortgages in return. Whether you decide to hold the securities in your portfolio, reducing your institution's risk-based capital requirements, or sell them to a dealer for cash to maximize your liquidity, swapping loans for PCs offers you a number of benefits over holding whole loans.

**Swap and Hold:** With a swap and hold, you swap the loans in your pipeline or portfolio with Freddie Mac and receive a security backed by your own mortgages. By holding these securities instead of whole loans in your investment portfolio, you'll have lower capital requirements on your balance sheet. You'll also enjoy the monthly servicing income as well as yield on the security.

**Swap and Sell:** If you choose to swap and sell, you can sell the securities you receive in exchange for your mortgages to a dealer for cash to make more loans.



# A Variety of Swap Execution Options

Whether you're a credit union, community bank or regional mortgage lender, we offer options to maximize the return on your mortgage sales and increase your profitability—and it's easier than you might think.

## Fixed-Rate Guarantor

Through Fixed-rate Guarantor, you can trade your 15-, 20-, 30-, and 40-year fixed-rate mortgages for Freddie Mac Gold PCs. Use this execution to maximize your origination fee income and increase your servicing portfolio. With Fixed-rate Guarantor, the Gold PCs you obtain are backed exclusively by mortgages you've sold to Freddie Mac, allowing you to reap the benefits of the fastest paying conventional mortgage pass-through certificates.

- Fixed-rate Guarantor gives you Gold PCs backed exclusively by at least \$1 million of your own fixed-rate mortgages (\$250,000 for Guarantor mini-pools).
- Just 45 days after a Gold PC is issued, as the investor, you receive the first payment—that's 10 days faster than other comparable executions.
- In every month that follows, you receive a payment from the Gold PC just 14 days after the borrowers' scheduled principal and interest (P&I) are due.
- To increase your competitive edge, you can take advantage of buyup and buydown options and various remittance cycles to further enhance pooling options, float and guarantee fees to meet your individual investment needs.
- Take advantage of Freddie Mac's accelerated settlement cycles available through the selling system to receive your Gold PC in as little as three days after the delivery of your mortgages.

## WAC ARM Guarantor

With adjustable-rate mortgages (ARMs), a securities execution becomes an even more important choice. Freddie Mac's Weighted Average Coupon (WAC) ARM Guarantor is a competitive securities execution for your Constant Maturity Treasury (CMT)-indexed and London Interbank Offered Rate (LIBOR)-indexed ARMs. With a \$500,000 minimum commitment you can receive a WAC ARM PC that is an attractive investment, providing you with an asset to match short-term liabilities and liabilities with floating rates.

- WAC ARM Guarantor offers attractive options, including optional delivery periods and two different remittance cycles to meet your individual needs.
- Thanks to our flexible WAC ARM Guarantor pooling requirements, you can form larger pools that may bring in higher PC prices.

- Other remittance cycle options allow you to better manage your servicing float value.
- Receive your WAC ARM PC in as little as three days after the delivery of your mortgages by using Freddie Mac's accelerated settlement cycle, available exclusively through the selling system.

## MultiLender Swap

With MultiLender Swap, you can take out a commitment with an amount as low as \$1,000, allowing you to reap the benefits of a securities execution with as little as one mortgage. MultiLender Swap gives you a pro rata share of a Gold PC or a Giant PC that represents an undivided interest in a security with assets consisting of Gold PCs and/or other Giant PCs. You'll receive a Giant PC in exchange for your conventional 15- and 30-year fixed-rate mortgages, and 20-year fixed-rate mortgages delivered into 30-year PC pools. For your 20-year fixed-rate mortgages delivered into 20-year PC pools, you'll receive Gold PCs.

- As the investor, you'll receive payment from your Gold PC or Giant PC 45 days after issuance, and monthly payments just 14 days after the borrowers' scheduled P&I are due.
- With a variety of PC pools each month with various PC Coupons and eligible mortgage Note Rate ranges, you can settle on the PC of your choice whenever you want. With MultiLender Swap, you can settle throughout the month, except for the last two to five business days.
- Use Freddie Mac's accelerated settlement cycles to get the fastest settlement in the business. With a settlement cycle of one day, you can deliver your loans up to the day before the settlement date of the security and receive almost immediate funding.

## Other Considerations

Two significant features to consider when planning a swap transaction are Freddie Mac's accelerated settlement cycles and note-level buyup/buydown options. Accelerated settlement cycles allow you to reduce the amount of time between mortgage delivery and security settlement. Note-level buyup/buydown lets you include mortgages with different Note Rates in the same PC pool while managing the servicing fees you receive.

### Accelerated Settlement Cycles

With Freddie Mac's accelerated settlement cycles, you can receive PCs in as little as one to four days after the delivery of your mortgages in exchange for a market-based Gold Rush fee. In addition to the standard 5-day settlement cycle, take advantage of settlement cycles of one, three or four days with MultiLender Swap. Or, select settlement cycles of three or four days for your Fixed-rate Guarantor and WAC ARM Guarantor transactions.

Using an accelerated settlement cycle can give you up to four additional business days to deliver your mortgage package to us and receive your PC pool in exchange. Having those extra days will allow you to increase your profitability by putting more

mortgages into current-month pools—even mortgages that have closed in the same month. The extra days also allow you to lower your borrowing costs by reducing your dependence on warehouse lines or other financing vehicles. Even in a low interest-rate environment, the PC price pickup you'll realize by using an accelerated settlement cycle to form current-month PCs can be greater than the positive carry of your warehouse lines plus the Gold Rush fee.

#### Accelerated Settlement Example – MultiLender Swap

You're unable to package and deliver your loans by October 17 for Freddie Mac's October 30-year Giant PC pool. Without an accelerated settlement cycle, you'd be forced to carry these loans over month-end and include them in November's Giant PC pool. But, since you can select a 1-day settlement cycle for your MultiLender Swap contract, you can package and send your notes on October 20, deliver the loans via the selling system as late as October 21, and still get your loans into the October 30-year Giant PC pool. This enables you to pick up the current-month PC price gain and avoid the cost of financing the loans until November's Giant PC.

Here are the calculations, given the following assumptions:

- \$5 million worth of 30-year fixed-rate loans at a 6.00% Note Rate
- Month-end price drop: 6/32nds, or 0.1875%
- Financing costs: 5.00%
- Gold Rush rate: 1 basis point (0.01%)

#### Income Stream from Carry

1 month of mortgage interest income (\$5M x 0.06/12)	\$	25,000
Less: 1 month of financing costs (\$5M x 0.05/12)	\$	20,833
Income from Carry	\$	4,167

#### Income Stream from 1-day Settlement Cycle

Current-month PC price gain (\$5M x .001875)	\$	9,375
Less: Gold Rush fee	\$	500
Income from 1-day settlement cycle	\$	8,875

#### Advantage of Accelerated Settlement

Income stream from 1-day settlement cycle	\$	8,875
Less: Carry income	\$	4,167
Profit from 1-day settlement cycle	\$	4,708

#### Accelerated Settlement Example – Fixed-rate Guarantor

This example highlights the advantage of receiving your Guarantor pool early by using an accelerated settlement cycle.

Here are the calculations, given the following assumptions:

- 30-year pool with an unpaid principal balance (UPB) of \$5 million
- 3-day settlement cycle
- Gold Rush fee rate of 0.5 basis point (0.005%)

Dealer pays up 1 tick (0.03125%) for a Guarantor funding in 3 days.

Dealer pay-up (\$5M x 0.03125%)	\$	1,562.50
Less: Gold Rush fee (\$5M x 0.005%)	\$	250.00
Net profit from 3-day settlement cycle	\$	1,312.50

## Note-Level Buyups and Buydowns

Note-level buyup/buydown offers you a way to include mortgages with a wider range of Note Rates in your PCs while managing excess servicing and retaining more cash up-front.

- You can buy up your guarantee fee to reduce the amount you would otherwise receive as servicing spread. In exchange for paying a higher guarantee fee, you will receive cash back from Freddie Mac.
- You can also buy down your guarantee fee to zero, so that you can include mortgages with a wider range of Note Rates in the same PC pool. In exchange for a lower guarantee fee, you will owe a buydown fee to Freddie Mac.

Buyup and buydown fees are calculated using the buyup or buydown amount applicable to each mortgage in the PC pool, multiplied by a market-based buyup/buydown ratio. If a Seller has a Guarantor option, the buyup or buydown grids are emailed to them upon request.

The example below shows how you can use Freddie Mac's note-level buyup/buydown option with a MultiLender Swap transaction.

Transaction assumptions: Freddie Mac posts a PC coupon of 8 percent, with an eligible Note Range of 8.25 to 9.25 percent. The lender qualifies for 25-basis-point servicing and a 30-basis-point guarantee fee.

#### Example: Note-Level Buyups and Buydowns

Lender's Mortgages	#1	#2	#3	#4
Mortgage Note Rate	8.250	8.375	8.500	8.625
Servicing spread	(0.250)	(0.250)	(0.250)	(0.250)
Guarantee fee	(0.300)	(0.300)	(0.300)	(0.300)
Subtotal	7.700	7.825	7.950	8.075
Buydown amount	+0.300	+0.175	+0.050	n/a
Buyup amount	n/a	n/a	n/a	(0.075)
PC Coupon on the MultiLender Swap Pool	(8.000)	(8.000)	(8.000)	(8.000)
Retained excess servicing	0	0	0	0

Using the note-level buyup/buydown option allowed this lender to pool more mortgages into the 8.00 percent pool and eliminated any excess servicing.

## Freddie Mac PCs

When you swap for securities, you become an investor in a Freddie Mac PC. Freddie Mac PCs are pass-through, mortgage-backed securities that represent an undivided interest in a group, or pool of mortgages.

A PC generates an income stream that is used to pay investors. The P&I on each loan in the pool is “passed through” to the investor. And when you swap for securities, you become an investor and receive that payment.

### Gold PCs

The Gold PC security is the cornerstone of Freddie Mac’s mortgage-backed securities program.

When you sell mortgages in exchange for Gold PCs through the Fixed-rate Guarantor execution, you receive PCs backed exclusively by the mortgages you sold to Freddie Mac, allowing you to reap the benefits of the fastest paying conventional mortgage pass-through securities. Liquidity, transparent disclosure, high credit quality and versatility make Freddie Mac’s Gold PCs attractive to investors.

When you sell 20-year mortgages into a 20-year PC pool through the MultiLender Swap execution, you’ll receive a Gold PC representing an undivided interest in the same mortgages, as well as mortgages sold to Freddie Mac by other Sellers. Through MultiLender Swap, you’ll also receive a Gold PC in exchange for balloon/reset mortgages, Initial Interest<sup>SM</sup> Mortgages, and mortgages originated through certain government programs.

### WAC ARM PCs

Under WAC ARM Guarantor, you’ll receive a WAC ARM PC in exchange for the ARMs you sell to Freddie Mac. WAC ARM PCs have flexible pooling requirements, enabling Sellers to include ARMs with a wide variety of Note Rates. The PC coupon for a WAC ARM PC is the weighted average of the mortgage coupons of the underlying mortgages, less the sum of the applicable management and guarantee fees and servicing fees. The WAC ARM PC coupon adjusts monthly, reflecting changes in the weighted average of the mortgage coupons of the underlying mortgages.

### Giant PCs

Giant PCs are single-class pass-through securities that receive principal and interest from their underlying assets, which are PCs or other Giant PCs. Giant PCs enable investors to manage their portfolios more efficiently by consolidating smaller PCs into larger Giant PCs.

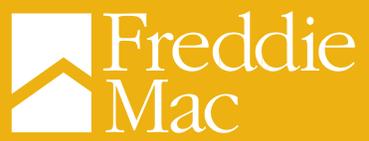
When you sell conventional 15- and 30-year mortgages to Freddie Mac through MultiLender Swap, you’ll receive a Giant PC representing an undivided interest in the same mortgages, as well as mortgages sold to Freddie Mac by one or more other Sellers. Conventional 20-year mortgages may also be sold to Freddie Mac through MultiLender Swap in exchange for a Giant PC if they are pooled together with conventional 30-year mortgages.

## It’s Easier than You Think

Fine-tuning your portfolio or flow business by creating investment securities from your mortgages is easier than you think, and we have additional resources to assist you.

- Read more about the different securities execution options and see how easy it is to swap for securities using the selling system by visiting our web site at [www.FreddieMac.com/sell/secmktg/swap.html](http://www.FreddieMac.com/sell/secmktg/swap.html).
- Review our “How to Swap” handbook at [www.FreddieMac.com/singlefamily/pdf/how2swap.pdf](http://www.FreddieMac.com/singlefamily/pdf/how2swap.pdf).
- Learn about how we can assist you in developing customized solutions for mortgage portfolio holdings of many sizes at [www.FreddieMac.com/sell/secmktg/portfolio.html](http://www.FreddieMac.com/sell/secmktg/portfolio.html).

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