



Federal Home Loan Mortgage Corporation

Mortgage Participation Certificates

May 24, 1976



Federal Home Loan Mortgage Corporation

OFFERING CIRCULAR

FOR

MORTGAGE PARTICIPATION CERTIFICATES

(Guaranteed)

Sales of Mortgage Participation Certificates are conducted by the Federal Home Loan Mortgage Corporation through its Regional Offices on a continuous basis. Terms of current offerings may be obtained by contacting The Mortgage Corporation's Regional Office for your area (listed on the back cover).

This Offering Circular contains important information concerning The Mortgage Corporation and the Mortgage Participation Certificates offered herein and should be read carefully by prospective purchasers.

OFFERING CIRCULAR DATED MAY 24, 1976

FEDERAL HOME LOAN MORTGAGE CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS

The following statement of income and retained earnings of the Federal Home Loan Mortgage Corporation, for the five years ended December 31, 1975, has been examined by Arthur Andersen & Co., independent public accountants, whose report thereon is included elsewhere herein. This statement should read in conjunction with the financial statements and related notes appearing elsewhere in this Offering Circular.

	Years Ended December 31,				
	1971	1972	1973	1974	1975
	(000 omitted)				
Income:					
Interest and discount on mortgage loans, net (Note 1)	\$43,665	\$ 95,854	\$155,347	\$259,019	\$400,909
Interest on temporary cash investments	7,844	10,890	25,540	35,581	41,053
Gain on sale of FHA/VA mortgages	3,979	—	—	—	—
Other income	48	1,791	134	885	2,948
Total Income	55,536	108,535	181,021	295,485	444,910
Expenses:					
Interest on borrowings and related costs	44,102	96,129	147,582	250,362	407,843
Provision for losses, management fee and guarantees (Notes 3 and 7)	2,920	3,739	14,765	32,577	11,386
Administrative	2,794	4,805	6,954	7,554	10,173
Total Expenses	49,816	104,673	169,301	290,493	429,402
Net Income:	5,720	3,862	11,720	4,992	15,508
Retained earnings, beginning of year	13	5,733	9,595	21,315	26,307
Retained earnings, end of year	\$ 5,733	\$ 9,595	\$ 21,315	\$ 26,307	\$ 41,815
Earnings per common share	\$57.20	\$38.62	\$117.20	\$49.92	\$155.08

The notes to financial statements on pages 26 to 28 are an integral part of this statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENT OF INCOME

During 1974 the spread between the interest The Mortgage Corporation earned on all mortgages and the interest paid on its total borrowings narrowed as the result of increased borrowing costs. As a result of this narrowing and as a result of a negative spread between the interest on temporary cash investments and the cost of borrowings which supported such temporary cash investments, earnings before provision for losses, management fees and guarantees declined for 1975 compared to 1974. See "Effective Interest Income Rates and Financing Rates," page 19. Reference is also made to the "Statement of Changes in Financial Position," page 25, concerning amortization of mortgage loan purchase discount. (For discussion of FHLMC's activities in light of its statutory purposes, see "Federal Home Loan Mortgage Corporation" at page 4 above.)

Net income for 1975 was \$15,508,000 as compared to \$4,992,000 for 1974. During 1974, consistent with its statutory purposes, The Mortgage Corporation continued substantial purchases of mortgage loans notwithstanding increased borrowing costs which, in certain instances, exceeded the return on the mortgages acquired. The amount by which the borrowing costs exceeded the return on such mortgages

over the life of the borrowings was charged to income under "Provision for Losses, Management Fee and Guarantees," and aggregated \$30,400,000 for 1974. During 1975, the return on mortgages acquired exceeded the borrowing costs incurred to finance the new mortgages over the life of the borrowings. However, during 1975, \$9,435,000 was charged to income under "Provision for Losses, Management Fee and Guarantees" to absorb \$3,435,000 of losses actually incurred on the sale of mortgage loans and for possible future losses on the sale or financing of mortgage loans. This charge was made because mortgage market yields increased during 1975 and in certain instances exceeded The Mortgage Corporation's net yield on that portion of its mortgage portfolio which it has not sold or financed long-term.

THE MORTGAGE CORPORATION—HISTORY AND BUSINESS

The Board of Directors of FHLMC is composed of the three members of the Federal Home Loan Bank Board, whose Chairman is the Chairman of the Board of FHLMC. There is presently one vacancy on the Federal Home Loan Bank Board and the Board of FHLMC, the position of Chairman. (See "Management.") The Members of the Federal Home Loan Bank Board are appointed by the President of the United States, with the advice and consent of the Senate, for four-year terms.

The capital stock of FHLMC consists solely of non-voting common stock held by the twelve Federal Home Loan Banks. 100,000 shares, par value \$1,000 each, have been issued for a total purchase price of \$100 million, the maximum amount which the Federal Home Loan Banks were required to purchase pursuant to the FHLMC Act. FHLMC may declare dividends on its common stock but has not yet done so. The stock may be retired by FHLMC at its issue price if such retirement will not reduce the reserves and surplus of FHLMC to less than \$100 million.

The principal activity of FHLMC currently consists of the purchase of residential conventional mortgages or interests in such mortgages and the resale of mortgages or interests so purchased. These purchase and sale programs are described below under "Purchase Programs" and "Sale Programs."

Purchase Programs

The Mortgage Corporation purchases conventional mortgages or participation interests in such mortgages on a continuous basis. The participations purchased have varied from 50% to 85% of the underlying whole loans. Set forth below is information concerning the volume of such activities, as well as the volume of the FHA/VA purchase programs. Mortgages purchased under the joint United States Treasury—Federal Home Loan Bank System program and the GNMA agency program, described below under "Other Activities," are excluded.

	Years Ended December 31,				
	1971	1972	1973	1974	1975
	(000 omitted)				
COMMITMENTS AND CONTRACTS:					
FHA/VA	\$545,646	\$ 832,318	\$ 315,609	\$ 260,798	\$122,398
Participations	255,772	540,135	897,991	579,109	644,492
Conventional Whole Loans.....	—	230,469	301,510	295,768	214,157
Multipurpose Forward (A).....	—	—	113,949	411,592	—
TOTAL.....	\$801,418	\$1,602,922	\$1,629,059	\$1,547,267	\$981,047
PURCHASES:					
FHA/VA	\$561,158	\$ 802,645	\$ 336,418	\$ 260,668	\$119,792
Participations	217,200	312,841	730,697	739,106	523,650
Conventional Whole Loans.....	—	149,390	266,807	489,437	192,362
TOTAL.....	\$778,358	\$1,264,876	\$1,333,922	\$1,489,211	\$836,074

(A) The terms of the Multipurpose Forward commitments permitted delivery of conventional whole loans and/or participations.

Set forth below is a description of certain aspects of FHLMC's purchase programs for conventional residential mortgages and interests in such mortgages.

1. *Statutory restrictions.* All whole loans or participations purchased by FHLMC must meet certain standards set forth in the FHLMC Act. FHLMC is confined to the purchase of obligations secured by mortgages, the outstanding principal balance of which at the time of purchase does not exceed 80% of the value of the real property securing the mortgage unless: (1) the seller retains a participation interest in the mortgage of not less than 10% of the mortgage; or (2) the seller agrees for such period and under such circumstances as FHLMC may prescribe, to repurchase or replace the mortgage obligations upon demand by FHLMC in the event that the mortgage is in default; or (3) the portion of the unpaid principal balance of the mortgage obligation which is in excess of 80% is insured by a qualified mortgage insurer as determined by FHLMC.

The Mortgage Corporation may purchase a conventional mortgage which was originated more than one year prior to the purchase date only if the seller is currently engaged in mortgage lending or investment activities and, if, as a result thereof, the cumulative aggregate principal balances of all conventional mortgages purchased by FHLMC which were originated more than one year prior to purchase does not exceed 20% of the cumulative aggregate principal balances of all conventional mortgages purchased by FHLMC. As of December 31, 1975, FHLMC had purchased \$195 million aggregate principal amount of mortgages more than one year old which represents approximately 3.8% of all conventional mortgages purchased by FHLMC. Additionally, FHLMC is required to establish limitations governing the maximum principal obligation of conventional mortgages purchased by it which shall not exceed the limitations contained in Section 5(c) of the Home Owners' Loan Act of 1933. At present, the limitations established by FHLMC are \$42,000 for mortgages with respect to loans in excess of a 90% loan-to-value ratio and \$55,000 for mortgages with respect to loans not exceeding a 90% loan-to-value ratio. These limitations may be increased by 25% for mortgages on properties located in Alaska, Guam or Hawaii. Finally, FHLMC is confined 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 mortgage investors.

2. *Eligible sellers.* FHLMC may purchase mortgages from any Federal Home Loan Bank, the Federal Savings and Loan Insurance Corporation, a member of any Federal Home Loan Bank, any other financial institution the deposits or accounts of which are insured by an agency of the United States and from certain financial institutions the deposits or accounts of which are insured under State law (chiefly certain Massachusetts institutions). FHLMC purchases mortgages from any savings and loan association which is a member of a Federal Home Loan Bank and whose prior relationships with FHLMC have been satisfactory. Approximately 82% of all mortgages acquired by FHLMC have been acquired from such associations. In the case of savings banks, commercial banks and other federally or state insured financial institutions, FHLMC, on an individual institution basis, determines whether mortgages shall be acquired from any particular institution within this group. FHLMC, for these purposes, evaluates the depth of the mortgage origination and servicing experience of such sellers.

3. *Warranties of sellers.* A seller of whole loans or participations to FHLMC under any of the FHLMC purchase programs is required to give certain warranties to FHLMC for the benefit of FHLMC and purchasers from FHLMC. The warranties cover such matters as validity of the mortgage as a first lien, proper recordation of the mortgage, compliance by the seller with the requirements of all state and federal laws including those relating to settlement procedures, truth-in-lending and usury, absence of default of principal or interest payments on the mortgage, sale to FHLMC free of all liens and encumbrances prior to the first lien of the mortgage, and validity of title, hazard and private mortgage insurance policies. Sellers also warrant that the mortgage complies with all the terms and conditions of the FHLMC purchase program pursuant to which the mortgage is being purchased and with such requirements as are generally imposed by private institutional mortgage investors in the area in which the mortgaged property is located.

4. *Servicing.* Sellers of whole loans or participations to FHLMC agree, subject to FHLMC's general supervision, to perform diligently all services and duties customary to the servicing of mortgages. Such

duties include collection and remittance of principal and interest payments, administration of escrow accounts, collection of insurance claims, and, if necessary, foreclosure. Sellers may contract with other eligible sellers or with a mortgagee approved by the Secretary of Housing and Urban Development to have such servicing performed; however, such use of servicing agents does not relieve the seller of its obligations to The Mortgage Corporation.

5. *Qualified mortgage insurers.* Pursuant to the FHLMC Act, FHLMC purchases conventional mortgages with a loan-to-value ratio exceeding 80% if the principal amount of the indebtedness in excess of 75% of the appraised value of the mortgaged property is insured by a qualified mortgage insurer. FHLMC has established minimum requirements which a mortgage insurer must meet in order to be approved as a qualified mortgage insurer under the various purchase programs. As of April 30, 1976 FHLMC had approved 21 mortgage insurers as insurers whose insurance was eligible under FHLMC purchase programs. Mortgages with principal balances aggregating approximately 63% of the principal balance of all mortgages owned by FHLMC on December 31, 1975, have some portion of their principal balance insured by a qualified mortgage insurer.

6. *Credit, appraisal, and underwriting standards.* Each whole loan or participation purchased by FHLMC must meet the credit, appraisal, and underwriting standards established by FHLMC. These standards are designed to evaluate the credit standing of the mortgagor and the value of the real property securing the mortgage and are administered by FHLMC on the basis of procedures which FHLMC believes are adequate to determine that the mortgages meet FHLMC credit, appraisal, and underwriting standards. Approximately 8.2% of the conventional whole loans or participations offered for sale to FHLMC between April 1, 1972 and December 31, 1975 have been rejected for failure to meet the standards and requirements of the FHLMC purchase program under which the whole loan or participation was to be purchased.

7. *Purchase prices.* FHLMC purchases all participations on a yield basis, i.e., at their face amount (par) to yield a specified interest rate. Sellers are required as part of their servicing of the underlying mortgages to remit to FHLMC sufficient interest payments to yield the specified rate. To the extent the stated interest rate on the mortgages exceeds the yield specified by FHLMC, sellers retain the excess interest. To the extent that the stated interest rate is less than the yield specified, sellers make up the difference from interest payments attributable to their retained interest in the mortgage. FHLMC will not purchase a participation which would require more than 100% of the income from the retained interest to be paid over to FHLMC.

All whole loans purchased by FHLMC are purchased on a yield basis, i.e., at a specified percentage of their outstanding principal balances, adjusted for accrued or prepaid interest, which, when applied to the stated interest rate of the mortgage, results in the yield (expressed as a percentage) established by FHLMC. The yield so established includes $\frac{3}{8}$ % servicing fee retained by the seller/servicer of the whole loan. However, no purchase is made at greater than 100% of the outstanding principal balance. The applicable percentage yield is established based upon the outstanding principal balance and an assumed term and a prepayment period as determined by FHLMC.

8. *Variations in programs.* Consistent with the standards imposed by the FHLMC Act, the various FHLMC purchase programs have differed with regard to such matters as the percent retained by sellers (in participation purchase programs), permissible loan-to-value ratios and maximum unpaid principal amounts for individual mortgages. FHLMC believes that these variations have had no material impact upon the quality of whole loans or participations purchased in the various programs.

Sales Programs

As of December 31, 1975, FHLMC had sold or had contracted to sell \$1.455 billion original principal balance of Mortgage Participation Certificates substantially similar to the PCs offered hereby. As of December 31, 1975, the unpaid balances of outstanding PCs sold were approximately \$1.143 billion.

Since February, 1975, FHLMC has sold \$700 million initial principal amount of Guaranteed Mortgage Certificates ("GMCs"). GMCs represent undivided interests in specified conventional whole loans and participations previously purchased by FHLMC. FHLMC warrants return on the GMCs at the rate stated thereon and warrants that payments of principal will be sufficient to return to GMC holders minimum annual principal reduction payments as scheduled.

At December 31, 1975, FHLMC had accumulated a reserve of \$10,221,000 with regard to its guarantees on outstanding PCs and GMCs.

In addition, FHLMC has sold approximately \$2.109 billion aggregate principal amount of mortgage-backed bonds issued by FHLMC and guaranteed as to principal and interest by the Government National Mortgage Association ("GNMA"), for which FHA insured and VA guaranteed mortgages in a similar principal amount have been placed in trust. As of December 31, 1975, \$1.550 billion aggregate principal amount of these bonds remained outstanding. (See note 5 of Notes to Financial Statements.)

Other Activities

Pursuant to a joint United States Department of the Treasury-Federal Home Loan Bank System program, FHLMC committed to acquire up to \$3 billion aggregate principal balance of conventional single family residential mortgages. As of December 31, 1975, \$1.575 billion of these mortgages had been purchased, and all other commitments were either cancelled or have expired. This program was financed by loans from the Treasury to the Bank System, which in turn advanced such funds to FHLMC as were necessary to acquire the mortgages purchased pursuant to the program. FHLMC's loan from the Bank System is secured by the mortgages purchased. The program provides in effect that FHLMC's borrowing costs will not exceed its return on the mortgages, and both the loan to FHLMC and the loan to the Bank System provide for semiannual instalments in amounts equal to the principal collections on the related mortgage loans purchased.

GNMA has contracted with FHLMC for FHLMC to purchase and service as GNMA's agent up to \$3.491 billion aggregate principal balance of conventional single family residential mortgages. As of December 31, 1975, FHLMC, as GNMA's agent, had purchased \$1.223 billion principal balance of these mortgages, commitments totaling \$190 million had been cancelled and commitments to purchase \$2.078 billion remained outstanding. These purchases are for GNMA's account and are, therefore, excluded from FHLMC's balance sheet. FHLMC receives fees for the administration of the program as agent for GNMA. These fees are intended to offset FHLMC's expenses in connection with the program.

FHLMC Mortgage Portfolio

Summarized below is certain statistical information on FHLMC's mortgage portfolio (excluding mortgages purchased under the joint United States Treasury-Federal Home Loan Bank System program and the GNMA agency program described above) at the dates indicated. Given the relatively short duration of FHLMC's operations, the spread on the yields shown below is not necessarily indicative of the long-term relationships which may prevail.

Effective Interest Income Rates and Financing Rates

	December 31, 1972		December 31, 1973		December 31, 1974		December 31, 1975	
	Principal	Yield	Principal	Yield	Principal	Yield	Principal	Yield
	(000 omitted)		(000 omitted)		(000 omitted)		(000 omitted)	
FHA/VA Mortgages:								
Effective interest income.....		7.36%		7.42%		7.61%		7.70%
Effective borrowing cost.....		6.53		6.50		7.15		7.09
Net.....	\$1,485,281	.83	\$1,790,547	.92	\$1,956,115	.46	\$1,878,014	.61
Participations in Conventional Mortgages:								
Effective interest income.....		7.51		8.14		8.49		8.50
Effective borrowing cost.....		6.61		7.18		8.63		8.63
		.90		.96		(.14)		(.13)
Adjustment (Note).....		—		—		.47		.47
Net.....	141,900	.90	568,734	.96	1,205,971	.33	853,583	.34
Conventional Mortgages:								
Effective interest income.....		7.12		7.81		8.43		8.43
Effective borrowing cost.....		6.61		7.18		8.63		8.63
		.51		.63		(.20)		(.20)
Adjustment (Note).....		—		—		.47		.47
Net.....	144,188	.51	232,467	.63	694,624	.27	723,464	.27
Total Mortgages Owned:								
Effective interest income.....		7.35		7.62		8.03		8.05
Effective borrowing cost.....		6.54		6.72		7.88		7.92
		.81		.90		.15		.13
Adjustment (Note).....		—		—		.23		.23
Net.....	\$1,771,369	.81	\$2,591,748	.90	\$3,856,710	.38	\$3,455,061	.36
Mortgage Participation Certificates:								
Effective interest income.....		7.60		7.51		7.53		8.14
Effective certificate rate.....		7.09		7.20		7.26		7.72
Net.....	\$ 444,173	.51	\$ 791,275	.31	\$ 779,838	.27	\$1,142,524	.42
Guaranteed Mortgage Certificates:								
Effective interest income.....		—		—		—		8.49
Effective certificate rate.....		—		—		—		8.42
Net.....							\$ 477,435	.07

Note—The adjustment represents additional yield resulting from the write-down of mortgage loans. To the extent a loss is indicated on the financing of mortgage loans, the loss attributable to such financing is charged against the allowance for possible losses and is reflected on the balance sheet as a reduction of mortgage loans. This reduction of mortgage loans results in additional yield which for accounting purposes is recognized in FHLMC's Statement of Income and Retained Earnings as additional interest income over the term of the related borrowing. (See notes 1 and 3 of Notes to Financial Statements.)

The effective interest income rate on the mortgage portfolio is average contract interest income adjusted for the effect of discount amortization, less servicing fees. The effective borrowing cost is the average borrowing rate adjusted for discounts and concessions.

The effective interest income rates on mortgages have not been adjusted to semi-annual yield equivalent.

Risks of Refinancing and Reinvestment

The profit or loss generated by FHLMC's mortgage operations is substantially governed by (i) the difference between the effective interest income on its portfolio of mortgages and temporary cash investments and the effective interest expense on borrowings required to carry its portfolio, and (ii) the difference between the effective interest income on whole loans and participations purchased and the effective interest paid with respect to Mortgage Participation Certificates and Guaranteed Mortgage Certificates sold. As a result, FHLMC's earnings are materially dependent upon the relative movements between mortgage yields and other market rates.

FHLMC's mortgage portfolio consists principally of mortgages with original maturities of thirty years on which principal is amortized monthly in increasing increments over the life of the mortgage. Due to prepayments, the average mortgage is discharged prior to its stated maturity. The borrowings required to finance this portfolio are expected to mature more rapidly than the portfolio itself.

If FHLMC experiences higher than anticipated refinancing costs as current borrowings mature, it could have a material adverse effect on FHLMC's financial position or its results of operations. The table below sets forth the maturities of FHLMC's borrowings, exclusive of advances from Federal Home Loan Bank in the form of borrowings from the U. S. Treasury, as of December 31, 1975.

<u>Maturity</u>	<u>Amounts</u>	<u>Maturity</u>	<u>Amounts</u>
	(000 omitted)		(000 omitted)
1976.....	\$698,878	1981-1985	\$972,077
1977.....	866,507	1986-1990	82,455
1978.....	368,005	1991-1995	472,500
1979.....	220,347	1996-1997	157,500
1980.....	211,683		

See note 5 of Notes to Financial Statements.

Furthermore, if FHLMC were to experience greater than anticipated principal payments (including prepayments) on portfolio mortgages, it would be required to reinvest in mortgages or other interest bearing investments which could have yields less favorable than required to pay the interest upon FHLMC's borrowings. Such an event could also have a material adverse effect on FHLMC's financial position or its results of operations.

Geographic Distribution of Mortgage Portfolio

The following table sets forth the general geographic location of the properties underlying the mortgage portfolio of FHLMC as of December 31, 1975 (including those mortgages which FHLMC has sold but as to which FHLMC has guaranteed payment of principal and interest).

<u>Geographic Area Designation</u>	<u>Unpaid Principal Balance (000 Omitted)</u>						
	<u>FHA/VA</u>	<u>Percentage of FHA/VA</u>	<u>Conventional Mortgages</u>		<u>Percentage of Conventional Loans</u>	<u>Total</u>	<u>Percentage of Total</u>
			<u>Partici- pations</u>	<u>Whole Loans</u>			
Boston	\$ 8,482	.45%	\$ 74,526	\$ 24,366	2.11%	\$ 107,374	1.63%
New York	39,929	2.10	49,536	29,743	1.69	119,208	1.81
Pittsburgh	10,633	.56	94,621	28,571	2.63	133,825	2.03
Atlanta North	58,939	3.10	263,765	297,266	11.98	619,970	9.42
Atlanta South	197,005	10.37	276,819	355,822	13.51	829,646	12.60
Indianapolis	61,631	3.24	155,882	79,926	5.04	297,439	4.52
Chicago	166,849	8.78	108,177	99,168	4.43	374,194	5.69
Des Moines	12,908	.68	33,598	3,148	.79	49,654	.75
Little Rock	240,069	12.64	172,397	399,073	12.20	811,539	12.33
Denver	166,090	8.74	365,783	121,592	10.41	653,465	9.93
Los Angeles	771,781	40.62	661,798	484,368	24.48	1,917,947	29.14
Seattle	165,698	8.72	236,839	265,824	10.73	668,361	10.15
Total	<u>\$1,900,014</u>	<u>100.00%</u>	<u>\$2,493,741</u>	<u>\$2,188,867</u>	<u>100.00%</u>	<u>\$6,582,622</u>	<u>100.00%</u>

States included under geographic area designations:

<p><u>BOSTON</u></p> <p>Maine Vermont New Hampshire Massachusetts Rhode Island Connecticut</p>	<p><u>ATLANTA</u></p> <p>Atlanta South: South Carolina Georgia Alabama Florida Kentucky Tennessee</p> <p>Atlanta North: Maryland Virginia North Carolina District of Columbia</p>	<p><u>CHICAGO</u></p> <p>Illinois Ohio Wisconsin</p> <p><u>DES MOINES</u></p> <p>Iowa North Dakota South Dakota Minnesota Missouri</p> <p><u>LITTLE ROCK</u></p> <p>Arkansas Louisiana New Mexico Texas Mississippi</p>	<p><u>DENVER</u></p> <p>Kansas Nebraska Oklahoma Colorado</p> <p><u>LOS ANGELES</u></p> <p>California Nevada Arizona</p> <p><u>SEATTLE</u></p> <p>Alaska Guam Hawaii Idaho Montana Oregon Utah Washington Wyoming</p>
<p><u>NEW YORK</u></p> <p>New York New Jersey Puerto Rico Virgin Islands</p>	<p><u>INDIANAPOLIS</u></p> <p>Indiana Michigan</p>		
<p><u>PITTSBURGH</u></p> <p>Pennsylvania Delaware West Virginia</p>			

Delinquencies, Defaults and Foreclosures

Set forth below is certain information concerning FHLMC's default, delinquency and foreclosure experience with its mortgage portfolio (including those mortgages which FHLMC has sold but as to which FHLMC has guaranteed payment of principal and interest). Given FHLMC's relatively short history of operations, this information is not necessarily indicative of long-term trends. Defaults, delinquencies and foreclosures on mortgages are in some measure related to general economic conditions and do not reach their peak until some time after maximum unemployment rates are reached in an economic cycle. A peak in unemployment rates was reached in the second quarter of 1975. For the third and fourth quarters of 1975, unemployment rates remained relatively high and were declining slowly. As a result, current statistics relating to FHLMC's portfolio have begun to show a slight increase in delinquencies and numbers of foreclosures.

As of December 31, 1975, there were 3,014 conventional mortgages (1.67% of total) one payment delinquent, 621 mortgages (.34% of total) two payments delinquent, and 330 mortgages (0.18% of total) three payments or more delinquent and not in the process of foreclosure. Foreclosure had been approved and was in process for 184 mortgages (0.10% of total) as of that date. The foregoing statistics include two multi-family projects on which mortgages owned or guaranteed by FHLMC were delinquent one or more payments or in the process of foreclosure. The aggregate unpaid principal balance of these two mortgages owned or guaranteed by FHLMC was \$5,044,000. While FHLMC anticipates that it may sustain losses upon foreclosure of one of these loans of approximately \$2.5 million, FHLMC believes that its reserves for possible losses on these loans are adequate and that such losses, if any, would not have a material adverse effect on its financial position or results of operations.

As of December 31, 1975, there were 4,557 FHA/VA mortgages (4.91% of total) one payment delinquent, 1,121 mortgages (1.21% of total) two payments delinquent, and 527 mortgages (0.57% of total) three payments or more delinquent and not in the process of foreclosure. Foreclosure had been approved and was in process for 550 mortgages (0.59% of total) as of that date.

Mortgages placed in foreclosure do not necessarily result in a loss to the holder of the mortgage. It has been FHLMC's experience that mortgages placed in foreclosure are frequently reinstated to a current position or paid in full prior to completion of foreclosure proceedings. Further, the completion of foreclosure proceedings and resultant sale of the mortgaged property does not necessarily result in any loss to the mortgage holder, since the amount realized upon ultimate disposition of a property and/or recoveries under applicable mortgage insurance policies may be sufficient to pay all principal, interest and foreclosure expenses.

From commencement of operations through December 31, 1975, 244 conventional home loans and four multi-family conventional mortgage loans, with unpaid principal balances of approximately \$6,005,000 and 3,415,000, respectively, have been foreclosed. No losses were incurred with regard to the foreclosed home loans; a loss of \$889,680 was incurred on three of the four foreclosed multi-family loans. The fourth multi-family loan was foreclosed and the secured property was owned by FHLMC on December 31, 1975 but was subsequently sold with no loss to FHLMC. As of December 31, 1975, FHLMC had \$16,000,000 reserved for possible losses resulting from foreclosure of mortgages owned and \$10,221,000 reserved with regard to its guarantees on mortgage loans sold.

MANAGEMENT

The directors and principal officers of the Mortgage Corporation are as follows:

<u>Name</u>	<u>Age</u>	<u>Year of Affiliation</u>	<u>Position</u>
Garth Marston	50	1974	Acting Chairman of the Board of Directors
Grady Perry	45	1973	Director
Victor H. Indiek	38	1970	President
Philip N. Harrington.....	50	1971	Executive Vice President
Philip R. Brinkerhoff	33	1973	Executive Vice President
John C. Horseman	41	1971	Sr. Vice President—Regional Operations
Jerry Barrentine	42	1973	Vice President & Treasurer
Henry L. Judy	36	1975	Vice President & General Counsel
Jack Carter	58	1973	Vice President—Congressional Relations
Richard A. Mackey.....	33	1971	Vice President—Systems
Kenneth M. Plant	41	1971	Vice President—Research
Leady W. Seale, Jr.....	53	1972	Vice President—Appraisal and Underwriting
Ronald D. Struck	31	1972	Vice President—Marketing

Mr. Marston is Acting Chairman and Mr. Perry is a Member of the Federal Home Loan Bank Board. There is one vacancy on the Federal Home Loan Bank Board and when filled the new member will become a director of FHLMC. The terms of Messrs. Marston and Perry expire in 1979 and 1977, respectively. Prior to April 1974, Garth Marston was Senior Vice President of Washington Mutual Savings Bank. Prior to June 1973, Grady Perry was Congressional Liaison Officer for the Federal Home Loan Bank Board.

Victor H. Indiek has been affiliated with FHLMC since December 1970 and was appointed President of FHLMC in October 1974. Prior to his affiliation with FHLMC he was a Manager with Arthur Andersen & Co. Philip N. Harrington has been Executive Vice President of FHLMC since June 1973 and a Vice President since April 1971. Prior thereto he was Senior Vice President of the Equitable Savings & Loan Association of Los Angeles, California. Philip R. Brinkerhoff has been Executive Vice President of FHLMC since April 1975 and Vice President and General Counsel since June 1973. Prior thereto he was an attorney with Streich, Lang, Weeks, Cardon & French, Phoenix, Arizona. John C. Horseman has been Senior Vice President—Regional Operations of FHLMC since 1974 and Regional Vice President since January 1971. Prior thereto he was Assistant to the President of Amortibanc Investment Company, Inc. and Assistant Vice President and Treasurer of Farmers and Bankers Life Insurance Company.

Jerry Barrentine has been Vice President and Treasurer of FHLMC since October 1973 and Assistant Treasurer since January 1973. Prior thereto he was a Manager with Peat, Marwick, Mitchell & Co. Henry L. Judy has been Vice President and General Counsel of FHLMC since June 1975. Prior to that he was Deputy General Counsel of the Federal Home Loan Bank Board. Jack Carter has been Vice President—Congressional Relations of FHLMC since July 1973, prior to which he was Secretary of the Federal Home Loan Bank Board. Richard A. Mackey has been Vice President—Systems of FHLMC since

June 1974. Prior to his affiliation with FHLMC in 1971, he was a Systems Analyst for Tate Technologies, Inc. Kenneth M. Plant has been Vice President—Research of FHLMC since June 1973, prior to which he was Director of Research of FHLMC. Prior to his affiliation with FHLMC, Mr. Plant was a business economist for American Can Company from 1970 to 1971. Prior to that he was a Research Economist for the Conference Board. Leady W. Seale, Jr. has been affiliated with FHLMC since October 1972 and was appointed Vice President—Appraisal and Underwriting in September 1975. Prior to his affiliation, he was Chief Appraiser and Assistant Vice President of the Mortgage Loan and Real Estate Division, Equitable Life Insurance Company, Washington, D.C. Ronald D. Struck was appointed Vice President—Marketing of FHLMC in February 1976 and has been affiliated with FHLMC since November 1972. Prior thereto, he was affiliated with Parker Square Savings and Loan Association of Wichita Falls, Texas and The Plains National Bank of Lubbock, Texas.

As of April 30, 1976, FHLMC had 262 employees.

FEDERAL SECURITIES LAWS

The PCs offered hereby may be offered and sold without registration under the Securities Act of 1933, and constitute “exempt securities” within the meaning of the Securities Exchange Act of 1934.

EXPERTS

The Financial Statements included in this Offering Circular to the extent and for the periods indicated in their report, have been examined by Arthur Andersen & Co., independent public accountants, and have been included herein in reliance upon the authority of said firm as experts in giving such report.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS OF FEDERAL HOME LOAN MORTGAGE CORPORATION:

We have examined the balance sheet of Federal Home Loan Mortgage Corporation (a Federally chartered corporation exempt from income taxes) as of December 31, 1975, and the related statements of income and retained earnings (included on page 14 of this Offering Circular) and changes in financial position for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Federal Home Loan Mortgage Corporation as of December 31, 1975 and the results of its operations and the changes in its financial position for the five years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Washington, D.C.,
February 12, 1976.

FEDERAL HOME LOAN MORTGAGE CORPORATION

BALANCE SHEET

ASSETS

	December 31, 1975
	(000 omitted)
Mortgage Loans, at unpaid principal balances (Notes 1,2,5 and 7)	
Insured by Federal Housing Administration (FHA) or	
Guaranteed by Veterans Administration (VA).....	\$1,877,166
Participation in Conventional Mortgage Loans.....	843,697
Conventional Mortgage Loans.....	713,578
	3,434,441
Conventional Loans Funded Under Special U.S. Treasury Program (Note 6).....	1,528,224
	4,962,665
Less—Unamortized Discount.....	85,162
—Allowance for possible losses (Note 3).....	16,000
	4,861,503
Cash.....	369
Temporary Cash Investments, at cost plus accrued interest which approximates market..	978,433
Accrued Interest Receivable.....	36,191
Accounts Receivable and Other Assets.....	11,843
Claims Against FHA and VA, net of allowance for losses of \$200,000.....	2,901
Real Estate Owned, at the lower of cost or estimated realizable value.....	2,312
Unamortized Debt Expense.....	5,185
	\$5,898,737

LIABILITIES AND STOCKHOLDERS' EQUITY

Bonds and Advances Payable, including \$698,900,000 due in 1976 (Note 5).....	\$4,049,952
Advances for Special U.S. Treasury Funded Program, including \$30,970,000 due in January 1976 (Note 6).....	1,559,194
Other Liabilities:	
Accrued interest.....	121,298
Accounts payable and other accrued expenses.....	15,543
Commitment fees.....	96
	5,746,083
Reserve for Management Fee and Guarantees (Note 7).....	10,839
Guaranteed Mortgage Certificates (Note 7).....	500,000
Less—Underlying Mortgage Loans Sold, including principal collections held in trust of \$22,565,000.....	500,000
	—
Commitments (Note 4)	
Stockholders' Equity:	
Common stock, nonvoting, \$1,000 par value; no maximum authorization; 100,000 shares issued and outstanding.....	100,000
Retained earnings.....	41,815
	141,815
	\$5,898,737

The accompanying notes are an integral part of this balance sheet.

FEDERAL HOME LOAN MORTGAGE CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years Ended December 31				
	1971	1972	1973	1974	1975
	(000 omitted)				
FUNDS PROVIDED:					
Net Income	\$ 5,720	\$ 3,862	\$ 11,720	\$ 4,992	\$ 15,508
Charges (credits) to income not affecting funds:					
Amortization of mortgage purchase discount.....	(1,407)	(3,467)	(5,550)	(6,545)	(7,668)
Amortization of debt expense.....	430	1,004	1,483	1,261	1,630
Provision for losses, management fee and guarantees (Notes 3 and 7)	2,920	3,739	14,765	32,577	11,386
Funds provided from operations	7,663	5,138	22,418	32,285	20,856
Mortgage loan principal repayments.....	21,474	62,943	110,469	156,659	290,538
Proceeds from issuance of bonds and advances, net of debt expenses.....	598,287	896,881	1,205,850	1,696,400	211,023
Proceeds from advances for Special U.S. Treasury Funded Program	—	—	—	695,000	879,500
Mortgage Loans Sold:					
Mortgage Participation Certificates, net of repur- chases.....	65,024	409,820	407,268	42,771	453,851
Guaranteed Mortgage Certificates.....	—	—	—	—	500,000
FHA/VA.....	48,368	—	—	—	66,939
Increase in accounts payable and other accrued expenses...	39	595	348	13,609	405
Increase in accrued interest payable	6,951	11,952	24,271	20,809	54,455
Total funds provided.....	\$747,806	\$1,387,329	\$1,770,624	\$2,657,533	\$2,477,567
FUNDS APPLIED:					
Mortgage Loans Purchased, net of discount:					
Regular Programs.....	\$757,174	\$1,262,286	\$1,314,160	\$1,488,570	\$ 828,808
Special U.S. Treasury Funded Program	—	—	—	677,196	875,672
Advances and bonds retired.....	—	175,000	151,120	554,935	2,023
Repayments of advances for Special U.S. Treasury Funded Program	—	—	—	—	15,306
Decrease (increase) in short-term discount notes.....	—	—	—	(147,600)	147,600
Increase in accrued interest receivable	4,928	6,023	5,675	14,584	2,488
Increase (decrease) in cash and temporary cash in- vestments.....	(12,806)	(57,917)	297,680	50,802	599,780
Other items, net	(1,490)	1,937	1,989	19,046	5,890
Total funds applied	\$747,806	\$1,387,329	\$1,770,624	\$2,657,533	\$2,477,567

The accompanying notes are an integral part of this statement.

FEDERAL HOME LOAN MORTGAGE CORPORATION

Notes to Financial Statements

December 31, 1975 and 1974

1. Summary of Significant Accounting Policies

Recognition of Gain (Loss) on Mortgage Loans

The Federal Home Loan Mortgage Corporation (the "Corporation") provides for estimated losses on mortgage loan purchases, including outstanding commitments, which may be incurred upon funding of such purchases through a security sale, or upon sale of the loans, and provides allowances for uninsured losses and contingencies. To the extent a loss is indicated on the financing of mortgage loans, the loss attributable to such financing is charged against the allowance for possible losses and is reflected in the balance sheet as a reduction of mortgage loans. This reduction in mortgage loans results in additional yield which is recognized over the term of the related borrowing.

Sales of Mortgage Participation Certificates and Guaranteed Mortgage Certificates representing undivided interests in mortgage loans provide for the Corporation to manage and guarantee the underlying mortgages. If the Corporation's net yield after estimated management fees and guarantees is less than the effective rate payable to the investor, the Corporation recognizes the estimated loss at the time of sale. Gains, representing the excess of yield (net of guarantee reserves) to the Corporation over that payable to the investor, are recognized as earned over the lives of the related mortgages.

Mortgage Loan Discount

Discount on mortgages purchased is recorded as income over the term of the related mortgage loans using the level yield method.

Amortization of Debt Expense

Debt expense is amortized over the period during which the related debt instrument is outstanding.

Commitment Fees

Commitment fee income is deferred and included in discount on mortgages as the mortgages are purchased, or recognized as other income if forfeited by nondelivery. Commitment fees on Mortgage Participation Certificate sales are charged to operations when paid.

2. Mortgage Loans

As of December 31, 1975 and 1974, the effective net yield of mortgage loans after deducting servicing fees was as follows:

	1975	1974
FHA and VA Mortgages	7.70%	7.61%
Participation in Conventional Mortgages	8.97%	8.96%
Conventional Mortgages	8.90%	8.90%

3. Allowance for Possible Losses on Mortgage Loans

An analysis of the changes in the Allowance for Possible Losses on Mortgage Loans for the years ended December 31, 1975 and 1974 follows:

	1975	1974
	(000 omitted)	
Balance, beginning of period	\$10,000	\$ 9,000
Provision charged to expense	9,435	31,400
Reductions attributable to:		
Loss on sales of Mortgage Participation Certificates	(2,310)	—
Loss on mortgages financed by bonds	—	(30,400)
Loss on mortgages sold	(1,125)	—
Balance, end of period	\$16,000	\$10,000

FEDERAL HOME LOAN MORTGAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS—(Continued)

4. Contracts and Commitments

The Corporation had outstanding contracts and commitments to purchase mortgage loans as summarized below. The average effective net yield is computed after deducting servicing fees. FHA and VA mortgage purchase contracts are at the coupon rate adjusted for the benefit of purchase discount. Delivery is mandatory under all commitment programs.

<u>Type of Loan</u>	<u>Delivery Period In Months</u>	<u>December 31, 1975</u>	
		<u>Average Effective Net Yield</u>	<u>Amount (000 omitted)</u>
FHA/VA Home (1-4 family)	2	9.10%	\$ 4,026
Participation in Conventional Home and Multifamily Mortgages	2	9.03%	72,415
Conventional Mortgages:			
Home	2	9.11%	33,059
Multifamily	2	8.75%	296
			<u>\$109,796</u>

5. Bonds and Advances

<u>A summary of bonds and advances payable is as follows:</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>December 31, 1975</u>	<u>December 31, 1974</u>
			<u>(000 omitted)</u>	<u>(000 omitted)</u>
Bond payable to bank	1975/1986	7.75%	\$ 20,128	—
Advances from Federal Home Loan Bank in the form of a pass-through of short-term discount notes	1975	9.70%	—	\$ 147,600
Advances from Federal Home Loan Bank in the form of a pass-through of consolidated Federal Home Loan Bank Obligations	1976	9.36%	290,000	290,000
	1977	8.40	500,000	500,000
	1978	9.43	300,000	300,000
	1979	9.50	100,000	100,000
	1981	8.69	400,000	400,000
	1982	8.65	190,000	
	1984	8.78	300,000	300,000
	1993	7.41	400,000	400,000
			<u>2,480,000</u>	<u>2,290,000</u>
Mortgage-Backed Bonds	1976	7.15%	400,000	400,000
	1977	6.24	350,000	350,000
	1978	5.18	51,375	51,375
	1979	6.06	103,580	103,580
	1975/1980	5.25	201,408	202,558
	1985	5.33	3,461	3,461
	1976/1995	8.69	140,000	140,000
	1977/1996	7.84	150,000	150,000
	1997	7.25	150,000	150,000
			<u>1,549,824</u>	<u>1,550,974</u>
Bonds and Advances Payable			<u>\$4,049,952</u>	<u>\$3,988,574</u>

The 1997, 1976/1995, and 1977/1996 Mortgage-Backed Bonds and the 1993 advance from the Federal Home Loan Bank are redeemable at the Corporation's option commencing 1982, 1983, 1984, and 1985, respectively, at their face value. On the 1976/1995 and 1977/1996 Bonds, a sinking fund provides for annual retirements of \$7 and \$7.5 million principal amount of bonds, respectively, commencing in 1976 and 1977. In addition, the Corporation has a noncumulative option to increase the sinking fund amounts each year by an amount not exceeding the annual retirement amounts.

FEDERAL HOME LOAN MORTGAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS—(Continued)

All Mortgage-Backed bonds are guaranteed as to principal and interest by the Government National Mortgage Association (GNMA). Under the provision of a Trust Indenture with GNMA dated October 26, 1970, and supplements thereto, the Corporation conveyed mortgages to the Trust as security for the Mortgage-Backed Bonds. As of December 31, 1975 and 1974, Trust assets of approximately \$2.1 billion and \$2.0 billion, respectively, constituting primarily principal balances of such mortgages are restricted for the payment of principal and interest on the Mortgage-Backed Bonds and are included in the accompanying balance sheet.

The bond payable to bank is collateralized by a like amount of FHA/VA mortgages and calls for specific annual principal repayments ranging from \$663,000 to \$1,408,000 over the life of the bond with the balance of unpaid principal due at maturity.

6. Special U.S. Treasury Funded Program

Conventional mortgage loans with an aggregate unpaid principal balance of \$1,528,224,000 at December 31, 1975 and \$693,514,000 at December 31, 1974 are pledged as collateral for advances on a joint United States Department of the Treasury—Federal Home Loan Bank System program. Pursuant to the program, the Corporation committed to acquire up to \$3 billion aggregate principal amount of conventional mortgages. As of December 31, 1975, approximately \$1.575 billion of these mortgages had been purchased, and all other commitments had been cancelled or expired. The program provides in effect that the Corporation's borrowing costs will not exceed its return on the mortgages. The terms of the loan agreement provide for semiannual instalments in amounts equal to the principal collections on the related mortgage loans purchased.

7. Mortgage Loan Sales

The Corporation sells Mortgage Participation Certificates and Guaranteed Mortgage Certificates (GMCs) representing undivided interests in mortgage loans. The Corporation guarantees the timely payment of interest and the collection of principal on the mortgage loans and has provided \$1,951,000 in 1975 and \$1,177,000 in 1974 for such guarantees. These amounts have been reflected in the provision for losses, management fee and guarantees.

Holders of Mortgage Participation Certificates receive interest monthly at the certificate rate together with their pro rata share of principal payments received by the Corporation. The issued certificates have been accounted for as sales, and the mortgage loans and the certificates issued are not included in the accompanying balance sheet. Unpaid balances of the outstanding certificates were approximately \$1.143 billion and \$780 million at December 31, 1975 and December 31, 1974, respectively.

Holders of Guaranteed Mortgage Certificates are paid interest semiannually at the certificate rate and, annually, their pro rata share of principal collected or specified minimum annual principal reductions, whichever is greater. On March 15, 1990 and September 15, 1990, respectively, any GMC holder of the \$300 million GMC Series A 1975 and \$200 million GMC Series B 1975 may, at his or her option, require the Corporation to purchase such certificates at the then unpaid principal balance.

8. Pension Plan

In November, 1974, the Corporation established a non-contributory pension plan covering all eligible employees. Total pension expense was approximately \$347,000 and \$274,000 for the years ended December 31, 1975 and 1974, respectively. The Corporation's policy is to fund pension cost accrued. The pension fund assets exceed the actuarially computed value of vested benefits. In the opinion of management, the pension plan complies with the provisions of the Pension Reform Act of 1974.



Federal Home Loan Mortgage Corporation

FHLMC MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT (Guaranteed)

Series 500

AGREEMENT among the Federal Home Loan Mortgage Corporation (“FHLMC”) and purchasers (“Holders”) of undivided interests in certain mortgages (and/or interests therein) owned by and identified on the books and records of FHLMC, which undivided interests in mortgages are represented by Mortgage Participation Certificates (“PCs”).

WHEREAS:

(a) Pursuant to Section 305 of the Emergency Home Finance Act of 1970 (the “Act”), FHLMC owns certain mortgages (as defined in Section 302 of the Act), including whole loan mortgages (“whole loans”) and undivided participation interests in mortgages (“participations”), identified on the books and records of FHLMC (hereinafter collectively called the “Mortgages”); and

(b) Pursuant to Section 305 of the Act, FHLMC wishes to create and sell undivided interests in the whole loans and participations acquired as set forth above, and to guarantee timely payment of interest and ultimate collection of principal, for the benefit of Holders; and

(c) FHLMC intends to transfer said undivided interests to Holders by issuance of FHLMC PCs.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, the parties hereby agree as follows:

1. The terms and conditions of this Agreement shall govern the creation of undivided interests in whole loans and participations owned by FHLMC, and the transfer, sale and assignment of such interests in the Mortgages as represented by PCs. FHLMC shall be bound to Holders at such time as it delivers PCs to such Holders.

2. For purposes of determining the Holder’s percentage interest in the underlying Mortgages evidenced by a PC, the original unpaid principal balance of the PC shall be divided by the aggregate unpaid principal balance of the specific underlying Mortgages as of the date shown on the face of the PC.

3. To the extent that the Mortgages may be insured by a mortgage insurer, such insurer shall have no obligation to recognize or deal with any person with respect to the Mortgages, other than FHLMC, with regard to the rights, benefits and obligations of the mortgagee under the respective contracts of insurance relating to each of the Mortgages insured by such insurer; and FHLMC shall maintain or supervise custody of the mortgage documents.

Obligations of FHLMC

4. FHLMC shall pass through to each Holder such Holder’s pro rata share of principal payments made in respect to the Mortgages, and its pro rata share of any net income, net profits or any proceeds of the Mortgages, and its pro rata share in any property of whatever character received or acquired in substitution or realization thereof; provided, however, FHLMC’s obligations herein shall be subject to FHLMC’s rights pursuant to paragraph 12 below in respect to payments made pursuant to FHLMC’s guaranty.

5. With respect to such portion of the Mortgages as shall be comprised of whole loans purchased by FHLMC, FHLMC shall remit to each Holder his pro rata share of the interest income received by FHLMC, less fees, if any, chargeable by FHLMC as management and guaranty fees (interest at the coupon rate of each whole loan less fees deducted by the servicer and/or FHLMC equals interest at Certificate Rate).

6. With respect to such portion of the Mortgages as shall be comprised of participations, FHLMC shall remit to each Holder his pro rata share of the interest income received by FHLMC with respect to each participation ("Certificate Yield"), less fees, if any, chargeable by FHLMC as management and guaranty fees (Certificate Yield less fees deducted equals interest at Certificate Rate).

7. FHLMC shall remit to each Holder his pro rata share of principal received by FHLMC and interest to the extent of the Certificate Rate, on or before the first day of the second month following the month in which such payments are to be made by the mortgagors on the Mortgages. FHLMC shall remit any other sums, such as prepayments, prepayment fees, net income or profits or liquidation proceeds, no later than the first day of the second month following the month in which such funds are received by FHLMC.

8. The final payment date specified in the PC may be accelerated by virtue of prepayments of principal or extended by virtue of forbearance affecting any of the whole loans or participations comprising the Mortgages.

9. FHLMC shall service, or supervise servicing of, the Mortgages in a manner consistent with and to the extent required by prudent servicing standards, including management of any property acquired through foreclosure or otherwise. FHLMC 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. In discharging its responsibility pursuant to this paragraph 9, FHLMC shall not be subject to the control of the Holders in any manner whatsoever. Except with regard to its guaranty obligations pursuant to paragraph 11 below, FHLMC shall have no liability to any Holder other than for any direct damage resulting from FHLMC's failure to exercise that degree of ordinary care which it exercises in the conduct and management of its own affairs. FHLMC shall have no liability of whatever nature for consequential damages.

10. Any amounts expended by or on behalf of FHLMC for the protection, preservation or maintenance of the Mortgages, or property received in liquidation or realization thereof, shall be deemed expenses to be borne pro rata by FHLMC and the Holders as their interests may appear in each of the Mortgages; however, in no event shall the Holder's guarantee of principal or interest at Certificate Rate as set forth in paragraph 11 below be affected.

11. FHLMC hereby guarantees to each Registered Holder of a PC:

(a) Timely payment of interest by each mortgagor at the applicable Certificate Rate on the unpaid principal balance outstanding on each mortgage (to the extent of each Holder's percentage of participation therein); in the case of whole loans, coupon rate of each mortgage less any fees payable by Holder to FHLMC or to servicers as provided herein equals Certificate Rate; in the case of participations, Certificate Yield less any fees payable by Holder to FHLMC as provided herein equals Certificate Rate. In no event shall fees deducted by FHLMC or by servicers reduce the Certificate Rate stated on the PC.

(b) Collection of principal, without offset or deduction of any fees due FHLMC or servicers hereunder. For purposes of this guaranty, principal balance outstanding shall include the Holder's pro rata share of the unpaid principal, plus the Holder's pro rata share of amounts expended by the servicer of the Mortgages or by FHLMC under paragraph 10 above. FHLMC shall remit the amount due on account of its guaranty of collection of principal at any time after default on an underlying mortgage, but not later than: (i) thirty (30) days following foreclosure sale, (ii) thirty (30) days following payment of the claim by any mortgage insurer, if applicable, or (iii) thirty (30) days following the expiration of any redemption period, whichever occurs later, but in no event later than one (1) year after demand upon the mortgagor for accelerated payment of principal.

12. FHLMC shall be subrogated to all the rights, interests, remedies, powers, and privileges of each Holder in respect of any Mortgages on which guarantee payments have been made by FHLMC of principal and/or interest.

Transfer; Registration; and Lost PCs

13. Any sale, transfer, pledge or other disposition of a PC by a Holder shall be evidenced only by completion of the Notice of Transfer on the reverse side of the PC or by completion of such other document as may be provided for this purpose by FHLMC.

14. Holders shall comply with all requirements and limitations promulgated by FHLMC, if any, on the sale, transfer and registration of PCs. Holders shall, in the event of transfer, assign only their entire interest in any PC or only such portion of their interest in a PC as will correspond to any multiple of the minimum denomination in which PCs are issued, unless FHLMC otherwise consents in writing.

15. FHLMC or its designated agent shall maintain a register in which shall be registered the Holders of PCs. Transfers of PCs shall be on such forms as FHLMC may require and shall be registered effective as of the opening of business of the first day of the month, provided that written notice of transfer is received by FHLMC or its designated agent prior to the last five calendar days of the same month after which the transfer books will be closed for that monthly period. Any notice of transfer received by FHLMC during the five calendar day period during which the transfer books are closed shall be registered effective as of the opening of business of the first day of the following month. Notice to FHLMC shall be sent or delivered to the address stated below or such other address as is subsequently designated by FHLMC for transfer of PCs:

Registrar of PCs
Federal Home Loan Mortgage Corporation
311 First Street, N.W.
Washington, D. C. 20001

16. If any mutilated PC is surrendered to FHLMC or its designated agent, or evidence satisfactory to FHLMC of destruction, loss or theft of any PC is received by FHLMC or its designated agent, together with such security or indemnity as FHLMC may require to save FHLMC harmless, FHLMC or its designated agent shall execute and deliver, in exchange for or in lieu of such mutilated, destroyed, lost or stolen PC, a new PC of like tenor.

Miscellaneous

17. FHLMC or its designated agent may deem and treat the person in whose name a PC shall be registered as the absolute owner of such PC for the purpose of receiving payment of or on account of principal or interest and for all other purposes; and FHLMC and its designated agent shall not be affected by any notice to the contrary. All such payments so made to any such person, or upon his 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 FHLMC upon any such PC.

18. Issuance by FHLMC to any Holder of a PC evidencing undivided interests in the Mortgages shall be deemed to occur as of the date of settlement and payment for the PC and shall be deemed to constitute a sale, conveyance, assignment and transfer to such Holder of undivided interests in the Mortgages.

19. FHLMC requires compliance by Holders with the provisions of Executive Order 11063 (Equal Opportunity in Housing), and the Civil Rights Acts of 1964 and 1968, as amended from time to time, together with applicable regulations and orders issued thereunder.

20. PCs owned by FHLMC from time to time shall have an equal and proportionate benefit to PCs owned by Holders, without preference, priority or distinction. In the event that FHLMC retains any interest in the Mortgages, FHLMC and Holders shall share pro rata, without preference, priority or distinction. No Holder shall have any priority over any other Holder.

21. This Agreement and the Holder's rights and FHLMC's 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.

THIS DOCUMENT IS INCORPORATED BY REFERENCE IN FHLMC MORTGAGE PARTICIPATION CERTIFICATES AND SHALL REQUIRE NO SIGNATURE FOR ITS OPERATION OR EFFECT AMONG FHLMC OR ANY HOLDER.

