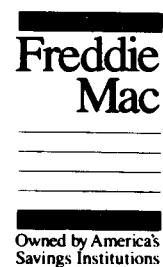


Offering Circular  
**Federal Home Loan  
Mortgage Corporation**  
**Mortgage Participation Certificates  
(Guaranteed)**



Mortgage Participation Certificates ("PCs") represent undivided interests in specified fixed-rate, first lien, level payment residential mortgages or participations therein ("Mortgages") purchased by the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Each PC Pool will be comprised entirely either of conventional Mortgages or of Mortgages fully insured by the Federal Housing Administration and/or Mortgages guaranteed, in part, by the Veterans Administration. Freddie Mac guarantees to each Holder the timely payment of interest at the applicable PC interest rate (the "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 the ultimate collection of all principal of the related Mortgages, without offset or deduction, to the extent of the Holder's pro rata share thereof. With respect to certain PCs ("Scheduled Principal PCs"), in addition to Freddie Mac's other guarantees, Freddie Mac guarantees the timely payment of the monthly principal scheduled to be paid under the amortization schedule applicable to each Mortgage, based on servicers' reports of scheduled principal due on the Mortgages.

This Offering Circular applies to sales by Freddie Mac of PCs formed under its Cash Program and MultiLender Swap Program ("Cash PCs") and PCs formed under its Guarantor Program ("Guarantor PCs"). Each Cash PC represents an undivided interest in Mortgages which Freddie Mac purchased from a number of sellers and formed into a PC Pool. Each Guarantor PC represents an undivided interest in Mortgages which Freddie Mac purchased from a single seller in exchange for PCs representing undivided interests in the same Mortgages. The characteristics of the PC Pools in which Cash PCs and Guarantor PCs represent interests are likely to differ in significant respects from each other. See "Description of Mortgage Participation Certificates—PC Pools."

PCs are sold in book-entry form only. See "Description of Mortgage Participation Certificates—Book-Entry Form, Holders, Minimum Principal Amounts and Transfers."

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

Freddie Mac furnishes to initial purchasers of Guarantor PCs from Freddie Mac an Offering Circular supplement which sets forth, as of the date of delivery of the Mortgages to Freddie Mac for purchase, the weighted average remaining term to maturity and weighted average interest rate of the Mortgages, the location by state of the real property securing the Mortgages and the number of Mortgages included in the PC Pool. If an initial purchaser of Guarantor PCs sells or offers such PCs for sale, such seller is required to furnish to prospective purchasers the applicable Offering Circular supplement.

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

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. Certain of the Mortgages are insured by the Federal Housing Administration or guaranteed by the Veterans Administration, both of which are federal agencies.

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

Prefix	Program	Maximum Mortgage Term (Years)	Mortgage	Minimum Original PC Pool Balance	Scheduled Principal PCs
36	Cash	30	Conventional	\$50,000,000 <sup>(1)</sup>	No
30, 53	Guarantor	30	Conventional	1,000,000	No
26	Guarantor	30	Conventional	1,000,000	Yes
43	Guarantor	30	Conventional	250,000	No
46	Guarantor	30	Conventional	250,000	Yes
38	Cash	15	Conventional	50,000,000 <sup>(1)</sup>	No
21, 50	Guarantor	15	Conventional	1,000,000	No
32	Guarantor	15	Conventional	1,000,000	Yes
44	Guarantor	15	Conventional	250,000	No
47	Guarantor	15	Conventional	250,000	Yes
14	Guarantor	30	FHA/VA	1,000,000	No
33	Guarantor	30	FHA/VA	1,000,000	Yes
45	Guarantor	30	FHA/VA	250,000	No
48	Guarantor	30	FHA/VA	250,000	Yes

(1) For Cash PC Pools formed on and after December 1, 1988 the minimum original unpaid principal balance of any Cash PC Pool will be \$10,000,000.

**The Mortgages** ..... The Mortgages are fixed-rate, first lien, level payment residential mortgages, including whole mortgage loans and/or participation interests therein. The Mortgages in any PC Pool are all either conventional Mortgages or Mortgages insured by the Federal Housing Administration (“FHA”) and/or guaranteed, in part, by the Veterans Administration (“VA”). See “Description of Mortgage Participation Certificates—The Mortgages.”

**Book-Entry Form; Holders** ... The 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. 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 PCs have been deposited are referred to herein as “Holders.”

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

**Minimum Principal Amounts and Transfers** ..... PCs are issued and must be maintained and transferred in minimum original principal amounts for any 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 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 Federal Reserve Banks to 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 a specified annual rate (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 Mortgage Participation Certificates—Interest and Principal Payments” and “—Pool Factors.”

<b>Principal</b> .....	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 Mortgage Participation Certificates—Interest and Principal Payments" and "—Pool Factors."
<b>Record Date</b> .....	A Holder of a 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 the payment of principal and interest on the PC for the entire month, which payment will be made on the Payment Date in the second succeeding month. See "Description of Mortgage Participation Certificates—Book-Entry Form, Holders, Minimum Principal Amounts and Transfers."
<b>Guarantees</b> .....	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. With respect to Scheduled Principal PCs, in addition to its other guarantees, Freddie Mac guarantees to each Holder the timely payment of the monthly principal scheduled to be paid under the amortization schedule applicable to each Mortgage ("Scheduled Principal"), whether or not received by Freddie Mac. Freddie Mac's monthly payments of Scheduled Principal are computed based upon the servicers' monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. See "Description of Mortgage Participation Certificates—Guarantees."
<b>Tax Status</b> .....	Income from the PCs has no exemption under federal law from federal, state or local taxation. 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. See "Certain Federal Income Tax Consequences."
<b>Legality of Investment</b> .....	PCs described herein: <ul style="list-style-type: none"> <li>• are acceptable as security for the deposit of public monies subject to the control of the United States or any of its officers;</li> <li>• are eligible as collateral for Treasury tax and loan accounts;</li> <li>• are among those securities which national banks may deal in, underwrite and purchase for their own accounts without limitation;</li> <li>• are eligible as collateral for advances by Federal Reserve Banks;</li> <li>• are legal investments for federal savings and loan associations and federal savings banks;</li> <li>• are eligible as collateral for advances from Federal Home Loan Banks;</li> </ul>

- 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 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.”

**Offering Procedure** . . . . . PCs are initially offered for sale by Freddie Mac pursuant to Freddie Mac’s Cash Program, MultiLender Swap Program and Guarantor Program under various distribution arrangements as described herein. See “Distribution Arrangements.”

**Secondary Market** . . . . . Certain securities dealers make a market in PCs. Freddie Mac may also buy and sell PCs in the secondary market through its Security Sales and Trading Group. See “Distribution Arrangements—Secondary Market.”

## **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 800/424-5401, extension 8160; within Washington, D.C. metropolitan area, telephone 703/759-8160).

### **APPLICATION OF PROCEEDS**

The net proceeds received by Freddie Mac from the sale of the 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 PCs sold under the Guarantor Program and MultiLender Swap Program, such net proceeds are derived from Freddie Mac's management and guarantee fees.

### **DESCRIPTION OF MORTGAGE PARTICIPATION CERTIFICATES**

#### **The PCs**

PCs represent undivided interests in the Mortgages which comprise the related PC Pools. PCs are sold under the terms of the Mortgage Participation Certificate Agreement, dated as of October 1, 1988 (the "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 PCs should refer to the PC Agreement for a complete description of their rights and obligations and the rights and obligations of Freddie Mac with respect to the PCs. Each Holder acquires a PC subject to all the terms and conditions of the PC Agreement.

Generally, the yield payable to Freddie Mac on the Mortgages which comprise any PC Pool will be equal to or greater than the interest payable to Holders at the PC Coupon, with the difference retained by Freddie Mac as its management and guarantee fee. Any excess of the interest payable on a Mortgage over the remittance to Freddie Mac required under its agreement with the servicer is retained by the servicer of the Mortgage as its servicing fee. If the yield payable to Freddie Mac on any of the Mortgages which comprise any Cash PC Pool is less than the interest payable to Holders at the PC Coupon, Freddie Mac retains an interest in that PC Pool. See "PC Pools—PC Pools formed under the Cash Program."

## The Mortgages

The Mortgages are fixed-rate, first lien, residential Mortgages or participations therein secured by one-to-four family dwellings ("Home Mortgages") or by properties containing five or more units and designed primarily for residential use ("Multifamily Mortgages"). A Multifamily Mortgage may be a fully amortizing Mortgage or may provide for monthly payment of principal based on an amortization schedule which is substantially longer than the term of the Mortgage, in which case a large unpaid principal balance may be due on the maturity date of the Mortgage.

Freddie Mac purchases the entire interest in Mortgages ("whole loans") and participation interests in Mortgages ("participations"). Freddie Mac purchases participations in Home Mortgages of 50% to 95%. Freddie Mac does not purchase participation interests in Multifamily Mortgages.

The Mortgages may be conventional mortgages, which do not have the benefit of any guarantee or insurance by the United States or any agency or instrumentality of the United States other than the Freddie Mac guarantees described herein ("Conventional" Mortgages) or Mortgages which are fully insured by the FHA under sections 203(b), or (h), or (i) (Home Unsubsidized); 222 (Servicemen) or 234 (Individual Condominium Unit) of the National Housing Act ("FHA Mortgages"), or guaranteed in part by the VA under 38 U.S.C. § 1810 ("VA Mortgages"). All Multifamily Mortgages are Conventional Mortgages.

The Mortgages may include mortgages which were originated as adjustable rate or graduated payment mortgages which have been modified to bear a fixed rate of interest and to provide for level monthly payments or have converted, under the terms of the mortgage instruments, to mortgages which pay at a fixed rate of interest in level monthly payments over their remaining terms ("Converted Mortgages"). Scheduled monthly payments on Converted Mortgages may be greater than the scheduled monthly payments due on the Mortgages prior to their conversion. The Converted Mortgages are not required to have been originated on mortgage instruments approved by Freddie Mac and the Federal National Mortgage Association ("Uniform Instruments"); however, an enforceable due-on-transfer clause or rider is required to be in effect with respect to each Converted Mortgage.

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 than Home 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 PC Pools may have on Pool prepayment behavior.

Except as provided herein, Conventional Home Mortgages originated after January 1, 1976 must have been originated on Uniform Instruments. Such Uniform Instruments contain provisions which permit acceleration of the unpaid principal balance upon transfer of the property securing a Mortgage or any interest therein (a "due-on-transfer clause"). Such acceleration is permitted regardless of the creditworthiness of the transferee. Under the Guarantor Program, Freddie Mac does not require a Conventional Home Mortgage included in a 30-year Guarantor PC Pool to have been originated on a Uniform Instrument or to contain a due-on-transfer clause if it was originated more than two years prior to the date it was delivered to Freddie Mac for purchase. Freddie Mac does require a Conventional Home Mortgage included in a 15-Year Guarantor PC Pool to have been originated on a Uniform Instrument or to contain a due-on-transfer clause. Under the Cash Program, Freddie Mac may waive the requirement that Conventional Home Mortgages included in 30-year Cash PC Pools have been originated on Uniform Instruments if such Mortgages were originated more than two years prior to the date of delivery to Freddie Mac for purchase and the Mortgages



contain an enforceable due-on-transfer clause. Certain Mortgages containing due-on-transfer clauses may be “window period” Mortgages, and therefore may or may not be assumable by transferees. Except as set forth herein, Freddie Mac makes no representation concerning the extent to which the Mortgages contain due-on-transfer clauses or are window period Mortgages. See “Mortgage Purchase and Servicing Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies.” Any Multifamily Mortgage must have been originated on a Multifamily Uniform Instrument having a due-on-transfer clause. Accordingly, Freddie Mac expects that generally the Multifamily Mortgages will not be assumable.

FHA and VA Mortgages are originated on mortgage instruments approved by the FHA or the VA. Such mortgage instruments may contain provisions different from those contained in the Uniform Instruments. FHA regulations require certain mortgage servicing treatment, such as granting the right to reinstate a mortgage prior to foreclosure, even though such terms are not included in the mortgage documents. The sale or transfer of title to the real property securing an FHA or VA Mortgage generally does not constitute an event entitling the holder of the mortgage loan to demand full payment of principal. Accordingly, subject to FHA and VA regulations, an FHA or VA Mortgage generally may be assumed by a purchaser of the real property at the existing mortgage interest rate for the remaining term of the Mortgage. See “Mortgage Purchase and Servicing Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies.”

All of the Home Mortgages provide for level payments of principal and interest with principal payments based upon amortization schedules which result in payment of the original principal balances of the Mortgages in full over their respective terms. All Mortgages must have original terms to maturity not exceeding 180 or 360 months, as applicable. The original term to maturity of a Mortgage (“original maturity”) is calculated from the date one month prior to the date the first principal and interest payment is due on such Mortgage. If, prior to delivery to Freddie Mac, a Mortgage has been assumed or modified with respect to the term, interest rate, principal and interest payment or principal amount, the original maturity is calculated from the date one month prior to the date the first principal and interest payment is due on the assumed or modified Mortgage.

Home Mortgages may be secured by any combination of detached and semi-detached dwellings, rowhouses, condominium units, dwellings in a planned unit development, and on-site or manufactured housing units which are treated as real property under state law. Home Mortgages may be secured by properties that are not occupied by borrowers as primary residences, such as investment properties or second homes. Multifamily Mortgages may be secured by high or low-rise buildings, garden apartments, townhouse apartments or any other dwellings designed principally for residential use, including dwellings owned by cooperative corporations or associations. Under certain conditions, Multifamily Mortgages may be secured by dwellings subject to subordinate or superior ground or similar leases or to subordinate liens.

For a description of Freddie Mac’s general mortgage purchase requirements, see “Mortgage Purchase and Servicing Standards.”

## **PC Pools**

PC Pools may vary with respect to matters such as: number of Mortgages; interest rates of the Mortgages; original unpaid principal balances; geographic location of the mortgaged properties; remaining maturities and ages of the Mortgages; types of mortgage instruments; types of borrowers; types of properties securing the Mortgages; number of Mortgages purchased from a single seller; number of Mortgages made to employees of a single employer; number of Mortgages secured by properties that are not occupied by borrowers as their primary residences; number of Mortgages containing enforceable due-on-transfer clauses; and the nature and extent of buydowns and other special financing arrangements. The mortgaged properties in a particular PC Pool may be located in a single geographic area or in a single state. Except as specifically set forth herein or in any Offering Circular supplement prepared by Freddie Mac in connection with the sale of PCs, Freddie Mac makes no representation as to the characteristics of the Mortgages which comprise any PC Pool. See “The Mortgages.”

Once a Mortgage is identified to a PC Pool, the Mortgage will remain in that PC Pool unless paid in full, foreclosed upon, substituted for, or repurchased. A Mortgage may be repurchased from a PC Pool as a result of a material breach of warranty, representation or agreement by a seller; as a result of defects in

documentation or other rights of recourse to a seller; in order to permit assumption of a Mortgage containing an enforceable due-on-transfer clause; 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; and under certain other circumstances. 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.

The proceeds of any Mortgage repurchased will be passed through to the Holders as if the Mortgage had been prepaid. In the event of a material breach of a warranty, representation or agreement contained in Freddie Mac's *Sellers' & Servicers' Guide* or the 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 yield.

PC Pools formed under Freddie Mac's Cash Program are likely to differ from PC Pools formed under Freddie Mac's Guarantor Program.

#### *PC Pools formed under the Cash Program*

Freddie Mac forms PC Pools under the Cash Program comprised of Mortgages which it has purchased from a number of sellers. A Cash Pool PC contains Mortgages which Freddie Mac has purchased for cash, or, under its MultiLender Swap Program, in exchange for Cash PCs representing undivided interests in the Mortgages contained in such Cash PC Pool. Under the MultiLender Swap Program, a seller of Mortgages will receive a Cash PC which represents an undivided interest in Mortgages purchased by Freddie Mac under its Cash Program and/or under its MultiLender Swap Program. Such seller will receive a Cash PC with an Original Unpaid Principal Balance equal to the aggregate unpaid principal balance of the Mortgages delivered by the seller as of the date of delivery, representing such seller's pro rata share of the related Cash PC Pool.

The range of the interest rates on the Mortgages in each Cash PC Pool will not exceed 100 basis points. The minimum interest rate on any Mortgage in a Cash PC Pool will be equal to or greater than the related PC Coupon, and the maximum interest rate on any Mortgage will be no greater than 200 basis points above the related PC Coupon. For example, with respect to a PC with a 9% PC Coupon, the Mortgages in the related Cash PC Pool will have interest rates which are at least 9% but not more than 11%, and will have interest rates within a 100 basis point range of each other, such as 9% to 10%, 9.5% to 10.5%, or 10% to 11%.

Any difference between the yield required by Freddie Mac on the Mortgages which comprise any Cash PC Pool and the interest payable to Holders at the PC Coupon is retained by Freddie Mac as its management and guarantee fee. Freddie Mac may add Mortgages to or withdraw Mortgages from a PC Pool formed under the Cash Program until the day prior to the first Payment Date, unless otherwise specified in connection with a particular offering of PCs.

Under the Cash Program Freddie Mac purchases Mortgages for cash based on a required yield to be received by Freddie Mac. A Mortgage may bear an interest rate equal to, greater than or less than the minimum gross yield required by Freddie Mac. The minimum gross yield is the required yield plus minimum servicing compensation to the servicer, expressed as a percentage. If the interest rate of a Mortgage is greater than or equal to the minimum gross yield, Freddie Mac will purchase the Mortgage at a price of 100% (par) of the remaining unpaid principal balance of the Mortgage. If the interest rate of the Mortgage is less than the minimum gross yield required by Freddie Mac, Freddie Mac will purchase the Mortgage at a specified percentage that is less than 100% of its unpaid principal balance (adjusted for accrued or prepaid interest), which, when applied to the interest rate on the Mortgage (after deduction of a minimum servicing fee) results in the yield, expressed as a percentage, required by Freddie Mac. Under the Cash Program, Freddie Mac also will purchase a participation in a Mortgage at par or at a required yield to Freddie Mac. To the extent that the mortgage interest rate is less than the required yield, the seller makes up the difference from interest payments attributable to its retained participation interest in the Mortgage. Freddie Mac will not purchase a

participation if more than 100% of the interest income from the seller's retained participation interest would have to be paid to Freddie Mac to produce the required yield.

Cash PC Pools may include Mortgages having a yield payable to Freddie Mac that is less than interest payable to Holders at the PC Coupon. In such case, Freddie Mac will retain a sufficient undivided interest in the aggregate unpaid principal balance of the Mortgages comprising any such Cash PC Pool so that the interest payments attributable to Freddie Mac's retained undivided interest are sufficient to pass through to Holders any difference between the yield payable to Freddie Mac on the Mortgages and the interest payable to Holders at the PC Coupon.

For Cash PC Pools formed on or after July 1, 1987, Freddie Mac provides the weighted average interest rates ("WACs"), the weighted average remaining terms to maturity ("WARMs") and the quartile distributions of the interest rates and remaining terms to maturity ("Quartiles") of the Mortgages as of the date of PC Pool formation. This information is made available approximately two months after the month of PC Pool formation. Freddie Mac also provides updated WACs, WARMs and Quartiles annually for all existing Cash PC Pools for which sufficient information is available. For 1988, Freddie Mac published the updated WACs, WARMs and Quartiles determined as of July 1, 1988 on September 2, 1988.

Freddie Mac's servicers account for Mortgages purchased by Freddie Mac in groups of Mortgages with similar characteristics ("accounting groups"). Each PC Pool normally contains more than one accounting group. The unpaid principal balances used as weights in the calculations of WACs and WARMs will be the unpaid principal balances of the accounting groups in each PC Pool, as of the specified date, and will exclude any Mortgage which has been paid in full. However, because of Freddie Mac's group accounting process, the WAC and WARM calculations published by Freddie Mac will assume that all scheduled payments of principal and all partial prepayments received on any Mortgage in an accounting group after the date of delivery to Freddie Mac are applied to all of the Mortgages in that accounting group proportionately. As a result, the WAC and WARM calculations reported by Freddie Mac may differ from the actual weighted average interest rates and weighted average remaining terms to maturity of the Mortgages.

Freddie Mac determines the Quartiles by arranging the Mortgages in a PC Pool in ascending order according to the interest rate of each Mortgage, and, separately, according to the remaining term to maturity of each Mortgage. The Mortgages are then segregated into four groups, each group consisting of 25 percent of the total adjusted unpaid principal balance of the Mortgages in the PC Pool, and Freddie Mac identifies the lowest and highest interest rates or remaining terms to maturity of the Mortgages within each grouping.

*30-Year Cash PC Pools—Conventional Mortgages.* These PC Pools are comprised of Conventional Mortgages with original maturities of more than 15 years and up to 30 years. Five percent or less of the original unpaid principal balance of such a PC Pool may consist of Multifamily Mortgages. These PC Pools may also include Converted Mortgages. All Mortgages in 30-year Cash PC Pools originated after January 1, 1976 contain due-on-transfer clauses. See "Mortgage Purchase and Servicing Standards—Mortgage Servicing-Assumption and Due-on-Transfer Policies." 30-year Cash PC Pools have minimum original unpaid principal balances of \$50,000,000. For 30-year Cash PC Pools formed on and after December 1, 1988, the minimum Original Unpaid Principal Balance of any Pool will be \$10,000,000. The PC Pool numbers for 30-year Cash PC Pools begin with the Prefix 36.

*15-Year Cash PC Pools—Conventional Mortgages.* These PC Pools are comprised of Conventional Home Mortgages which have original maturities of up to 15 years. Each Mortgage contains an enforceable due-on-transfer clause which permits automatic acceleration and which is not subject to state laws prohibiting automatic acceleration. See "Mortgage Purchase and Servicing Standards—Mortgage Servicing-Assumption and Due-on-Transfer Policies." These PC Pools have minimum original unpaid principal balances of \$50,000,000. For 15-year Cash PC Pools formed on and after December 1, 1988, the minimum Original Unpaid Principal Balance of any Pool will be \$10,000,000. The PC Pool numbers for 15-year Cash PC Pools begin with the Prefix 38.

### *PC Pools formed under the Guarantor Program*

Each PC Pool formed under the Guarantor Program is comprised of Mortgages purchased from a single seller in exchange for PCs representing undivided interests in the same Mortgages. The original unpaid principal balance of and the number of Mortgages in a PC Pool formed under the Guarantor Program are dependent on the minimum dollar amount a seller may offer for sale to Freddie Mac, as well as the dollar amount and number of Mortgages accepted for purchase by Freddie Mac. The minimum purchase amount and minimum original PC Pool balance are fixed by Freddie Mac and are subject to change by Freddie Mac from time to time. The original unpaid principal balance of a PC Pool is equal to the aggregate unpaid principal balance of the related Mortgages as of the date of their delivery to Freddie Mac rounded down to the nearest dollar. Principal payments on the Mortgages made during the period between delivery and settlement, or Freddie Mac's estimate thereof, are reflected in the Pool Factor of the related PC Pool for the month following the month of initial sale and are paid to the Holders accordingly.

The interest rate of any Mortgage in a PC Pool formed under the Guarantor Program may be up to 250 basis points greater than the related PC Coupon. The range of interest rates on Mortgages in a particular PC Pool can be identified by the Quartile information regarding the PC Pool in a separate Bond Buyer publication available approximately two months after the month of PC Pool formation as discussed below. The PC Coupon always will be lower than the lowest interest rate of any Mortgage in the PC Pool. The difference between the interest rate of a Mortgage and Freddie Mac's required yield is retained by the servicer as its servicing fee, and the difference between Freddie Mac's required yield and the PC Coupon is retained by Freddie Mac as its management and guarantee fee.

Under the Guarantor Program, whole loans and participations are purchased at par, so that the unpaid principal balance of the PC Pool sold to the seller equals the unpaid principal balance of the whole mortgages purchased by Freddie Mac (or percentages thereof if purchased in the form of participations).

Freddie Mac prepares an Offering Circular supplement which contains the following information regarding the Mortgages for each Guarantor PC Pool as of the date of delivery of the Mortgages to Freddie Mac for purchase: (i) the WARM, (ii) the WAC, (iii) the location by state of the real property securing the Mortgages, and (iv) the number of Mortgages. The first day of the month of delivery of the Mortgages to Freddie Mac for purchase is the date of PC Pool formation. Principal payments on the Mortgages made subsequent to the date of delivery of the Mortgages for purchase may result in changes in these characteristics of the PC Pool. The initial purchaser of PCs sold under the Guarantor Program which sells or offers for sale such PCs is required to furnish to prospective purchasers the applicable Offering Circular supplement.

Freddie Mac also provides preliminary WACs and WARMS of the Mortgages in Guarantor PC Pools, calculated as of the date of delivery of the Mortgages to Freddie Mac for purchase, in Bond Buyer in the month following the month in which the PC Pool was formed. Thereafter, Freddie Mac provides recalculated WACs and WARMS and the Quartiles of the Mortgages in Guarantor PC Pools based upon additional information regarding partial prepayments on the Mortgages occurring prior to the date of PC Pool formation. This information becomes available to Freddie Mac after the disclosure of the preliminary WACs and WARMS in the applicable PC Offering Circular supplement and in Bond Buyer in the month after the month of PC Pool formation. Freddie Mac believes that the differences, if any, between the preliminary WACs and WARMS and the recalculated WACs and WARMS generally should be small. Information regarding recalculated WACs and WARMS and Quartiles is made available approximately two months after the month of PC Pool formation.

Freddie Mac provides updated WACs, WARMS and Quartiles annually for all existing Guarantor PC Pools for which sufficient information is available. For 1988, Freddie Mac published updated WACs, WARMS and Quartiles determined as of July 1, 1988 on September 2, 1988. See "PC Pools formed under the Cash Program" for a description of the methodology used by Freddie Mac to calculate updated WACs and WARMS and to determine Quartiles.

*30-Year Guarantor PC Pools—Conventional Mortgages.* These PC Pools are comprised of Conventional Home Mortgages with original maturities of more than 15 years and up to 30 years. These PC Pools

may also include Converted Mortgages. A capitalized Mortgage may be included, provided that the capitalized balance of the Mortgage does not, as of the date of purchase by Freddie Mac, exceed the original unpaid principal balance of the Mortgage, that the Mortgage fully amortizes within 30 years, and that the Mortgage allows no further capitalization and otherwise complies with Freddie Mac's purchase requirements. Mortgages which were originated two or more years prior to delivery to Freddie Mac may or may not have been originated on Uniform Instruments, may or may not contain due-on-transfer clauses permitting automatic acceleration, and may or may not be subject to state laws prohibiting automatic acceleration. The minimum original unpaid principal balance of PC Pools beginning with the Prefixes 30 and 53 is \$1,000,000; the minimum original unpaid principal balance of PC Pools beginning with the Prefix 43 is \$250,000.

*30-Year Guarantor PC Pools—Conventional Mortgages—Scheduled Principal Guarantee.* These PC Pools have the same characteristics and are comprised of the same types of Mortgages as 30-Year Guarantor PC Pools—Conventional Mortgages. With respect to PCs representing interests in these PC Pools, in addition to Freddie Mac's other guarantees, Freddie Mac guarantees to Holders the timely payment of the monthly principal scheduled to be paid under the amortization schedule applicable to each of the related Mortgages ("Scheduled Principal"), whether or not received by Freddie Mac. Freddie Mac's payments of Scheduled Principal are computed based upon servicers' monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. The minimum original unpaid principal balance of PC Pools beginning with the Prefix 26 is \$1,000,000; the minimum original unpaid principal balance of PC Pools beginning with the Prefix 46 is \$250,000.

*30-Year Guarantor PC Pools—FHA and/or VA Mortgages.* These PC Pools are comprised of FHA and/or VA Mortgages with original maturities of more than 15 years and up to 30 years. The minimum original unpaid principal balance of PC Pools beginning with the Prefix 14 is \$1,000,000; the minimum original unpaid principal balance of PC Pools beginning with the Prefix 45 is \$250,000.

*30-Year Guarantor PC Pools—FHA and/or VA Mortgages—Scheduled Principal Guarantee.* These PC Pools have the same characteristics and are comprised of the same types of Mortgages as 30-Year Guarantor Pools—FHA and/or VA Mortgages. With respect to PCs representing interests in these PC Pools, in addition to Freddie Mac's other guarantees, Freddie Mac guarantees to Holders the timely payment of Scheduled Principal on the Mortgages, whether or not received by Freddie Mac. Freddie Mac's payments of Scheduled Principal are computed based upon servicers' monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. The minimum original unpaid principal balance of PC Pools beginning with the Prefix 33 is \$1,000,000; the minimum original unpaid principal balance of PC Pools beginning with the Prefix 48 is \$250,000.

*15-Year Guarantor PC Pools—Conventional Mortgages.* These PC Pools are comprised of Conventional Home Mortgages with original maturities of up to 15 years. Each Mortgage contains an enforceable due-on-transfer clause which permits automatic acceleration and which is not subject to state laws prohibiting automatic acceleration. See "Mortgage Purchase and Servicing Standards-Mortgage Servicing-Assumption and Due-on-Transfer Policies." The minimum original unpaid principal balance of PC Pools beginning with the Prefix 21 and 50 is \$1,000,000; the minimum original unpaid principal balance of PC Pools beginning with the Prefix 44 is \$250,000.

*15-Year Guarantor PC Pools—Conventional Mortgages—Scheduled Principal Guarantee.* These PC Pools have the same characteristics and are comprised of the same types of Mortgages as 15-Year Guarantor Pools—Conventional Mortgages. With respect to PCs representing interests in these PC Pools, in addition to Freddie Mac's other guarantees, Freddie Mac guarantees the timely payment to Holders of Scheduled Principal on the Mortgages, whether or not received by Freddie Mac. Freddie Mac's payments of Scheduled Principal are computed based upon servicers' monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. The minimum original unpaid principal balance of PC Pools beginning with the Prefix 32 is \$1,000,000; the minimum original unpaid principal balance of PC Pools beginning with the Prefix 47 is \$250,000.

## **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 PC Pool for a particular month, 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 PC by the Pool Factor published in that month. Pool Factors for PCs will be published at the beginning 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 reported by the servicer for the period from January 16 through February 15.

The PC Agreement permits Freddie Mac to make payments to Holders of principal and interest based on the unpaid principal balance of the related Mortgages as determined by the Pool Factor. Interest on 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 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 PC Coupon on the Holder's pro rata share of the 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.

The Pool Factor for a Guarantor PC Pool applicable to a particular month reflects the unpaid principal balance of the Mortgages in that 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 a Guarantor PC Pool published in March represents the unpaid principal balance of the related Mortgages as of February 15. If a servicer fails to file an accurate or timely report of its collections of principal payments for a particular month, the Pool Factor will reflect Freddie Mac's estimate of the principal payments on the Mortgages that occurred during that reporting period. Any difference between actual and estimated principal payments on the Mortgages will be accounted for by adjustment to subsequent Pool Factors and, as a result, to subsequent principal payments made to Holders.

The following illustrates the payment of principal by application of the Pool Factor method to a hypothetical Guarantor PC Pool formed 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 PC Pool is formed. The original unpaid principal balance of the 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 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 1** ..... The May Pool Factor is published, reflecting 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 outstanding 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 and paid to Freddie Mac (including full and partial prepayments) and any repurchases of Mortgages by servicers, from April 1 through May 15.
- On or about June 1** ..... 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.
- By June 22** ..... Within five business days after June 15, servicers report the outstanding 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 by servicers, from May 16 through June 15.
- On or about July 1** ..... 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.

Subsequent months follow the pattern as illustrated for July. Application of the Pool Factor method to a hypothetical Guarantor PC Pool formed on or before the 15th day of a month differs from the illustration set forth above with respect to a Guarantor PC Pool formed after the 15th day of the month. With respect to a Guarantor PC Pool formed on or before the 15th day of the month, the second Pool Factor, which is published on or about the first day of the month after the month of formation of the Guarantor PC Pool (May 1 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, that were made between the 1st and the 15th days of the month of pool formation as reported to Freddie Mac by the servicer within five business days of April 15.

The Pool Factor applicable to a particular month for a Cash PC Pool (comprised of Mortgages purchased under the Cash Program and/or under the MultiLender Swap Program) represents Freddie Mac's estimate of the unpaid principal balance of the Mortgages as of the end of the monthly reporting period ending in that month. For example, the Pool Factor for a Cash PC Pool published in March represents Freddie Mac's estimate of the unpaid principal balance of the related Mortgages as of March 15. The Pool Factor for a Cash PC Pool for a particular month is calculated by estimating all principal reduction on the underlying mortgages for that month as a fraction of the original unpaid principal balance and subtracting that amount from the previous month's Pool Factor. The principal reductions include estimates of scheduled amortization as well as estimates of prepayments (including repurchases by sellers and foreclosures). Estimates of prepayments are based on data relating to prepayments for the Mortgages in the PC Pool for the second, third and fourth months immediately preceding. Estimates are adjusted both for seasonal factors that are presumed to influence all PC Pools equally, and also for cyclical factors (i.e., changes in economic conditions such as changing interest rates and refinance activity) that are presumed to influence all mortgages in a given mortgage coupon range equally. Such cyclical factors are calculated for each one percent mortgage coupon range.

To the extent that a given Pool Factor for a Cash PC Pool may not reflect the actual unpaid principal balance of the Mortgages for a particular month, any difference will be accounted for as soon as practicable by adjustment of subsequent Pool Factors and, as a result, by adjustment of subsequent principal payments made to Holders. This adjustment is made to the Pool Factor for the month two months subsequent to the month in question. Freddie Mac's procedure for estimating Cash PC Pool Factors may result from time to time in a monthly principal payment to Holders for a given Cash PC Pool which differs significantly from the aggregate principal payments actually received by Freddie Mac on the related Mortgages for the comparable month. Based on Freddie Mac's experience, the amount of such difference is most likely to increase during periods of volatile mortgage interest rates.

To the extent that Freddie Mac's procedure for estimating Cash PC Pool Factors results in an underestimation or an overestimation of principal payments in a particular month, the yield that PC Holders receive will be affected because of the two month period required for making the adjustment in Cash PC Pool Factors. The effect on yield will depend upon the relationship between the PC Coupon and the reinvestment rate available to Holders. For example, if Freddie Mac overestimates principal payments in a particular month, and the PC Coupon is higher than the reinvestment rate available to a Holder at that time, the Holder would receive a lower yield than he would otherwise have received on the PC. Conversely, if Freddie Mac underestimates principal payments in a particular month, and the PC Coupon is higher than the reinvestment rate available to a Holder at that time, the Holder would receive a higher yield than he would otherwise have received on the PC.

The following illustrates the payment of principal by application of the Pool Factor method to a hypothetical Cash PC Pool formed in April:

- April 1** . . . . . The initial Pool Factor, which is not published, is equal to 1.0000000.
- On or about April 30** . . . . . The PC Pool is formed which will be based on the April 15 unpaid principal balance of the Mortgages as reported to Freddie Mac by servicers.
- On or about May 1** . . . . . The May Pool Factor is published, reflecting Freddie Mac's prediction of the May 15 unpaid principal balance of the Mortgages based upon Freddie Mac's calculation of scheduled amortization due on the Mortgages in the month of May. Freddie Mac does not reduce this Pool Factor for prepayments expected to be made in May. The preliminary original unpaid principal balance of the Mortgages is published, reflecting the unpaid principal balance of the Mortgages estimated by Freddie Mac, as of April 15.
- On or about June 1** . . . . . The June Pool Factor is published, reflecting Freddie Mac's prediction of the June 15 unpaid principal balance of the Mortgages based upon



Freddie Mac's calculation of scheduled amortization due on the Mortgages through the month of June. Freddie Mac does not reduce this Pool Factor for prepayments expected to be made in June. The final original unpaid principal balance of the Mortgages is published, reflecting the unpaid principal balance of the Mortgages as of April 15 (the "Original Unpaid Principal Balance").

**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 of the Mortgages published on or about May 1.

**On or about July 1** ..... The July Pool Factor is published, reflecting Freddie Mac's prediction of the July 15 unpaid principal balance of the Mortgages based upon Freddie Mac's calculation of scheduled amortization due on the Mortgages in the month of July, adjusted to reflect any differences between the unpaid principal balance of the Mortgages as represented by the May Pool Factor and the unpaid principal balance of the Mortgages as reported by servicers to Freddie Mac for the reporting period beginning April 16 and ending May 15. Servicers' reports to Freddie Mac for the reporting period ending May 15 include all prepayments made on the Mortgages during that period. Freddie Mac does not reduce this Pool Factor for prepayments expected to be made in July.

**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 of the Mortgages.

**On or about August 1** ..... The August Pool Factor is published, reflecting Freddie Mac's prediction of the August 15 unpaid principal balance of the Mortgages based upon Freddie Mac's calculation of scheduled amortization due on the Mortgages in the month of August, adjusted to reflect any differences between the unpaid principal balance of the Mortgages as represented by the June Pool Factor and the unpaid principal balance of the Mortgages as reported by servicers to Freddie Mac for the reporting period beginning May 16 and ending June 15. Servicers' reports to Freddie Mac for the reporting period ending June 15 include all prepayments made on the Mortgages during that period. Freddie Mac reduces this Pool Factor for prepayments expected to be made in August. In calculating expected prepayments for the month of August, Freddie Mac considers the amount of prepayments made on the Mortgages in the months of April, May and June, prepayment behavior likely to be experienced during August, and cyclical factors as discussed above.

**August 15** ..... The third payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the June and July Pool Factors multiplied by the Original Unpaid Principal Balance of the Mortgages.

**On or about September 1** .... The September Pool Factor is published, reflecting Freddie Mac's prediction of the September 15 unpaid principal balance of the Mortgages based upon Freddie Mac's calculation of scheduled amortization due on the Mortgages in the month of September, adjusted to reflect any differences between the unpaid principal balance of the Mortgages as represented by the July Pool Factor and the unpaid principal balance of the Mortgages as reported by servicers to Freddie Mac for the reporting

period beginning June 16 and ending July 15. Servicers' reports to Freddie Mac for the reporting period ending July 15 include all principal payments made on the Mortgages during that period. Freddie Mac reduces this Pool Factor for prepayments expected to be made in September. In calculating expected prepayments for the month of September, Freddie Mac considers the amount of prepayments made on the Mortgages in the months of May, June and July, prepayment behavior likely to be experienced during September, and cyclical factors as discussed above.

**September 15** . . . . . The fourth payment is made to Holders. The aggregate principal payment to Holders is equal to the difference between the July and August Pool Factors multiplied by the Original Unpaid Principal Balance of the Mortgages. This is the first payment to Holders which includes Freddie Mac's estimate of prepayments expected to be received on the Mortgages.

Subsequent months follow the pattern as illustrated for September. Because of the predictive nature of Cash PC Pool Factors, the Pool Factor calculation procedure is identical whether the Cash PC Pool is formed before or after the 15th day of the month.

Use of the Pool Factor method affects 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 on the Mortgages, or Freddie Mac's guarantee of timely payment of Scheduled Principal, if applicable. Payments made on account of Freddie Mac's guarantee of timely payment of Scheduled Principal constitute payments of principal for purposes of calculating (i) the Pool Factor, (ii) the Scheduled Principal PC Holder's pro rata share of the unpaid principal balance outstanding on the Mortgages and (iii) interest payments at the PC Coupon.

**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. See "Pool Factors." For purposes of computing payments of interest, all principal payments with respect to the Mortgages are deemed to have been made on the first day of a calendar month. Interest at the 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 guarantee payments or foreclosure, and all proceeds of repurchases of the Mortgages by Freddie Mac or by the seller or the servicer. In the case of Scheduled Principal PCs, a Holder also will receive its pro rata share of monthly Scheduled Principal due with respect to the related Mortgages, as reported to Freddie Mac by servicers, whether or not received by Freddie Mac.

Under the MultiLender Swap Program, a purchaser of a PC from Freddie Mac delivers Mortgages to Freddie Mac on or prior to the settlement date and on the settlement date receives a PC in an unpaid principal balance equal to the aggregate unpaid principal balance of such Mortgages as of the date of delivery. The Mortgage seller pays to Freddie Mac, and Freddie Mac retains, principal payments (including scheduled principal payments, and full and partial prepayments) on such Mortgages equal to the difference between the actual aggregate unpaid principal balance as of the delivery date of the Mortgages delivered by such seller and the aggregate unpaid principal balance as of the settlement date of such Mortgages. Freddie Mac purchases with such payments additional Mortgages for inclusion in the related PC Pool and, therefore, such principal payments will not be passed through to the seller in the same manner as other principal payments received by Freddie Mac on the Mortgages.

Under the Cash Program, a purchaser of a 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 Guarantor Program and the MultiLender Swap Program, Freddie Mac pays to the Mortgage seller on the settlement date an amount of interest equal to the difference between (i) the amount of interest at Freddie Mac's required yield on the Mortgages, and (ii) the amount of interest at the PC Coupon, in each such case for the period from the first day of the month of settlement to the day prior to the date of settlement, inclusive.

In the case of Home Mortgages, Freddie Mac normally receives payments from servicers 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 are 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 all full prepayments of principal on Home Mortgages within five business days of the date on which such payments are made. In the case of Multifamily Mortgages, Freddie Mac normally receives payments from servicers of principal and interest made with respect to the Mortgages within five business days after the end of the monthly reporting period in which the payments are made. 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 any PC for its own account, Freddie Mac shares in all payments of principal and interest on a pro rata basis with all other Holders of 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 such Holder's pro rata share of the unpaid principal balance of the Mortgages, but does not guarantee timely payment of Scheduled Principal except in the case of Scheduled Principal PCs. With respect to Scheduled Principal PCs, Freddie Mac also guarantees to each Holder the timely payment of the monthly principal scheduled to be paid under the amortization schedule applicable to each Mortgage. Freddie Mac's monthly payments of Scheduled Principal are computed based upon servicers' monthly reports to Freddie Mac of the amount of Scheduled Principal due to be paid on the Mortgages. 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 the FHA, or payment of the guaranty claim by the VA, or (iii) the expiration of any right of redemption, whichever occurs later, but in any event no later than 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 a 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."

**PCS ARE NOT GUARANTEED BY AND DO NOT CONSTITUTE DEBTS OR OBLIGATIONS OF THE UNITED STATES OR ANY FEDERAL HOME LOAN BANK. CERTAIN OF THE MORTGAGES ARE INSURED BY THE FHA OR GUARANTEED BY THE VA, BOTH OF WHICH ARE FEDERAL AGENCIES.**

## **Final Payment Date**

In the case of a Cash PC Pool comprised of Mortgages purchased under the Cash Program and/or the MultiLender Swap Program, the Final Payment Date of the Mortgages in the PC Pool corresponds to the first day of the month which is 15 or 30 years, as applicable, from the month of the first PC settlement against the PC Pool, which is the latest possible maturity date of any Mortgage in the PC Pool. The Final Payment Date of the Mortgages in a Cash PC Pool may not reflect the maturity date of any Mortgage in that PC Pool. In the case of a Guarantor Program PC Pool, the Final Payment Date with respect to the Mortgages in a PC Pool corresponds to the first day of the month in which the last scheduled monthly payment on the latest maturing Mortgage in the PC Pool is scheduled to be made. The Mortgages in a Guarantor PC Pool are not required to have scheduled maturity dates within a limited range of years. Therefore, the Final Payment Date of a Guarantor PC Pool may reflect the maturity date of only a single Mortgage in that PC Pool.

Holder 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. For PCs other than Scheduled Principal PCs, 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 a PC will depend upon the amount of principal, including both scheduled and unscheduled payments, which is paid periodically to Holders. Freddie Mac's experience suggests that the prepayment patterns of Conventional Mortgages included in 30-Year PC Pools and of the FHA and VA Mortgages included in PC Pools comprised of FHA and/or VA Mortgages will produce a weighted average life that is less than the weighted average life resulting from the 12-year prepayment assumption that sometimes has been used as the basis for yield quotations. To date, Freddie Mac's experience with respect to 15-Year PC Pools is insufficient to permit Freddie Mac to draw any conclusions with respect to the weighted average life of Mortgages included in 15-Year PC Pools.

For purposes of its financial statements, Freddie Mac currently amortizes any discount on purchases of Mortgages and sales of PCs based on the assumptions that the prepayment pattern of Mortgages included in 30-Year PC Pools will produce a weighted average life of approximately 10 years and Mortgages in 15-Year PC Pools will produce a weighted average life of approximately seven years. These estimates may be revised from time to time better to reflect both actual and projected payment experience on Freddie Mac's mortgage portfolio. Freddie Mac anticipates that Holders will receive principal payments in excess of scheduled amortization payments with respect to the Mortgages.

The payment behavior of a 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 (giving consideration to the cost of any secondary financing) and prevailing mortgage interest rates generally available during the terms to maturity of the mortgages in that group. In general, Freddie Mac expects prepayment rates to be inversely correlated with changes in prevailing mortgage rates. Thus, in an environment of rising market mortgage rates, Freddie Mac would expect mortgage prepayment rates to decline. Conversely, in an environment of falling mortgage interest rates, Freddie Mac would expect prepayment rates to increase. Freddie Mac believes these expectations, which mirror Freddie Mac's experience, reflect both increased borrower refinancing activity and increased homeowner mobility in periods of declining or lower mortgage interest rates.

Summarized below is information concerning the rate of principal prepayments on certain fixed-rate, first-lien, conventional, residential mortgages secured by one-to-four family dwellings which comprise PC Pools formed by Freddie Mac under its Guarantor Program. Each Guarantor PC Pool from which the data herein are derived has a minimum original unpaid principal balance of \$1 million and normally contains mortgages within a limited geographical area. The information presents rates of principal prepayments made

during stated calendar quarters with respect to mortgages bearing various interest rates as described below. For the periods presented, the information reflects that principal prepayments were made in excess of scheduled amortization.

Comparable data are not presented below for Cash Program PCs. Comparable Cash PC data are not available due to differences in record retention and data processing procedures between the Cash and Guarantor Programs. Freddie Mac has no reason to believe that data with respect to Cash Program PCs would reveal prepayment behavior materially different from that reflected by the Guarantor Program data. As of June 30, 1988, the aggregate unpaid balance of Guarantor Program PCs represents approximately 67% of the aggregate unpaid balance of all outstanding PCs.

Sellers' deliveries of mortgages are placed by Freddie Mac in accounting groups in which each of the mortgages carries a like yield to Freddie Mac. Freddie Mac prepared the data presented below by calculating the weighted average interest rates for each accounting group (the "group WAC") using the mortgage interest rate and the unpaid principal balance of each of the mortgages in the accounting group as of the date of delivery of the mortgages to Freddie Mac for purchase. A full prepayment of a mortgage within an accounting group subsequent to delivery of the mortgage to Freddie Mac for purchase and prior to the calculation of the data presented herein does not result in deletion of the mortgage interest rate associated with the mortgage paid in full from the group WAC calculation. Thus, all of the mortgage interest rates comprising the group WAC computed as of the date of delivery of the mortgages to Freddie Mac are assumed to remain in the accounting group notwithstanding principal prepayments made on any particular mortgages.

In preparing the data set forth below, Freddie Mac also calculated a "group WARM" for each accounting group based upon the remaining term to maturity and unpaid principal balance of each of the mortgages in the accounting group as of the date of delivery of the mortgages to Freddie Mac. In calculating the group WARM, Freddie Mac used the remaining terms to maturity stated by sellers at the time of delivery of the mortgages; where such information was unavailable, Freddie Mac calculated a remaining term to maturity for a mortgage using other data available for that mortgage. The table presents data with respect to each accounting group in which sufficient mortgage data are available to produce a group WAC and group WARM; however, a group WAC and a group WARM may represent only a single mortgage within an accounting group. In the event mortgage data necessary for calculation of a group WAC or a group WARM for an accounting group were unavailable, the mortgages in such accounting group are not represented in the table below.

## Constant Prepayment Rates<sup>(1)</sup>

### Conventional Mortgages Purchased Under the Guarantor Program with Original Terms to Maturity of 30 Years or Less

Calendar Quarter	Weighted Average Coupon (2) (in %)								Average of Prevailing Mortgage Rates During the Period (3) (in %)
	06.00- 06.49	06.50- 06.99	07.00- 07.49	07.50- 07.99	08.00- 08.49	08.50- 08.99	09.00- 09.49	09.50- 09.99	
1983— 1st Qtr. ....			4.49			2.93	4.30	3.87	13.03
—2nd Qtr. ....	8.14	6.43	5.30	4.73		4.72	5.46	5.78	12.76
—3rd Qtr. ....	7.82	7.10	7.20	6.54		10.31	8.19	17.33	13.64
—4th Qtr. ....	9.28	5.86	5.58	5.49		8.30	6.50	12.87	13.46
1984— 1st Qtr. ....	6.11	4.56	4.51	4.24	4.86	6.05	5.75	9.15	13.33
—2nd Qtr. ....	7.32	7.62	5.76	6.05	6.71	10.26	8.34	11.45	14.04
—3rd Qtr. ....	7.59	6.46	7.08	5.66	7.09	7.50	7.91	10.10	14.49
—4th Qtr. ....	6.44	6.16	4.73	4.85	6.26	5.72	6.38	13.96	13.65
1985— 1st Qtr. ....	7.19	6.27	4.23	4.75	5.03	4.83	5.62	5.69	13.06
—2nd Qtr. ....	7.27	7.20	5.87	6.47	6.62	6.65	7.63	7.81	12.79
—3rd Qtr. ....	10.03	12.14	7.90	7.51	8.38	8.60	9.42	9.65	12.14
—4th Qtr. ....	9.34	8.69	6.91	7.11	7.17	7.57	8.25	8.48	11.73
1986— 1st Qtr. ....	7.81	7.78	5.94	5.93	6.50	6.46	7.05	7.56	10.58
—2nd Qtr. ....	8.93	9.20	7.39	7.66	8.01	8.84	10.05	10.67	10.25
—3rd Qtr. ....	11.65	12.19	10.06	11.00	11.52	12.84	14.04	11.64	10.24
—4th Qtr. ....	11.40	11.75	9.61	10.51	11.09	11.21	12.82	8.62	9.68
1987— 1st Qtr. ....	11.42	11.48	8.24	9.20	9.28	9.47	10.56	6.10	9.15
—2nd Qtr. ....	10.86	11.72	9.90	10.29	11.39	10.72	9.86	8.19	10.34
—3rd Qtr. ....	0.00	11.32	9.58	9.81	10.26	8.01	0.00	7.57	10.47
—4th Qtr. ....	9.70	10.05	7.61	7.70	7.78	5.90	5.79	6.11	10.89
1988— 1st Qtr. ....	0.00	8.90	6.34	6.40	6.04	4.82	4.70	5.18	10.10
—2nd Qtr. ....	11.72	10.50	8.40	8.84	8.41	7.22	7.65	8.18	10.36

Calendar Quarter	Weighted Average Coupon (2) (in %)								Average of Prevailing Mortgage Rates During the Period (3) (in %)
	10.00- 10.49	10.50- 10.99	11.00- 11.49	11.50- 11.99	12.00- 12.49	12.50- 12.99	13.00- 13.49	13.50- 13.99	
1983— 1st Qtr. ....	5.94	4.11	4.88	5.17	7.50	3.37	8.88	5.99	13.03
—2nd Qtr. ....	6.09	7.51	7.53	8.52	8.14	5.88	5.80	9.49	12.76
—3rd Qtr. ....	8.63	7.27	8.63	8.79	10.41	11.63	10.33	13.25	13.64
—4th Qtr. ....	6.75	6.28	8.47	7.52	7.44	11.06	11.78	8.51	13.46
1984— 1st Qtr. ....	7.89	5.48	6.48	6.79	6.41	7.72	9.60	7.19	13.33
—2nd Qtr. ....	9.57	8.09	9.31	10.14	9.52	13.38	13.69	11.68	14.04
—3rd Qtr. ....	8.99	8.24	8.75	8.81	8.69	6.79	9.10	9.35	14.49
—4th Qtr. ....	8.17	5.86	6.96	6.02	7.35	6.11	7.03	6.28	13.65
1985— 1st Qtr. ....	6.43	5.63	6.58	6.20	6.41	5.51	6.93	6.98	13.06
—2nd Qtr. ....	9.06	8.29	8.97	8.88	9.55	8.14	9.38	9.98	12.79
—3rd Qtr. ....	10.39	10.08	10.66	11.49	11.39	10.75	14.90	20.95	12.14
—4th Qtr. ....	9.60	9.96	10.48	9.42	10.67	11.19	16.40	25.66	11.73
1986— 1st Qtr. ....	7.83	9.13	9.05	8.07	11.74	16.61	25.10	30.52	10.58
—2nd Qtr. ....	10.90	11.02	14.72	19.87	33.23	47.73	54.33	56.81	10.25
—3rd Qtr. ....	11.83	14.69	21.46	30.75	47.92	61.83	65.97	66.86	10.24
—4th Qtr. ....	7.38	11.81	21.13	32.20	46.06	55.91	59.95	59.78	9.68
1987— 1st Qtr. ....	6.10	12.54	24.49	38.87	44.33	48.72	50.21	48.97	9.15
—2nd Qtr. ....	11.21	23.83	40.03	53.35	56.35	58.78	56.93	54.51	10.34
—3rd Qtr. ....	8.80	13.50	20.95	27.53	34.17	38.63	41.73	40.57	10.47
—4th Qtr. ....	6.98	9.40	13.91	17.34	22.54	25.50	28.45	29.16	10.89
1988— 1st Qtr. ....	5.37	7.33	10.37	12.27	15.27	17.70	19.42	22.61	10.10
—2nd Qtr. ....	9.11	11.31	16.48	23.97	27.68	30.31	30.96	29.66	10.36

Footnotes are set forth on the following page.

## Constant Prepayment Rates<sup>(1)</sup>

### Conventional Mortgages Purchased Under the Guarantor Program with Original Terms to Maturity of 30 Years or Less

Calendar Quarter	Weighted Average Coupon (2) (in %)						Average of Prevailing Mortgage Rates During the Period (3) (in %)
	14.00- 14.49	14.50- 14.99	15.00- 15.49	15.50- 15.99	16.00- 16.49	16.50- 16.99	
1983— 1st Qtr.....	8.98	10.81					13.03
—2nd Qtr.....	12.53	24.64	40.92	38.99	51.17		12.76
—3rd Qtr.....	17.50	31.65	31.15	42.34	48.68	61.00	13.64
—4th Qtr.....	14.14	15.81	22.85	25.57	28.52	47.66	13.46
1984— 1st Qtr.....	10.93	16.64	18.63	22.54	27.76	44.13	13.33
—2nd Qtr.....	17.79	24.76	30.31	41.44	33.87	48.14	14.04
—3rd Qtr.....	15.63	16.20	21.47	26.66	27.98	35.21	14.49
—4th Qtr.....	8.68	13.27	12.48	15.52	20.87	21.29	13.65
1985— 1st Qtr.....	10.17	16.00	21.42	27.06	30.90	30.31	13.06
—2nd Qtr.....	16.53	26.32	27.52	37.33	35.99	24.39	12.79
—3rd Qtr.....	30.50	36.83	40.24	48.96	37.92	39.71	12.14
—4th Qtr.....	38.57	45.41	48.75	51.19	49.34	42.38	11.73
1986— 1st Qtr.....	36.83	35.81	38.81	44.99	31.83	38.96	10.58
—2nd Qtr.....	58.03	55.80	53.59	59.01	48.14	46.48	10.25
—3rd Qtr.....	67.79	64.70	63.42	64.28	56.03	51.90	10.24
—4th Qtr.....	61.03	59.56	58.48	60.89	55.22	40.64	9.68
1987— 1st Qtr.....	50.45	47.71	50.05	44.31	50.38	37.67	9.15
—2nd Qtr.....	52.95	53.04	53.57	51.85	54.21	46.98	10.34
—3rd Qtr.....	44.92	41.67	43.04	39.82	54.02	49.02	10.47
—4th Qtr.....	30.88	34.18	28.93	28.87	37.01	21.69	10.89
1988— 1st Qtr.....	23.20	26.29	24.04	20.85	31.46	59.15	10.10
—2nd Qtr.....	28.16	34.84	33.13	32.96	37.73	37.54	10.36

- (1) Constant Prepayment Rates were calculated as follows: accounting groups were segregated by group WAC into the categories displayed in the above table. For each accounting group, the actual unpaid principal balance at the end of a month was used to calculate an unpaid principal balance at the beginning of the month. This calculation was based upon the group WAC, group WARM, and an assumption that only scheduled amortization had occurred on the group during the month. The difference between the actual unpaid principal balance at the beginning of the month and the calculated beginning of the month balance was deemed to be prepayments of principal on the mortgages in the accounting group which occurred during the month.

For each month, Freddie Mac added the amount of prepayments as calculated above, and divided by the sum of the actual unpaid principal balances of the accounting groups in each category as of the beginning of each month. This procedure was repeated for each month in each calendar quarter. The quotient for each month was subtracted from 1.0, and the three resulting numbers for each quarter were multiplied together. The result was annualized by raising it to the fourth power and subtracting it from 1.0. Converted to a percentage rate, the result is the Constant Prepayment Rate shown in the table.

- (2) Represents the group WACs of accounting groups comprising outstanding Guarantor PC Pools with a Prefix of 18, 25, 27, 28, 29, or 30.
- (3) The average of the prevailing mortgage interest rates on conventional 30-year mortgages during the period as published weekly by Freddie Mac in its "Primary Mortgage Market Survey."

## Constant Prepayment Rates<sup>(1)</sup>

### Conventional Mortgages Purchased Under the Guarantor Program with Original Terms to Maturity of 15 Years or Less

Calendar Quarter	Weighted Average Coupon (2) (in %)											Average of Prevailing Mortgage Rates During the Period(3) (in %)	
	08.50- 08.99	09.00- 09.49	09.50- 09.99	10.00- 10.49	10.50- 10.99	11.00- 11.49	11.50- 11.99	12.00- 12.49	12.50- 12.99	13.00- 13.49	13.50- 13.99		14.00- 14.49
	1985—2nd Qtr. ....								10.32	6.22	2.17		12.17
—3rd Qtr. ....							3.85	4.55	9.25	14.10	10.35	12.14	
—4th Qtr. ....				1.00	1.30	3.68	1.76	4.66	7.11	13.54	22.76	33.67	11.73
1986—1st Qtr. ....				2.80	1.29	2.17	3.28	7.80	13.66	29.86	30.23	41.18	10.58
—2nd Qtr. ....			1.27	1.57	3.22	7.88	14.46	33.81	47.76	62.93	58.06	68.93	10.25
—3rd Qtr. ....		6.24	1.85	2.81	5.29	15.30	27.00	50.78	61.85	69.58	68.42	69.11	10.24
—4th Qtr. ....	4.23	2.84	2.57	4.00	6.20	19.58	25.60	46.84	54.03	57.77	58.20	64.07	9.68
1987—1st Qtr. ....	3.83	2.28	2.89	4.64	13.59	31.92	39.44	46.73	47.12	52.63	44.63	55.96	9.15
—2nd Qtr. ....	1.58	3.21	5.95	11.48	31.62	64.42	60.19	60.00	61.22	57.98	63.23	52.54	10.34
—3rd Qtr. ....	1.98	3.74	6.28	7.99	12.82	25.66	26.26	31.39	34.90	38.24	38.43	42.17	10.47
—4th Qtr. ....	2.48	3.83	5.25	6.04	8.05	12.41	13.67	18.38	19.64	26.07	27.55	41.21	10.89
1988—1st Qtr. ....	2.52	3.47	4.24	5.31	6.03	8.11	9.35	12.96	14.82	22.02	11.72	11.23	10.10
—2nd Qtr. ....	4.56	5.87	7.51	8.16	10.95	17.57	23.36	23.68	27.91	26.58	34.18	35.80	10.36

(1) Constant Prepayment Rates were calculated as follows: accounting groups were segregated by group WAC into the categories displayed in the above table. For each accounting group, the actual unpaid principal balance at the end of a month was used to calculate an unpaid principal balance at the beginning of the month. This calculation was based upon the group WAC, group WARM, and an assumption that only scheduled amortization had occurred on the group during the month. The difference between the actual unpaid principal balance at the beginning of the month and the calculated beginning of the month balance was deemed to be prepayments of principal on the mortgages in the accounting group which occurred during the month.

For each month, Freddie Mac added the amount of prepayments as calculated above, and divided by the sum of the actual unpaid principal balances of the accounting groups in each category as of the beginning of each month. This procedure was repeated for each month in each calendar quarter. The quotient for each month was subtracted from 1.0, and the three resulting numbers for each quarter were multiplied together. The result was annualized by raising it to the fourth power and subtracting it from 1.0. Converted to a percentage rate, the result is the Constant Prepayment Rate shown in the table.

- (2) Represents the group WACs of accounting groups comprising outstanding Guarantor PC Pools with a Prefix of 21 (representing interests in mortgages with original terms to maturity of 15 years or less).
- (3) The average of the prevailing mortgage interest rates on 30-year conventional mortgages during the period as published weekly by Freddie Mac in its "Primary Mortgage Market Survey."

Other factors affecting payment behavior on the Mortgages included in a PC Pool may include: the age, geographic distribution and payment terms of the Mortgages; characteristics of the borrowers; changes in local industry and population migration as they affect housing turnover; and the use of second-lien or other individualized financing arrangements. The enforcement of due-on-transfer clauses in mortgages may increase payment rates in certain periods. Payment on the Multifamily Mortgages also may be affected by such factors as: changes in local industry and population as they affect vacancy rates; the attractiveness of other investment alternatives; the tax treatment of investment in multifamily properties; the existence of rent controls; and the remaining depreciable life of the underlying properties. The relative effect of these factors may vary over time.



The principal payment experience of PC Pools comprised of relocation Mortgages may be affected by the practices of employers in transferring employees and the number of Mortgages in a PC Pool made to such transferred employees.

The number of foreclosures of Mortgages in a PC Pool and the number of repurchases of Mortgages also will affect payment behavior. For certain information concerning foreclosures of Mortgages, 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 prepayment behavior of the Mortgages in particular PC Pools. For a description of Freddie Mac’s servicing policies, see “Mortgage Purchase and Servicing Standards—Mortgage Servicing.”

The prepayment behavior among PC Pools comprised of Mortgages with similar characteristics have in some cases differed from each other during the same period. Freddie Mac has not formed any opinion as to the reasons for such variations in prepayment behavior experience. Freddie Mac makes no representation as to the weighted average life of any PC Pool or the percentage of the Original Unpaid Principal Balance of any PC Pool which will be paid to Holders at any particular point in time.

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

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

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 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 PC Pool. A PC may not be transferred if, as a result of the transfer, the transferor or the transferee would have on deposit in its account PCs having an original unpaid principal balance of less than \$1,000 with respect to the related PC Pool.

The 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 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 PCs by account.

A Holder is not necessarily the beneficial owner of a PC. Beneficial owners ordinarily hold PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. For example, an individual purchaser may hold a PC through a brokerage firm which, in turn, holds the PC through an entity eligible to maintain book-entry accounts with a Federal Reserve Bank. In such case, the beneficial owner of the 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 PC was deposited would be the Holder. A Holder that is not the beneficial owner of a 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 a PC with respect to Freddie Mac and a Federal Reserve Bank may be exercised only through the Holder of the PC. Freddie Mac and a Federal Reserve Bank will have no direct obligation to a beneficial owner of a PC that is not also the Holder of the PC. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a 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 PC Agreement), on the next succeeding Business Day (“Payment Date”). A Holder of a 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 the payment of principal and interest on the 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 settlement on the 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 covenant in the PC Agreement, all to the extent and as set forth in the PC Agreement, the Holders of a majority in aggregate unpaid principal balance of the PCs in respect of any affected 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 PC Agreement. Appointment of a successor does not relieve Freddie Mac of its guarantee obligations as set forth in the PC Agreement. The right of a Holder to receive payment of interest or principal due in respect of the Holder’s 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 a PC, see the PC Agreement.

### **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

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

Neither the PCs nor the income derived therefrom is exempt from federal income, estate or gift taxes under the Internal Revenue Code of 1986, as amended (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 PCs or the income derived therefrom by any state, any possession of the United States or any local taxing authority.

A beneficial owner of PCs (“Beneficial Owner”) who delivers Mortgages under the MultiLender Swap Program in exchange for PCs should be aware that it may be required to recognize gain or loss with respect to all or a portion of such PCs, though there is conflicting authority in this regard. Any such recognition of gain or loss may depend in part on whether and to what extent the Mortgages delivered differ materially from the PCs received. Beneficial Owners should consult their own tax advisors regarding this matter.

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 PC held the total amount of interest due from mortgagors at the interest rates on the underlying Mortgages, servicers’ fees and Freddie Mac’s management and guarantee fees, the total amount of interest paid on the PC at the PC Coupon, and prepayment charges, if any, for the calendar year.

## General Tax Characteristics

PCs have the following characteristics for federal income tax purposes:

(A) A 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 will be treated as the owner of a pro rata undivided interest in the ordinary income and corpus of the grantor trust for that particular 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 return 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 servicers’ fees and Freddie Mac’s management and guarantee fees, including incidental fees paid by the borrowers and retained by 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 a 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 two percent (2%) of the Beneficial Owner’s adjusted gross income.

(B) 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.” PCs also constitute “qualifying real property loans” within the meaning of Section 593(d) of the Code.

(C) Interest income on 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 a 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 employees’ 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 PCs, provided that the purchase meets the investment requisites applicable to such trust.

## Discount and Premium

A Beneficial Owner will be treated as purchasing an interest in each of the Mortgages in the relevant PC Pool at a price determined by allocating the purchase price paid for the PC among the Mortgages in proportion to their fair market values at the time of purchase of the 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 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.

A Beneficial Owner will be required to report as ordinary income its pro rata share of any original issue discount with respect to the Mortgages in the relevant PC Pool 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. In addition, original issue discount could arise with respect to a Mortgage which was originated as an adjustable rate or graduated payment Mortgage. 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 also would 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 partnerships originated before July 2, 1982.

In general, a Beneficial Owner who is considered to have purchased its interest in any Mortgage at a 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 issuance of the Mortgage. With respect to Mortgages originated on or prior to July 18, 1984, a Beneficial Owner will report the market discount as capital gain in the case of a Mortgage issued by a corporation or a Mortgage issued by a partnership after July 1, 1982, and as ordinary income in the case of a Mortgage issued by an individual (assuming the 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 1276-1278 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 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 at a market discount (whether such Mortgages were issued on or prior to or after July 18, 1984) is 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 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 prior taxable years), in which event the foregoing ordinary income on disposition and interest deferral rules will not apply. The precise application of the market discount rules 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 by a corporation or if the Mortgage is issued by other than a corporation 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 a PC will recognize gain or loss equal to the difference between its adjusted tax basis in the PC and the amount realized in 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 PC, increased by the amount of any discount income previously reported with respect to the PC and decreased by the amount of any premium previously deducted with respect to the PC and the amount of any distributions of principal received thereon. Any such gain or loss would be capital gain or loss if the 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 a 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 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 a Mortgage under the Guarantor Program, any difference between interest at the underlying interest rate on the Beneficial Owner's undivided interest in each Mortgage in the PC Pool (the Beneficial Owner's gross income) and the sum of the interest at the PC Coupon on the PC, Freddie Mac's management and guarantee fees, and servicer's fees with respect to such undivided interest is, except as described below, to be accounted for as discount income or premium expense, as described in Revenue Ruling 71-399, 1971-2 C.B. 433. When interest at the PC Coupon plus the fees exceeds interest at the underlying Mortgage interest rate, such additional gross income is characterized as "discount." When interest at the PC Coupon plus the fees is exceeded by interest at the underlying Mortgage interest rate, the difference is characterized as "premium expense." In Revenue Ruling 71-399, the Internal Revenue Service ruled that any such discount income is to be included in ordinary gross income in accordance with the Beneficial Owner's method of accounting, and that any such premium expense may be deductible in accordance with applicable rules.

The Internal Revenue 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 to characterizing such differences in interest passed through. If this were the case, a Beneficial Owner would not be treated as having a pro rata undivided interest in the interest payments on the Mortgages, but rather an ownership interest in such payments to the extent of the 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 the 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 in income such original issue discount 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 a 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 such 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 Internal Revenue 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 a 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 a 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 a 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 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 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 a PC to a Beneficial Owner who is not a U.S. person represent interest on obligations issued 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. Regardless of the date of issuance of the Mortgages, backup withholding tax will not apply to payments with respect to a 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 a PC Pool, Freddie Mac can make no representation that all or any portion of the Mortgages in any particular 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, except to the extent that certain of such guidelines have been modified or waived in connection with the purchase of specific mortgages. These guidelines are designed to determine the value of the real property securing a Mortgage, the creditworthiness of the borrower, and, in the case of real property securing a Multifamily Mortgage, the ability of the rental income from the property to support the payments on the Mortgage and the quality of management of the mortgaged property.

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.

All FHA and VA Mortgages purchased by Freddie Mac must conform to the credit and appraisal guidelines established pursuant to applicable federal regulations for each of the FHA or VA programs pursuant to which the Mortgages are insured or guaranteed.

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 a 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 Home Mortgage 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 requires lower loan-to-value ratios (and thus greater borrower equity) for second homes and investment properties than for primary residences. For example, Freddie Mac, under loan-to-value guidelines revised in September 1988, 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 generally are 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.

Currently, Freddie Mac does not purchase Multifamily Mortgages that have loan-to-value ratios exceeding 85%. The Freddie Mac Act permits Freddie Mac to purchase a Multifamily Mortgage that has a loan-to-value ratio up to 100% of the appraised value of the real property securing the Mortgage. Freddie Mac, prior to January 30, 1987, purchased Multifamily Mortgages with loan-to-value ratios up to 100%.

Freddie Mac purchases FHA Mortgages having loan-to-value ratios and maximum principal amounts as determined under the National Housing Act, provided that such maximum principal amounts do not exceed

those established by Freddie Mac for Conventional Home Mortgages. The FHA generally permits a maximum loan-to-value ratio of between 90% and 100% for owner-occupied properties and an 85% loan-to-value ratio for non-owner-occupied properties. The VA does not impose loan-to-value ratio limitations on mortgages which it guarantees. Freddie Mac will purchase a VA Mortgage only if the portion of the Mortgage which is not guaranteed by the VA does not exceed 75% of the lesser of (i) the purchase price of the real property securing the Mortgage or (ii) the appraised value of such real property at the time the Mortgage is closed. With respect to a VA Mortgage being used to refinance an existing VA Mortgage, the portion of the Mortgage that is not guaranteed by the VA may not exceed 75% of such appraised value.

### **Mortgage Insurance**

In the application of its mortgage purchase standards, Freddie Mac generally purchases a Home 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. Freddie Mac does not require mortgage insurance for Multifamily Mortgages.

For FHA and VA Mortgages, the seller must provide assurances satisfactory to Freddie Mac that each Mortgage is fully insured by the FHA or is guaranteed by the VA as of the date of delivery. The insurance or guaranty must be as specified in the applicable FHA or VA regulations.

### **Mortgage Amount**

The Freddie Mac Act establishes limits on the maximum original mortgage amount of any Conventional Home or Multifamily Mortgage which Freddie Mac may purchase. For Home Mortgages delivered to Freddie Mac after January 1, 1988, 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. For Multifamily Mortgages delivered to Freddie Mac on or after February 5, 1988, the maximum original principal amount for a Multifamily Mortgage is, for a non-elevator structure, \$31,687 per unit without separate bedroom, \$35,100 per one-bedroom unit, \$41,925 per two-bedroom unit, \$51,675 per three-bedroom unit and \$58,500 per four-bedroom unit. For elevator structures, the amounts are \$36,562, \$40,950, \$50,212, \$62,887 and \$71,106, respectively. The applicable limitations for Home and Multifamily Mortgages may be increased by 50% for properties located in Alaska, Guam, and Hawaii. In any area which has been, or may in the future be, determined to be a high cost area by the Secretary of the Department of Housing and Urban Development pursuant to Section 207(c) of the National Housing Act, the original principal amount for a Multifamily Mortgage may be increased by 92%.

The maximum original mortgage amount for a VA Mortgage is \$144,000. Freddie Mac purchases FHA Mortgages having maximum original principal amounts as determined under the National Housing Act, provided that the maximum original principal amounts do not exceed those established by Freddie Mac for Home Mortgages purchased by Freddie Mac in its Conventional Mortgage purchase programs.

### **Special Financing Arrangements**

Under conditions specified in the *Sellers' & Servicers' Guide* and any applicable FHA or VA regulations, Freddie Mac may purchase first lien Mortgages on properties which are subject to secondary or special financing arrangements. These arrangements may include junior and subordinate 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 Conventional Home or Multifamily 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.

Under certain conditions, Freddie Mac permits special payment arrangements, sometimes referred to as “buydown” arrangements, in which funds are placed in an account by a third party or the borrower and are used to pay a portion of the monthly payment on a Home Mortgage for a specified period.

Freddie Mac also purchases Home 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 also may 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 the date of 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. Any seller of an FHA or VA Mortgage to Freddie Mac or servicer of such Mortgages must be approved by the FHA or VA to originate and/or service FHA or VA mortgages.

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; existence and validity of title, hazard and mortgage insurance policies and, where applicable, insurance covering rent loss in the event of the damage or destruction of certain mortgaged property; and the enforceability of any FHA insurance or VA guaranty. Sellers also warrant that each Mortgage complies with the requirements of the applicable Freddie Mac purchase program, with such requirements as are generally imposed by private institutional mortgage investors in the area in which the mortgaged property is located, and with such requirements as are imposed under FHA or VA regulations, if applicable. Such warranties are made even if the seller is not the originator of the Mortgage. With respect to Mortgages included in Scheduled Principal PC Pools, servicers also warrant that they can and will report and remit to Freddie Mac on a timely basis Scheduled Principal due with respect to each of the Mortgages, whether or not received from a borrower.

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 Home Mortgages and certain participations in Home Mortgages, and in the case of all Multifamily 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 Home Mortgages, Freddie Mac holds participation certificates which evidence Freddie Mac’s ownership interest, but the originator or seller may hold 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 and, where applicable, in accordance with FHA or VA regulations. Servicers must retain a minimum servicing fee on whole loan Mortgages. Servicers are not required to retain a

servicing fee on participations. The duties performed by servicers include, but are not limited to, collection and remittance of principal and interest, administration of escrow accounts, collection of insurance or guaranty claims, property inspections 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. In addition, subject to Freddie Mac's approval, servicers may allow subservicers to perform servicing functions provided that the servicer agrees that servicing, including all remittance obligations, will be performed as required by Freddie Mac's policies and requirements.

Pursuant to the 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 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 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 subject to the payment of the applicable prepayment fee, if any.

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*

A "due-on-transfer clause" is a provision in a security instrument which by its terms permits acceleration of the unpaid principal balance upon transfer of the property or an interest therein. To the extent permitted under the security instrument and state and federal law as described below, Freddie Mac requires its servicers to enforce due-on-transfer clauses and to demand full payment of the remaining principal balance of a Mortgage note upon the sale or transfer of the property securing the note, irrespective of the creditworthiness of the transferee (referred to as a policy of "automatic acceleration").

The FNMA/FHLMC 1-4 Family Uniform Instruments permit automatic acceleration. The FNMA/FHLMC Multifamily Uniform Instruments, including the FHLMC Multifamily Due-on-Transfer Rider, permit automatic acceleration. Accordingly, Freddie Mac expects that generally the Multifamily Mortgages will not be assumable.

Except as described below, the security instruments for FHA and VA Mortgages do not contain due on-transfer clauses. Therefore, the sale of, or transfer of title to, the real property securing an FHA or VA Mortgage does not constitute an event entitling the holder of the Mortgage to demand full payment of

principal. Accordingly, FHA and VA Mortgages generally can be assumed by a purchaser of the real property at the interest rate of the assumed Mortgage for the remaining term of the Mortgage. Under certain circumstances, however, a Mortgage guaranteed by the VA for which a state, territorial or other local governmental agency provides assistance may require acceleration of maturity in the event of the sale or conveyance of the property to a person ineligible for assistance. Commencing with applications for FHA insurance made on or after December 1, 1986, the security instruments for FHA Mortgages include a due-on-transfer provision requiring a transferee to meet FHA credit requirements if the mortgaged property is transferred (i) pursuant to a contract of sale executed within two years of origination or (ii) within two years of a prior transfer of the property subject to the mortgage. Subject to FHA approval in each case, failure of the transferee to meet such credit requirements will constitute an event entitling the holder of the mortgage to demand full payment of principal.

The Garn-St Germain Depository Institutions Act of 1982 (the "DIA") provides for federal preemption of state laws and judicial decisions which restrict the exercise of due-on-transfer clauses. Except as described below, under the DIA, as implemented by regulations adopted by the Federal Home Loan Bank Board ("FHLBB"), Freddie Mac is permitted to require automatic acceleration, subject to certain specified transactions excluded by the DIA with respect to owner-occupied homes.

Under the DIA, any mortgage originated by a lender other than a federal savings and loan association or a federal savings bank or any such mortgage assumed during the period beginning on the date a state adopted (whether by statute, constitutional provision or specified judicial decision) a restriction on the enforcement of due-on-transfer clauses and ending on October 15, 1982 ("window period" mortgages) would remain subject to any applicable state law restriction until October 15, 1985, but thereafter could be accelerated upon transfer of the property or an interest therein unless prior to that date: (i) the state enacted legislation applicable to the enforcement of the due-on-transfer clauses in window period mortgages originated by lenders other than national banks, federal savings and loan associations, federal savings banks and federal credit unions; or (ii) the Comptroller of the Currency and the National Credit Union Administration ("NCUA") promulgated regulations applicable to enforcement of due-on-transfer clauses in window period mortgages originated by national banks and federal credit unions. The NCUA and the Comptroller of the Currency have adopted regulations allowing federal credit unions and national banks, respectively, to require automatic acceleration of window period mortgages. Freddie Mac requires automatic acceleration in accordance with such regulations.

Freddie Mac has identified those states in which it believes window periods exist and legislation has been enacted extending the October 15, 1985 date and the period during which a window period mortgage could have been originated or assumed. Such states and window periods are: Arizona-July 8, 1971 to October 15, 1982; Michigan-January 5, 1977 to October 15, 1982; Minnesota-June 1, 1979 to May 8, 1981; New Mexico-March 15, 1979 to October 15, 1982; and Utah-May 12, 1981 to October 15, 1982 (Minnesota has enacted legislation extending the October 15, 1985 date to September 30, 1990 only for mortgages originated during the window period; and Michigan, New Mexico and Utah have enacted legislation extending the October 15, 1985 date indefinitely). Any judicial interpretation of the DIA, state legislation, or further regulations of the FHLBB may affect Freddie Mac's interpretation of the term of the window period and/or the window period states and the effect of the legislation extending the October 15, 1985 date.

Freddie Mac permits a window period mortgage to be assumed by a transferee at the existing interest rate once the transferee's credit has been reviewed and found acceptable by either Freddie Mac or the servicer. If a servicer desires to permit the assumption of a Mortgage in circumstances where Freddie Mac requires automatic acceleration, including circumstances where a servicer, pursuant to state legislation extending the October 15, 1985 date, modifies the interest rate of a window period mortgage as a condition of permitting the assumption, the servicer must repurchase such Mortgage.

#### *Fees*

Holders are entitled to receive their pro rata share of any prepayment fees received by Freddie Mac with respect to Home Mortgages. Freddie Mac collects prepayment fees on Home Mortgages which it purchased on or before December 31, 1979. Any such prepayment fees represent additional income to Holders over and

above interest at the applicable PC Coupon. Other fees, such as late payment fees, application fees and credit underwriting charges on assumptions, are retained by the servicers and are not passed through to Freddie Mac or to Holders. Any prepayment fees collected by Freddie Mac on Multifamily Mortgages are retained by Freddie Mac and are not passed through to Holders.

#### *Defaults and Delinquencies*

A servicer is required to report to Freddie Mac any Home Mortgage which is delinquent 60 days or more (30 days or more beginning in January 1989), any Multifamily Mortgage which is delinquent 30 days or more, 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 Freddie Mac's delinquency, default and foreclosure experience for all conventional Home and Multifamily mortgages and FHA/VA mortgages sold pursuant to Freddie Mac's programs or retained in its portfolio is included in its Information Statement. See "Business—Delinquencies, Defaults and Foreclosures" therein.

Freddie Mac authorizes a servicer to resolve a delinquency on a Home Mortgage 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 or timely payment of Scheduled Principal, or Freddie Mac's guarantee of 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.

Applicable FHA or VA regulations govern a servicer's actions to resolve any delinquency in dealing with a defaulting borrower on an FHA or VA Mortgage. Each servicer warrants that it will comply with those regulations and that it will take all necessary steps to ensure that Freddie Mac's rights under the insurance and guaranty provisions are protected. FHA and VA regulations and procedures encourage a servicer to enter into arrangements with delinquent borrowers to assist them in bringing defaulted mortgages current. Such workout arrangements may include periods of forbearance or repayment plans, either of which may extend the term of a Mortgage beyond its original term.

All plans to resolve Multifamily Mortgage delinquencies must be approved by Freddie Mac. These plans generally require payment of future installments when due and in amounts specified in the mortgage notes and liquidation of past due installments within a specified time.

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. In the case of FHA Mortgages, if certain FHA requirements are met, servicers must request that the Department of Housing and Urban Development ("HUD") accept assignment of the Mortgage prior to commencement of foreclosure proceedings. Foreclosure proceedings may be instituted only after a decision by HUD not to accept assignment of the Mortgage. If the servicer determines not to request that HUD accept an assignment of the Mortgage, the borrower may request HUD to accept assignment. In this case the servicer is required to delay initiation of the foreclosure proceedings pending HUD's decision.

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. Similarly, pursuant to the Soldiers' and Sailors' Civil Relief Act of 1940, a borrower who has entered the military service may,

upon application to the appropriate court, be granted relief from the payment of mortgage obligations for the term of the borrower's military service and a period of three months thereafter. The bankruptcy of a borrower on a Multifamily Mortgage may differ in significant respects from the bankruptcy of a borrower on a Home Mortgage because the mortgaged multifamily property is often the sole asset of a partnership or corporate borrower. A bankruptcy proceeding involving a multifamily property may occur, for example, when the property value decreases or when the revenues of the property become insufficient to pay debt service and operating expenses. If Freddie Mac is precluded from making a demand for acceleration, Freddie Mac has established a policy that, for purposes of Freddie Mac's 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 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* and applicable FHA or VA regulations set 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. Foreclosure proceedings with respect to FHA or VA Mortgages are also subject to FHA or VA regulations which may affect, among other things, the circumstances under which and the manner in which Freddie Mac may terminate foreclosure proceedings or the ability of Freddie Mac to accept a deed in lieu of foreclosure. 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 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 without regard to any delay in Freddie Mac's receipt of any insurance or guaranty payments. See "Description of Mortgage Participation Certificates—Guarantees."

Under the 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 Mortgage Participation Certificates—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**

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

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

Federal credit unions may purchase PCs without regard to limitations generally applicable to investments. 12 U.S.C. § 1757(7)(E). National Credit Union Administration letter to Credit Unions No. 96 includes guidelines to assist federal credit unions in making investment decisions for mortgage-related securities.

For private pension funds subject to the Employee Retirement Income Security Act of 1974, the PCs, and not the Mortgages underlying the 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 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 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 PCs will not affect the validity of any contractual commitment to purchase, hold or invest in PCs made prior to the date of enactment and such legislation cannot require the sale or other disposition of any 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 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 FDIC, the FHLBB, the NCUA or other agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing PCs.

## **FHLBB REGULATORY MATTERS**

The staff of the FHLBB has taken the following positions concerning 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.

- 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 PCs backed by the same or substantially identical mortgages (FHLBB Staff Memoranda R-49 and R-49-1).
- 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).
- 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 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**

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

## **DISTRIBUTION ARRANGEMENTS**

### **Cash Program**

Under the Cash Program, Freddie Mac offers PCs for mandatory and optional delivery for a variety of periods on a continuous basis through one or a combination of the following methods: auction; competitive bid offering or allocation to selected securities dealers in accordance with procedures established by Freddie Mac and re-offering or placement with investors; or direct placement with securities dealers or investors. The purchase price of the PCs will be based on the unpaid principal balance of the Mortgages in the PC Pool as of the month of settlement as determined by the Pool Factor. See “Description of Mortgage Participation Certificates—Pool Factors.”

The original unpaid principal balance of a PC represents the unpaid principal balance of a PC during the month of formation of the PC Pool. If the PCs are purchased at a premium or discount, the purchase price may be more or less than the unpaid principal balance of the PCs as of the month of settlement. The unpaid principal balance of a PC as of the month of settlement also may be less than the original unpaid principal balance of the PC and/or the unpaid principal balance contracted for on the trade date as a result of principal payments on the Mortgages made between the date of formation of the PC Pool and/or the trade date and the settlement date. Interest and principal payments made with respect to the Mortgages between the trade date and the settlement date are for the account of, and are retained by, Freddie Mac.

The settlement date for PC purchases will be established on the trade date by mutual agreement. Confirmation and settlement of PC purchases will be made in accordance with the Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities of the Public Securities Association (“Uniform Practices”). If a PC is purchased from a securities dealer, the dealer is required to confirm the sale; notify the

purchaser of the settlement date, purchase price, concessions and fees; deliver a copy of the PC Offering Circular and any applicable Offering Circular Supplement; and otherwise act in accordance with the Uniform Practices.

### **MultiLender Swap Program**

Under the MultiLender Swap Program, Freddie Mac purchases Mortgages from a seller and, in exchange for the Mortgages purchased, sells to the seller PCs representing interests in a PC Pool formed under the Cash Program. Such Pool will include the Mortgages purchased from that seller as well as Mortgages purchased from other sellers. Freddie Mac will accept offers for delivery of Mortgages under the MultiLender Swap Program for a variety of periods on a daily basis in accordance with the terms and procedures set forth in Freddie Mac's *Sellers' & Servicers' Guide*. Freddie Mac's commitment to exchange 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 *Seller's & Servicers' Guide*, including the seller's timely delivery of acceptable Mortgages in an amount equal to at least \$250,000.

### **Guarantor Program**

Under the Guarantor Program, Freddie Mac purchases Mortgages from a seller and, in exchange for the Mortgages purchased, sells to the seller PCs representing interests in the same Mortgages. Freddie Mac will accept offers for mandatory and optional delivery of Mortgages under the Guarantor Program for a variety of periods on a daily basis in accordance with the terms and procedures set forth in Freddie Mac's *Sellers' & Servicers' Guide*. Freddie Mac's commitment to exchange 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 an amount equal to at least \$250,000.

### **Yield Information**

Yield tables for PCs are available from Financial Publishing Co., 82 Brookline Avenue, Boston, Massachusetts 02215, and show yields at various PC Coupons and price levels under various payment assumptions. Price and yield information is also available from Freddie Mac (outside Washington, D.C. metropolitan area, telephone 800/424-5401, extension 4800; within Washington, D.C. metropolitan area, telephone 789-4800).

### **Secondary Market**

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



**Federal Home Loan Mortgage Corporation**  
**MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT**  
**(Guaranteed)**

**AGREEMENT** dated as of October 1, 1988 among the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and Holders of undivided interests in certain Mortgages which are identified in the records maintained by Freddie Mac and which are represented by Mortgage Participation Certificates (“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 fixed-rate residential Mortgages, including Whole Loans and/or Participations, which are Conventional Mortgages or Mortgages fully insured by the Federal Housing Administration (“FHA”) or guaranteed in part by the Veterans Administration (“VA”), 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 PCs, and guarantees the payment of interest and 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 PCs, and the rights and obligations of Freddie Mac and Holders with respect to the PCs.

**ARTICLE I**

**Definitions**

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

*Aggregate Scheduled Principal:* The aggregate amount of principal scheduled to be paid by the mortgagors based upon the amortization schedule applicable to each Mortgage included in a Scheduled Principal PC Pool, as reported by servicers by accounting group for each Freddie Mac monthly accounting period.

*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 PCs in a particular PC Pool held by such Holder, the CUSIP Number of such PC Pool and the Final Payment Date applicable to the related 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.

**Cash Program:** A program pursuant to which Freddie Mac purchases Mortgages for cash from eligible sellers, holds the Mortgages and periodically forms PC Pools and sells PCs representing undivided interests in the Mortgages. The term "Cash Program" includes the MultiLender Swap Program, which is a program pursuant to which Freddie Mac purchases Mortgages from a seller in exchange for a PC in an original unpaid principal balance equal to the Mortgages delivered by such seller, and which PC represents an undivided interest in a pool of Mortgages purchased for cash and/or in exchange for PCs formed under the MultiLender Swap Program.

**Conventional Mortgage:** A Mortgage which is not guaranteed or insured by the United States or any agency or instrumentality of the United States.

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

**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.

**FHA Mortgage:** A Mortgage fully insured by the FHA.

**Final Payment Date:** For a PC Pool formed under a Cash Program, the first day of the month which is 15 or 30 years, as applicable, from the first day of the Month of Initial Sale of a PC in a given PC Pool. For a PC Pool formed under a Guarantor Program, the date which is the first day of the month in which the last monthly payment is scheduled to be made on the latest maturing Mortgage included in the PC Pool as of the Month of Initial Sale.

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

**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 a PC has been deposited.

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

**Mortgages:** The Whole Loans and/or Participations identified in the records maintained by Freddie Mac as comprising a PC Pool, which Mortgages consist of or represent interests in promissory notes secured by residential real property comprising one-to-four family dwelling units ("Home Mortgages") and five or more family dwelling units ("Multifamily Mortgages"). 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 a PC Pool formed pursuant to a Cash Program, the Original Unpaid Principal Balance shall be the aggregate unpaid principal balance of the related Mortgages on the books and records of Freddie Mac 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 PCs are offered for sale, such date. In the case of a PC Pool formed pursuant to a 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 PCs.

*Participation:* A percentage undivided interest, purchased by Freddie Mac, in one or more fixed-rate, first-lien mortgages secured by residential real property.

*PC:* A Mortgage Participation Certificate sold pursuant to this Agreement, representing an undivided interest in a pool of Mortgages identified by a particular PC Pool Number and CUSIP Number.

*PC Coupon:* The annual rate at which interest is passed through to a Holder of a PC. 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 Pool:* A discrete pool of Mortgages identified in the records maintained by Freddie Mac by a PC Pool Number.

*PC Pool Number:* A unique number assigned to each PC Pool by Freddie Mac and used to identify the PC Pool on the books and records of Freddie Mac.

*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 a PC, represents the amount determined by Freddie Mac to be the Holder's pro rata share of the Remaining PC Pool Balance of the related Mortgages on the books and records of Freddie Mac as of the end of the previous month (for PC Pools formed under a Guarantor Program) or as of the end of that month (for PC Pools formed under a Cash Program).

*Remaining PC Pool Balance:* The aggregate amount of principal not yet paid to Holders of PCs with respect to the Mortgages comprising the related PC Pool, after giving effect to any payments of principal made by Freddie Mac pursuant to Section 4.09, as calculated using the related Pool Factor.

*Scheduled Principal:* The amount of principal scheduled to be paid by a mortgagor under the amortization schedule applicable to a Mortgage.

*Scheduled Principal PC:* A PC as to which, in addition to its other guarantees, Freddie Mac guarantees timely payment of Scheduled Principal, whether or not received by Freddie Mac.

*Scheduled Principal PC Pool:* A PC Pool in which the undivided interests are represented by Scheduled Principal PCs.

*VA Mortgage:* A Mortgage guaranteed, in part, by the VA.

*Whole Loan:* A fixed-rate, first-lien 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 PCs.** Sale of a PC by Freddie Mac pursuant to this Agreement shall be deemed to occur upon the date of settlement and payment for such 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 PC Pool in which such 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 a PC is sold by Freddie Mac to a Holder. Upon settlement of and payment for a 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 a Guarantor Program and with respect to a PC sold under the MultiLender Swap Program, payment for a PC shall be deemed to occur on the settlement date as of which such PC is sold to the initial Holder thereof.

**Section 2.02. Identity of the Mortgages; Substitution and Repurchase.** A PC Pool shall be comprised entirely of Conventional Mortgages or shall be comprised entirely of FHA Mortgages and/or VA Mortgages. In the case of a PC Pool formed under a Cash Program, unless otherwise stated in connection with a particular offering of PCs, Freddie Mac shall have the power and authority to determine the amount and identity of the Mortgages which comprise the PC Pool until the day prior to the date the first payment of principal and

interest is payable with respect to the PC Pool. Any Mortgage added to or withdrawn from a 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. A PC Pool formed under a Guarantor Program shall be comprised only of those Mortgages acquired by Freddie Mac from a single seller in exchange for PCs representing undivided interests in the same Mortgages. Except as provided in Section 2.03, once the identity of the Mortgages has been 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 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; and (v) 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 term and yield. Any repurchase of a Mortgage by a seller from a PC Pool represented by Scheduled Principal PCs shall be at its then unpaid principal balance, less any outstanding advances of Scheduled Principal which were paid by the seller to Freddie Mac. In determining whether a Mortgage shall be repurchased from a 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 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 a PC Pool formed pursuant to a Guarantor Program as may be necessary to reflect the difference between the Original Unpaid Principal Balance of such 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 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 Loan Home Mortgages and certain Participations in Home Mortgages, and in the case of all Multifamily 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 the Mortgages are recorded in Freddie Mac's name. In the case of other Participations in Home Mortgages, Freddie Mac holds 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 seller may hold 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. Retention of Undivided Interest by Freddie Mac.** In the event that the interest to be received by Freddie Mac on Mortgages comprising a PC Pool formed under the Cash Program shall be less than the PC Coupon, Freddie Mac shall retain ownership of a sufficient undivided interest in the aggregate

unpaid principal balance of the Mortgages comprising such PC Pool so that interest payments attributable to Freddie Mac's retained undivided interest shall be sufficient to pass through to Holders pro rata any difference between the interest received by Freddie Mac with respect to such Mortgages and interest payable to Holders pro rata at the PC Coupon.

**Section 2.06. PCs Held or Acquired by Freddie Mac.** PCs held or acquired by Freddie Mac from time to time shall have an equal and proportionate benefit to 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 a 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 Responsibilities.** 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 applicable FHA or VA regulations 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 that 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 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. In the case of FHA Mortgages or VA Mortgages, Freddie Mac shall cause to be followed such practices or procedures as may be required by applicable FHA or VA regulations effective at the time of foreclosure or conversion of any such FHA or VA Mortgage and as shall be normal and usual in servicing FHA or VA Mortgages.

### **Section 3.04. Automatic Acceleration and Assumptions**

(a) With respect to Conventional Mortgages, if the terms of the security instrument of a Mortgage taken as a whole accord the mortgagee the right to demand full payment of the unpaid principal balance of the promissory note upon sale or transfer of the property securing the note irrespective of the creditworthiness of the transferee (which right is herein referred to as a right of "automatic acceleration"), Freddie Mac's policy is to require a servicer to enforce such right to the extent permitted by law and to require the full payment of the principal balance of a Mortgage upon the sale or the transfer of the property securing the Mortgage or an interest therein. In jurisdictions where the enforcement of such provisions is prohibited, or where the security instrument contains a due-on-transfer clause or is accompanied by a due-on-transfer rider which by its terms does not permit automatic acceleration, Freddie Mac will allow a transfer of the property if the transferee is

found by Freddie Mac or the servicer to meet Freddie Mac's credit requirements. Where the security instrument contains no due-on-transfer clause or is not accompanied by a due-on-transfer rider and does not provide for a review of the creditworthiness of the borrower, Freddie Mac will allow a transfer of the property without a credit review of the transferee. Any fees charged by Freddie Mac or servicers in connection with the assumption of a Mortgage are retained by Freddie Mac or the servicers and are not 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.

(b) With respect to an FHA Mortgage or a VA Mortgage, Freddie Mac will, as required by applicable FHA or VA regulations, permit the assumption by a new mortgagor of such Mortgage upon the sale or transfer of the underlying property. Any such assumption shall be in accordance with applicable FHA or VA policies, procedures and credit requirements and shall not result in loss or impairment of the FHA insurance or VA guaranty.

**Section 3.05. Fees.** In the case of Conventional Home Mortgages, any prepayment fees collected by Freddie Mac shall be passed through to Holders pursuant to the procedures specified in Article IV. Any fees collected by servicers and not passed through to Freddie Mac and any prepayment fees or assumption fees on Multifamily Mortgages collected by Freddie Mac or servicers shall not be passed through to Holders.

**Section 3.06. Mortgage Insurance and Guarantees.**

(a) If a Conventional 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.

(b) Each FHA Mortgage or VA Mortgage shall have in full force and effect a binding FHA Certificate of Insurance or VA Certificate of Guaranty or such other evidence of FHA insurance or VA guaranty as may be issued by the respective agencies. The FHA or VA 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 or guaranty relating to each such FHA Mortgage or VA Mortgage.

## 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 prepayment fees due to Holders, 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 of insurance or guaranty claims by the FHA or VA, payment by any other 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 a 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 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 PC Pool in accordance with Section 2.02. For purposes of determining a Holder's pro rata undivided interest in the Mortgages evidenced by a PC, the original unpaid principal balance of the 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 (including Scheduled Principal, in the case of Scheduled Principal PCs), such Holder's pro rata share of any net income, net profits or proceeds of the Mortgages (including prepayment fees, if any), 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, guaranty payment, 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, and, provided further, that Freddie Mac may retain from any full or partial prepayment or payment of delinquent principal in respect of any Mortgage any amounts, not previously received by Freddie Mac, which it paid to Holders in respect of such Mortgage pursuant to its guarantees; and provided further, that with respect to Mortgages delivered to Freddie Mac in exchange for PCs under the MultiLender Swap Program, Freddie Mac shall retain principal payments made on such Mortgages in an amount equal to the difference between the aggregate unpaid principal balance as of the delivery date of the Mortgages delivered by such seller and the aggregate unpaid principal balance as of the settlement date of such Mortgages, and Freddie Mac shall purchase additional Mortgages with such principal payments and shall include such additional Mortgages in the related Cash PC Pool. Insurance proceeds, the proceeds of any liquidation of a Mortgage, including proceeds resulting from acquisition by Freddie Mac of the real property securing a Mortgage, and the proceeds of any repurchase of a Mortgage 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 to each Holder such Holder's pro rata share of the interest paid by mortgagors with respect to each Mortgage in an amount sufficient to produce the PC Coupon, including, if necessary for such purpose, interest received by servicers attributable to the seller's retained undivided interest in any Participation or interest received by Freddie Mac attributable to any interest retained by Freddie Mac pursuant to the provisions of Section 2.05. 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 (including Scheduled Principal, in the case of Scheduled Principal PCs), 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.**

(a) 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 first Business Day of each month, Freddie Mac will publish or cause to be published for such month a Pool Factor with respect to each PC Pool. Interest at the applicable PC Coupon shall be paid by Freddie Mac on the Holder's pro rata share of the Remaining PC Pool Balance as determined by the Pool Factor for the second month prior to the month in which payment to Holders is made. 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 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.

(b) The Pool Factor applicable to each PC Pool (other than a Scheduled Principal PC Pool) will be based upon the unpaid principal balances of the related Mortgages as reported to Freddie Mac by servicers or upon an estimation of principal collections with respect to the Mortgages under such procedure for estimating such payments as may be adopted by Freddie Mac. The Pool Factor applicable to a Scheduled Principal PC Pool will be based upon reports of Aggregate Scheduled Principal as reported to Freddie Mac by servicers or upon an estimation of Aggregate Scheduled Principal under such procedure as may be adopted by Freddie Mac. To the extent a given Pool Factor (adjusted as necessary for payments made pursuant to Freddie Mac's guarantee of timely payment of Scheduled Principal) does not reflect the unpaid principal balance of the Mortgages, any difference will be accounted for as soon as practicable by adjusting subsequent Pool Factors.

(c) The Pool Factor method of determining payments will affect the timing of receipt of payments by Holders but will not affect Freddie Mac's guarantee of timely payment of interest and ultimate collection of principal or Freddie Mac's guarantee of timely payment of Scheduled Principal, if applicable, 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 an amount equal to the excess, if any, of interest at the interest rate on the Mortgage over interest at the interest rate which the servicer is obligated by contract to remit monthly to Freddie Mac. Each 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. In the case of a Mortgage included in a Scheduled Principal PC Pool, a servicer may retain from full or partial prepayments or payments of delinquent principal any payments of principal, and from collections of delinquent interest any payments of interest, which the servicer made to Freddie Mac but did not receive from the mortgagor with respect to such Mortgage. The servicer is entitled to retain all incidental fees with respect to a Mortgage other than assumption fees or prepayment fees, if any, paid to Freddie Mac on the Mortgages.

**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 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 PC Pool Balance derived from the Pool Factor. Freddie Mac shall pay all expenses incurred by it



in connection with administration of a 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. A servicer shall be entitled to reimbursement from Freddie Mac for any amount expended by the servicer on Freddie Mac's behalf, and with Freddie Mac's approval, for the protection, preservation or maintenance of the Mortgages, or of the real property which secures the Mortgages, or of property received in liquidation of or realization upon the Mortgages. Such expenses shall be approved, and reimbursement therefor shall be made, by Freddie Mac in accordance with the provisions of the Guide. Expenses borne pro rata by Holders as described above may be paid by Freddie Mac from payments otherwise due to Holders, and therefore will affect the timing of receipt of payments by Holders, but in no event shall Freddie Mac's guarantees of timely payment of Scheduled Principal and interest at the applicable PC Coupon or Freddie Mac's guarantee of ultimate collection of principal, 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 a PC:

(a) Timely payment of interest at the applicable PC Coupon on the Holder's pro rata share of the Remaining 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 not later than thirty days following: (i) foreclosure sale, (ii) payment of a claim for insurance or guaranty by the FHA or the VA, or by any other 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 borrower for accelerated payment of principal or for payment of the principal due on the maturity of a Mortgage.

(c) In the case of Scheduled Principal PCs, in addition to the other guarantees contained in this Section 4.09, Freddie Mac guarantees the timely payment of Scheduled Principal due on each Mortgage. Freddie Mac's guarantee of timely payment of Scheduled Principal shall be computed based upon information with respect to Aggregate Scheduled Principal furnished to Freddie Mac by servicers for each Freddie Mac accounting period or, in the event Freddie Mac does not receive from servicers a timely report of Aggregate Scheduled Principal, upon an estimation of Aggregate Scheduled Principal with respect to the Mortgages under such procedure as may be adopted by Freddie Mac. Scheduled Principal with respect to each Mortgage will, for purposes of Freddie Mac's guarantee of timely payment of Scheduled Principal, be deemed to have been received by the servicer of the Mortgage on the date Scheduled Principal was due to be paid by the mortgagor and will be paid to Holders pursuant to Section 4.05 on the basis of this assumption. Any payment made by Freddie Mac to Holders on account of Freddie Mac's guarantee of timely payment of Scheduled Principal shall be considered to be payment of principal for purposes of calculation of the Pool Factor with respect to the related PC Pool and to be a payment of principal for purposes of calculating the Holder's pro rata share of unpaid principal pursuant to subsection (b) of this Section 4.09.

**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 PC shall terminate upon: (i) the payment to the Holder of all principal and interest due the Holder in respect of such PC pursuant to the Pool Factor method or by reason of Freddie Mac's guarantees of timely payment of Scheduled

Principal (if applicable) and interest and guarantee of ultimate collection of principal, 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 a 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 the procedure for payment of principal and interest as described in Section 4.05. Except in the case of Scheduled Principal PCs, the final payment in respect of a PC also may occur after the Final Payment Date by virtue of (i) forbearance or payment plans affecting any Mortgage, or (ii) payment under Freddie Mac's guarantee of ultimate collection of principal after a mortgagor default as described in Section 4.09(b).

## ARTICLE V

### The PCs

**Section 5.01. Book-Entry Form; Minimum Principal Amounts.** PCs shall be sold in Book-Entry Form only in minimum original principal amounts of \$1,000, per PC Pool, and 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 PCs with respect to Holders.

**Section 5.02. Transfer of PCs.** PCs may be transferred only in minimum original principal amounts of \$1,000, per PC Pool, and additional increments of \$1. PCs may not be transferred if, as a result of the transfer, the transferor or the new Holder would have on deposit in its account PCs having an original principal amount of less than \$1,000 in respect of the related PC Pool. The transfer, exchange or pledge of 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 a 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 a 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 changes (iv) and (v) of the definition of "Business Day"). A Holder of a 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 PC for such month. A transfer of a PC made on or before the close of business on the Record Date of a month shall be recognized as effective as of the opening of business on the first Business Day of the month of such transfer.

**Section 5.04. Surrender of PCs on Final Payment.** Any PC held in certificated form shall be surrendered to the Federal Reserve Bank of New York (or other agency maintained by Freddie Mac for that purpose, the identity and location of which will be furnished by Freddie Mac on request) against the final payment of principal and interest due to the Holder of such PC as herein provided.

## 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 the payment to Holders of principal (including any required payments to Holders of Scheduled 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 PC Pool Balance of any affected 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 other similar official) of Freddie Mac or for all or substantially all of its property, or order 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 PC Pool Balance of any affected 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 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 PC Pool and shall take all other steps necessary or desirable to transfer its interest in and administration of this Agreement with respect to such 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 PC Pool Balance of any affected 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 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 PC Pool Balance of any affected 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 shall have been given to Freddie Mac during such 60-day period by the Holders of a majority of the Remaining PC Pool Balance in any affected PC Pool. It is understood and intended, and expressly covenanted by each Holder of a PC in any affected PC Pool with every other Holder in such 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 PCs in any affected 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 PCs to prepare their United States federal income tax returns, if applicable.

**Section 7.02. Limitations 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 matter 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 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 the 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 with respect to any Mortgage, this Agreement, the 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 in 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 a PC shall not operate to terminate this Agreement or any PC Pool, nor entitle the legal representatives or heirs of such person, or any Holder for such person, to claim an accounting, take any action or bring any proceeding in any court for a partition or winding up of any PC Pool, nor otherwise 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 PC Pool, or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the 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 interest of any Holder.

(b) Except as provided in Section 7.05(c) of this Agreement, with respect to any PC Pool formed pursuant to the terms hereof, any provision of this Agreement may be amended by Freddie Mac with the consent of the Holders of not less than a majority of the Remaining PC Pool Balance of such 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 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 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 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 a PC and the undivided interests in the Mortgages represented by such PC for the purpose of receiving payment of principal or interest and for all other purposes, and neither Freddie Mac or the Federal Reserve Bank, nor any agent of Freddie Mac or 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 PC. A Holder is not necessarily the beneficial owner of a PC. The rights of a beneficial owner of a 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 a PC.

**Section 7.07. Governing Law.** This Agreement and the Holders' and Freddie Mac's rights and obligations with respect to 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 any PC shall be a day which is not a Business Day, then such payment 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 such 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 A PC BY FREDDIE MAC AND RECEIPT AND ACCEPTANCE OF A 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 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