

Offering Circular

Federal Home Loan Mortgage Corporation

Adjustable Rate Mortgage Participation Certificates (Guaranteed)

**Freddie
Mac**

Owned by America's
Savings Institutions

Adjustable Rate Mortgage Participation Certificates ("ARM PCs") represent undivided interests in specified adjustable rate, first lien, fully amortizing, conventional, 1-4 family residential mortgages or participations therein ("Mortgages" or "ARMs") purchased by the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The interest rate on an ARM PC ("PC Coupon") adjusts periodically to a rate equal to the applicable Index plus the applicable PC Margin, subject to the applicable Adjustment Cap on the amount of any single periodic increase or decrease in the PC Coupon, as described herein, and subject to the applicable PC Lifetime Ceiling. The PC Coupon is always rounded to the nearest 0.125%. There is no minimum PC Coupon. Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC Coupon 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. Freddie Mac also guarantees to each Holder ultimate collection of all principal of the Mortgages, without offset or deduction, to the extent of the Holder's pro rata share thereof.

This Offering Circular applies to sales by Freddie Mac of ARM PCs formed under its ARM Cash Program ("Cash ARM PCs") and ARM PCs formed under its ARM Guarantor Program ("Guarantor ARM PCs"). Each Cash ARM PC represents an undivided interest in Mortgages which Freddie Mac purchased from a number of sellers and formed into an ARM PC Pool. Each Guarantor ARM PC represents an undivided interest in Mortgages which Freddie Mac purchased from a single seller in exchange for ARM PCs representing undivided interests in the same Mortgages.

Each pool of Mortgages consists only of a specified type of ARM as described herein. ARM PC Pools are likely to differ in significant respects from each other and from mortgage pools formed under other Freddie Mac programs for Mortgage Participation Certificates.

Freddie Mac will furnish to prospective purchasers of Cash ARM PCs an Offering Circular supplement describing certain characteristics of the specific ARM PCs and of the Mortgages in which such ARM PCs represent interests. In the case of Cash ARM PCs that are offered by Freddie Mac for "Forward Sale," Freddie Mac will furnish to prospective purchasers Preliminary and Final Data Statements in lieu of an Offering Circular supplement. See "Plan of Distribution—ARM Cash Program."

Freddie Mac furnishes to initial purchasers of Guarantor ARM PCs from Freddie Mac an Offering Circular supplement describing certain characteristics of the Mortgages in which such ARM PCs represent interests. If an initial purchaser of Guarantor ARM PCs sells or offers such ARM PCs for sale, such seller is required to furnish to prospective purchasers the applicable Offering Circular supplement.

There currently is a secondary market for 2% Annual ARM PCs and a limited secondary market for ARM PCs other than for 2% Annual ARM PCs. See "Plan of Distribution—Secondary Market."

This Offering Circular should be read in conjunction with any applicable Offering Circular supplement ("Supplement"), Preliminary or Final Data Statement, Freddie Mac's current Information Statement and any supplements thereto. See "Availability of Information and Incorporation by Reference."

ARM 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 ARM PCs has no exemption under federal law from federal, state or local taxation.

ARM 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.

Offering Circular Dated November 9, 1988

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No dealer, salesperson 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, any Preliminary or Final Data Statement, 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 ARM 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 SUMMARY

The information set forth below summarizes, and is qualified in its entirety by, the information appearing elsewhere in this Offering Circular.

Seller and Guarantor Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States.

The Securities ARM PCs representing undivided interests in specified Mortgages purchased by Freddie Mac and placed in a discrete pool ("ARM PC Pool") identified by an ARM PC Pool number. The first two digits of an ARM PC Pool number ("Prefix") identify the type of Mortgages comprising an ARM PC Pool, the program under which the ARM PC Pool was formed or certain characteristics of the Mortgages in the ARM PC Pool as described below. Under the Guarantor Program each ARM PC Pool is comprised of Mortgages purchased by Freddie Mac from a single seller in exchange for ARM PCs representing interests in the same Mortgages. Under the Cash Program each ARM PC Pool is comprised of Mortgages purchased by Freddie Mac from a number of sellers for cash. ARM PCs are sold by Freddie Mac on a continuous basis.

The interest rate on an ARM PC ("PC Coupon") adjusts on the first day of the month following the month in which the interest rates on the related Mortgages adjust ("PC Coupon Adjustment Date"). On each applicable PC Coupon Adjustment Date, the PC Coupon adjusts to a rate equal to the applicable Index used to adjust the Mortgage Coupons on the related Mortgages plus the specified number of basis points applicable to the ARM PC ("PC Margin"), subject to a limit on the amount of any single periodic increase or decrease ("Adjustment Cap") in the PC Coupon, and subject to the specified maximum interest rate applicable to the ARM PC ("PC Lifetime Ceiling"). The initial PC Coupon of each ARM PC is set with respect to the Mortgage Coupons of the related Mortgages and not with respect to the Index in effect at any particular time. The PC Coupon is always rounded to the nearest 0.125%. There is no minimum PC Coupon applicable to any ARM PC.

The following types of ARM PCs are described in this Offering Circular. The applicable Index and the period of and limitations on adjustment to their PC Coupons are as follows:

The 2% Annual Rate Capped ARM PC ("2% Annual ARM PC"). The PC Coupon adjusts annually based on the One Year Treasury Index (as defined herein), subject to an Adjustment Cap of 200 basis points and a PC Lifetime Ceiling. Certain 2% Annual ARM PCs may consist entirely of Mortgages which have an initial period of three or five years during which the interest rate on the Mortgages remains fixed. Certain other 2% Annual ARM PCs may represent interests in Convertible Mortgages (as defined herein).

The 1% Annual Rate Capped ARM PC ("1% Annual ARM PC"). The PC Coupon adjusts annually based on the One Year Treasury Index, subject to an Adjustment Cap of 100 basis points and a PC Lifetime Ceiling. Certain 1% Annual ARM PCs may represent interests in Convertible Mortgages.

The 3 Year Rate Capped ARM PC ("3 Year ARM PC"). The PC Coupon adjusts once every three years based on the 3 Year Treasury Index (as defined herein), subject to an Adjustment Cap of 200 basis points and a PC Lifetime Ceiling.

The 5 Year Rate Capped ARM PC ("5 Year ARM PC"). The PC Coupon adjusts once every five years based on the 5 Year Treasury Index (as defined herein), subject to an Adjustment Cap of 200 basis points and a PC Lifetime Ceiling.

The Semi-Annual Rate Capped ARM PC ("Semi-Annual ARM PC"). The PC Coupon adjusts semiannually based on the applicable Semi-Annual Index (as defined herein) or the One Year Treasury Index, subject to the applicable Adjustment Cap and a PC Lifetime Ceiling.

The following is a summary of certain information about the ARM PCs described in this Offering Circular.

<u>ARM PC Type</u>	<u>Prefix</u>	<u>Minimum Original ARM PC Pool Balance</u>	<u>Program</u>	<u>Mortgage Characteristics— Adjustment Period/Index/ Adjustment Cap</u>
2% Annual ARM PCs	35	\$1,000,000	Cash	Annual/One Year Treasury/ 2% Cap
2% Annual ARM PCs	60	500,000	Guarantor	Annual/One Year Treasury/ 2% Cap
2% Annual ARM PCs (Convertible)	71	1,000,000	Cash	Annual/One Year Treasury/ 2% Cap
2% Annual ARM PCs (Convertible)	40	500,000	Guarantor	Annual/One Year Treasury/ 2% Cap
2% Annual ARM PCs	78	500,000	Guarantor	Annual After Initial Three or Five Year Fixed Rate Period/ One Year Treasury/2% Cap
1% Annual ARM PCs	37	1,000,000	Cash	Annual/One Year Treasury/ 1% Cap
1% Annual ARM PCs	64	500,000	Guarantor	Annual/One Year Treasury/ 1% Cap
1% Annual ARM PCs (Convertible)	72	1,000,000	Cash	Annual/One Year Treasury/ 1% Cap
1% Annual ARM PCs (Convertible)	63	500,000	Guarantor	Annual/One Year Treasury/ 1% Cap
3 Year ARM PCs	86	500,000	Guarantor	Once Every Three Years/3 Year Treasury/2% Cap
5 Year ARM PCs	76	500,000	Guarantor	Once Every Five Years/5 Year Treasury/2% Cap
Semi-Annual ARM PCs . . .	75	500,000	Guarantor	Semi-Annual/Semi-Annual or One Year Treasury/Applicable Cap

See "Description of the ARM PCs—Interest and Principal Payments" and "—The Mortgages."

The Mortgages The Mortgages are adjustable rate, first lien, fully amortizing, conventional, 1-4 family residential whole mortgages or participations there-in with original maturities of up to 30 years. The remaining maturities of the Mortgages in Cash ARM PC Pools will not be less than 25 years at the time of ARM PC Pool formation.

All of the Mortgages in certain ARM PC Pools may contain provisions which allow borrowers to convert the adjustable mortgage interest rate of their Mortgages to a fixed rate (“Convertible Mortgages”). 2% ARM PC Pools comprised entirely of Convertible Mortgages formed under the Cash Program or the Guarantor Program will be specifically identified by Prefix 71 or Prefix 40, respectively. 1% Annual ARM PCs comprised entirely of Convertible Mortgages formed under the Cash Program or the Guarantor Program will be specifically identified by Prefix 72 or Prefix 63, respectively. Any Mortgage that has been converted into a fixed rate loan will be repurchased from the related ARM PC Pool by Freddie Mac or by the seller of the Mortgages. See “Description of the ARM PCs—The Mortgages.”

The Mortgage Coupon

Each Mortgage bears interest at a rate (“Mortgage Coupon”) which adjusts periodically to a rate equal to the applicable Index plus the specified number of basis points applicable to the Mortgage (“Mortgage Margin”) (such rate is a “Fully Indexed Rate”), subject to an Adjustment Cap and subject to the specified maximum interest rate applicable to the Mortgage (“Mortgage Lifetime Ceiling”). The amount of any excess of the Fully Indexed Rate over an adjusted Mortgage Coupon will not be accumulated or carried forward. Such amount is not added to the Mortgage Coupon and is not paid to servicers or to Freddie Mac. There is no minimum Mortgage Coupon applicable to any Mortgage. All of the Mortgage Coupons of the Mortgages in a given ARM PC Pool adjust on the same date.

Several types of ARMs are described in this Offering Circular. The applicable Index and the period of and limitations on adjustment applicable to their Mortgage Coupons are as follows:

The 2% Annual Rate Capped ARM (“2% Annual ARM”). Mortgage Coupons adjust annually based on the One Year Treasury Index, subject to an Adjustment Cap of 200 basis points and a Mortgage Lifetime Ceiling. Certain 2% Annual ARMs may have an initial period of three or five years during which the Mortgage Coupon remains fixed.

The 1% Annual Rate Capped ARM (“1% Annual ARM”). Mortgage Coupons adjust annually based on the One Year Treasury Index, subject to an Adjustment Cap of 100 basis points and a Mortgage Lifetime Ceiling.

The 3 Year Rate Capped ARM (“3 Year ARM”). Mortgage Coupons adjust once every three years based on the 3 Year Treasury Index, subject to an Adjustment Cap of 200 basis points and a Mortgage Lifetime Ceiling.

The 5 Year Rate Capped ARM (“5 Year ARM”). Mortgage Coupons adjust once every five years based on the 5 Year Treasury Index, subject to an Adjustment Cap of 200 basis points and a Mortgage Lifetime Ceiling.

The Semi-Annual Rate Capped ARM (“Semi-Annual ARM”). Mortgage Coupons adjust semiannually based on the applicable Semi-Annual Index or the One Year Treasury Index, subject to the applicable Adjustment Cap and a Mortgage Lifetime Ceiling.

See “Description of the ARM PCs—The Mortgages.”

Payment Adjustments on the

Mortgages

Prior to the first adjustment of a Mortgage Coupon, the scheduled monthly payment on a Mortgage is the amount which will fully amortize the principal balance of the Mortgage in substantially equal installments over its remaining term and pay interest at the initial Mortgage Coupon. Effective with the first payment due on a Mortgage following each adjustment of the Mortgage Coupon, the scheduled monthly payment is adjusted to the amount which will fully amortize the principal balance of the Mortgage over its remaining term in substantially equal installments and pay interest at the adjusted Mortgage Coupon.

The Index

The applicable Index depends on the type of ARM PC involved. In the case of 1% Annual ARM PCs and 2% Annual ARM PCs, the Index is the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one year (the "One Year Treasury Index"). In the case of 3 Year ARM PCs, the Index is the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of three years (the "3 Year Treasury Index"). In the case of 5 Year ARM PCs, the Index is the weekly average yield of U.S. Treasury securities adjusted to a constant maturity of five years (the "5 Year Treasury Index"). In the case of certain Semi-Annual ARM PCs, the applicable Index (the "Semi-Annual Index") is the weekly average yield on 6 month U.S. Treasury bills determined with reference to the "Auction Average," "Auction Average (Investment)," or "Secondary Market" yields on such bills. In the case of other Semi-Annual ARM PCs, the applicable Index is the most recent One Year Treasury Index available at the time semiannual adjustment occurs.

Each Index is published by the Federal Reserve Board in Federal Reserve Board Statistical Release No. H.15 (519). The Index used to adjust a Mortgage Coupon is the most recent Index available as of the date 45 days prior to the date such adjustment is effective. The Index applicable to an adjustment of a PC Coupon is the Index used to adjust the Mortgage Coupons on the related Mortgages.

Book-Entry Form; Holders

The ARM PCs are issued and maintained, and may be transferred by Holders (as defined below), only on the book-entry system of a Federal Reserve Bank. ARM PCs may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts ARM PCs have been deposited are referred to herein as "Holders."

A Holder is not necessarily the beneficial owner of an ARM PC. Beneficial owners ordinarily hold ARM 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 an ARM 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 an ARM PC with respect to Freddie Mac and a Federal Reserve Bank may be exercised only through the Holder of that ARM PC. Freddie Mac and a Federal Reserve Bank will have no direct obligation to a beneficial owner of an ARM PC that is not also the Holder of the ARM PC. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of an ARM PC.

Minimum Principal Amounts and Transfers

ARM PCs are issued and must be maintained and transferred in minimum original principal amounts for any ARM PC Pool of \$1,000 and additional increments of \$1. Such amounts represent the Holder's pro rata share of the original unpaid principal balance of the related Mortgages as of the date of ARM PC Pool formation.

Payment Dates; Method of Payment

Freddie Mac will pass through payments of principal and interest to Holders on the 15th day of each month, or, if such day is not a Business Day (as defined in Exhibit A attached hereto), on the next succeeding Business Day (a "Payment Date"). Payments are credited monthly on each Payment Date by the Federal Reserve Banks to the Holders' accounts. 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.

Interest

Interest at the PC Coupon is passed through pro rata monthly on the Payment Date, commencing on the Payment Date in the second month following the month in which the Holder becomes a holder of record. See "Record Date" below. Interest is passed through in the amount of one month's interest 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. See "Description of the ARM PCs—Interest and Principal Payments" and "—Pool Factors."

Principal

Principal is passed through pro rata monthly on the Payment Date, commencing on the Payment Date in the second month following the month in which the Holder becomes a holder of record. See "Record Date" below. All principal payments and determinations of the unpaid principal balance of the related Mortgages are calculated by Freddie Mac under the Pool Factor method. See "Description of the ARM PCs—Interest and Principal Payments" and "—Pool Factors."

Record Date

A Holder of an ARM PC on the books and records of a Federal Reserve Bank as of the close of business on the last business day of a month (the "Record Date" as defined in Exhibit A attached hereto) will be entitled to the payment of principal and interest on the ARM PC for the entire month, which payment will be made on the Payment Date in the second succeeding month. See "Description of the ARM PCs—Book-Entry Form, Holders, Minimum Principal Amounts and Transfers."

Guarantees

Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC Coupon 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. 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 thereof. See "Description of the ARM PCs—Guarantees."

Timing and Yield

Considerations For a discussion of the time periods between publication of the applicable Index, adjustments to the Mortgage Coupons, adjustments to the PC Coupons and pass through of payments to Holders, see "Description of the ARM PCs—Timing and Yield Considerations."

Offering Procedure ARM PCs are offered for sale initially by Freddie Mac pursuant to Freddie Mac's ARM Cash Program and ARM Guarantor Program under various distribution arrangements as described herein. See "Plan of Distribution."

Tax Status Income from the ARM PCs has no exemption under federal law from federal, state or local taxation. ARM PCs constitute (i) "loans secured by an interest in real property" for purposes of determining whether an institution qualifies as a "domestic building and loan association," (ii) "qualifying real property loans" with respect to certain thrift institutions and (iii) "real estate assets" with respect to real estate investment trusts, and interest thereon constitutes "interest on obligations secured by mortgages on real property" with respect to real estate investment trusts. While not free from doubt, these characterizations will apply to ARM PCs which represent interests in Convertible Mortgages. See "Certain Federal Income Tax Consequences."

Legality of Investment ARM PCs described herein:

- are acceptable as security for the deposit of public monies subject to the control of the United States or any of its officers;
- are eligible as collateral for Treasury tax and loan accounts;
- are among those securities which national banks may deal in, underwrite and purchase for their own accounts without limitation;
- are eligible as collateral for advances by the Federal Reserve Banks;
- are legal investments for federal savings and loan associations and federal savings banks;
- are eligible as collateral for advances by Federal Home Loan Banks;
- are legal investments for surplus and reserve funds of Federal Home Loan Banks;
- are legal investments for federal credit unions; and
- are considered plan assets for private pension funds under the Employee Retirement Income Security Act of 1974 (and the underlying Mortgages are not 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 ARM 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. See "Legality of Investment."

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 mortgages or participation interests in such mortgages 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 with sales of mortgage-related securities. Mortgages retained by Freddie Mac are financed with short and long-term 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. The most current Information Statement and Information Statement supplements thereto, if any, are incorporated by reference into this Offering Circular and made a part hereof. Any of these documents and any quarterly report, statistical information on its mortgage purchase and securities sales volume and other relevant information prepared and made available by Freddie Mac can be obtained by writing or calling the Investor Relations Department at Freddie Mac at 1759 Business Center Drive, P.O. Box 4112, Reston, Virginia 22090 (outside Washington, D.C. metropolitan area, telephone number 800/424-5401, extension 8160; within Washington, D.C. metropolitan area, telephone number 703/759-8160).

APPLICATION OF PROCEEDS

The net proceeds received by Freddie Mac from the sale of the ARM PCs described herein will provide funds for Freddie Mac to engage in activities consistent with its statutory purposes, including the purchase of additional mortgages and interests in mortgages, repayment of borrowings and satisfaction of working capital needs. In the case of Guarantor ARM PCs described herein, such net proceeds are derived from Freddie Mac's management and guarantee fees.

DESCRIPTION OF THE ARM PCs

The ARM PCs

ARM PCs represent undivided interests in the Mortgages which comprise the related ARM PC Pools. ARM PCs are sold under the terms of the Adjustable Rate Mortgage Participation Certificate Agreement dated as of November 1, 1988 ("ARM PC Agreement"), included in this Offering Circular as Exhibit A, which qualifies this summary in its entirety. Holders and anyone having a beneficial interest in ARM PCs should refer to the ARM PC Agreement for a complete description of their rights and obligations and the rights and obligations of Freddie Mac with respect to the ARM PCs. Each Holder acquires an ARM PC subject to all the terms and conditions of the ARM PC Agreement.

Freddie Mac forms ARM PC Pools under the ARM Cash Program from Mortgages which it has purchased for cash from a number of sellers. Under the ARM Guarantor Program, Freddie Mac purchases mortgages at par from a single seller in exchange for ARM PCs representing interests in the same Mortgages. The original unpaid principal balance of and the number of Mortgages in an ARM PC Pool formed under the ARM Guarantor Program are dependent on the dollar amount and number of Mortgages accepted for

purchase by Freddie Mac from the particular seller. The minimum purchase amount and minimum original ARM PC Pool balance are fixed by Freddie Mac and are subject to change by Freddie Mac from time to time.

Each ARM PC Pool consists of a single type of ARM. The Mortgage Coupons of all of the Mortgages in an ARM PC Pool adjust on the same date periodically, which date may vary from pool to pool. The PC Coupon on the ARM PCs for each ARM PC Pool adjusts periodically on the applicable PC Coupon Adjustment Date, to a rate equal to the Index used to adjust the Mortgage Coupons of the related Mortgages in the preceding month, plus the applicable PC Margin, subject to the applicable Adjustment Cap as set forth below and subject to the applicable PC Lifetime Ceiling. The PC Coupon applicable to a given payment on an ARM PC is the PC Coupon for the second month preceding the month in which the payment is made. The initial PC Coupon of each ARM PC is set with respect to the Mortgage Coupons of the related Mortgages and not with respect to the Index in effect at any particular time.

Several types of ARM PCs are described herein. The applicable Index and the period of and limitations on adjustment applicable to their PC Coupons are as follows:

2% Annual ARM PC. The PC Coupon adjusts annually based on the One Year Treasury Index, subject to an Adjustment Cap of 200 basis points and a PC Lifetime Ceiling. Certain 2% Annual ARM PCs may consist entirely of 2% Annual ARMs which have an initial period of three or five years during which the Mortgage Coupon remains fixed.

1% Annual ARM PC. The PC Coupon adjusts annually based on the One Year Treasury Index, subject to an Adjustment Cap of 100 basis points and a PC Lifetime Ceiling.

3 Year ARM PC. The PC Coupon adjusts once every three years based on the 3 Year Treasury Index, subject to an Adjustment Cap of 200 basis points and a PC Lifetime Ceiling.

5 Year ARM PC. The PC Coupon adjusts once every five years based on the 5 Year Treasury Index, subject to an Adjustment Cap of 200 basis points and a PC Lifetime Ceiling.

Semi-Annual ARM PC. The PC Coupon adjusts semiannually based on the applicable Semi-Annual Index or the One Year Treasury Index, subject to the applicable Adjustment Cap and a PC Lifetime Ceiling.

For example, the PC Coupon on a 2% Annual ARM PC with a PC Coupon of 9.5% could not adjust to more than 11.5% or less than 7.5% on the next PC Coupon Adjustment Date. Similarly, the PC Coupon on a 1% Annual ARM PC with a PC Coupon of 9.5% could not adjust to more than 10.5% or less than 8.5% on the next PC Coupon Adjustment Date. The PC Coupon is always rounded to the nearest 0.125%. There is no minimum lifetime PC Coupon applicable to any ARM PC.

For each Mortgage, the difference between the amount of interest at the applicable Mortgage Coupon and the amount of interest remitted to Freddie Mac by the servicer is retained by the servicer as its servicing fee. Similarly, the difference between the amount of interest remitted to Freddie Mac by the servicer and the amount of interest passed through to Holders by Freddie Mac is retained by Freddie Mac as its management and guarantee fee. The servicing fee retained by a servicer with respect to any Mortgage in an ARM PC Pool may vary by up to 25 basis points during the life of the Mortgage. The maximum servicing fee on an ARM is 2%.

The Mortgage Margins on the Mortgages may vary within a 2% range in a Cash ARM PC Pool and within a 1% range in a Guarantor ARM PC Pool. For each Mortgage, the Mortgage Margin less the servicing fee and Freddie Mac's management and guarantee fee equals the PC Margin for the related ARM PC.

The Mortgage Coupons on the Mortgages may vary within a 2% range in a Cash ARM PC Pool and within a 1% range in a Guarantor ARM PC Pool. The lowest Mortgage Coupon on any Mortgage is greater

than or equal to the corresponding PC Coupon on the related ARM PCs. Disproportionate rates of principal payments between Mortgages bearing relatively low and high Mortgage Coupons will not affect the PC Coupon because the PC Coupon is determined by the applicable Index plus the amount of the applicable PC Margin, subject to the applicable Adjustment Cap and the applicable PC Lifetime Ceiling.

The type of ARM PC, the initial PC Coupon, the PC Margin, the PC Lifetime Ceiling and the initial PC Coupon Adjustment Date for each ARM PC Pool will be set forth in the related Offering Circular Supplement or, in the case of “Forward Sales” described in “Plan of Distribution—ARM Cash Program,” in the related Preliminary and Final Data Statements.

Freddie Mac furnishes to initial purchasers of Guarantor ARM PCs from Freddie Mac a Supplement describing certain characteristics of the Mortgages in which such ARM PCs represent interests. If an initial purchaser of Guarantor ARM PCs sells or offers such ARM PCs for sale, such seller is required to furnish to prospective purchasers the applicable Supplement.

The Mortgages

General Characteristics

The Mortgages are adjustable rate, first lien, fully amortizing residential mortgages or participations therein secured by one-to-four family dwellings. The minimum participation interest purchased by Freddie Mac is 50% and the maximum participation interest is 95%. The Mortgages are conventional mortgages and therefore do not have the benefit of any guaranty or insurance by the United States or any agency or instrumentality of the United States other than the Freddie Mac guarantees described herein. The Mortgages may be secured by nonowner-occupied properties (second homes or investment properties).

The Mortgages have original terms to maturity not exceeding 360 months, calculated from the date one month prior to the date of the first scheduled monthly payment of principal and interest on each Mortgage, and require scheduled monthly payments to be paid on the first day of each month. No Cash ARM PC Pool will include any Mortgage which has a remaining term to maturity of less than 25 years as of the date of ARM PC Pool formation.

Each Mortgage bears interest at a Mortgage Coupon which adjusts periodically, to a rate equal to the applicable Index plus the applicable Mortgage Margin (such rate is a “Fully Indexed Rate”), subject to the applicable Adjustment Cap and subject to the applicable Mortgage Lifetime Ceiling. Adjustments to the Mortgage Coupon of each Mortgage in an ARM PC Pool occur on a specified day which is the first day of a month; subsequent adjustments occur periodically thereafter, as discussed below. The amount of any excess of the Fully Indexed Rate over an adjusted Mortgage Coupon is not accumulated or carried forward, and is not paid to servicers or to Freddie Mac. There is no minimum Mortgage Coupon applicable to any Mortgage.

Several types of ARMs are described herein. The applicable Index and the period of and limitations on adjustment applicable to their Mortgage Coupons are as follows:

2% Annual ARMs. The Mortgage Coupon adjusts annually based on the One Year Treasury Index, subject to an Adjustment Cap of 200 basis points and a Mortgage Lifetime Ceiling. Certain 2% Annual ARMs may have an initial period of three or five years during which the Mortgage Coupon remains fixed.

1% Annual ARMs. The Mortgage Coupon adjusts annually based on the One Year Treasury Index, subject to an Adjustment Cap of 100 basis points and a Mortgage Lifetime Ceiling.

3 Year ARMs. The Mortgage Coupon adjusts once every three years based on the 3 Year Treasury Index, subject to an Adjustment Cap of 200 basis points and a Mortgage Lifetime Ceiling.

5 Year ARMs. The Mortgage Coupon adjusts once every five years based on the 5 Year Treasury Index, subject to an Adjustment Cap of 200 basis points and a Mortgage Lifetime Ceiling.

Semi-Annual ARMs. The Mortgage Coupon adjusts semiannually based on the applicable Semi-Annual Index or the One Year Treasury Index, subject to the applicable Adjustment Cap and a Mortgage Lifetime Ceiling.

Prior to the first adjustment of the Mortgage Coupon on a Mortgage, the scheduled monthly payment by the borrower is the amount which will fully amortize the principal balance of the Mortgage in substantially equal installments over its remaining term and pay interest at the initial Mortgage Coupon. On the first day of the month following the month in which the Mortgage Coupon on a Mortgage adjusts, the borrower is required to begin making scheduled monthly payments in the amount which will fully amortize the principal balance of the Mortgage in substantially equal installments over its remaining term and pay interest at the adjusted Mortgage Coupon.

The Mortgages may include mortgages made to employees participating in corporate employee relocation programs (“relocation Mortgages”). Relocation Mortgages are made to transferred employees of a corporation to finance home purchases at their new job locations (including the refinancing of mortgages previously made to or assumed by such employees). Freddie Mac believes that whether and the extent to which relocation Mortgages would exhibit prepayment behavior materially different from Mortgages which are not relocation Mortgages would depend on several factors. These include whether the relocation of employees to whom relocation Mortgages are made is in connection with relocation of a corporate headquarters, the likelihood that particular employees to whom relocation Mortgages are made will be again relocated, and the frequency with which such further relocation may occur. Freddie Mac does not collect from sellers and is otherwise unaware of information relating to these or other factors from which conclusions may reasonably be drawn regarding prepayment behavior of relocation Mortgages. Freddie Mac thus makes no representation regarding the effect, if any, inclusion of relocation Mortgages in ARM PC Pools may have on Pool prepayment behavior.

For a description of certain characteristics of the Mortgages in a particular ARM PC Pool, see the related Supplement or Preliminary and Final Data Statements. To the extent that the Mortgages in an ARM PC Pool differ from the description of the Mortgages contained herein, such variations will be described in the related Supplement or Preliminary and Final Data Statements. For a description of Freddie Mac’s general mortgage purchase requirements, see “Mortgage Purchase and Servicing Standards.”

Convertible Mortgages

All of the Mortgages in certain ARM PC Pools may be Convertible Mortgages (a “Convertible ARM PC Pool”). Convertible Mortgages will not be placed in ARM PC Pools with Mortgages that are not Convertible Mortgages.

Each Convertible Mortgage includes a provision which allows a qualified borrower to convert the adjustable mortgage interest rate into a fixed rate of interest (the “Conversion Option”) at any time during a four-year period beginning on the date the Mortgage Coupon first adjusts and ending on the date of the fifth adjustment to the Mortgage Coupon (the “Conversion Period”). The Conversion Option may not be exercised if the borrower is in default under the terms of the mortgage note or security instrument at the time the borrower gives notice of his intention to exercise the Conversion Option or as of the Conversion Date, as defined below. The borrower must give notice to the servicer that the borrower intends to convert the adjustable interest rate into a fixed interest rate as of a date occurring within the Conversion Period (the “Conversion Request”). After all conditions of the borrower’s exercise of the Conversion Option have been met, the Convertible Mortgage will be converted to a mortgage bearing a fixed rate of interest (a “Converted Mortgage”) as of the first day of the second month following the month in which the borrower makes a Conversion Request (the “Conversion Date”).

The Conversion Period for all the Mortgages in a Convertible ARM PC Pool will begin on the same date. The Conversion Period for Convertible Mortgages in a particular 1% Annual ARM PC Pool or 2%

Annual ARM PC Pool, other than a pool comprised of 2% Annual ARMs which have an initial three or five year fixed rate period, will begin one month prior to the initial PC Coupon Adjustment Date applicable to such Pool, and will end on the first day of the same month four years later (e.g., the Conversion Period for Convertible Mortgages in a Convertible ARM PC Pool with a December 1, 1989 Initial PC Coupon Adjustment Date will be the period from November 1, 1989 through November 1, 1993. Unless otherwise indicated in the related Supplement, the Conversion Period for the Convertible Mortgages in an ARM PC Pool comprised of Semi-Annual ARMs will begin one month prior to the second PC Coupon Adjustment Date, and will end on the first day of the same month four years later. The Conversion Period for Convertible Mortgages contained in other Convertible ARM PC Pools will be set forth in the related Supplement.

The Convertible Mortgages will be originated on either Freddie Mac or Federal National Mortgage Association ("Fannie Mae") Uniform Instruments. There is no limitation with respect to the number or aggregate unpaid principal balance of Convertible Mortgages originated on either Freddie Mac or Fannie Mae Uniform Instruments that may be included in any Convertible ARM PC Pool, and Freddie Mac makes no representation with respect to the proportion of Convertible Mortgages in any particular Convertible ARM PC Pool originated on Freddie Mac or Fannie Mae Uniform Instruments.

If the Convertible Mortgage was originated on Freddie Mac Uniform Instruments, the adjustable Mortgage Coupon may be converted into a fixed interest rate that is equal to the sum of Freddie Mac's required net yield for the purchase of 15-year or 30-year, fixed rate mortgages (depending on whether the original term to maturity of the Convertible Mortgage was 15 years or less or was greater than 15 years) under 60-day, mandatory delivery commitments, based on Freddie Mac's quotation on the date and time specified by the servicer, plus three-eighths of one percent (0.375%). This sum is not rounded to the nearest one-eighth of one percent (0.125%). If the Convertible Mortgage was originated on Fannie Mae Uniform Instruments, the adjustable Mortgage Coupon may be converted into a fixed interest rate that is equal to the sum of Fannie Mae's required net yield for the purchase of 15-year or 30-year, fixed rate mortgages (depending on whether the original terms to maturity of the Convertible Mortgage was 15 years or less or was greater than 15 years) under 60-day, mandatory delivery commitments, based on Fannie Mae's quotation on the date and time specified by the servicer, plus five-eighths of one percent (0.625%). This sum is rounded to the nearest one-eighth of one percent (0.125%).

Freddie Mac permits each Convertible Mortgage seller to specify its own procedures for determining the time of the month the borrower may exercise the Conversion Option and the date of the quotation pursuant to which the new fixed interest rate is determined. The fixed interest rate upon conversion of a Convertible Mortgage may not exceed the Mortgage Lifetime Ceiling applicable to the Convertible Mortgage. The fee, if any, paid by the borrower to exercise the Conversion Option may not exceed \$250.

Each Converted Mortgage will be repurchased from the related Convertible ARM PC Pool by Freddie Mac as of the 15th day of the same month as the Conversion Date. Under certain circumstances, Freddie Mac may agree that the seller will repurchase the Converted Mortgage, but if the seller fails to do so for any reason, Freddie Mac will repurchase the Converted Mortgage no later than the 15th day of the same month as the Conversion Date. If the seller is obligated to repurchase the Converted Mortgages, the seller generally will be obligated to repurchase any Converted Mortgage as of the 15th day of the month preceeding the Conversion Date.

During the period between the borrower's Conversion Request and the Conversion Date, a borrower remains obligated to make any required monthly payment of interest and principal based on the applicable adjustable Mortgage Coupon, and such payment will be passed through to Holders to the extent of the applicable PC Coupon. Proceeds from the repurchase of a Converted Mortgage, whether by the seller or Freddie Mac, will be passed through to Holders as a full prepayment of principal. Any Convertible Mortgage which has not been converted to a Converted Mortgage is assumable by a creditworthy borrower, and an assumption will not affect the Conversion Option or Conversion Period applicable to the Convertible Mortgage.

The ARM PC Pools

Each ARM PC will consist entirely of a specific type of ARM as described in this Offering Circular. Each ARM PC Pool will be identified by an ARM PC Pool Number beginning with a two-digit prefix indicating the type of ARM in the ARM PC Pool and the program pursuant to which the ARM PC was sold. Prefixes for ARM PCs are as follows:

- 35—Cash 2% Annual ARM PCs
- 37—Cash 1% Annual ARM PCs
- 40—Guarantor 2% Annual ARM PCs
(Convertible Mortgages)
- 60—Guarantor 2% Annual ARM PCs
- 63—Guarantor 1% Annual ARM PCs
(Convertible Mortgages)
- 64—Guarantor 1% Annual ARM PCs
- 71—Cash 2% Annual ARM PCs
(Convertible Mortgages)
- 72—Cash 1% Annual ARM PCs
(Convertible Mortgages)
- 75—Guarantor Semi-Annual ARM PCs
- 76—Guarantor 5 Year ARM PCs
- 78—Guarantor 2% Annual ARM PCs
(Mortgages with initial three or
five year fixed rate periods)
- 86—Guarantor 3 Year ARM PCs

ARM PC Pools may differ with respect to matters such as type and number of Mortgages included in the pools; the original unpaid principal balance of the pools; the remaining maturities and ages of the Mortgages; types of borrowers; the geographic location of the mortgaged properties; types of dwellings securing the Mortgages; number of Mortgages purchased from a single seller or secured by properties which are not occupied by borrowers as their primary residences; and the nature and extent of special financing arrangements. A particular ARM PC Pool may or may not include Mortgages which are located in a single geographic area or in a single state. Except as otherwise specifically set forth herein or in any Supplement or Preliminary or Final Data Statement, Freddie Mac makes no representation with respect to the characteristics of the Mortgages which comprise any ARM PC Pool.

ARM PC Pools formed under both the Cash and Guarantor Programs are comprised of Mortgages with original maturities of up to 30 years. The remaining maturities of the Mortgages in Cash ARM PC Pools will not be less than 25 years at the time of ARM PC Pool formation. The minimum original ARM PC Pool balance is \$500,000 for ARM PC Pools formed under the ARM Guarantor Program and \$1 million for ARM PC Pools formed under the ARM Cash Program.

Unless otherwise agreed to in connection with a particular offering of ARM PCs, Freddie Mac may determine the amount and identity of the Mortgages which comprise an ARM PC Pool at any time prior to the first Payment Date on the related ARM PCs. Once a Mortgage is identified to an ARM PC Pool, the Mortgage will remain in that ARM PC Pool unless paid in full, foreclosed upon, substituted for, or repurchased. A Mortgage may be repurchased from an ARM PC Pool as a result of a material breach of warranty, representation or agreement by a seller; as a result of defects in documentation as to any Mortgage or other rights of recourse to a seller; in connection with certain payment plans and bankruptcy court actions; by virtue of Freddie Mac's guarantee of principal collection; in order to maintain proper servicing of the

Mortgages or to minimize loss; as the result of the borrower's exercise of the Conversion Option of a Convertible Mortgage; and under certain other circumstances. The proceeds of any Mortgage repurchased will be passed through to the Holders as if the Mortgage had been prepaid. In determining whether a Mortgage should be repurchased, Freddie Mac considers a variety of factors, including whether a repurchase will reduce Freddie Mac's administrative costs or Freddie Mac's likely exposure under its guarantee of collection of principal.

In the event of a material breach of warranty, representation or agreement in the Freddie Mac *Sellers' & Servicers' Guide* and other Purchase Documents (as defined in the *Sellers' & Servicers' Guide*), a failure to comply with any term or condition in the Purchase Documents, or a defect in documentation, Freddie Mac may also require the seller, within six months of the purchase of the Mortgage, to substitute another Mortgage of comparable type, unpaid principal balance, remaining maturity and other required mortgage characteristics applicable to the related ARM PC Pool.

The Index

The applicable "Index" is the weekly average yield of U.S. Treasury securities, adjusted to a constant maturity of one year in the case of 1% Annual ARM PCs and 2% Annual ARM PCs (the "One Year Treasury Index"), three years in the case of 3 Year ARMs (the "3 Year Treasury Index"), and five years in the case of 5 Year ARM PCs (the "5 Year Treasury Index"). Weekly figures, published on Monday or Tuesday, are averages of the seven calendar days ending on Wednesday of the previous week. Yields on Treasury securities at "constant maturity" are estimated from the Treasury's daily yield curve. This curve is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations reported by five leading U.S. Government securities dealers to the Federal Reserve Bank of New York. This method permits estimation of the yield for a given maturity, for example, even if no security with that exact maturity is outstanding.

In the case of certain Semi-Annual ARM PCs, the applicable Index (the "Semi-Annual Index") is the weekly average yield on 6 month U.S. Treasury bills determined in one of the following manners: the "Auction Average" yield, which represents the average discount rate in the weekly auctions; the "Auction Average (Investment)" yield, which represents the yield that is the bond equivalent yield to the Auction Average; and the "Secondary Market" yield, which represents the average discount prevailing in weekly secondary market trading of 6 month Treasury bills. Such Secondary Market yield is determined by composites of quotations reported by five leading U.S. Government securities dealers to the Federal Reserve Bank of New York. In the case of other Semi-Annual ARM PCs, the applicable Index is the most recent One Year Treasury Index available at the time semiannual adjustment occurs. The Index applicable to a specific Semi-Annual ARM PC Pool will be set forth in the related Supplement.

The Index applicable to each type of ARM PC described in this Offering Circular is published in Federal Reserve Statistical Release No. H.15 (519). Statistical Release No. H.15 (519) may be obtained by writing or calling the Publications Department at the Board of Governors of the Federal Reserve System, 21st and C Streets, Washington, D.C. 20551 (202/452-3244). The Index used to adjust a Mortgage Coupon is the most recent Index available as of the date 45 days prior to the date such adjustment is effective. The Index applicable to an adjustment of a PC Coupon is the Index used to adjust the Mortgage Coupons of the related Mortgages. In the event that the Index becomes unavailable, Freddie Mac will employ a new index based upon comparable information and methodology.

For a discussion of the delays between publication of the applicable Index, adjustments to the Mortgage Coupons, adjustments to the PC Coupons, and pass through of payments to Holders, see "Timing and Yield Considerations."

The following table sets forth the historical values for each Index described in this Offering Circular. Monthly values for each Index are provided for 1978 through 1987 and for the nine month period ended September 1988.

Historical Values of the Indices

<u>Year—Month</u>	<u>Semi-Annual (Auction Average)</u>	<u>Semi-Annual (Auction Average- Investment)</u>	<u>Semi-Annual (Secondary Market)</u>	<u>One Year Treasury</u>	<u>3 Year Treasury</u>	<u>5 Year Treasury</u>
1978—Jan.	6.685%	7.015%	6.700%	7.280%	7.610%	7.770%
Feb.	6.740	7.074	6.740	7.340	7.670	7.830
Mar.	6.644	6.971	6.630	7.310	7.700	7.860
Apr.	6.700	7.031	6.730	7.450	7.850	7.980
May	7.019	7.378	7.020	7.820	8.070	8.180
June	7.200	7.576	7.230	8.090	8.300	8.360
July	7.471	7.872	7.440	8.390	8.540	8.540
Aug.	7.363	7.754	7.370	8.310	8.330	8.330
Sept.	7.948	8.395	7.990	8.640	8.410	8.430
Oct.	8.493	8.997	8.550	9.140	8.620	8.610
Nov.	9.204	9.787	9.240	10.010	9.040	8.840
Dec.	9.397	10.002	9.360	10.300	9.330	9.080
1979—Jan.	9.501	10.118	9.470	10.410	9.500	9.200
Feb.	9.349	9.949	9.410	10.240	9.290	9.130
Mar.	9.458	10.071	9.470	10.250	9.380	9.200
Apr.	9.498	10.115	9.490	10.120	9.430	9.250
May	9.531	10.153	9.540	10.120	9.420	9.240
June	9.062	9.629	9.060	9.570	8.950	8.850
July	9.190	9.771	9.240	9.640	8.940	8.900
Aug.	9.450	10.062	9.490	9.980	9.140	9.060
Sept.	10.125	10.819	10.200	10.840	9.690	9.410
Oct.	11.339	12.196	11.660	12.440	10.950	10.630
Nov.	11.856	12.787	11.820	12.390	11.180	10.930
Dec.	11.847	12.777	11.840	11.980	10.710	10.420
1980—Jan.	11.851	12.781	11.840	12.060	10.880	10.740
Feb.	12.721	13.784	12.860	13.920	12.840	12.600
Mar.	15.100	16.574	15.030	15.820	14.050	13.470
Apr.	13.618	14.828	12.880	13.300	12.020	11.840
May	9.149	9.726	8.650	9.390	9.440	9.950
June	7.218	7.595	7.300	8.160	8.910	9.210
July	8.101	8.564	8.060	8.650	9.270	9.530
Aug.	9.443	10.054	9.410	10.240	10.630	10.840
Sept.	10.546	11.294	10.570	11.520	11.570	11.620
Oct.	11.566	12.455	11.630	12.490	12.010	11.860
Nov.	13.612	14.821	13.500	14.150	13.310	12.830
Dec.	14.770	16.183	14.640	14.880	13.650	13.250
1981—Jan.	13.883	15.138	14.080	14.080	13.010	12.770
Feb.	14.134	15.433	14.050	14.570	13.650	13.410
Mar.	12.983	14.087	12.810	13.710	13.510	13.410
Apr.	13.434	14.613	13.450	14.320	14.090	13.990
May	15.334	16.853	15.290	16.200	15.080	14.630
June	13.947	15.213	14.090	14.860	14.290	13.950
July	14.402	15.749	14.740	15.720	15.150	14.790
Aug.	15.548	17.108	15.520	16.720	16.000	15.560
Sept.	15.057	16.524	14.920	16.520	16.220	15.930
Oct.	14.013	15.291	13.820	15.380	15.500	15.410

Historical Values of the Indices—(Continued)

<u>Year—Month</u>	<u>Semi-Annual (Auction Average)</u>	<u>Semi-Annual (Auction Average- Investment)</u>	<u>Semi-Annual (Secondary Market)</u>	<u>One Year Treasury</u>	<u>3 Year Treasury</u>	<u>5 Year Treasury</u>
Nov.	11.530%	12.413%	11.300%	12.410%	13.110%	13.380%
Dec.	11.471	12.346	11.520	12.850	13.660	13.600
1982—Jan.	12.930	14.027	12.830	14.320	14.640	14.650
Feb.	13.709	14.934	13.610	14.730	14.730	14.540
Mar.	12.621	13.669	12.770	13.950	14.130	13.980
Apr.	12.861	13.946	12.800	13.980	14.180	14.000
May	12.220	13.206	12.160	13.340	13.770	13.750
June	12.310	13.309	12.700	14.070	14.480	14.430
July	12.236	13.224	11.880	13.240	14.000	14.070
Aug.	10.105	10.797	9.880	11.430	12.620	13.000
Sept.	9.539	10.161	9.370	10.850	12.030	12.250
Oct.	8.299	8.783	8.290	9.320	10.620	10.800
Nov.	8.319	8.805	8.340	9.160	9.980	10.380
Dec.	8.225	8.701	8.160	8.910	9.880	10.220
1983—Jan.	7.898	8.341	7.930	8.620	9.640	10.030
Feb.	8.233	8.710	8.230	8.920	9.910	10.260
Mar.	8.325	8.811	8.370	9.040	9.840	10.080
Apr.	8.343	8.832	8.300	8.980	9.760	10.020
May	8.198	8.671	8.220	8.900	9.660	10.030
June	8.890	9.438	8.890	9.660	10.320	10.630
July	9.290	9.878	9.260	10.200	10.900	11.210
Aug.	9.530	10.146	9.510	10.530	11.300	11.630
Sept.	9.190	9.776	9.150	10.160	11.070	11.430
Oct.	8.900	9.446	8.830	9.810	10.870	11.280
Nov.	8.890	9.440	8.930	9.940	10.960	11.410
Dec.	9.140	9.718	9.170	10.110	11.130	11.540
1984—Jan.	9.060	9.621	9.010	9.900	10.930	11.370
Feb.	9.130	9.705	9.180	10.040	11.050	11.540
Mar.	9.580	10.205	9.660	10.590	11.590	12.020
Apr.	9.830	10.485	9.840	10.900	11.980	12.370
May	10.310	11.028	10.310	11.660	12.750	13.170
June	10.550	11.302	10.510	12.080	13.180	13.480
July	10.580	11.328	10.520	12.030	13.080	13.270
Aug.	10.650	11.410	10.610	11.820	12.500	12.680
Sept.	10.510	11.251	10.470	11.580	12.340	12.530
Oct.	10.050	10.738	9.870	10.900	11.850	12.060
Nov.	8.990	9.547	8.810	9.820	10.900	11.330
Dec.	8.360	8.847	8.280	9.330	10.560	11.070
1985—Jan.	8.030	8.488	8.000	9.020	10.430	10.930
Feb.	8.340	8.828	8.390	9.290	10.550	11.130
Mar.	8.920	9.468	8.900	9.860	11.050	11.520
Apr.	8.310	8.798	8.230	9.140	10.490	11.010
May	7.750	8.180	7.650	8.460	9.750	10.340
June	7.160	7.535	7.090	7.800	9.050	9.600
July	7.160	7.529	7.200	7.860	9.180	9.700

Historical Values of the Indices—(Concluded)

<u>Year—Month</u>	<u>Semi-Annual (Auction Average)</u>	<u>Semi-Annual (Auction Average- Investment)</u>	<u>Semi-Annual (Secondary Market)</u>	<u>One Year Treasury</u>	<u>3 Year Treasury</u>	<u>5 Year Treasury</u>
Aug.	7.350%	7.740%	7.320%	8.050%	9.310%	9.810%
Sept.	7.270	7.647	7.270	8.070	9.370	9.810
Oct.	7.320	7.710	7.330	8.010	9.250	9.690
Nov.	7.260	7.640	7.300	7.880	8.880	9.280
Dec.	7.090	7.450	7.140	7.670	8.400	8.730
1986—Jan.	7.130	7.510	7.160	7.730	8.410	8.680
Feb.	7.080	7.440	7.110	7.610	8.100	8.340
Mar.	6.600	6.920	6.570	7.030	7.300	7.460
Apr.	6.070	6.350	6.080	6.440	6.860	7.050
May	6.160	6.450	6.190	6.650	7.270	7.520
June	6.280	6.570	6.270	6.730	7.410	7.640
July	5.850	6.120	5.860	6.270	6.860	7.060
Aug.	5.580	5.820	5.550	5.930	6.490	6.800
Sept.	5.310	5.540	5.350	5.770	6.620	6.920
Oct.	5.260	5.480	5.260	5.720	6.560	6.830
Nov.	5.420	5.650	5.410	5.800	6.460	6.760
Dec.	5.530	5.760	5.550	5.870	6.430	6.670
1987—Jan.	5.470	5.710	5.440	5.780	6.410	6.640
Feb.	5.600	5.840	5.590	5.960	6.560	6.790
Mar.	5.560	5.800	5.600	6.030	6.580	6.790
Apr.	5.930	6.220	5.900	6.500	7.320	7.570
May	6.110	6.400	6.050	7.000	8.020	8.260
June	5.990	6.280	5.990	6.800	7.820	8.020
July	5.860	6.130	5.760	6.680	7.740	8.010
Aug.	6.140	6.440	6.150	7.030	8.030	8.320
Sept.	6.570	6.910	6.640	7.670	8.670	8.940
Oct.	6.860	7.230	6.690	7.590	8.750	9.080
Nov.	6.230	6.540	6.190	6.960	7.990	8.350
Dec.	6.360	6.680	6.360	7.170	8.130	8.450
1988—Jan.	6.310	6.630	6.250	6.990	7.870	8.180
Feb.	5.960	6.240	5.930	6.640	7.380	7.710
Mar.	5.910	6.170	5.910	6.710	7.500	7.830
Apr.	6.210	6.490	6.210	7.010	7.830	8.190
May	6.530	6.850	6.560	7.400	8.240	8.580
June	6.760	7.100	6.710	7.490	8.220	8.490
July	6.970	7.320	6.990	7.750	8.440	8.660
Aug.	7.360	7.750	7.390	8.170	8.770	8.940
Sept.	7.430	7.820	7.430	8.090	8.570	8.690

Pool Factors

A Pool Factor is a seven-digit decimal calculated by Freddie Mac which represents the unpaid principal balance of the Mortgages in the related ARM PC Pool as of the end of the preceding monthly reporting period, stated as a fraction of the original unpaid principal balance of such Mortgages. The amount of a Holder’s pro rata share of the unpaid principal balance of the Mortgages for a given month can be determined by multiplying the original unpaid principal balance of such Holder’s ARM PC by the Pool Factor published in that month. Pool Factors for ARM PCs will be published on or about the seventh business day of each month. The names of the publishers from which a compilation of Pool Factors may be purchased may be obtained by calling Freddie Mac’s Investor Relations Department (outside Washington, D.C. metropolitan area, telephone 800/424-5401, extension 8160; within Washington, D.C. metropolitan area, telephone 703/759-8160).

Servicers report to Freddie Mac with respect to a reporting period that commences on the 16th day of a given month and concludes on the 15th day of the following month. For example, principal payments reported to Freddie Mac by servicers for the month of February are those received by the servicer for the period from January 16 through February 15.

The Pool Factor for an ARM PC Pool for a particular month reflects the unpaid principal balance of the Mortgages in that ARM PC Pool as of the end of the preceding monthly reporting period, based on the unpaid principal balances reported by the servicers. For example, the Pool Factor for an ARM PC Pool published in March represents the unpaid principal balance of the related Mortgages as of February 15. To the extent that a given Pool Factor may not reflect the actual unpaid principal balance of the Mortgages, any difference will be accounted for as soon as practicable by adjustment of subsequent Pool Factors.

The ARM PC Agreement permits Freddie Mac to make payments of principal and interest to Holders based on the unpaid principal balance of the related Mortgages as determined by the Pool Factor. Interest on ARM PCs is paid based on the unpaid principal balance of the Mortgages as determined by the Pool Factor for the second month prior to the month in which a payment is made. Principal on ARM PCs is paid in an amount based on the difference between the Pool Factor for the second month prior to the month in which payment is made and the Pool Factor for the month prior to the month in which payment is made. For example, a Holder’s April payment contains an interest payment at the February PC Coupon on the Holder’s pro rata share of the unpaid principal balance represented by the Pool Factor published in February and a principal payment based on the difference between the Pool Factors published in February and March. See “Interest and Principal Payments.”

The following illustrates the application of the Pool Factor method to a hypothetical ARM PC Pool formed under the ARM Guarantor Program on April 22 (i.e., after the 15th day of the month):

- April 1** The initial Pool Factor, which is not published, is equal to 1.0000000.
- April 22** The ARM PC Pool is formed. The original unpaid principal balance of the ARM PCs is equal to the unpaid principal balance of the Mortgages as of April 1, as reported at delivery to Freddie Mac by the seller (the “Original Unpaid Principal Balance”).
- By April 29** Within five Business Days after ARM PC Pool formation, servicers report and remit any prepayments in full of Mortgages received from April 1 through April 22 and repurchase any Mortgages that became delinquent during such period.
- On or about May 9** The May Pool Factor is published. The May Pool Factor, which will be equal to 1.0000000, will not reflect a reduction in the unpaid principal balance because the servicer’s first report of the outstanding principal balance of the Mortgages is not due until May 15 and, therefore, will not be available as of the date of Pool Factor publication. (For Guarantor ARM PC Pools formed prior

to December 31, 1987, the first published Pool Factor—the May Pool Factor in this illustration—reflects a reduction in the unpaid principal balance of the Mortgages equal to Freddie Mac’s estimate of scheduled amortization on the Mortgages from April 1 through April 15.)

- By May 22** Within five Business Days after May 15, servicers report the unpaid principal balance of the Mortgages as of May 15. This balance will be used in calculating the June Pool Factor and will reflect principal payments received by servicers, including full and partial prepayments, and any repurchases of Mortgages from April 1 through May 15.
- On or about June 9** The June Pool Factor is published, reflecting the May 15 unpaid principal balance reported by servicers, including full and partial prepayments, and any repurchases of Mortgages as of May 15.
- June 15** The first payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the April and May Pool Factors multiplied by the Original Unpaid Principal Balance. The aggregate interest payment to Holders is equal to the PC Coupon for the month of April multiplied by the unpaid principal balance as determined using the April Pool Factor.
- By June 22** Within five Business Days after June 15, servicers report the unpaid principal balance of the Mortgages as of June 15. This balance will be used in calculating the July Pool Factor and will reflect principal payments received by servicers, including full and partial prepayments, and any repurchases of Mortgages from May 16 through June 15.
- On or about July 9** The July Pool Factor is published, reflecting the June 15 unpaid principal balance reported by servicers, including full and partial prepayments and any repurchases of Mortgages as of June 15.
- July 15** The second payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the May and June Pool Factors multiplied by the Original Unpaid Principal Balance. The aggregate interest payment to Holders is equal to the PC Coupon for the month of May multiplied by the unpaid principal balance of the Mortgages as determined using the May Pool Factor.

Subsequent months follow the pattern as illustrated for July. Application of the Pool Factor method to a hypothetical Guarantor ARM PC Pool formed on or before the 15th day of a month differs from the illustration set forth above, in that the second Pool Factor, which is published on or about the seventh Business Day of the month after the month of formation of the ARM PC Pool (May 9 in the illustration above), reflects the unpaid principal balance of the Mortgages as of the 15th day of the month of pool formation (April in the illustration above). This reflects principal payments received by servicers, including full and partial prepayments, and repurchases by servicers that were made between the 1st and the 15th days of the month of pool formation as reported to Freddie Mac by the servicers within five Business Days of April 15.

The following illustrates the application of the Pool Factor method to a hypothetical ARM PC Pool formed under the ARM Cash Program on April 22. There is no difference in the application of the Pool Factor method to a Cash ARM PC Pool formed before or after the 15th day of the month.

- April 1** The initial Pool Factor, which is not published, is equal to 1.0000000.
- April 22** The ARM PC Pool is formed. The Original Unpaid Principal Balance of the ARM PCs is equal to the unpaid principal balance of the Mortgages as of March 15 (unless otherwise stated in the documents under which the ARM PCs are offered), as reported by servicers, except for Mortgages, if any, purchased by Freddie Mac after March 15, which are reflected at their respective unpaid principal balances as of the date of delivery of the Mortgages to Freddie Mac for purchase.
- By April 22** Servicers' reports of the unpaid principal balance of the Mortgages as of April 15 are processed by Freddie Mac. This balance will be used in calculating the May Pool Factor and will reflect principal payments received by servicers, including full and partial prepayments, and any repurchases of the Mortgages from March 16 through April 15.
- On or about May 9** The May Pool Factor is published, reflecting the April 15 unpaid principal balance reported by servicers, including full and partial prepayments, and any repurchases of the Mortgages as of April 15.
- By May 22** Within five Business Days after May 15, servicers report the unpaid principal balance of the Mortgages as of May 15. This balance will be used in calculating the June Pool Factor and will reflect principal payments received by servicers, including full and partial prepayments, and any repurchases of the Mortgages from April 16 through May 15.
- On or about June 9** The June Pool Factor is published, reflecting the May 15 unpaid principal balance reported by servicers, including full and partial prepayments, and any repurchases of the Mortgages as of May 15.
- June 15** The first payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the April and May Pool Factors multiplied by the Original Unpaid Principal Balance. This principal payment reflects principal received by servicers on the Mortgages from March 16 through April 15. The aggregate interest payment to Holders is equal to the PC Coupon for the month of April multiplied by the unpaid principal balance as determined using the April Pool Factor.

Subsequent months follow the pattern as illustrated for June.

Use of the Pool Factor method determines the timing of receipt of payments by Holders but does not affect Freddie Mac's guarantees of timely payment of interest at the applicable PC Coupon and ultimate collection of principal of the Mortgages.

Interest and Principal Payments

A Holder will receive interest monthly at the applicable PC Coupon on its pro rata share of the unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method. The PC Coupon applicable to a given payment is the PC Coupon in effect for the second month preceding the month of the payment. See "Pool Factors." For purposes of computing payments of interest, all principal payments with respect to the related Mortgages are deemed to have been made on the first day of a calendar month. Interest at the applicable PC Coupon is computed on the basis of a 360-day year of twelve 30-day months.

A Holder will receive monthly its pro rata share of all principal payments on the related Mortgages received by Freddie Mac, including any scheduled principal payments, full and partial prepayments of principal, and principal received by virtue of condemnation, insurance or foreclosure. A Holder also is entitled to receive its pro rata share of repurchases of the Mortgages by Freddie Mac or by the sellers of the Mortgages, including the repurchase of any Converted Mortgages.

Under the ARM Cash Program, a purchaser of an ARM PC from Freddie Mac pays Freddie Mac on the settlement date interest computed at the PC Coupon for the period from the first day of the month of settlement to the day prior to the date of settlement, inclusive. Under the ARM Guarantor Program, Freddie Mac pays to the Mortgage seller on the settlement date an amount of interest equal to the difference between (1) the amount of interest paid to Freddie Mac by servicers on the Mortgages, and (2) the amount of interest at the applicable PC Coupon, both for the period from the first day of the month of settlement to the day prior to the date of settlement, inclusive.

Freddie Mac normally receives from servicers payments of principal (including partial prepayments) and interest made with respect to the Mortgages on the first Tuesday of the month following the monthly reporting period in which the payments were made. Servicers who elect to remit to Freddie Mac on an accelerated remittance cycle remit such funds on the third Business Day following the end of the monthly reporting period in which the payments are made. Servicers remit full prepayments of principal within five Business Days of the date on which such payments were made to servicers. Pending payment to Holders as described above, Freddie Mac may invest these funds at its own risk and for its own benefit.

If Freddie Mac acquires or retains any ARM PCs for its own account, Freddie Mac shares in all payments of principal and interest on a pro rata basis with other Holders of ARM PCs representing interests in the related Mortgages.

Guarantees

Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC Coupon 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. Freddie Mac also guarantees to each Holder ultimate collection of all principal of the related Mortgages, without offset or deduction, to the extent of the Holder's pro rata share of the unpaid principal balance of the related Mortgages, but does not guarantee the timely payment of scheduled principal. Pursuant to its guarantees, Freddie Mac indemnifies Holders against any diminution in principal by reason of charges for property repairs, maintenance and foreclosure.

Freddie Mac may pay the amount due on account of its guarantee of ultimate collection of principal 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 (iii) the expiration of any right of redemption, whichever occurs later, but in any event no later than the earlier of one year after demand has been made upon the mortgagor for accelerated payment of principal or for payment of the principal due on the maturity of a Mortgage.

In taking actions regarding the collection of principal after default on the Mortgages in an ARM PC Pool, including the timing of the demand for acceleration, Freddie Mac requires servicers to service the Mortgages in substantially the same manner as for mortgages of the same type which Freddie Mac has purchased but not sold. The effect that Freddie Mac's servicing policies (as well as a borrower's bankruptcy proceeding) may have on the timing of the demand for accelerated payment of principal and on payment pursuant to Freddie Mac's guarantee of ultimate collection of principal is described in "Mortgage Purchase and Servicing Standards—Mortgage Servicing—Defaults and Delinquencies."

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

Timing and Yield Considerations

The scheduled monthly payments on the Mortgages adjust periodically. The first ARM PC payment reflecting an adjustment to scheduled monthly payments on the Mortgages will be passed through to Holders on the Payment Date in the second month following the month in which the adjusted scheduled monthly payments are first made by the borrowers. The following table illustrates the timing of the various adjustments and receipt by Holders of related ARM PC payments for a hypothetical ARM PC Pool formed under either the ARM Cash or ARM Guarantor Program having a PC Coupon Adjustment Date of August 1.

May 12	The Index becomes available.
July 1	Mortgage Coupons are adjusted based on the Index available May 12.
August 1	Borrowers make the first adjusted monthly payments at the adjusted Mortgage Coupons. The PC Coupon adjusts to reflect adjustment in the related Mortgage Coupons.
October 15	First payment to Holders including interest at the adjusted PC Coupon, which payment reflects the adjusted scheduled monthly payments on the Mortgages.

Final Payment Date

The Final Payment Date of the Mortgages in an ARM PC Pool is the date which is the first day of the month in which the last monthly payment on the latest maturing Mortgage in the ARM PC Pool is scheduled to be made. The Final Payment Date of the Mortgages may reflect the maturity date of only a single Mortgage in that ARM PC Pool.

Holders may receive the final payment of interest and principal on the Mortgages before the Final Payment Date because of prepayments and repurchases. Holders may receive payments after the Final Payment Date because of the up to 75 day delay in the pass through of payments on the Mortgages. Payment plans, periods of forbearance or other actions which delay the receipt of payments by Freddie Mac may also result in payments to Holders after the Final Payment Date. See "Mortgage Purchase and Servicing Standards—Mortgage Servicing."

Weighted Average Life and Payment Behavior

The weighted average life of an ARM PC will depend upon the amount of principal, including both scheduled and unscheduled payments, which is paid periodically to Holders. With respect to the types of ARMs included in the ARM PC Pools, Freddie Mac is aware of only a limited amount of publicly available statistics that set forth principal prepayment experience. Freddie Mac's experience with respect to the ARMs described in this Offering Circular is insufficient to draw any conclusions with respect to the weighted average life of ARM PCs.

The payment behavior of the Mortgages included in an ARM PC Pool may be influenced by a variety of economic, tax, social, geographic, demographic, legal and other factors. Freddie Mac believes that, in a fluctuating interest rate environment, the predominant factor affecting the payment rate on a large, newly originated, geographically diverse group of mortgages underwritten on a consistent basis is the difference between the interest rates of the mortgages in that group and prevailing mortgage interest rates during the terms to maturity of the mortgages in that group.

Other factors affecting payment behavior on the Mortgages included in an ARM PC Pool may include: the age, payment terms and geographic distribution of the Mortgages; characteristics of the borrowers; the availability of mortgage financing; the extent to which the Mortgages are refinanced or the underlying properties are sold or conveyed; the extent to which borrowers exercise their Conversion Option on Convertible Mortgages; changes in local industry and population migration as they affect housing turnover; the use of second-lien or other individualized financing arrangements; and inclusion, if any, of relocation Mortgages in an ARM PC Pool. The relative effect of these factors may vary over time.

The number of foreclosures in an ARM PC Pool and the number of repurchases of Mortgages will also affect payment behavior. For certain information concerning delinquencies, defaults and foreclosures of ARMs, see “Business—Delinquencies, Defaults and Foreclosures” in the Information Statement. The amount of defaulting borrowers’ equity in real properties securing Mortgages may affect the frequency with which foreclosures occur. In addition, servicing decisions made with respect to the Mortgages, including the use of payment plans prior to demand for acceleration and the restructuring of Mortgages in bankruptcy proceedings, may also have an impact upon the payment behavior of particular ARM PC Pools. For a description of Freddie Mac’s servicing policies, see “Mortgage Purchase and Servicing Standards—Mortgage Servicing.”

Freddie Mac makes no representation as to the weighted average life of any Mortgages in any ARM PC Pool or the percentage of the Original Unpaid Principal Balance of the Mortgages in any ARM PC Pool which will be paid to Holders at any particular point in time. The Mortgages in any particular ARM PC Pool may experience a rate of principal payment which is different from the principal payment rate for Mortgages in other ARM PC Pools and for mortgages in fixed rate PC Pools.

Book-Entry Form, Holders, Minimum Principal Amounts and Transfers

Freddie Mac sells ARM PCs only in book-entry form. Freddie Mac’s fiscal agent for ARM PCs is the Federal Reserve Bank of New York. Each of the Federal Reserve Banks maintains book-entry accounts for ARM PCs. The Fiscal Agency Agreement between Freddie Mac and the Federal Reserve Bank of New York makes generally applicable to ARM 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 shall be agreed upon from time to time by Freddie Mac and the Federal Reserve Bank of New York. These regulations and procedures relate primarily to registration, transfer and pledge of ARM PCs. Each ARM PC Pool is assigned a unique nine-character designation used to identify the ARM PC Pool on the records of a Federal Reserve Bank (the “CUSIP Number”).

ARM PCs are issued and must be maintained and transferred only on the book-entry system of a Federal Reserve Bank in minimum original principal amounts, by ARM PC Pool, of \$1,000 and in additional increments of \$1. Such amounts represent the Holder’s pro rata share of the Original Unpaid Principal Balance of the Mortgages as of the date of formation of the related ARM PC Pool. An ARM PC may not be transferred if, as a result of the transfer, the transferor or the transferee would have on deposit in its account ARM PCs having an Original Unpaid Principal Balance of less than \$1,000 in respect of the related ARM PC Pool.

ARM PCs may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as entities for whose accounts ARM PCs have been deposited are referred to herein as “Holders.” A Federal Reserve Bank’s book-entry records will reflect a Holder’s aggregate holdings of ARM PCs by account.

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

A Federal Reserve Bank credits interest and principal to Holders on the 15th day of each month or, if such day is not a Business Day (as defined in the ARM PC Agreement), on the next succeeding Business Day ("Payment Date"). A Holder of an ARM PC on the books and records of a Federal Reserve Bank as of the close of business on the last business day of a month (the "Record Date") will be entitled to payment of principal and interest on the ARM PC for the entire month, which payment will be made on the Payment Date in the second succeeding month. For purposes of determining a Record Date, the last business day of the month means a day other than (1) a Saturday or Sunday, (2) a day on which the Federal Reserve Bank of New York (or other agent acting as Freddie Mac's fiscal agent) is authorized or obligated by law or executive order to remain closed, or (3) a day on which the Federal Reserve Bank at which the Holder's account is maintained is authorized or obligated by law or executive order to remain closed.

The first credit to a Holder's account will be made on the Payment Date in the second month following the month in which such Holder's settlement on the ARM PC occurred. This payment procedure may result in a delay in the receipt of the initial payment of up to 75 days. Thereafter, payments will be received by the Holder on each succeeding Payment Date.

Remedies

In the event of Freddie Mac's default in the payment of principal or interest or in the performance of any other covenants in the ARM PC Agreement, all to the extent and as set forth in the ARM PC Agreement, the Holders of a majority in aggregate unpaid principal balance of the ARM PCs in respect of any affected ARM PC Pool may, subject to certain notice requirements and the rights of Freddie Mac and other Holders, remove Freddie Mac and nominate a successor under the ARM PC Agreement. Appointment of a successor does not relieve Freddie Mac of its guarantee obligations as set forth in the ARM PC Agreement. The right of a Holder to receive payment of principal or interest due in respect of the Holder's ARM PC or to institute suit for enforcement of any such payment cannot be impaired without the consent of such Holder. For complete information concerning Holders' rights and remedies with respect to an ARM PC, see the ARM PC Agreement.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following is intended to provide general tax information relating to ARM PCs. The summary is based upon laws, regulations and decisions now in effect, all of which are subject to change or different interpretations. Potential investors should consult their own tax advisors regarding the federal tax treatment of the ARM PCs as well as the consequences of state, local and foreign tax laws.

Neither the ARM PCs nor the income derived therefrom is exempt from federal income, estate or gift taxes under the Internal Revenue Code of 1986 (the "Code") by virtue of the status of Freddie Mac as a corporate instrumentality of the United States. Further, neither the Code nor the Freddie Mac Act contains an exemption from taxation of the ARM PCs or the income derived therefrom by any state, any possession of the United States or any local taxing authority.

Under the book-entry system, each Holder will be furnished with annual information for federal income tax purposes that will itemize with respect to each ARM PC held the total amount of interest due from mortgagors at the interest rates on the underlying Mortgages, the servicers' fees and Freddie Mac's management and guarantee fees, and the total amount of interest paid on the ARM PCs at the PC Coupon for the calendar year.

General Tax Characteristics

ARM PCs have the following characteristics for federal income tax purposes:

(A) An ARM PC Pool formed as described herein will not be classified as an association taxable as a corporation, but rather will be classified as a grantor trust under Subpart E, Part I of Subchapter J of the Code. Subject to the potential application of the “stripped bond” rules discussed below, each beneficial owner of an ARM PC (“Beneficial Owner”) will be treated as the owner of a pro rata undivided interest in the ordinary income and the corpus of the grantor trust for that particular ARM PC Pool, and will be considered the owner of a pro rata undivided interest in each of the Mortgages included therein. Accordingly, each Beneficial Owner will be required to report on its federal income tax returns its pro rata share of the entire income from the Mortgages, including gross interest income at the interest rates on the Mortgages and incidental fees, if any, in accordance with its method of accounting. Each Beneficial Owner will be entitled to deduct, under Section 162 or 212 of the Code, in accordance with its method of accounting, its pro rata share of the servicers’ and Freddie Mac’s management and guarantee fees, including incidental fees paid by the borrowers and retained by the servicers or Freddie Mac. The Tax Reform Act of 1986 (the “1986 Act”) limits the deduction for a Beneficial Owner’s share of the fees in the case of (i) estates and trusts, and (ii) individuals owning an interest in an ARM PC directly or through an investment in a “pass-thru entity” (other than in connection with such individual’s trade or business). Pass-thru entities include partnerships, S corporations, grantor trusts, and mutual funds but do not include estates, nongrantor trusts, cooperatives and real estate investment trusts. Generally, such deduction, when aggregated with certain of the Beneficial Owner’s other miscellaneous itemized deductions, is allowable only to the extent that such aggregate amount exceeds 2 percent of the Beneficial Owner’s adjusted gross income.

(B) ARM PCs constitute “loans . . . secured by an interest in real property” within the meaning of Section 7701(a)(19)(C)(v) of the Code for purposes of determining whether an institution qualifies as a “domestic building and loan association.” ARM PCs also constitute “qualifying real property loans” within the meaning of Section 593(d) of the Code.

(C) Interest income on ARM PCs is “interest on obligations secured by mortgages on real property” as that phrase is used in Section 856(c)(3)(B) of the Code; ownership of an ARM PC by a real estate investment trust is ownership of “real estate assets” as that phrase is used in Section 856(c)(5)(A) of the Code.

(D) The qualification of an employee’s pension or profit-sharing trust under Section 401 of the Code and its exemption under Section 501(a) will not be adversely affected by the purchase of ARM PCs, provided that the purchase meets the investment requisites applicable to such trust.

ARM PC Pools Containing Convertible Mortgages

The Internal Revenue Service (the “Service”) has issued Revenue Rulings characterizing participation certificates sold by Freddie Mac that do not provide for a mandatory repurchase of a mortgage upon conversion as representing undivided beneficial interests in the underlying mortgages. Freddie Mac has been advised by its tax counsel, Cadwalader, Wickersham & Taft, that there can be no assurance that such Revenue Rulings could be relied upon with respect to participation certificates that contain such feature. However, tax counsel has rendered its opinion to Freddie Mac that, while the issue is not free from doubt, based upon available authority the sale of ARM PCs that provide for a mandatory repurchase of the underlying Mortgages upon conversion should be treated for federal income tax purposes as a sale to ARM PC holders of undivided beneficial interests in the Mortgages. The opinion of counsel represents only its best judgment as to the most likely outcome of litigation in the event the Service were to take a contrary position. Freddie Mac has not sought rulings from the Service with respect to the status for federal income tax purposes of the ARM PCs representing interests in Convertible Mortgages.

Discount and Premium

A Beneficial Owner will be treated as purchasing an interest in each of the Mortgages in the relevant ARM PC Pool at a price determined by allocating the purchase price paid for the ARM PC among the

Mortgages in proportion to their fair market values at the time of purchase of the ARM PC. To the extent that the portion of the purchase price allocated to a Mortgage is less than or greater than the portion of the principal balance of the Mortgage allocated to the ARM PC, the interest in the Mortgage will be deemed to have been acquired with discount or premium, respectively. The treatment of any discount will depend on whether the discount represents original issue discount or market discount.

If a Beneficial Owner has acquired an interest in a Mortgage at a discount and such discount is original issue discount, such Beneficial Owner will, except as described below, be required to report such discount as ordinary income as such income accrues under a constant interest method pursuant to Sections 1271-1273 and 1275 of the Code. Original issue discount with respect to a Mortgage could arise by virtue of the charging of points by the originator of the Mortgage if the points are not currently deductible under applicable Code provisions. Original issue discount also could arise by virtue of incentive interest rates or annual or lifetime interest rate caps. Even if there is original issue discount with respect to a Mortgage, a Beneficial Owner will be required to accrue such original issue discount into income currently only if it exceeds a *de minimis* amount. The Mortgages would also be subject to the original issue discount rules if, as discussed below, the "stripped bond" provisions of the Code were determined to be applicable. Unless the stripped bond rules apply, the original issue discount rules described above would not apply to Mortgages of individuals originated before March 2, 1984 and Mortgages of trusts originated before July 2, 1982.

The application of the original issue discount rules to Mortgages underlying an ARM PC which provide for a variable rate of interest is not entirely clear. Based on proposed Treasury regulations under these Code provisions, however, Freddie Mac intends to report original issue discount to Holders by assuming (i) that the Mortgages will bear interest in all periods in which interest is based on the index at the rate which applied (or would have applied if interest were based on the index) in the first period and (ii) no prepayments will occur. When prepayments occur, adjustments will be made in the rate of accrual of original issue discount.

In general, a Beneficial Owner who is considered to have purchased its interest in any Mortgage with market discount may be required to allocate the market discount among the principal payments on the Mortgage and include in income the discount allocated to each payment when the payment is received or comes due. The character of such income as ordinary income or capital gain will depend on the status of the issuer of the Mortgage and the date of the issuance of the Mortgage. With respect to Mortgages originated on or prior to July 18, 1984, a Holder will report the market discount as capital gain in the case of a Mortgage issued by a trust after July 1, 1982, and as ordinary income in the case of a Mortgage issued by an individual (assuming the ARM PC is held as a capital asset and subject to the discussion of Section 1277 and "stripped bonds" below). With respect to Mortgages originated after July 18, 1984, the market discount rules of Sections 1276 and 1278 of the Code will apply to treat market discount (in excess of a *de minimis* amount) as ordinary income to the extent of the portion of such discount that is considered to have accrued during the period a Beneficial Owner held the ARM PC. Market discount will be considered to accrue under a straight-line method unless a Beneficial Owner elects to calculate accrued market discount under a constant interest method. Under Section 1277, interest paid or accrued by a Beneficial Owner on indebtedness incurred or continued to purchase or carry Mortgages acquired with market discount (whether such Mortgages were originated on or prior to or after July 18, 1984) will be allowed as a deduction only to the extent such interest (reduced by the interest on the Mortgages includible in income) exceeds the market discount that accrued during the taxable year such interest was paid or accrued. Any such deferred interest expense will, in general, be allowed as a deduction when the related market discount income is recognized. As an alternative, a Beneficial Owner may elect to include market discount in income currently, under either a straight-line method or a constant interest method, on all market discount obligations held by such Beneficial Owner (other than market discount obligations acquired in taxable years prior to the year of election), in which event the foregoing ordinary income on disposition and interest deferral rules will not apply. The precise application of the market discount rules of Sections 1276-1278 to the Mortgages is not clear. It is anticipated that the application of the market discount rules to obligations such as the Mortgages will be addressed in regulations to be issued by the United States Department of the Treasury. The legislative history of the 1986 Act indicates that, until the issuance of regulations, it is permissible for a Beneficial Owner to elect to accrue market discount as follows: (1) for Mortgages that have original issue discount, the amount of market discount that accrues during a period is equal to the product obtained by multiplying the total remaining market discount by a fraction, the numerator of which is the original issue discount for the period and the denominator of

which is the total remaining original issue discount at the beginning of the period, and (2) for Mortgages that have no original issue discount, the amount of market discount that is deemed to accrue shall be the amount of market discount that bears the same ratio to the total amount of remaining market discount that the amount of stated interest paid in the accrual period bears to the total amount of stated interest remaining to be paid on the Mortgage as of the beginning of the accrual period. Investors should consult their own tax advisors regarding the application of the market discount rules as well as the advisability of making any of the above elections.

In the event a Beneficial Owner is considered to have purchased its interest in any Mortgage at a premium, such premium may, if the Mortgage is issued after September 27, 1985, be amortizable under a constant interest method at the election of the taxpayer under Section 171 of the Code.

A Beneficial Owner who sells an ARM PC will recognize gain or loss equal to the difference between its adjusted tax basis in the ARM PC and the amount realized on the sale (exclusive of amounts attributable to accrued and unpaid interest, which will be treated as ordinary interest income). In general, such adjusted tax basis will equal the Beneficial Owner's cost for the ARM PC, increased by the amount of any discount previously reported with respect to the ARM PC and decreased by the amount of any premium previously deducted with respect to the ARM PC and the amount of any distributions of principal received thereon. Any such gain or loss would be capital gain or loss if the ARM PC is held as a capital asset, except that in the case of a seller that is considered to have acquired an interest in Mortgages with market discount, some portion of such gain may be treated as ordinary income. Under the market discount rules, gain from the sale of an ARM PC will be treated as ordinary income in an amount not exceeding the portion of the market discount with respect to the seller's interest in underlying Mortgages that were originated after July 18, 1984 that is considered to have accrued (in the manner described above) during the period in which the seller held the ARM PC and that has not previously been included in income. In addition, gain attributable to an interest in underlying Mortgages that were originated on or before July 18, 1984 that would otherwise be capital gain will be characterized as ordinary income to the extent that any previously deferred interest expense relating to those Mortgages becomes deductible at the time of such sale, as described above. The 1986 Act eliminated the preferential rates applicable to capital gains, generally after December 31, 1986, subject to transitional rules.

In the case of a Beneficial Owner other than the seller of the Mortgages under the ARM Guarantor Program, any excess of interest at the underlying interest rate on the Beneficial Owner's undivided interest in each Mortgage in the ARM PC Pool (the Beneficial Owner's gross income) over the sum of the interest at the ARM PC Coupon on the ARM PC, Freddie Mac's management and guarantee fees and servicers' fees with respect to such undivided interest is, except as described below, to be accounted for as premium expense, as described in Revenue Ruling 71-399, 1971-2 C.B. 433. In Revenue Ruling 71-399, the Service ruled that any such premium expense may be deductible in accordance with applicable rules.

The Service may contend that, by reason of the enactment of the stripped bond rules of Section 1286 of the Code (or its predecessor, Section 1232B), Revenue Ruling 71-399 is no longer applicable in characterizing such excess. If this were the case, a Beneficial Owner would not be treated as owning a pro rata undivided interest in the interest payments on the Mortgages, but rather an interest in such payments only to the extent of the ARM PC Coupon plus reasonable servicing fees. Under the rules of Section 1286, the Beneficial Owner would be treated as if the payments to be received in respect of its ownership interest in the Mortgages were purchased at an original issue discount equal to the difference between the price at which such Beneficial Owner is considered to have purchased such payments and the aggregate amount of such payments. The Beneficial Owner would include such original issue discount in income in accordance with the normal Code provisions governing original issue discount. This would have the effect of requiring both interest and discount on the Mortgages to be reported as ordinary income as such income accrues under a constant interest method pursuant to Sections 1271-1273 and 1275 of the Code.

Backup Withholding and Foreign Withholding

A Beneficial Owner who is a U.S. person (as defined below) may be subject to backup withholding tax at the rate of 20 percent under Section 3406 of the Code on payments made with respect to an ARM PC. Backup withholding would apply if such Beneficial Owner fails to furnish certain information, including such Beneficial Owner's taxpayer identification number, to the person from whom such Beneficial Owner receives

payments or, under certain circumstances, if the person from whom such Beneficial Owner receives payments is notified by the Secretary of the Treasury that such Beneficial Owner is subject to backup withholding as a result of failure to report interest or dividends to the Service. Any such amounts withheld would be allowed as a credit against such Beneficial Owner's U.S. federal income tax. Backup withholding does not apply to payments with respect to an ARM PC made to a Beneficial Owner who is an "exempt recipient," as defined in applicable provisions of the Code and the regulations thereunder (and including any corporation). In some cases, a Beneficial Owner who is an exempt recipient may be required to furnish certification to the person from whom such Beneficial Owner receives payments with respect to an ARM PC to establish such Beneficial Owner's status as exempt from backup withholding.

Under temporary U.S. Treasury regulations, payments made to a Beneficial Owner who is not a U.S. person with respect to an ARM PC that represents an undivided interest in a pool of mortgages all of which were originated after July 18, 1984 generally will not be subject to United States federal income tax, including withholding tax, if (i) such ARM PC is not held by such Beneficial Owner in connection with a trade or business in the United States, (ii) such Beneficial Owner is not with respect to the United States a personal holding company or a corporation that accumulates earnings in order to avoid United States federal income tax and (iii) such Beneficial Owner provides a statement signed under penalties of perjury that includes its name and address and certifies that it is not a U.S. person in accordance with applicable requirements. To the extent amounts paid with respect to an ARM PC to a Beneficial Owner who is not a U.S. person represent interest on obligations originated before July 19, 1984, such amounts will be subject to withholding of U.S. federal income tax at the rate of 30 percent or such lower rate as may be provided by applicable tax treaty. The applicable Supplement or the Final Data Statement will specify whether all Mortgages in an ARM PC Pool have been originated after July 18, 1984 if such information is available to Freddie Mac. Regardless of the date of origination of the Mortgages, backup withholding tax will not apply to payments with respect to an ARM PC made to a Beneficial Owner who is not a U.S. person if an appropriate statement of non-U.S. beneficial ownership is furnished by such Beneficial Owner, as described in (iii) in the first sentence of this paragraph.

As used herein, "U.S. person" means a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust that is subject to U.S. federal income taxation regardless of the source of its income.

MORTGAGE PURCHASE AND SERVICING STANDARDS

The Mortgages purchased by Freddie Mac must meet certain standards set forth in the Freddie Mac Act. In addition to providing specific purchase requirements regarding mortgages with loan-to-value ratios in excess of 80% and limitations as to mortgage amount as discussed below, the Freddie Mac Act confines Freddie Mac to purchasing, so far as practicable, mortgages which it deems to be of such quality, type and class as to meet generally the purchase standards imposed by private institutional investors. This aspect of the Freddie Mac Act requires that mortgages purchased be readily marketable to institutional mortgage investors. The mortgage purchase standards Freddie Mac has developed, including its credit, appraisal and underwriting guidelines, are set forth in Freddie Mac's Purchase Documents, including the *Sellers' & Servicers' Guide* and program announcements.

Freddie Mac will consider requests from mortgage sellers to waive or modify specific aspects of its mortgage purchase standards, including its credit, appraisal and underwriting guidelines, as set forth in the *Sellers' & Servicers' Guide* (other than purchase standards embodying express Freddie Mac Act requirements, which cannot be varied). Freddie Mac grants waivers or modifications with some degree of frequency. Since Freddie Mac might grant one or several such waivers or modifications with respect to the Mortgages in an ARM PC Pool, Freddie Mac can make no representation that all or any portion of the Mortgages in any particular ARM PC Pool will conform to all of the purchase standards set forth in the *Sellers' & Servicers' Guide* or to the standards summarized below. Freddie Mac will grant such waivers or modifications in its sole discretion provided that it determines the waiver or modification will not materially alter the likely principal payment behavior of the Mortgages.

Set forth below is a general summary of certain aspects of Freddie Mac's mortgage purchase standards. Subject to Freddie Mac's right to waive or modify these standards, and except for differences specifically described herein or in any related Supplement, this summary is qualified in its entirety by Freddie Mac's Purchase Documents including the *Sellers' & Servicers' Guide* and related documents. Copies of these materials may be obtained from Freddie Mac's Subscription Services Department upon payment of a prescribed fee.

Credit, Appraisal and Underwriting Guidelines

The Mortgages conform to the credit, appraisal and underwriting guidelines established by Freddie Mac specifically for adjustable rate mortgages except to the extent that certain of such guidelines have been modified or waived by Freddie Mac in connection with the purchase of specific mortgages. These guidelines are designed to determine the value of the real property securing the mortgage and the creditworthiness of the borrower.

Mortgages on investment properties or second homes are underwritten in accordance with guidelines established specifically for investment properties or second homes. A second home must be suitable for year-round occupancy as a primary residence, and no income derived from the property will be considered for underwriting purposes. An investment property must be leased as a year-round residence.

Freddie Mac's administration of its credit, appraisal and underwriting guidelines, including the required documentation and the extent of pre- and post-purchase audits of documentation provided by the seller, may differ based on Freddie Mac's evaluation of and experience with the seller of the mortgages, the loan-to-value ratio and age of the mortgages and other factors. Any of Freddie Mac's credit, appraisal and underwriting guidelines and procedures are subject to change at any time and at Freddie Mac's sole discretion so long as the guidelines and procedures as modified continue to be prudent.

Loan-to-Value Ratio

Under the Freddie Mac Act, Freddie Mac may not purchase a conventional mortgage secured by a 1-4 family dwelling if the outstanding principal balance at the time of purchase exceeds 80% of the value of the real property securing the mortgage, unless one of the following conditions is met: (i) the seller retains a participation interest in the mortgage of not less than 10% of the mortgage; (ii) the seller agrees, for such period and under such circumstances as Freddie Mac may prescribe, to repurchase or replace the mortgage upon demand by Freddie Mac in the event that the mortgage is in default; or (iii) the portion of the unpaid principal balance of the mortgage which is in excess of 80% of such value is insured by a mortgage insurer that meets Freddie Mac's eligibility requirements.

In the application of its mortgage purchase standards, Freddie Mac does not purchase a Mortgage on a one-family primary residence if the Mortgage has an original loan-to-value ratio exceeding 95% of the lower of the appraised value at origination or the purchase price of the real property securing the Mortgage. Depending on certain factors including the use of mortgage proceeds (e.g., purchase money or refinance) and type of property securing the mortgage (e.g., primary residence as compared to second home or investment property), Freddie Mac has established loan-to-value ratio requirements lower than 95% for mortgages it will purchase. Generally, Freddie Mac will require lower loan-to-value ratios (and thus greater borrower equity) for second homes and investment properties than for primary residences. For example, under loan-to-value guidelines revised in September 1988, Freddie Mac generally requires loan-to-value ratios not greater than 70% for investment properties, 80% for second homes and 90% for two-family primary residences.

Freddie Mac also generally requires lower loan-to-value ratios for mortgages which refinance existing mortgages as compared to mortgages which finance the purchase of properties. Further, Freddie Mac imposes more stringent loan-to-value ratio requirements for refinance mortgages which permit borrowers to take cash out of refinance mortgage proceeds. For example, "cash-out" refinance mortgages on owner-occupied residences generally must have loan-to-value ratios not greater than 75%. Refinance mortgages on second

homes or investment properties generally must have loan-to-value ratios not greater than 70% while cash-out refinance mortgages on second homes or investment properties are generally not purchased by Freddie Mac.

In formulating its credit and underwriting standards, Freddie Mac establishes loan-to-value ratios based on different parameters, including those described above, to reflect its assessment of credit risk posed by different mortgage purchases.

Mortgage Insurance

In the application of its mortgage purchase standards, Freddie Mac generally purchases a mortgage secured by an owner-occupied property with a loan-to-value ratio exceeding 80% only if the unpaid principal balance in excess of 75% of the lower of the appraised value at origination or the purchase price is insured by a mortgage insurer that meets Freddie Mac's eligibility requirements. If a seller retains a participation interest in a mortgage, and mortgage insurance is required, the calculation of the amount of mortgage insurance required by Freddie Mac is based upon the amount of Freddie Mac's participation interest. Under conditions specified by Freddie Mac, mortgage insurance may not be required on such a mortgage if the seller agrees to repurchase the mortgage in the event of default or if the seller retains a 10% participation interest in the mortgage.

Mortgage Amount

The Freddie Mac Act establishes limitations on the maximum original mortgage amount of any conventional mortgage which Freddie Mac may purchase. Currently, the original mortgage amount may not exceed \$168,700 for a one-family dwelling, \$215,800 for a two-family dwelling, \$260,800 for a three-family dwelling and \$324,150 for a four-family dwelling. The applicable limitation may be increased by 50% for properties located in Alaska, Guam, and Hawaii.

Special Financing Arrangements

Under conditions specified in the *Sellers' & Servicers' Guide*, Freddie Mac may purchase first-lien mortgages as to which borrowers have obtained secondary or special financing arrangements. These arrangements may include junior and subordinated lien mortgages. Any junior mortgages may contain features such as the absence of regular amortization of principal and deferred interest and/or principal payments. Freddie Mac may also purchase a mortgage secured by a property on which a subordinate lien has been placed for an amount which includes the unpaid principal balance of the first lien where the holder of the subordinate lien may repay the first lien if market interest rates decline or at any other time.

Freddie Mac also purchases mortgages as to which an individual third party makes contributions to the down payment on the purchase of the property by the borrower-occupant and shares in the equity in the property. The third party may also contribute to the borrower-occupant's monthly payments. Any agreement for sharing of equity cannot require sale of the property or buyout of the third party's interest prior to seven years following mortgage origination.

Eligible Sellers, Servicers, Warranties and Documentation

Substantially all of the Mortgages are purchased from and serviced by financial institutions whose deposits are insured by the Federal Savings and Loan Insurance Corporation ("FSLIC") or the Federal Deposit Insurance Corporation ("FDIC"), or mortgage bankers approved for participation in any mortgage insurance program under the National Housing Act. Freddie Mac approves the institutions on an individual basis after consideration of factors such as financial condition, facilities and mortgage origination and/or servicing experience. The seller of a Mortgage to Freddie Mac need not be the originator of that Mortgage.

Sellers are required to give certain warranties to Freddie Mac. These warranties cover such matters as the validity of the Mortgage as a first lien; the fact that payments on the Mortgage are current at the time of delivery to Freddie Mac; proper execution and recordation of the Mortgage; compliance by the originator with the requirements of all state and federal laws, including those relating to settlement procedures, authorization to do business in the state in which the mortgaged property is located, truth-in-lending and

usury; and existence and validity of title, hazard and mortgage insurance policies. Sellers also warrant that each Mortgage complies with the requirements of the applicable Freddie Mac purchase program and with such requirements as are generally imposed by private institutional mortgage investors in the area in which the mortgaged property is located. Such warranties are made even if the seller is not the originator of the Mortgage.

Under certain circumstances, Freddie Mac may modify the warranties required to be made by a seller. This may occur, for example, in cases where Freddie Mac grants waivers or modifications to its purchase standards.

In the case of all whole loan Mortgages and certain participations in Mortgages, the mortgage notes are endorsed to and held by Freddie Mac or are held by a custodian acting as Freddie Mac's agent. Where local law or practice requires, assignments of such Mortgages are recorded in Freddie Mac's name. In the case of other participations in Mortgages, Freddie Mac holds participation certificates which evidence Freddie Mac's ownership interest, but the originator or seller holds the mortgage notes, the Mortgages are recorded in the originator's or seller's name, and no assignment is made or recorded in Freddie Mac's name.

Mortgage Servicing

Servicers agree, subject to Freddie Mac's general supervision, to perform diligently all services and duties customary to the servicing of Mortgages. The duties performed by servicers include, but are not limited to, collection and payment of principal and interest, computation and adjustment as appropriate of the Mortgage Coupon and the borrower's scheduled monthly payments, administration of escrow accounts, collection of insurance claims, property inspections, delinquency counseling and, if necessary, foreclosure and disposal of property acquired through foreclosure. Subject to Freddie Mac's approval, servicers may contract to have servicing performed by, or sell their servicing rights to, other servicers acceptable to Freddie Mac.

Pursuant to the ARM PC Agreement, Freddie Mac services or supervises servicing of the Mortgages for the benefit of Holders and has full power and authority to do or cause to be done any and all things in connection with such servicing which it deems necessary or desirable.

Freddie Mac requires the servicing of Mortgages to be performed in a manner consistent with prudent servicing standards. Freddie Mac monitors servicers' performance through periodic and special reports and inspections and has developed servicing policies and procedures to support the efficient and uniform servicing of the mortgages. Any of Freddie Mac's servicing policies and procedures are subject to change or waiver at any time and at Freddie Mac's sole discretion so long as the policies and procedures as modified continue to be prudent. Such changes or waivers may be made on a uniform basis, such as by amendment to Freddie Mac's *Sellers' & Servicers' Guide*, or on an individual basis in connection with the servicing of a particular Mortgage.

Set forth below is a brief description of certain aspects of Freddie Mac's current servicing policies and procedures concerning prepayments, assumption and due-on-transfer policies, fees, delinquencies and foreclosures. This description is not intended to be complete and is qualified in its entirety by the Freddie Mac *Sellers' & Servicers' Guide*. Further, in view of the highly individualized nature of many servicing situations, informal adaptation, including waiver, in whole or in part, of the requirements in the *Sellers' & Servicers' Guide* to fit particular situations can be expected to occur with some frequency. Freddie Mac will, however, require servicers to service the Mortgages in ARM PC Pools in substantially the same manner as for mortgages purchased by Freddie Mac but not sold.

Prepayments

A full prepayment of principal on a Mortgage may occur upon a transfer of the real property securing the Mortgage or a refinancing of the Mortgage. A borrower may prepay a Mortgage in full at any time.

A servicer may permit a borrower to make partial prepayments of principal to reduce the number or size of subsequent scheduled monthly payments of principal and interest, provided the Mortgage is current and that any such reduction will not result in a change in the interest rate or an extension of the term.

Assumption and Due-on-Transfer Policies

Unless otherwise stated in the applicable Supplement or Preliminary and/or Final Data Statement, all the Mortgages in Cash ARM PC Pools have been originated on uniform adjustable rate mortgage instruments published by Freddie Mac, or by Fannie Mae, or by Freddie Mac and Fannie Mae jointly. These uniform instruments contain a due-on-transfer clause which, by its terms, may not be exercised in the event the transferee's credit is underwritten to the satisfaction of the note holder. The Mortgages in Guarantor ARM PC Pools may or may not have been originated on such uniform mortgage instruments. However, sellers of Mortgages under the ARM Guarantor Program will warrant either (1) that each Mortgage contains a "due-on-transfer clause" which, by its terms, may not be exercised in the event the transferee's credit is underwritten to the satisfaction of the note holder, or (2) that, if a Mortgage does contain a due-on-transfer clause which, by its terms, may be exercised irrespective of the creditworthiness of the transferee, the due-on-transfer clause will not be exercised in the event the transferee's credit is underwritten to the satisfaction of the note holder. Accordingly, the transfer of the real property security will not result in a prepayment of the Mortgage if the transferee assumes the Mortgage obligation and is determined to be creditworthy. If a due-on-transfer clause can be exercised under its terms, Freddie Mac requires the servicer to demand full payment of the remaining principal balance of the mortgage upon the sale or transfer of the property securing the Mortgage.

Fees

Subject to applicable law or regulation, Freddie Mac permits a servicer to collect a fee for credit underwriting on assumptions equal to the greater of \$400 or 1% of the unpaid principal balance, with a maximum fee of \$900. The credit underwriting fee is not passed through to Freddie Mac or to Holders. Any other fees, such as late payment fees, are also retained by the servicers and are not passed through to Freddie Mac or to Holders.

Defaults and Delinquencies

A servicer is required to report to Freddie Mac any Mortgage which is delinquent 60 days or more (30 days or more beginning in January, 1989) and to make a recommendation for appropriate action. Freddie Mac requires such a recommendation to reflect the servicer's familiarity with and knowledge of the borrower, the location and type of property securing the Mortgage and the extent of any delinquency. Information with respect to the default, delinquency and foreclosure rates for adjustable rate mortgages is limited. The rate of default, delinquency and foreclosure with respect to adjustable rate mortgages may exceed such rates for fixed-rate mortgages. Freddie Mac makes no representation that the default, delinquency and foreclosure rate for adjustable rate mortgages will be the same as Freddie Mac's experience with respect to all conventional mortgages.

Freddie Mac authorizes a servicer to resolve a delinquency through a variety of measures, including repayment plans that provide for liquidation of delinquent amounts within a period up to 12 months. Freddie Mac also accepts plans that grant periods of forbearance up to 18 months during which regular mortgage payments may be reduced or suspended. Such plans may be implemented before a demand for accelerated payment of principal is made. Repayment plans or periods of forbearance will not affect Freddie Mac's guarantees of timely payment of interest and ultimate collection of principal but may defer payment of principal by the borrower and may delay or eliminate demand for acceleration of principal by Freddie Mac.

Freddie Mac requires a servicer to take all reasonable steps to resolve any delinquency prior to Freddie Mac's authorizing a servicer to initiate foreclosure proceedings and to make demand upon a borrower for accelerated payment of principal. A demand is authorized when Freddie Mac believes that no reasonable prospect exists for payment of delinquent amounts within a reasonable period of time. The length of time necessary for Freddie Mac to determine that a Mortgage should be accelerated varies with the particular circumstances of each borrower, and Freddie Mac has adopted no servicing standards which require that the demand be made within any specified period.

Freddie Mac's servicing discretion in connection with a borrower's bankruptcy may be limited by a court or by state legislation prohibiting or delaying acceleration. When a bankruptcy proceeding is instituted prior to demand for accelerated payment of principal, no demand for acceleration is permitted to be made without court approval, and the bankruptcy court has broad powers to delay or deny such approval. If Freddie Mac is precluded from making a demand for acceleration, Freddie Mac has established a policy that, for purposes of its guarantee of ultimate collection of principal, demand for acceleration shall be deemed to have been made on the later of the date on which the borrower's bankruptcy petition was filed or the due date of the last fully paid installment on the Mortgage.

Both prior and subsequent to a demand for accelerated payment of principal, a bankruptcy court has broad discretion to approve or deny various payment plans which could have the effect of delaying the payment of principal and interest on a Mortgage, and which, in certain circumstances, could result in a reduction of the aggregate amount paid with respect to a Mortgage. In the event a bankruptcy court approves a plan which materially affects the terms of a Mortgage, authorizes a transfer of the underlying property or provides for substitution of collateral, Freddie Mac will repurchase the Mortgage from the ARM PC Pool.

Foreclosures

Demand for accelerated payment of principal is typically the initial step in the foreclosure process and normally is made at or shortly after the time Freddie Mac approves the institution of foreclosure proceedings. Freddie Mac's *Sellers' & Servicers' Guide* sets forth policies and procedures for instituting and monitoring foreclosure proceedings, including demand upon the borrower for accelerated payment of principal. Freddie Mac may accept a voluntary deed in lieu of foreclosure in those jurisdictions in which this practice is authorized. If, after demand for accelerated payment of principal, a borrower pays all delinquent amounts, foreclosure proceedings are terminated. If, after a borrower has paid all delinquent amounts and foreclosure proceedings have been terminated, the borrower again becomes delinquent, a new demand for accelerated payment of principal generally must be made and new foreclosure proceedings commenced. The length of the foreclosure process varies significantly from state to state. Some state laws may provide borrowers with a right to redeem after foreclosure, and the foreclosure process typically is not final until the expiration of any such right. In any event, payment pursuant to Freddie Mac's guarantee of ultimate collection of principal on a delinquent Mortgage is made no later than one year following demand upon the borrower for accelerated payment of principal. See "Description of the ARM PCs—Guarantees."

Under the ARM Guarantor Program, a seller of Mortgages to Freddie Mac may sell such Mortgages on a with "recourse" basis. In the event of borrower default and foreclosure, such seller is required to repurchase the Mortgage from Freddie Mac upon completion of foreclosure or delivery to Freddie Mac of a deed in lieu of foreclosure. In addition, such seller may, at its option and under certain circumstances, repurchase the delinquent mortgage prior to foreclosure. Payments received by Freddie Mac pursuant to a seller's obligation to repurchase Mortgages sold with recourse are passed through to Holders on a monthly basis. See "Description of the ARM PCs—Interest and Principal Payments." Accordingly, in the event of default, payments to Holders in respect of defaulted Mortgages sold to Freddie Mac on a with recourse basis may occur earlier than payments to Holders made in respect of defaulted Mortgages as to which Freddie Mac makes payment under its guarantee of ultimate collection of principal.

LEGALITY OF INVESTMENT

ARM 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, ARM 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 ARM 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 ARM 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 ARM PCs without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(E).

ARM 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 ARM 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 ARM PCs. 12 U.S.C. §§ 1431(h) and 1436(a), respectively.

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

For private pension funds subject to the Employee Retirement Income Security Act of 1974, the ARM PCs, and not the Mortgages underlying the ARM PCs, are considered to be plan assets. 29 U.S.C. § 1101 and 29 C.F.R. § 2510.3-101(i).

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 ARM 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 ARM 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 ARM PCs will not affect the validity of any contractual commitment to purchase, hold or invest in ARM PCs made prior to the date of enactment and such legislation cannot require the sale or other disposition of any ARM 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. Investors should consult with their own legal advisors in determining whether and to what extent ARM 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 ARM PCs.

FHLBB REGULATORY MATTERS

The staff of the FHLBB has taken the following positions concerning securities such as ARM PCs guaranteed by Freddie Mac that are held by institutions the deposits or accounts of which are insured by the FSLIC or held by federal savings and loan associations and federal savings banks.

- ARM 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 ARM PCs backed by the same or substantially identical mortgages (FHLBB Staff Memorandum R-49 and R-49-1).
- ARM 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).
- ARM PCs are eligible collateral for use by savings and loan associations engaging in retail repurchase agreements (FHLBB Staff Memorandum R-51-1).

ACCOUNTING MATTERS

Freddie Mac treats a sale of ARM PCs as a sale of assets and accordingly such sale does not affect Freddie Mac’s capitalization. However, Freddie Mac provides for losses as a consequence of its guarantees of principal and interest.

FEDERAL SECURITIES LAWS

ARM 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.

PLAN OF DISTRIBUTION

ARM Cash Program

Under the ARM Cash Program Freddie Mac will offer ARM PCs through one or a combination of the following methods: firm commitment underwriting, auction or allocation to selected securities dealers and direct placement with securities dealers or investors. The applicable Supplement or Preliminary Data Statement will set forth the terms of the offering of the related ARM PCs.

Freddie Mac, securities dealers, and any underwriters may acquire ARM PCs for their own account and may resell them from time to time in one or more transactions, including negotiated transactions, at fixed public offering prices or at varying prices determined at the time of sale.

Freddie Mac anticipates that, under the ARM Cash Program, it generally will offer for sale ARM PCs representing interests in Mortgages which Freddie Mac has committed to purchase and for which complete Mortgage information is not available (“Forward Sales”). For each ARM PC offered by Freddie Mac pursuant to a Forward Sale, Freddie Mac will provide a Preliminary Data Statement which will set forth the ARM PC Pool Number, the CUSIP Number, the initial PC Coupon, the PC Margin, the PC Lifetime Ceiling, the Initial PC Coupon Adjustment Date, the settlement date of and the First Payment Date on the ARM PCs to be sold. Such data will not change as Mortgages are identified to the related ARM PC Pool.

The Preliminary Data Statement will also set forth the estimated Final Payment Date and the permissible ranges of Mortgage Coupons, Mortgage Margins and Mortgage Lifetime Ceilings of the Mortgages which will be identified to the ARM PC Pool. The Mortgage characteristics described are the characteristics of Mortgages that may be delivered by sellers under an ARM purchase program pursuant to which sellers have committed to sell and Freddie Mac has committed to buy the Mortgages. The estimated Final Payment Date assumes that the Mortgages will contain at least one newly-originated Mortgage on which the first principal and interest payment is due in the month of settlement of the related ARM PCs.

Each ARM PC Pool subject to a Forward Sale will be formed by Freddie Mac prior to settlement of the related ARM PCs, and a Final Data Statement with respect to each ARM PC Pool will be delivered on or prior to such settlement. The Final Data Statement will set forth the weighted average Mortgage Coupon

and the range of Mortgage Coupons, the weighted average Mortgage Margin and the range of Mortgage Margins, the weighted average Mortgage Lifetime Ceiling and the range of Mortgage Lifetime Ceilings, the weighted average remaining term to maturity of the Mortgages and the range of remaining terms to maturity of the Mortgages, the number of Mortgages and location by state of the real property securing the Mortgages, the Original Unpaid Principal Balance, and the First Payment Date and Final Payment Date for the related ARM PC Pool.

Any offer or sale of ARM PCs pursuant to a Forward Sale must be accompanied by this Offering Circular and a Preliminary Data Statement with respect to the ARM PCs so offered or sold. Settlement by Freddie Mac on ARM PCs offered pursuant to this Offering Circular and a Preliminary Data Statement will occur only following delivery of a Final Data Statement with respect to the related ARM PC Pool.

ARM Guarantor Program

Under the ARM Guarantor Program, Freddie Mac purchases the Mortgages from a seller and, in exchange for the Mortgages purchased, sells to the seller ARM PCs representing interests in the same Mortgages. Freddie Mac will accept offers for mandatory and optional delivery of Mortgages under the ARM Guarantor Program for a variety of periods on a daily basis in accordance with terms and procedures set forth in Freddie Mac's *Sellers' & Servicers' Guide*. Freddie Mac's commitment to exchange ARM PCs for Mortgages is conditioned on the seller's full compliance with the terms and conditions of the Purchase Documents, as defined in Freddie Mac's *Sellers' & Servicers' Guide*, including the seller's timely delivery of acceptable Mortgages in the minimum purchase amount required by Freddie Mac.

Secondary Market

Certain securities dealers make a market in 2% Annual ARM PCs. Freddie Mac may also buy and sell 2% Annual ARM PCs in the secondary market through its Security Sales and Trading Group. Freddie Mac makes no representation, however, as to the nature of the secondary market trading in any 2% Annual ARM PCs.

As of the date of this Offering Circular, there is a limited secondary market for ARM PCs other than 2% Annual ARM PCs. Certain securities dealers and Freddie Mac may make a market in such other ARM PCs. There can be no assurance that a secondary market for such other ARM PCs will develop further or, if it does, that it will provide Holders or beneficial owners of such other ARM PCs with liquidity of investment or will continue for the life of the ARM PCs.

Prospective ARM PC purchasers, Holders and beneficial owners wishing to obtain prices may contact the securities dealers selling and making a market in ARM PCs or Freddie Mac (outside Washington, D.C. metropolitan area, telephone 800/424-5401, extension 4800; within Washington, D.C. metropolitan area, telephone 202/789-4800).

FEDERAL HOME LOAN MORTGAGE CORPORATION

ADJUSTABLE RATE MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT

(Guaranteed)

AGREEMENT dated as of November 1, 1988 among the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and Holders of undivided interests in certain adjustable rate mortgages (and/or interests therein) which are identified in the records maintained by Freddie Mac and which are represented by Adjustable Rate Mortgage Participation Certificates (“ARM PCs”).

WHEREAS:

(a) Freddie Mac is a corporation duly organized and existing under and by virtue of the laws of the United States (Title III of the Emergency Home Finance Act of 1970, as amended (the “Act”)) and has full corporate power and authority to enter into this Agreement and to undertake the obligations undertaken by it herein; and

(b) Pursuant to Section 305 of the Act, Freddie Mac from time to time purchases certain conventional adjustable rate residential Mortgages, including Whole Loans and/or Participations, all of which are identified in the records maintained by Freddie Mac; and

(c) Pursuant to Section 305 of the Act, Freddie Mac from time to time creates undivided interests in the Mortgages acquired as set forth above, sells and transfers such undivided interests to Holders by the sale of ARM PCs, and guarantees timely payment of interest and ultimate collection of principal for the benefit of such Holders, all as herein more fully provided.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, it is hereby agreed that the following terms and conditions of this Agreement shall govern the creation by Freddie Mac of undivided interests in the Mortgages, the transfer, sale and assignment of undivided interests therein represented by the ARM PCs, and the rights and obligations of Freddie Mac and Holders with respect to the ARM PCs.

ARTICLE I

Definitions

Whenever used in this Agreement, the following words and phrases shall have the following meanings, unless the context otherwise requires:

ARM Cash Program: A program pursuant to which Freddie Mac purchases Mortgages for cash from eligible sellers, holds the Mortgages and periodically forms ARM PC Pools and sells ARM PCs representing undivided interests in the Mortgages.

ARM Guarantor Program: A program pursuant to which Freddie Mac purchases all of the Mortgages comprising a given ARM PC Pool from a single seller in exchange for ARM PCs representing undivided interests in the same Mortgages.

ARM PC: An Adjustable Rate Mortgage Participation Certificate sold pursuant to this Agreement, representing an undivided interest in a pool of Mortgages identified by a particular ARM PC Pool Number and CUSIP Number. A 2% Annual Rate Capped ARM PC (“2% Annual ARM PC”) is an ARM PC which adjusts annually subject to a limit on the annual increase or decrease in the PC Coupon of 200 basis points. Certain 2% Annual ARM PCs may consist entirely of Mortgages which have an initial period of three or

five years during which the interest rate on the Mortgages remains fixed. A 1% Annual Rate Capped ARM PC ("1% Annual ARM PC") is an ARM PC which adjusts annually subject to a limit on the annual increase or decrease in the PC Coupon of 100 basis points. A 3 Year Rate Capped ARM PC ("3 Year ARM PC") is an ARM PC which adjusts once every three years subject to a limit on the periodic increase or decrease in the PC Coupon of 200 basis points. A 5 Year Rate Capped ARM PC ("5 Year ARM PC") is an ARM PC which adjusts once every five years subject to a limit on the periodic increase or decrease in the PC Coupon of 200 basis points. A Semi-Annual Rate Capped ARM PC ("Semi-Annual ARM PC") is an ARM PC which adjusts semiannually subject to the applicable limit on the semiannual increase or decrease in the PC Coupon. Each ARM PC adjusts based on the applicable Index as described herein.

ARM PC Pool: A discrete pool of Mortgages identified in records maintained by Freddie Mac by an ARM PC Pool Number.

ARM PC Pool Number: A unique six-character designation assigned to each ARM PC Pool by Freddie Mac and used to identify the ARM PC Pool on the books and records of Freddie Mac.

Book-Entry Form: A security which (i) is issued by means of an entry on the books and records of the Federal Reserve Bank, which entry includes, but is not limited to, the name of the Holder, the original unpaid principal balance of the ARM PCs in a particular ARM PC Pool held by such Holder, the CUSIP Number of such ARM PC Pool and the Final Payment Date applicable to the related ARM PC Pool, and (ii) is evidenced only by such entry and is not evidenced by a certificated security.

Book-Entry Rules: The provisions from time to time in effect, presently contained in Title 1, Part 462 of the Code of Federal Regulations, setting forth the terms and conditions under which Freddie Mac may issue securities in Book-Entry Form and authorizing the Federal Reserve Bank to act as Freddie Mac's agent in connection with securities issued by means of entries on the books and records of the Federal Reserve Bank.

Business Day: A day other than (i) a Saturday or Sunday, (ii) a day on which the Federal Reserve Bank of New York (or other agent acting as Freddie Mac's fiscal agent) is authorized or obligated by law or executive order to remain closed, (iii) as to any Holder, a day on which the Federal Reserve Bank at which such Holder's account is maintained is authorized or obligated by law or executive order to remain closed, (iv) a day on which the offices of the federal government located in the District of Columbia generally are closed for business, or (v) a day on which the offices of Freddie Mac are closed.

CUSIP Number: A unique nine-character designation assigned to each ARM PC Pool by the CUSIP Service Bureau and used to identify the ARM PC Pool on the records of the Federal Reserve Banks.

Federal Reserve Bank: The Federal Reserve Bank of New York and/or such other Federal Reserve Banks as may, from time to time, maintain PCs in Book-Entry Form.

Final Payment Date: The date which is the first day of the month in which the last monthly payment on the latest maturing Mortgage in an ARM PC Pool is scheduled to be made, as described in the documents pursuant to which the related ARM PCs are offered for sale.

Guide: The Freddie Mac *Sellers' & Servicers' Guide* as supplemented and amended from time to time.

Holder: The entity which maintains an account with a Federal Reserve Bank and whose name appears on the books and records of such Federal Reserve Bank as the entity for whose account an ARM PC has been deposited.

Index: The Index which is applicable to any particular type of ARM PC, as set forth in the documents pursuant to which such ARM PC is offered for sale. In the case of 1% Annual ARM PCs and 2% Annual ARM PCs, the Index is the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one year. In the case of 3 Year ARM PCs, the Index is the weekly average yield of U.S. Treasury securities adjusted to a constant maturity of three years. In the case of 5 Year ARM PCs, the Index is the weekly

average yield of U.S. Treasury securities adjusted to a constant maturity of five years. In the case of certain Semi-Annual ARM PCs, the Index is the weekly average yield on 6 month U.S. Treasury Bills determined with reference to the "Auction Average," "Auction Average (Investment)," or "Secondary Market" yields on such Bills. In the case of other Semi-Annual ARM PCs, the Index is the most recent weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of one year available at the time semiannual adjustment occurs.

The Index for a specific ARM PC is the applicable index as described above which is published by the Federal Reserve Board in Federal Reserve Board Statistical Release No. H.15 (519). For a given ARM PC, the Index used to adjust the interest rates on the related Mortgages is the most recent Index available as of the date 45 days prior to the date such adjustment is effective. The Index applicable to an adjustment of a PC Coupon is the Index used to effect the most recent adjustment of the interest rates on the related Mortgages. In the event the Index becomes unavailable, Freddie Mac will employ a new index based upon comparable information and methodology.

Month of Initial Sale: The month in which the first settlement of an ARM PC against an ARM PC Pool occurs.

Mortgages: The Whole Loans and/or Participations identified in the records maintained by Freddie Mac as comprising an ARM PC Pool, which Mortgages consist of or represent interests in promissory notes secured by residential real property comprising one-to-four family dwelling units. A "Mortgage" shall mean any Whole Loan or any participation interest in a mortgage included in the Mortgages.

Original Unpaid Principal Balance: In the case of an ARM PC Pool formed pursuant to an ARM Cash Program, the Original Unpaid Principal Balance shall be the aggregate unpaid principal balance of the related Mortgages as of (i) the last day of the Month of Initial Sale after the identity of all the Mortgages has been finally determined pursuant to Section 2.02, or (ii) if a different date is specified in the documents pursuant to which the related ARM PCs are offered for sale, such date. In the case of an ARM PC Pool formed pursuant to an ARM Guarantor Program, the Original Unpaid Principal Balance shall be the aggregate unpaid principal balance of the related Mortgages as of the first day of the month in which the Mortgages are delivered to Freddie Mac, which shall be equal to the aggregate original unpaid principal balance of the related ARM PCs.

Participation: A percentage undivided interest, purchased by Freddie Mac, in an adjustable rate, first lien, conventional mortgage secured by residential real property.

PC Coupon: The rate, which is subject to adjustment periodically, at which interest is passed through to a Holder of an ARM PC. The PC Coupon adjusts periodically to a rate which is equal to the Index most recently used to adjust the interest rates on the related Mortgages, plus the applicable PC Margin, subject to the applicable limit on the amount of any single periodic increase or decrease in the PC Coupon, and subject to the applicable PC Lifetime Ceiling. The PC Coupon is always rounded to the nearest 0.125%. Interest at the PC Coupon shall be computed on the basis of a 360-day year, each month being assumed to have 30 days.

PC Lifetime Ceiling: For a given ARM PC, the maximum PC Coupon which may be borne by such ARM PC as set forth in the documents pursuant to which such ARM PC is offered for sale.

PC Margin: For a given ARM PC, the number of basis points set forth in the documents pursuant to which such ARM PC is offered for sale.

Pool Factor: A seven-digit decimal calculated by Freddie Mac with respect to a calendar month which, when multiplied by the original unpaid principal balance of an ARM PC, represents the amount determined by Freddie Mac to be the Holder's pro rata share of the aggregate unpaid principal balance of the Mortgages on the books and records of Freddie Mac as of the end of the reporting period ending in the previous month.

Remaining ARM PC Pool Balance: The aggregate amount of principal not yet paid to Holders of ARM PCs with respect to the Mortgages comprising the related ARM PC Pool, as calculated using the related Pool Factor.

Whole Loan: An adjustable rate, first lien, conventional mortgage secured by residential real property as to which the entire unpaid principal balance is purchased by Freddie Mac.

ARTICLE II

Conveyance of Undivided Interests in Mortgages

SECTION 2.01. Sale of ARM PCs. Sale of an ARM PC by Freddie Mac pursuant to this Agreement shall be deemed to occur upon the date of settlement and payment for such ARM PC and shall constitute a sale, assignment, transfer, and conveyance by Freddie Mac to the Holder of a pro rata undivided interest in the Mortgages comprising the ARM PC Pool in which such ARM PC represents an undivided interest. Such pro rata undivided interest of a Holder shall be determined in accordance with Section 4.02. Freddie Mac shall be bound by all of the terms and conditions of this Agreement at such time as an ARM PC is sold by Freddie Mac to a Holder. Upon settlement of and payment for an ARM PC, a Holder shall, by virtue thereof, acknowledge, accept and agree to be bound by all of the terms and conditions of this Agreement. Under an ARM Guarantor Program, payment for an ARM PC shall be deemed to occur upon the settlement date as of which such ARM PC is sold to the initial Holder thereof.

SECTION 2.02. Identity of the Mortgages; Substitution and Repurchase. In the case of an ARM PC Pool formed under an ARM Cash Program, unless otherwise stated in connection with a particular offering of ARM PCs, Freddie Mac shall have the power and authority to determine the amount and identity of the Mortgages which comprise the ARM PC Pool until the day prior to the date the first payment of principal and interest is payable with respect to the ARM PC Pool. Any Mortgage added to or withdrawn from an ARM PC Pool after the Month of Initial Sale and prior to the date the first payment of principal and interest is payable to the Holders shall be added or withdrawn at its unpaid principal balance as of the last day of the Month of Initial Sale. An ARM PC Pool formed under the ARM Guarantor Program shall be comprised of only those Mortgages acquired by Freddie Mac from a single seller in exchange for ARM PCs representing undivided interests in the same Mortgages. Except as provided in Section 2.03, once the identity of the Mortgages has been so determined, such identity shall not thereafter be changed; provided, however, that (i) Freddie Mac may, in connection with its performance of servicing responsibilities pursuant to Section 3.02, repurchase any Mortgage at its then unpaid principal balance, if such repurchase is necessary in order to maintain proper servicing of the Mortgages or to minimize loss, (ii) a seller to Freddie Mac of a Mortgage may repurchase such Mortgage at its then unpaid principal balance pursuant to such seller's obligation to Freddie Mac to do so in the event such Mortgage is in default, (iii) Freddie Mac may, in connection with the performance of its servicing responsibilities pursuant to Section 3.02, agree to a repurchase by the seller of any Mortgage at its then unpaid principal balance, if such repurchase is necessary in order to maintain proper servicing of the Mortgages or to minimize loss, (iv) if, in the event of the bankruptcy of a mortgagor, a bankruptcy court approves a plan which materially affects the terms of a Mortgage, authorizes a transfer of the underlying property or provides for substitution of collateral, Freddie Mac may repurchase such Mortgage at its then unpaid principal balance, (v) if any borrower exercises an option to convert the adjustable interest rate of a Mortgage to a fixed interest rate, Freddie Mac will repurchase such Mortgage at its unpaid principal balance as of the 15th day of the same month the fixed interest rate becomes effective or, if Freddie Mac and the seller of such Mortgage have so agreed, the seller will repurchase such Mortgage at its unpaid principal balance as of an agreed upon date which may be either the 15th day of the same month the fixed interest rate becomes effective or the 15th day of the month prior thereto, and (vi) in the case of a material breach of warranty by a seller of any Mortgage, or a material defect in documentation as to any Mortgage, or a failure by a seller to comply with any requirements or terms set forth in the Purchase Documents (as defined in the Guide) as to any Mortgage, Freddie Mac may require the seller to repurchase such Mortgage or may, within six months of the purchase of such Mortgage, require or

permit the seller to substitute for such Mortgage a mortgage of comparable type, unpaid principal balance, remaining maturity and other required mortgage characteristics applicable to the related ARM PC Pool. In determining whether a Mortgage shall be repurchased from an ARM PC Pool as described in this Section 2.02, Freddie Mac considers such factors as it deems appropriate, including whether a repurchase will reduce Freddie Mac's administrative costs or will reduce Freddie Mac's likely exposure under its guarantee of ultimate collection of principal.

SECTION 2.03. Post-Settlement Purchase Adjustments. With respect to each ARM PC Pool, Freddie Mac shall make such post-settlement purchase adjustments with respect to the aggregate unpaid principal balance of the related Mortgages as may be necessary to reflect the actual aggregate unpaid principal balance of such Mortgages as of the date of their purchase by Freddie Mac. Freddie Mac shall also make such post-settlement purchase adjustments with respect to an ARM PC Pool formed pursuant to an ARM Guarantor Program as may be necessary to reflect the difference between the Original Unpaid Principal Balance of such ARM PC Pool and the actual aggregate unpaid principal balance of the related Mortgages as of the date of delivery to Freddie Mac. The foregoing adjustments may be made in such manner as Freddie Mac determines to be appropriate. The foregoing adjustments shall not affect the Holder's entitlement to interest at the applicable PC Coupon and to receipt of the Holder's pro rata share of principal payments made with respect to the related Mortgages. An amount equal to any adjustment that results in the reduction of the unpaid principal balance of a Mortgage will be passed through on a pro rata basis to Holders.

SECTION 2.04. Custody of Mortgage Documents. In the case of all Whole Loans and certain Participations, the mortgage notes are endorsed to and held by Freddie Mac or are held by a custodian acting as Freddie Mac's agent; where local law or practice requires, assignments of the Mortgages are recorded in Freddie Mac's name. In the case of other Participations, Freddie Mac holds the participation certificates which evidence Freddie Mac's ownership interest in the Mortgages. If the mortgage notes are not endorsed to and held by Freddie Mac, the originator or servicer holds the mortgage notes, the mortgages are recorded in the originator's or seller's name, and no assignment is made or recorded in Freddie Mac's name.

SECTION 2.05. ARM PCs Held or Acquired by Freddie Mac. ARM PCs held or acquired by Freddie Mac from time to time shall have an equal and proportionate benefit to ARM PCs held by other Holders, without preference, priority or distinction. In the event that Freddie Mac retains any undivided interest in the Mortgages not represented by an ARM PC, Freddie Mac and Holders shall share pro rata, without preference, priority or distinction. No Holder shall have any priority over any other Holder.

ARTICLE III

Administration and Servicing of the Mortgages

SECTION 3.01. Freddie Mac to Act as Principal Servicer. Freddie Mac shall service or supervise servicing of the Mortgages in accordance with the provisions of the Guide, including management of any property acquired through foreclosure or otherwise, for the benefit of Holders and shall have full power and authority to do or cause to be done any and all things in connection with such servicing which it deems necessary or desirable. Freddie Mac shall act as the representative of Holders in the control, management, and servicing of the Mortgages or property acquired in realization or liquidation of the Mortgages.

SECTION 3.02. Servicing Requirements. Freddie Mac shall service or supervise servicing of the Mortgages in a manner consistent with and to the extent required by prudent servicing standards and in substantially the same manner as it services or supervises the servicing of unsold mortgages of the same type in its own portfolio. In performing its servicing responsibilities hereunder, Freddie Mac may employ servicer agents or independent contractors. Freddie Mac shall be entitled to discharge its responsibility to supervise servicing of the Mortgages by monitoring servicers' performance on a reporting and exception basis. Except as provided in Article VI of this Agreement, Freddie Mac shall not be subject to the control of Holders in

any manner whatsoever in the discharge of its responsibilities pursuant to this Article III. Except with regard to its guarantee obligations pursuant to Section 4.09, Freddie Mac shall have no liability to any Holder other than for any direct damage resulting from Freddie Mac's failure to exercise the degree of ordinary care which it exercises in the conduct and management of its own affairs. Freddie Mac shall have no liability of whatever nature for consequential damages.

SECTION 3.03. Realization Upon Defaulted Mortgages. Freddie Mac shall foreclose upon or otherwise comparably convert, or cause to be foreclosed upon or comparably converted, the ownership of any real property securing a Mortgage which comes into and continues in default and as to which no satisfactory arrangements can be made for collection of delinquent payments. In connection with such foreclosure or other conversion, Freddie Mac shall cause to be followed such practices or procedures as it shall deem necessary or advisable and as shall be normal and usual in general mortgage servicing activities.

SECTION 3.04. Assumptions. The security instrument of each Mortgage contains a due-on-transfer clause which will be administered such that the clause may not be exercised if the transferee is found to be creditworthy by the note holder. Freddie Mac will allow a transfer of the property without acceleration only if the transferee is found by the servicer or Freddie Mac to meet Freddie Mac's credit requirements. Any fees charged by servicers in connection with the assumption of a Mortgage are retained by servicers and are not paid to Freddie Mac or passed through to Holders. Freddie Mac requires, in connection with any such Mortgage assumption, that no change be made in the rate of interest or the terms of payment applicable to the Mortgage solely on account of the assumption.

SECTION 3.05. Mortgage Insurance. If a Mortgage is insured by a mortgage insurer, the insurer shall have no obligation to recognize or deal with any person with respect to such Mortgage, other than Freddie Mac, with regard to the rights, benefits and obligations of the mortgagee under the contract of insurance relating to the Mortgage. If a mortgage insurer exercises an option under a contract of insurance to purchase a Mortgage, the proceeds of such purchase shall be considered to be repurchase proceeds for purposes of Article IV.

ARTICLE IV

Payments to Holders and Guarantees

SECTION 4.01. Monthly Reporting Period. For purposes of this Agreement, the payments of principal, interest or any other sums, including insurance proceeds, liquidation proceeds and repurchase proceeds, with respect to any Mortgage and the occurrence of any event with respect to any Mortgage, including foreclosure sale, payment by any insurer and expiration of any redemption period, reported to Freddie Mac by servicers for a monthly reporting period employed by Freddie Mac for the purpose of accounting for such payments and of reporting such occurrences, shall be deemed to be received or to occur within the calendar month within which such monthly reporting period ends, and the last day of such monthly reporting period shall be deemed to correspond to the last day of such calendar month. For purposes of Section 4.04, scheduled payment dates on all Mortgages shall be deemed to be the first day of the calendar month within which such a monthly reporting period ends, and all scheduled principal payments and full and partial payments of principal, including amounts treated as full prepayments under Section 4.03, with respect to the Mortgages made within such a monthly reporting period shall be deemed to be made on the first day of the calendar month within which such monthly reporting period ends.

SECTION 4.02. Holder's Undivided Interest. An entity recognized as a Holder of an ARM PC on the Record Date, as defined in and pursuant to Section 5.03, shall be the owner of record of a pro rata share of the related Remaining ARM PC Pool Balance as of such date, as calculated pursuant to this Agreement, and shall be entitled to interest at the PC Coupon on such pro rata undivided interest from such date. Such pro rata undivided interest in each of the Mortgages will change if any Mortgage is added to or removed from the ARM PC Pool in accordance with Section 2.02. For purposes of determining a Holder's

pro rata undivided interest in the Mortgages evidenced by an ARM PC, the original unpaid principal balance of the ARM PC shall be divided by the Original Unpaid Principal Balance of the related Mortgages.

SECTION 4.03. Pass-Through of Principal. Freddie Mac shall pass through to each Holder such Holder's pro rata share of principal payments made in respect of the Mortgages, such Holder's pro rata share of any net income, net profits or proceeds of the Mortgages and such Holder's pro rata share of the net proceeds realized from any property of whatever character received or acquired in substitution for or upon realization on the Mortgages, whether through insurance, condemnation, foreclosure, or otherwise; provided, however, that Freddie Mac's obligations herein shall be subject to Freddie Mac's rights pursuant to Section 4.10 with respect to payments made pursuant to Freddie Mac's guarantees. Insurance proceeds, the proceeds of any liquidation of a Mortgage, including proceeds resulting from acquisition by Freddie Mac of the real property securing the Mortgage, and the proceeds of any repurchase of a Mortgage as described in Section 2.02 shall be treated in the same manner as a full prepayment of principal and shall be passed through to Holders in accordance with this Article IV.

SECTION 4.04. Pass-Through of Interest. Freddie Mac shall pass through monthly to each Holder such Holder's pro rata share of the interest paid by mortgagors with respect to each Whole Loan and with respect to each Participation included in the related Mortgages in an amount sufficient to produce the Holder's pro rata share of interest at the applicable PC Coupon. A partial month's interest retained by Freddie Mac or remitted to each Holder with respect to full and partial prepayments of principal deemed to have been made on the first day of a calendar month in accordance with Section 4.01 shall constitute an adjustment to Freddie Mac's management and guarantee fee.

SECTION 4.05. Payments. Freddie Mac will cause payments of principal, interest or any other sum due to Holders to be made by directing the Federal Reserve Bank to credit the Holders' accounts at the Federal Reserve Bank. A Holder shall receive the first payment of principal and interest with respect to the Mortgages in which it owns an undivided interest on the fifteenth day of the second month following the month in which the Holder becomes recognized as such pursuant to Section 5.03. Thereafter, a Holder shall receive a payment with respect to the Mortgages on the fifteenth day of each month.

Subject to the provisions of this Article IV, Freddie Mac shall pay to each Holder such Holder's pro rata share of principal received by Freddie Mac, interest at the applicable PC Coupon, and any other sums due to Holders under this Agreement, within sixty days of the date on which such payments are deemed to be received by Freddie Mac from servicers of the Mortgages pursuant to Section 4.01. Freddie Mac reserves the right to change the period during which a servicer may hold funds prior to payment to Freddie Mac; provided, however, that any such change shall not delay the time of payments to Holders as otherwise provided in this Section 4.05. Pending payment to Holders of funds received by Freddie Mac from servicers, Freddie Mac shall be entitled to invest and reinvest such funds for Freddie Mac's sole risk and benefit. Freddie Mac's guarantees as set forth in Section 4.09 shall continue to be effective or shall be reinstated in the event that any payment of principal or interest with respect to the Mortgages paid under this Agreement to a Holder is, for any reason, returned by the Holder pursuant to an order, decree or judgment of any court of competent jurisdiction that the Holder was not entitled to retain such payment pursuant to this Agreement.

SECTION 4.06. Pool Factors. Freddie Mac shall calculate and make payments to Holders pursuant to the Pool Factor method until such time as Freddie Mac shall determine that there is a more accurate and practicable method for calculating such payments, in which event Freddie Mac shall calculate and make payments to Holders pursuant to the more accurate method. As long as Freddie Mac shall use the Pool Factor method, it shall do so pursuant to the provisions of this Section 4.06. On or about the seventh Business Day of each month, Freddie Mac will publish or cause to be published for such month a Pool Factor with respect to each ARM PC Pool. Principal payments shall be paid to a Holder by Freddie Mac in an amount equal to the difference between the Holder's pro rata share of the Remaining ARM PC Pool Balance as determined by the Pool Factor for the second month prior to the month in which payment is made to a Holder and such

pro rata share as determined by the Pool Factor for the month prior to the month in which payment is made to the Holder. Interest at the applicable PC Coupon shall be paid by Freddie Mac on the Holder's pro rata share of the Remaining ARM PC Pool Balance as determined by the Pool Factor for the second month prior to the month in which payment to the Holder is made. To the extent that a given Pool Factor may not reflect the actual unpaid principal balance of the Mortgages, any difference will be accounted for as soon as practicable by adjustment of subsequent Pool Factors.

The Pool Factor applicable to each ARM PC Pool will be based upon the unpaid principal balance of the related Mortgages as reported to Freddie Mac by servicers. The Pool Factor method of determining payments will affect the timing of receipt of payments by Holders but will not affect Freddie Mac's guarantees of timely payment of interest and ultimate collection of principal as set forth in Section 4.09. Freddie Mac's guarantees will not be affected by the implementation of any different method for calculating and paying principal and interest as permitted by this Section 4.06.

SECTION 4.07. Amounts Retained by Servicers. Pursuant to its contractual arrangement with Freddie Mac, the servicer of each Mortgage shall be entitled to retain each month as a servicing fee a percentage of the unpaid principal balance of such Mortgage, which percentage is determined (subject to variation of up to 25 basis points during the life of the Mortgage) at the time the Mortgage is sold to Freddie Mac. The servicer is required to pay all expenses incurred by it in connection with its servicing activities and shall not be entitled to reimbursement therefor, except as provided in Section 4.08. The servicer is entitled to retain all incidental fees with respect to a Mortgage.

SECTION 4.08. Amounts Retained by Freddie Mac. Subject to any adjustments required by Section 4.04, Freddie Mac shall retain from monthly interest payments on each Mortgage received by Freddie Mac from the servicer a management and guarantee fee which is an amount equal to the excess, if any, of interest payments received by Freddie Mac from the servicer over the amount of such interest paid to Holders at the applicable PC Coupon; provided, however, that the amount retained by Freddie Mac hereunder shall be adjusted automatically to the extent a Pool Factor does not reflect the unpaid principal balance of the Mortgages. Any such adjustment is equal to the difference between (i) interest at the applicable PC Coupon computed on the Remaining ARM PC Pool Balance for such month based on monthly principal payments actually received by or reported to Freddie Mac and (ii) interest at the applicable PC Coupon computed on the Remaining ARM PC Pool Balance derived from the Pool Factor. Freddie Mac shall pay all expenses incurred by it in connection with administration of an ARM PC Pool and the related Mortgages; provided, however, that any amounts expended by Freddie Mac or on Freddie Mac's behalf by servicers for the protection, preservation or maintenance of the Mortgages, or property received in liquidation of or realization upon the Mortgages, shall be deemed expenses to be borne pro rata by Freddie Mac and the Holders in accordance with their interests in each Mortgage. Expenses borne pro rata by Holders may be paid by Freddie Mac from payments otherwise due to Holders, and therefore may affect the timing of receipt of payments by Holders, but in no event shall Freddie Mac's guarantees of ultimate collection of principal or timely payment of interest at the applicable PC Coupon as set forth in Section 4.09 be affected by fees deducted by Freddie Mac or servicers or by amounts expended by Freddie Mac or servicers for the protection, preservation or maintenance of the real property securing the Mortgages.

SECTION 4.09. Freddie Mac Guarantees. Freddie Mac hereby guarantees to each Holder of an ARM PC:

(a) Timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the Remaining ARM PC Pool Balance as determined pursuant to this Agreement; and

(b) Ultimate collection of principal, without offset or deduction. For purposes of this guarantee, principal shall include the Holder's pro rata share of the unpaid principal balance plus the Holder's pro rata share of amounts expended by any servicer of the Mortgages or by Freddie Mac and deducted, pursuant to Section 4.08, from payments otherwise due such Holder. Freddie Mac shall pay the amount due on account of its guarantee of ultimate collection of principal at any time after default on a

Mortgage, but no later than thirty days following: (i) foreclosure sale, (ii) payment of a claim by any mortgage insurer, if applicable, or (iii) the expiration of any redemption period, whichever occurs later, but in any event no later than the earlier of one year after demand has been made upon the mortgagor for accelerated payment of principal or for payment of the principal due on the maturity of a Mortgage.

SECTION 4.10. Freddie Mac Subrogation. Freddie Mac shall be subrogated to all the rights, interests, remedies, powers and privileges of each Holder in respect of any Mortgage on which guarantee payments have been made by Freddie Mac of principal and/or interest, to the extent of such payments.

SECTION 4.11. Termination Upon Final Payment. Except as provided in Section 4.05, the obligations and responsibilities of Freddie Mac under this Agreement to a Holder in respect of any ARM PC shall terminate upon: (i) the payment to the Holder of all principal and interest due the Holder in respect of such ARM PC pursuant to the Pool Factor method or by reason of Freddie Mac's guarantees of ultimate collection of principal and timely payment of interest, or (ii) the payment to the Holder of all amounts held by Freddie Mac and required to be paid hereunder.

SECTION 4.12. Modification of Final Payment Date. The final payment in respect of an ARM PC may occur prior to the Final Payment Date by virtue of prepayments of principal or may occur after the Final Payment Date by virtue of (i) the procedure for payment of principal and interest as described in Section 4.05, (ii) forbearance or payment plans affecting any Mortgage, or (iii) payment under Freddie Mac's guarantee of collection of principal after a mortgagor default as described in Section 4.09(b).

ARTICLE V

The ARM PCs

SECTION 5.01. Book-Entry Form; Minimum Principal Amounts. ARM PCs shall be issued in Book-Entry Form only in minimum original principal amounts of \$1,000, per ARM PC Pool, and in additional increments of \$1 and shall at all times remain on deposit with the Federal Reserve Bank in accordance with the provisions of the Book-Entry Rules. The Federal Reserve Bank shall maintain a book-entry recordkeeping system for all transactions in ARM PCs with respect to Holders.

SECTION 5.02. Transfer of ARM PCs. ARM PCs may be transferred only in minimum original principal amounts of \$1,000 with respect to any ARM PC Pool and additional increments of \$1. ARM PCs may not be transferred if, as a result of such transfer, the transferor or the new Holder would have on deposit in its account ARM PCs having an original principal amount of less than \$1,000 in respect of the related ARM PC Pool. The transfer, exchange or pledge of ARM PCs shall be governed by the Book-Entry Rules and such procedures, insofar as applicable, as may from time to time be established by regulations of the Treasury Department governing obligations of the United States, and such other procedures as shall be agreed upon from time to time by Freddie Mac and the Federal Reserve Bank. The Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of an ARM PC. A charge may be made for any transfer. A charge will be made for any tax or other governmental charge imposed in connection with a transfer of an ARM PC.

SECTION 5.03. Record Date. The Record Date for each month shall be the last Business Day of the month (disregarding for this purpose clauses (iv) and (v) of the definition of "Business Day"). A Holder of an ARM PC on the books and records of the Federal Reserve Bank as of the close of business on the Record Date shall be entitled to payment of principal and interest in respect of such ARM PC for such month. A transfer of an ARM PC made on or before the close of business on the Record Date shall be recognized as effective as of the opening of business on the first Business Day of the month of such transfer.

ARTICLE VI

Remedies

SECTION 6.01. **Events of Default.** “Event of Default” wherever used herein means any one of the following events:

(a) Default in the payment to Holders of interest at the applicable PC Coupon as and when the same shall become due and payable as herein provided, and continuance of such default for a period of 30 days; or

(b) Default in payment to Holders of principal as and when the same shall become due and payable as herein provided, and continuance of such default for a period of 30 days; or

(c) Failure on the part of Freddie Mac to observe or perform any other of the covenants of this Agreement, continued for a period of 60 days after the date on which written notice of such failure, requiring Freddie Mac to remedy the same, shall have been given to Freddie Mac by the Holders of not less than 65 percent of the Remaining ARM PC Pool Balance of any affected ARM PC Pool; or

(d) A court having jurisdiction in the premises shall enter a decree or order for relief in respect of Freddie Mac in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appoint a receiver, liquidator, assignee, custodian, or sequestrator (or similar official) of Freddie Mac or for all or substantially all of its property, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

(e) Freddie Mac shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, or sequestrator (or other similar official) of Freddie Mac or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or Freddie Mac shall fail generally to pay its debts as they become due.

SECTION 6.02. **Remedies.** If an Event of Default occurs and is continuing, then and in each and every such case, the Holders of a majority of the Remaining ARM PC Pool Balance of any affected ARM PC Pool may, by written notice to Freddie Mac, remove Freddie Mac and nominate a successor to Freddie Mac under this Agreement with respect to such ARM PC Pool, which nominee shall be deemed appointed as successor to Freddie Mac 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. Upon the appointment of any successor pursuant to this Section 6.02, Freddie Mac shall submit to its successor a complete written report and accounting of the Mortgages relating to any such affected ARM PC Pool and shall take all other steps necessary or desirable to transfer its interest in the administration of this Agreement with respect to such ARM PC Pool to the successor. Subject to the Act, such successor may take such action with respect to such Mortgages as may be reasonable and appropriate in the circumstances. Prior to any such designation of a successor, the Holders of a majority of the Remaining ARM PC Pool Balance of any affected ARM PC Pool may waive any past default or Event of Default. Appointment of a successor will not relieve Freddie Mac of its guarantee obligations as set forth in this Agreement.

SECTION 6.03. **Limitation on Suits by Holders.** Except as provided in Section 6.02, no Holder shall have any right to institute any action or proceeding at law or in equity or in bankruptcy or otherwise, upon, under or with respect to this Agreement, the ARM PCs or the Mortgages, or for the appointment of a receiver or trustee, or for any other remedy whatsoever, unless such Holder previously shall have given to Freddie Mac written notice of an Event of Default and of the continuance thereof, as hereinbefore provided,

and unless also the Holders of a majority of the Remaining ARM PC Pool Balance of any affected ARM PC Pool shall have made written request upon Freddie Mac to institute such action or proceeding in its own name and shall have offered to Freddie Mac such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and Freddie Mac for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action or proceeding, and no direction inconsistent with such written request has been given to Freddie Mac during such 60-day period by the Holders of a majority of the Remaining ARM PC Pool Balance of any affected ARM PC Pool. It is understood and intended, and expressly covenanted by the Holder of every ARM PC in any affected ARM PC Pool with every other Holder in such ARM PC Pool and with Freddie Mac that no one or more Holders shall have any right in any manner whatsoever by virtue of or by availing themselves of any provision of this Agreement to affect, disturb or prejudice the rights of any other Holder, or to obtain or seek to obtain preference or priority over any other Holder or to enforce any right under this Agreement, except in the manner herein provided and for the ratable and common benefit of all Holders of ARM PCs in any affected ARM PC Pool. For the protection and enforcement of the provisions of this Section 6.03, each and every Holder and Freddie Mac shall be entitled to such relief as can be given either at law or in equity. Notwithstanding the foregoing or any other provision of this Agreement, the right of any Holder to receive payment of principal and interest as herein provided, on or after the respective due date of such payment, or to institute suit for enforcement of any such payment on or after such date, shall not be impaired or affected without the consent of such Holder.

ARTICLE VII

Miscellaneous Provisions

SECTION 7.01. Annual Statements. Freddie Mac and/or its designated agent shall furnish, within a reasonable time after the end of each calendar year, to each entity which was a Holder on the records of the Federal Reserve Bank on any Record Date during such year, such customary information as Freddie Mac deems necessary or desirable to enable Holders and beneficial owners of ARM PCs to prepare their United States federal income tax returns, if applicable.

SECTION 7.02. Limitation on Liability of Freddie Mac and Others. Neither Freddie Mac nor any of its directors, officers, employees or agents shall be under any liability to Holders for any action taken by them or by a servicer or for their or any servicer's refraining from the taking of any action in good faith pursuant to this Agreement, or for errors in judgment; provided, however, that this provision shall not protect Freddie Mac or any such person against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence in the performance of duties or by reason of reckless disregard of obligations and duties hereunder. Freddie Mac and any director, officer, employee or agent of Freddie Mac may rely in good faith on any document of any kind properly executed and submitted by any person with respect to any matters arising hereunder. Holders shall jointly and severally indemnify and hold Freddie Mac and any director, officer, employee or agent of Freddie Mac harmless against any loss, liability or expense incurred in connection with any legal action brought by any person other than a Holder relating to this Agreement or the ARM PCs, other than any loss, liability or expense relating to any Mortgage (except as permitted in this Agreement) or incurred by reason of willful misfeasance, bad faith or gross negligence in performance of their duties or by reason of reckless disregard of obligations and duties hereunder. Freddie Mac shall not be under any obligation to appear in, prosecute or defend any legal action which is not incidental to its duties to service the Mortgages in accordance with this Agreement and which in its opinion may involve it in any expense or liability; provided, however, that Freddie Mac may in its discretion undertake any such action which it may deem necessary or desirable in respect of any Mortgage, this Agreement, the ARM PCs or the rights and duties of the parties hereto and the interests of the Holders hereunder. In such event, the legal expenses and costs of such action and any liability resulting therefrom shall be expenses for the protection, preservation, and maintenance of the Mortgages borne pro rata by Freddie Mac and Holders as provided by Section 4.08.

SECTION 7.03. Limitation on Rights of Holders. The death or incapacity of any person having an interest, beneficial or otherwise, in an ARM PC shall not operate to terminate this Agreement or any ARM PC Pool, nor entitle the legal representatives or heirs of such person or any Holder for such person, to claim an accounting, to take any action or bring any proceeding in any court for a partition or winding up of any ARM PC Pool, nor otherwise to affect the rights, obligations and liabilities of the parties hereto or any of them.

SECTION 7.04. Control by Holders. Except as otherwise provided in Article VI, no Holder shall have any right to vote or to otherwise control in any manner the operation and management of the Mortgages or any ARM PC Pool, or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the ARM PCs, be construed so as to constitute the Holders from time to time as partners or members of an association; nor shall a Holder be under any liability to any third person by reason of any action taken by the parties to this Agreement pursuant to any provision hereof.

SECTION 7.05. Amendment.

(a) This Agreement may be amended from time to time by Freddie Mac, without the consent of any Holder or Holders, to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Agreement, which shall not be inconsistent with the other provisions of this Agreement, provided that any such amendment shall not adversely affect in any material respect the interests of any Holder.

(b) Except as provided in Section 7.05(c) of this Agreement, with respect to any ARM PC Pool formed pursuant to the terms hereof, any provision of this Agreement may be amended by Freddie Mac with the written consent of the Holders of not less than a majority of the Remaining ARM PC Pool Balance of such ARM PC Pool.

(c) Without the consent of a Holder, this Agreement may not be amended to impair or affect the right of such Holder to receive payment of principal and interest as herein provided, on or after the respective due date of such payment, or to institute suit for the enforcement of any such payment on or after such date.

(d) To the extent that any provisions of this Agreement differ from the provisions of any adjustable rate Mortgage Participation Certificate Agreement of Freddie Mac dated prior to the date of this Agreement, this Agreement shall be deemed to amend such provisions of the prior adjustable rate Mortgage Participation Certificate Agreement, but only if Freddie Mac, under the terms of such prior Agreement, could have effected such change as an amendment of such prior Agreement without the consent of Holders of ARM PCs thereunder.

SECTION 7.06. Persons Deemed Owners. Freddie Mac and the Federal Reserve Bank, or any agent of Freddie Mac or the Federal Reserve Bank, may deem and treat the Holder as the absolute owner of an ARM PC and the undivided interest in the Mortgages represented by such ARM PC for the purpose of receiving payment of principal or interest and for all other purposes, and neither Freddie Mac nor the Federal Reserve Bank shall be affected by any notice to the contrary. All such payments so made to any such Holder or upon such Holder's order shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the duty for monies payable by Freddie Mac upon the Holder's ARM PC. A Holder is not necessarily the beneficial owner of an ARM PC. The rights of a beneficial owner of an ARM PC with respect to Freddie Mac and the Federal Reserve Bank may be exercised only through a Holder. Freddie Mac and the Federal Reserve Bank will have no direct obligation to a beneficial owner that is not also the Holder of an ARM PC.

SECTION 7.07. Governing Law. This Agreement and the Holders' and Freddie Mac's rights and obligations with respect to ARM PCs shall be construed in accordance with and governed by the laws of the

United States. Insofar as there may be no applicable precedent, and insofar as to do so would not frustrate the purposes of the Act or any provision of this Agreement or the transactions governed thereby, the local laws of the State of New York shall be deemed reflective of the laws of the United States.

SECTION 7.08. Payments Due on Non-Business Days. If the date fixed for any payment on the ARM PCs shall be a day which is not a Business Day, then such payments need not be made on such date, but may be made on the next succeeding day which is a Business Day, with the same force and effect as though made on the date fixed for payment, and no interest shall accrue for the period after such date.

SECTION 7.09. Successors. This Agreement shall be binding upon and shall inure to the benefit of any successor to Freddie Mac, including any successor by operation of law.

SECTION 7.10. Headings. The Article and Section headings herein are for convenience only and shall not affect the construction of this Agreement.

SECTION 7.11. Notice and Demand. Any notice, demand or other communication which by any provision of this Agreement is required or permitted to be given to or served upon any Holder may be given or served in writing by deposit thereof, postage prepaid, in the United States mail addressed to such Holder as such Holder's name and address may appear in the records of the Federal Reserve Bank, or by transmission to such Holder through the communication system linking the Federal Reserve Banks. Such notice, demand or other communication to or upon a Holder shall be deemed to have been sufficiently given or made, for all purposes, upon mailing or transmission.

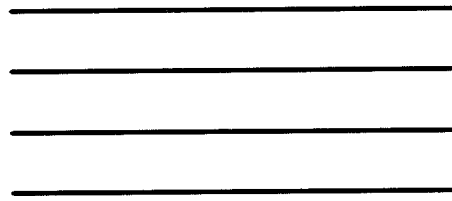
Any notice, demand or other communication which by any provision of this Agreement is required or permitted to be given to or served upon Freddie Mac shall be given in writing addressed (until another address is published by Freddie Mac) as follows: Federal Home Loan Mortgage Corporation, Lake Fairfax Business Center, 1759 Business Center Drive, Building 5, Reston, Virginia 22090, Attention: Senior Vice President—General Counsel and Secretary. Such notice, demand or other communication to or upon Freddie Mac shall be deemed to have been sufficiently given or made only upon actual receipt of the writing by Freddie Mac.

THE SALE OF AN ARM PC BY FREDDIE MAC AND RECEIPT AND ACCEPTANCE OF AN ARM PC BY OR ON BEHALF OF A HOLDER, WITHOUT ANY SIGNATURE OR FURTHER MANIFESTATION OF ASSENT, SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE HOLDER AND ALL OTHERS HAVING A BENEFICIAL INTEREST IN SUCH ARM PC OF ALL THE TERMS AND PROVISIONS OF THIS AGREEMENT, AND THE AGREEMENT OF FREDDIE MAC, SUCH HOLDER AND SUCH OTHERS THAT THOSE TERMS AND PROVISIONS SHALL BE BINDING, OPERATIVE AND EFFECTIVE AS BETWEEN FREDDIE MAC AND SUCH HOLDER AND SUCH OTHERS.

FEDERAL HOME LOAN MORTGAGE CORPORATION



Freddie Mac



Owned by America's
Savings Institutions