Offering Circular

Federal Home Loan Mortgage Corporation

Mortgage Participation Certificates (Guaranteed)

Freddie Mac
Federal Home Loan Mortgage Corporation
Owned by America's Savings Institutions

Mortgage Participation Certificates ("PCs") represent undivided interests in specified fixed rate, first lien, 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 unpaid principal balance of the related Mortgages, as calculated by Freddie Mac under the Pool Factor method. Freddie Mac also unconditionally guarantees to each Holder the ultimate collection of all principal of the 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 Cash PCs and 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 "PC Pools."

PCs sold by Freddie Mac are sold in book-entry form only. See "Book-Entry Form, Holders, Ownership, 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 supplement thereto. See "Availability of Information and Incorporation by Reference."

Freddie Mac furnishes to purchasers of Guarantor PCs from Freddie Mac an Offering Circular supplement which provides, as of the date of PC Pool formation, the weighted average remaining term to maturity and weighted average interest rate of the Mortgages, the state location of the real property securing the Mortgages and the number of Mortgages as of the date of delivery of the Mortgages to Freddie Mac for purchase. If an original 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.

Offering Circular Dated August 29, 1986

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No dealer, salesman or other person has been authorized by Freddie Mac to give any information or to make any representations on behalf of Freddie Mac other than those contained in this Offering Circular, 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 any securities other than the securities offered hereby or an offer to sell or solicitation of an offer to buy such securities in any jurisdiction with respect to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

OFFERING CIRCULAR SUMMARY

The following summary information relating to Mortgage Participation Certificates ("PCs") is qualified in its entirety by the detailed information appearing elsewhere herein.

Seller and Guarantor .... Federal Home Loan Mortgage Corporation ("Freddie Mac"), a corporate instrumentality of the United States.

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

The Securities .... PCs representing undivided interests in specified Mortgages purchased by Freddie Mac and placed in a discrete pool ("PC Pool") identified by a unique PC Pool number. The first two digits of a PC Pool number ("Prefix") identify the type of Mortgages comprising a PC Pool or the program under which the PC Pool was formed and are 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 for cash by Freddie Mac from a number of sellers and formed into PC Pools. PCs representing interests in such PC Pools are sold by Freddie Mac on a continuous basis.

Prefix	Program	Maximum Mortgage Term (Years)	Mortgage Type	Minimum Original PC Pool Balance	Scheduled Principal PCs
16, 17	Cash	up to 30	Conventional	$50,000,000	No
18, 25, 27	Guarantor	up to 30	Conventional	1,000,000	No
26	Guarantor	up to 30	Conventional	1,000,000	Yes
43	Guarantor	up to 30	Conventional	250,000	No
46	Guarantor	up to 30	Conventional	250,000	Yes
20	Cash	up to 15	Conventional	50,000,000	No
21	Guarantor	up to 15	Conventional	1,000,000	No
32	Guarantor	up to 15	Conventional	1,000,000	Yes
44	Guarantor	up to 15	Conventional	250,000	No
47	Guarantor	up to 15	Conventional	250,000	Yes
14	Guarantor	up to 30	FHA/VA	1,000,000	No
33	Guarantor	up to 30	FHA/VA	1,000,000	Yes
45	Guarantor	up to 30	FHA/VA	250,000	No
48	Guarantor	up to 30	FHA/VA	250,000	Yes

Book-Entry Form; Holders	The PCs are sold, 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 will 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 to 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 thereof. 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 must be maintained and transferred in minimum original principal amounts of $1,000 and additional increments of one dollar. 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 fifteenth day of each month, or, if such day is not a business day, 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 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."
Principal	Principal is passed through pro rata monthly on the Payment Date, commencing on the Payment Date in the second month following the month in which the Holder becomes a holder of record. See "Record Date" below. All principal payments and determinations of the unpaid principal balance of the related Mortgages are calculated by Freddie Mac under the Pool Factor method. See "Description of Mortgage Participation Certificates—Interest and Principal Payments" and "—Pool Factors."
Record Date	Transfers of PCs effected by Holders on the book-entry system of a Federal Reserve Bank on or before the close of business on the last business day of a month are made effective on the opening of business on the first day of the month. The Holder of a PC on the last business day of the month 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.

Guarantees	Freddie Mac unconditionally 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 unconditionally 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 unconditionally 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."
Offering Procedure	PCs are initially offered for sale by Freddie Mac pursuant to Freddie Mac's Cash Program and Guarantor Program under various distribution arrangements as described herein. See "Distribution Arrangements."
Legality of Investment	PCs described herein: • are acceptable as security for the deposit of public monies subject to the control of the United States or any of its officers; • are eligible as collateral for Treasury tax and loan accounts; • are among those securities which national banks may deal in, underwrite and purchase for their own accounts without limitation; • are eligible as collateral for advances by Federal Reserve Banks; • are legal investments for federal savings and loan associations and federal savings banks; • are eligible as collateral for advances for Federal Home Loan Banks; • are legal investments for surplus and reserve funds of Federal Home Loan Banks; • are legal investments for federal credit unions; and • are considered plan assets for private pension funds under the Employee Retirement Income Security Act of 1974 (and the underlying mortgages are not considered plan assets). In addition, any person, trust or business entity created pursuant to or existing under the laws of the United States or any state is authorized to purchase, hold and invest in 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."
Tax Status	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."
Secondary Market	Certain securities dealers and Freddie Mac make a market in PCs. Freddie Mac may also purchase and sell PCs through its Securities 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 mortgage loans and participation interests in such mortgage loans from mortgage lending institutions and the resale of the whole loans and participations so purchased in the form of guaranteed mortgage securities. To minimize interest rate risk, Freddie Mac generally matches its purchases of mortgages and sales of guaranteed mortgage securities. Mortgages retained by Freddie Mac are financed with debt and equity capital.

AVAILABILITY OF INFORMATION AND INCORPORATION BY REFERENCE

Freddie Mac prepares an Information Statement annually which describes Freddie Mac, its business and operations and contains Freddie Mac's audited financial statements for the two most recent fiscal years ending prior to the date of such Information Statement. From time to time Freddie Mac prepares an Information Statement Supplement which includes certain unaudited financial data and other information concerning the business and operations of Freddie Mac. The most current Information Statement and Information Statement Supplement, if any, are incorporated by reference into this Offering Circular and made a part hereof. Any of these documents and any quarterly report prepared and made available by Freddie Mac can be obtained by writing or calling the Investor Relations Department at Freddie Mac at P.O. Box 37248, Washington, D.C. 20013-7248 (202/789-5136).

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.

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 August 1, 1986 (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.

PCs are sold in book-entry form only and must remain on deposit with a Federal Reserve Bank in accordance with the provisions of Title 1, Part 462 of the Code of Federal Regulations.

PCs are sold and must be maintained and transferred in minimum original principal amounts of $1,000 and in additional increments of one dollar. The original principal amount of a PC represents the Holder's pro rata share of the original unpaid principal balance of the related Mortgages as of the date of formation of the PC Pool.

The yield payable to Freddie Mac on Mortgages which comprise any PC Pool will be 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 Freddie Mac's required yield is retained by the servicer as its servicing fee.

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 maintain 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, as now contained in Treasury Department Circular No. 300, 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. A copy of Treasury Department Circular No. 300 may be obtained upon request from any Federal Reserve Bank or the Department of the Treasury. Each PC Pool is assigned a unique nine-digit number used to identify the PC Pool on the records of a Federal Reserve Bank (the "CUSIP Number").

PCs may be maintained and transferred only on the book-entry system of a Federal Reserve Bank in minimum original principal amounts of $1,000 and in additional increments of one dollar. 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 Holder would have on deposit in its account PCs having an original unpaid principal balance of less than $1,000 in respect of 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 therein referred to as "Holders." A Federal Reserve Bank's book entry 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 to 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.

Transfers of PCs made before the close of business on the last business day of any month are made effective as of the opening of business on the first business day of that month for purposes of payments of principal and interest on the PCs by Freddie Mac. A Holder which acquires a PC from another Holder acquires such PC subject to all terms and conditions of the PC Agreement.

A Federal Reserve Bank credits interest and principal to Holders on the fifteenth day of each month, or if such day is not a business day (as defined in the PC Agreement), the next succeeding business day ("Payment Date").

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.

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 ("Multifamily Mortgages") and designed primarily for residential use. 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 whole Mortgages ("whole loans") and participation interests in Home Mortgages ("participations"). Participations in Home Mortgages vary from a minimum of 50% to a maximum of 95%. Freddie Mac purchases whole loan Multifamily Mortgages and either retains the whole loan or immediately sells a participation interest in the whole loan back to the seller. The minimum participation interest in a Multifamily Mortgage sold by Freddie Mac is 15% and the maximum interest sold is 50%.

Home 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 such conversion. The Converted Mortgages may not have been originated on mortgage instruments approved by Freddie Mac and the Federal National Mortgage Association ("Uniform Instruments"); however, a due-on-transfer clause or rider is required to be in effect with respect to each Converted Mortgage.

Except as provided herein, Conventional Home Mortgages originated after January 1, 1976 must have been originated on Uniform Instruments. However, the Home Mortgages included in any PC Pool may or may not have been originated on Uniform Instruments. The Uniform Instruments for Home Mortgages contain provisions which by their terms permit automatic acceleration of the unpaid principal balance upon transfer of the property securing a Mortgage (a "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. 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 Standards—Mortgage Servicing—Assumption and Due-on-Transfer Policies." Any Multifamily Mortgage originated on or after October 1, 1977 must have been originated on a Multifamily Uniform Instrument. Accordingly, Freddie Mac expects that generally the Multifamily Mortgages will be on Uniform Instruments.

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 does not constitute an event entitling the holder of the loan to demand full payment of principal. Accordingly, an FHA or VA Mortgage generally can be assumed by a purchaser of the real property at the existing mortgage interest rate for the remaining term of the Mortgage.

Substantially 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. Some Home Mortgages are flexible payment

Mortgages which provide for payment of interest only for up to five years and level payments of principal and interest thereafter sufficient to fully amortize the principal over the remaining terms of the Mortgages.

All Mortgages must have original terms to maturity not exceeding 180 or 360 months, as applicable. The original maturity ("original maturity") of a Mortgage 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 which 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, the 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 Standards."

PC Pools

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 may vary with respect to matters such as: number of Mortgages included in the PC Pools; interest rates of the Mortgages; original unpaid principal balances of the PC Pools; 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 which 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.

Once identified to a PC Pool, the Mortgages will not thereafter be changed other than by prepayments, foreclosures, repurchases or substitutions. Mortgages may be repurchased from a PC Pool as a result of material breaches of warranty by sellers; defects in documentation or other rights of recourse to a seller; in order to permit assumptions of Mortgages containing enforceable due-on-transfer clauses; in connection with certain payment plans and bankruptcy court actions; by virtue of Freddie Mac's guarantees of principal collection; and under certain other circumstances. The proceeds of any Mortgage repurchased will be passed through to the Holders as if the Mortgage had been prepaid. In the event of a material breach of a warranty, representation or agreement contained in the Freddie Mac's *Sellers' & Servicers' Guide* and other Purchase Documents (as defined in the *Sellers' & Servicers' Guide*), a failure to comply with any term or condition in the Purchase Documents or a defect in documentation, Freddie Mac may also require the seller, within six months of the purchase of the Mortgage, to substitute another Mortgage of comparable type, unpaid principal balance, remaining maturity and yield.

PC Pools formed under the Cash Program

Freddie Mac forms PC Pools under the Cash Program from Mortgages which it has purchased for cash from one or more sellers. There is no required range within which interest rates on the Mortgages in a PC Pool formed under the Cash Program must fall. The yield required by Freddie Mac on whole loans and participations included in the Mortgages (and not necessarily the interest rates on the Mortgages in the PC Pool) will be equal to or greater than the interest payable to Holders at the PC Coupon, with any difference retained by Freddie Mac as its management and guarantee fee. See "Mortgage Purchase Standards—Purchase Programs of Freddie Mac." 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.

30-Year Cash PC Pools—Conventional Mortgages. These PC Pools are comprised of Conventional Mortgages with original maturities of up to 30 years. Five percent or less of the original unpaid principal balance of such a PC Pool may consist of Multifamily Mortgages. Not more than 2.5% of the original unpaid principal balance of such a PC Pool may be flexible payment Home Mortgages which have not yet begun to amortize their principal balances. These PC Pools may also include Converted Mortgages. Except for Converted Mortgages, any Conventional Home Mortgages originated after January 1, 1976 must have been originated on Uniform Instruments. These PC Pools will have minimum original unpaid principal balances of $50,000,000 and normally will consist of at least 400 Mortgages. The PC Pool numbers for these PC Pools begin with the Prefixes 16 and 17.

15-Year Cash PC Pools—Conventional Mortgages. These PC Pools are comprised of Coventional Home Mortgages which were originated after October 15, 1982 with original maturities of up to 15 years. The Mortgages include due-on-transfer clauses which permit automatic acceleration and which are not subject to state laws prohibiting automatic acceleration. The minimum original unpaid principal balance of these PC Pools is $50,000,000 and normally will consist of at least 400 Mortgages. The PC Pool numbers for these PC Pools begin with the Prefix 20.

PC Pools formed under the Guarantor Program

Each PC Pool formed under the Guarantor Program is comprised of Mortgages Freddie Mac has 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 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 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 Holder accordingly.

The PC Coupon is fixed by reference to the lowest interest rate of any Mortgage in the PC Pool. The range between the lowest and highest interest rate on the Mortgages in a PC Pool may not exceed 2.00%. The PC Coupon will always 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.

Freddie Mac may purchase Conventional Home Mortgages from sellers participating in programs to assist in the relocation of employees ("relocation" Mortgages) and may form PC Pools consisting entirely of such Mortgages. Such Mortgages could be any combination of Mortgages of: (i) transferred employees of a corporation to their new locations (including the refinancing of mortgages previously made to or assumed by such employees), and (ii) purchasers of the former residences of the transferred corporate employees. Such Mortgages would generally have been originated no more than two years prior to their purchase by Freddie Mac at interest rates below the interest rates prevailing at the time of origination. PC Pools comprised of relocation Mortgages may include a large number of Mortgages made to employees of one or a small number of employers. The seller of such Mortgages to Freddie Mac may not be the originator or the servicer of the Mortgages. PC Pools comprised of relocation Mortgages will be identified on the published list of Pool Factors. See "Pool Factors."

Freddie Mac prepares an Offering Circular supplement which contains the following information regarding the Mortgages for each PC Pool as of the date of delivery of the Mortgages to Freddie Mac for purchase: (i) the weighted average remaining term to maturity, (ii) the weighted average interest rate, (iii) the state location of the real property securing the Mortgages, and (iv) the number of Mortgages. 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. A 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.

30-Year Guarantor PC Pools—Conventional Mortgages. These PC Pools are comprised of Conventional Home Mortgages with original maturities of up to 30 years. Not more than 2.5% of the original unpaid principal balance of these PC Pools may be flexible payment Home Mortgages which have not yet begun to amortize their principal balances. These PC Pools may include Converted Mortgages. Capitalized loans may be included in the Mortgages, provided that the capitalized balance does not exceed the original loan amount, as of their date of purchase by Freddie Mac the loans fully amortize within 30 years, and the Mortgages allow no further capitalization and otherwise comply 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 18, 25 and 27 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 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 originated after October 15, 1982 with original maturities of up to 15 years. The Mortgages include due-on-transfer clauses which permit automatic acceleration and which are not subject to state laws prohibiting automatic acceleration. The minimum original unpaid principal balance of PC Pools beginning with the Prefix 21 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 as of the end of a particular month, stated as a percentage 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 contacting Freddie Mac's Investor Relations Department at 202/789-5136.

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. Thus, 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 Pool Factor for a Guarantor PC Pool for 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.

The Pool Factor for a Cash PC Pool for a particular month represents 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 the unpaid principal balance of the related Mortgages as of March 15. The Pool Factor for a Cash PC Pool for a particular month estimates principal payments for that month based upon a three-month moving average of the principal payment experience of the Mortgages in that PC Pool, adjusted both for seasonal variations which are presumed to affect all PC Pools equally and for cyclical factors which reflect economic conditions and the unique characteristics of the Mortgages in the specific PC Pool. For example, a Cash PC Pool Factor published in March is based on anticipated March principal payments which is predicted using the average principal payments for November, December, and January and is adjusted for the factors described above.

To the extent that a given Pool Factor may not reflect the actual unpaid principal balance of the Mortgages, Freddie Mac shall correct any difference as soon as practicable by adjustment of subsequent Pool Factors.

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.

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

Principal. 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 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 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. 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, whether or not received by Freddie Mac. A Holder is also entitled to receive its pro rata share of repurchases of the Mortgages by Freddie Mac or the sellers of 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, Freddie Mac pays to the Mortgage seller on the settlement date an amount of interest equal to the difference between (1) the amount of interest at Freddie Mac's required yield on the Mortgages, and (2) the amount of interest at the PC Coupon, both for the period from the first day of the month of settlement to the day prior to the date of settlement, inclusive.

In the case of Home Mortgages, Freddie Mac normally receives from servicers payments of principal (including partial prepayments), interest and prepayment fees (if any) 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 from servicers payments of principal (including full and partial prepayments) and interest made with respect to the Mortgages within five business days of the date on which such 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 unconditionally 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 unconditionally 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 thirty days following (i) foreclosure sale, (ii) payment of the claim by any mortgage insurer or the FHA, or payment of the guaranty claim by the VA, or (iii) the expiration of any right of redemption, whichever occurs later, but in any event no later than one year after demand has been made upon the mortgagor for accelerated payment of principal or for payment of 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 Standards—Mortgage Servicing—Defaults and Delinquencies."

PCS ARE NOT GUARANTEED BY AND DO NOT CONSTITUTE 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 Program PC Pool, the Final Payment Date with respect to a 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. In the case of a Guarantor Program PC Pool, the Final Payment Date with respect to 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. The Final Payment Date of a Guarantor PC Pool may reflect the maturity date of only a single Mortgage within that PC Pool.

Holders may receive payments after the Final Payment Date because scheduled monthly payments of interest and principal on the Mortgages are passed through to Holders in the second month following the month in which payments are made by the borrower, or (for PCs other than Scheduled Principal PCs) as a result of payment plans, periods of forebearance or other actions which delay the receipt of payments by Freddie Mac. See "Mortgage Purchase 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 periodically paid to Holders. Freddie Mac's experience suggests that the prepayment patterns of Home Mortgages included in PC Pools comprised of 30-Year Conventional Mortgages and 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 typically used as the basis for yield quotations. To date, Freddie Mac's experience with respect to PC Pools comprised of 15-Year Home Mortgages is insufficient to draw any conclusions with respect to the weighted average life of 15-Year PCs.

Freddie Mac currently amortizes any discount on its mortgage purchases and PC sales 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 7 years. These estimates may be revised from time to time to better reflect both actual and projected payment experience on Freddie Mac's mortgage portfolio. The estimated weighted average life used by Freddie Mac for 30-Year PC Pools has undergone three significant revisions since 1978. Freddie Mac anticipates that Holders will receive principal payments in excess of scheduled amortization payments with respect to the Mortgages. Final payment of all principal may not be received until after the Final Payment Date. See "Final Payment Date."

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, geographically diverse group of mortgages underwritten on a consistent basis is the difference between the interest rates on the mortgages in the PC Pool (giving consideration to the cost of any secondary financing) and prevailing mortgage interest rates during the terms of the mortgages in the PC Pool.

In general, Freddie Mac expects repayment rates to be inversely correlated with changes in prevailing mortgage rates. Freddie Mac's experience on its mortgage portfolio has been consistent with this expectation. Annual repayment rates on Freddie Mac's portfolio and the range of mortgage interest rates prevailing during each given period are summarized below:

	Principal Repayments as a Percentage of Total Mortgage Portfolio (1)	Range of Prevailing Mortgage Interest Rates During the Period (2)
1977	14.86%	8.65- 9.00%
1978	12.33	8.98-10.38
1979	7.43	10.38-12.90
1980	4.42	12.18-16.35
1981	2.55	15.00-18.63
1982	3.26	13.57-17.66
1983	9.31	12.55-13.89
1984	8.88	13.14-14.68
1985—First Quarter	7.48 (annualized)	12.90-13.29
—Second Quarter	10.16 (annualized)	12.05-13.27
—Third Quarter	13.52 (annualized)	11.94-12.28
—Fourth Quarter	13.36 (annualized)	11.09-12.17
1986—First Quarter	14.58 (annualized)	10.01-10.99
—Second Quarter	29.84 (annualized)	9.86-10.76

(1) Total mortgage repayments received for the period divided by the average monthly beginning mortgage portfolio balance for the period. The mortgage portfolio includes conventional and FHA and VA mortgages retained by Freddie Mac, mortgages securing CMOs and mortgages sold by Freddie Mac under the PC and GMC programs.

(2) The highest and lowest prevailing mortgage interest rates on conventional mortgages during the period as published weekly by Freddie Mac in its "Primary Mortgage Market Survey."

Other factors affecting payment behavior on a PC Pool may include: the age, geographic distribution and payment terms of the Mortgages; characteristics of the borrowers; the availability of mortgage financing; the extent to which the Mortgages are assumed or refinanced or the underlying properties are sold or conveyed; 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 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 employees.

The number of foreclosures of Mortgages in a PC Pool and the number of repurchases of Mortgages will also 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 property 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 particular PC Pools. For a description of Freddie Mac's servicing policies, see "Mortgage Purchase Standards—Mortgage Servicing."

The payment behavior among PC Pools comprised of Mortgages with comparable characteristics has differed during the same period. Freddie Mac has not formed any opinion as to the reasons for such variations in payment 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.

Remedies

In the event of Freddie Mac's default in the payment of principal or interest or in the performance of other covenants 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 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 but is subject to certain notice and indemnity requirements and the rights of other Holders. 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 1954, 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.

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, Freddie Mac's management and guarantee fees, the total amount of interest paid on the PCs 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 of a PC ("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.

(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 only be required to accrue such original issue discount into income currently if it exceeds a *de minimis* amount. The Mortgages would also be subject to the original issue discount rules if, as discussed below, the "stripped bond" provisions of the Code were determined to be applicable. Unless the "stripped bond" rules apply, the original issue discount rules described above would not apply to Mortgages originated by individuals before March 2, 1984 and Mortgages originated by partnerships before July 2, 1982.

In general, a Beneficial Owner who is considered to have purchased its interest in any Mortgage at a market discount will be required to allocate the market discount among the principal payments on the Mortgage and will 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, the date of enactment of the Tax Reform Act of 1984 (the "TRA"), 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 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 with the result that no portion of the discount allocable to a principal payment would be capital gain unless that payment is received or becomes due prior to its scheduled date. 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 yield 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.

In the event a Beneficial Owner is considered to have purchased its interest in any Mortgage at a premium, such premium would be allocated among the principal payments on such Mortgage. The premium allocable to a principal payment would, if the Mortgage is issued by a corporation, be amortizable at the election of the taxpayer under Section 171 of the Code, and otherwise may not be deductible until the principal payment is made or comes due.

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 of the TRA. Under those 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 become deductible at the time of such sale, as described above.

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 fee and servicer's fees with respect to such undivided interest is 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 in 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 yield 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 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 issued 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 a corporation that accumulates earnings in order to avoid United States federal income tax and (iii) such Beneficial Owner provides a statement signed under penalties of perjury that includes its name and address and certifies that it is not a U.S. person in accordance with applicable requirements. To the extent amounts paid with respect to 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 oy 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.

At present, Congress is considering legislation passed by the House of Representatives and the Senate, as modified and agreed to by the Conference Committee, that would substantially restructure the federal income tax law. Among the provisions which are included in the legislation are the limitation on deductions by individuals under Section 212 of the Code (such as for reasonable servicing compensation on the Mortgages), the allowance of a deduction for amortization of premium on obligations of individuals under Section 171 of the Code under a constant interest method, and the restriction of deductions for additions to bad debt reserves by certain thrift institutions under Section 593 of the Code. Beneficial Owners should consult their own tax advisors concerning the likelihood of enactment of such legislation, its effective date if enacted, and the effect such proposals may have on them.

MORTGAGE PURCHASE STANDARDS

All mortgages purchased by Freddie Mac must meet certain standards set forth in the Freddie Mac Act. Freddie Mac 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. The requirements generally applicable to the mortgages purchased by Freddie Mac are set forth in Freddie Mac's Purchase Documents, including the *Sellers' & Servicers' Guide* and program announcements, which qualify this summary in its entirety and which 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. These guidelines are designed to determine the value of the real property securing the 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 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 the seller, may differ based on Freddie Mac's evaluation of and experience with the seller of the Mortgages, the loan-to-value ratio and age of the Mortgages and other factors. Any of Freddie Mac's credit, appraisal and underwriting guidelines and procedures are subject to change at any time and at Freddie Mac's sole discretion so long as the guidelines and procedures as modified continue to be prudent.

Loan-to-Value Ratio

Under the Freddie Mac Act, Freddie Mac may not purchase a Conventional 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 qualified mortgage insurer, as determined by Freddie Mac. 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.

At present, Freddie Mac does not purchase a Mortgage on the primary residence of a borrower where the Mortgage has an original loan-to-value ratio exceeding, in the case of a one- or two-family dwelling, 95% of the lower of the appraised value at origination or the purchase price of the real property securing the Mortgage or, in the case of a three- or four-family dwelling, 90% of the lower of the appraised value at origination or the purchase price. Freddie Mac does not purchase a Home Mortgage on an owner-occupied property which refinances a borrower's existing mortgage if the loan-to-value ratio exceeds 90% of the newly-appraised value of the property. The maximum loan-to-value ratio for a second home or an investment property is 90%. Freddie Mac does not purchase a Mortgage which refinances a mortgage secured by an investment property or second home if the loan-to-value ratio of the newly-appraised value of such property exceeds 70%. Freddie Mac purchases Multifamily Mortgages that have loan-to-value ratios up to 100% of the appraised value of the real property securing the Mortgage.

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-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.

Mortgage Insurance

Freddie Mac generally will purchase 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. 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 the seller retains a 10% participation interest in the Mortgage. If a seller retains a participation interest in a Mortgage, Freddie Mac accepts mortgage insurance based on the amount of Freddie Mac's participation interest. Freddie Mac will purchase a purchase-money Home Mortgage secured by a second home or by an investment property with a loan-to-value ratio exceeding 80% only if the unpaid principal balance of the loan in excess of 65% of the lower of the appraised value of the property at the date of origination or the purchase price is insured by a mortgage insurer which meets Freddie Mac's eligibility requirements. Multifamily Mortgages generally are not covered by mortgage insurance.

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 guarantee must be as specified in the applicable FHA or VA regulations.

Mortgage Amount

The Freddie Mac Act establishes limitations on the maximum original mortgage amount of any Conventional Home or Multifamily Mortgage which may be purchased by Freddie Mac. Currently, the original principal amount of a Conventional Home Mortgage may not exceed $133,250 for a one-family dwelling, $170,450 for a two-family dwelling, $205,950 for a three-family dwelling and $256,000 for a four-family dwelling. The applicable limitation may be increased by 50% for properties located in Alaska, Guam, and Hawaii. The original principal amount for a Multifamily Mortgage is, for a non-elevator structure, $24,375 per unit without separate bedroom, $27,000 per 1-bedroom unit, $32,250 per 2-bedroom unit, $39,750 per 3-bedroom unit and $45,000 per 4-bedroom unit, and, for an elevator structure, $28,125 per unit without separate bedroom, $31,500 per 1-bedroom unit, $38,625 per 2-bedroom unit, $48,375 per 3-bedroom unit and $54,697 per 4-bedroom unit. In any area which has been, or may in the future be, determined to be a high cost area by the Secretary of the U.S. Department of Housing and Urban Development pursuant to Section 207(c) of the National Housing Act, the original principal amount for a Multifamily Mortgage is a maximum of, for a non-elevator structure, $46,800 per unit without separate bedroom, $51,840 per 1-bedroom unit, $61,920 per 2-bedroom unit, $76,320 per 3-bedroom unit and $86,400 per 4-bedroom unit and, for an elevator structure, $54,000 per unit without separate bedroom, $60,480 per 1-bedroom unit, $74,160 per 2-bedroom unit, $92,880 per 3-bedroom unit and $105,019 per 4-bedroom unit. The amounts applicable to properties located in Alaska, Guam and Hawaii may be increased by 50%. Currently, Freddie Mac does not purchase a Multifamily Mortgage having an original principal amount exceeding $7.5 million for inclusion in any PC Pool described herein.

The maximum original principal amount for a VA Mortgage is $135,000. 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 as to which borrowers have obtained 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 home purchaser-occupant and shares in the equity in the property. The third party also may contribute to the purchaser-occupant's monthly payments. Any agreement for sharing of equity cannot require sale of the property or buyout of the third party's interest prior to seven years following mortgage origination.

Purchase Programs of Freddie Mac

Under the Cash Program Freddie Mac purchases Mortgages 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 purchases 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 Mortgages. 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.

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).

Under the Cash Program and the Guarantor Program, there is no minimum servicing fee for participants. To the extent that the interest rate of a Mortgage sold to Freddie Mac on a participation basis exceeds the yield required by Freddie Mac, the seller retains the additional interest as its servicing compensation.

Eligible Sellers, Servicers, Warranties and Documentation

Substantially all of the Mortgages are purchased from and serviced by financial institutions the deposits or accounts of which 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 the Mortgage is 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 guarantee. 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. Under certain circumstances Freddie Mac may modify the warranties required to be made by a seller. 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 the borrower.

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; 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 servicer holds the mortgage notes, the mortgages are recorded in the originator's or seller's name, and no assignment is made or recorded in Freddie Mac's name.

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 payment of principal and interest, administration of escrow accounts, collection of insurance or guaranty claims, property inspections and, if necessary, foreclosure and disposal of the property acquired through foreclosure. Subject to Freddie Mac's approval, servicers may contract to have servicing performed by or sell their servicing rights to other servicers acceptable to Freddie Mac.

Pursuant to the 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 as an aid to 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 any required prepayment fee.

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 do not allow automatic acceleration unless the security instrument is accompanied by a FHLMC Multifamily Due-on-Transfer Rider. Any Multifamily Mortgage which is originated on such uniform instruments but which does not include a Due-on-Transfer Rider may be assumed by a creditworthy transferee. Any Home and Multifamily Mortgage originated on non-uniform instruments may or may not permit automatic acceleration depending on their terms.

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 and 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 will include a due-on-transfer provision requiring that 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, then the transferee must meet FHA credit requirements. Failure of the transferee to meet the credit requirements will, subject to FHA approval in each case, 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, 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 promulgated regulations applicable to enforcement of due-on-transfer clauses in window period mortgages originated by national banks and federal credit unions. The National Credit Union Administration 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; (Arizona has enacted legislation extending the October 15, 1985 date to October 15, 1987; 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 Federal Home Loan Bank Board 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.

Freddie Mac currently charges an assumption fee equal to the greater of $750 or one percent of the unpaid principal balance of a Multifamily Mortgage which is assumed. Any assumption fees charged by Freddie Mac or the servicer will be retained by Freddie Mac or the servicer 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 for Multifamily Mortgages) 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.

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. Such repayment plans or periods of forbearance will not affect 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 loans 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 that a servicer 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 not be instituted prior to 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 date a bankruptcy petition is filed. whichever is later

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 that could have the effect of delaying the payment of principal and interest on a Mortgage, and could, in certain circumstances, 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 the typical 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 regulations 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 may provide borrowers with a right to redeem after foreclosure, and the foreclosure process typically is not final until the expiration of any such right. In any event, payment pursuant to Freddie Mac's guarantee of ultimate collection of principal on a then 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 guarantee payments. See "Description of Mortgage Participation Certificates—Guarantees."

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).

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. § 2550.401b-1.

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.

REGULATORY CONSTRAINTS

Any financial institution which is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the National Credit Union Administration 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 Federal Home Loan Bank Board ("FHLBB") has taken the following positions concerning PCs 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 "Mortgages, participations, or mortgage-backed 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 current with respect to guaranteed principal and interest payments, regardless of the performance of any underlying mortgage, are not "scheduled items" for institutions the deposit or accounts of which are insured by FSLIC (FHLBB Staff Memorandum R-29a).
- 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 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.

Guarantor Program

Under the Guarantor Program, Freddie Mac purchases the 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 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 sell PCs is conditioned on the seller's full compliance with the terms and conditions of the Agreement To Purchase Conventional Home Mortgages and To Sell Mortgage Participation Certificates, including the seller's timely delivery of acceptable Mortgages of 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; within Washington, D.C. metropolitan area, telephone 789-4800).

Secondary Market

Certain securities dealers make a market in PCs. Freddie Mac may also sell and repurchase PCs in the secondary market through its Securities 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 and Holders 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).

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Federal Home Loan Mortgage Corporation

MORTGAGE PARTICIPATION CERTIFICATE AGREEMENT

(Guaranteed)

AGREEMENT dated as of August 1, 1986 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.

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 certain 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 specified Mortgages, the transfer, sale and assignment of such undivided interests as are 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 a Federal Reserve Bank, which entry includes, but is not limited to, the name of the Holder, the original principal balance of the PCs owned by such Holder, the CUSIP Number 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 definitive 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 Banks to act as Freddie Mac's agents in connection with securities issued by means of entries on the books and records of the Federal Reserve Banks.

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.

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-digit number assigned to each PC Pool by the CUSIP Service Bureau and used to identify the PC Pool on the records of the Federal Reserve Banks.

Federal Reserve Bank: Any Federal Reserve Bank.

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.

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 Participation 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 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 date 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 the Guarantor Program) or as of the end of that month (for PC Pools formed under the 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.

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, payment for a PC shall be deemed to occur on the settlement date as of which such PC is sold to the Holder thereof.

Section 2.02. Identity of the Mortgages; Substitution and Repurchase. A PC Pool will be comprised entirely of Conventional Mortgages or will 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 purchased 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, or a failure by a seller to comply with any requirements or terms set forth in the Purchase Documents (as defined in the Freddie Mac *Sellers' & Servicers' Guide*), 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. In the case of a repurchase of a Mortgage by a seller from a PC Pool represented by Scheduled Principal PCs, such repurchase shall be at its then unpaid principal balance, less any outstanding advances of Scheduled Principal which were paid by the seller to Freddie Mac.

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 last day of the Month of Initial Sale. 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; 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 in the Mortgages. If the mortgage notes are not endorsed to and held by Freddie Mac, the originator or servicer holds the mortgage notes, the mortgages are recorded in the originator's or seller's name, and no assignment is made or recorded in Freddie Mac's name.

Section 2.05. 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 owned by 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, 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 current 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. A Holder of a PC recognized as such on the first day of a month pursuant to the provisions of 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. 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 Whole Loan and with respect to each mortgage underlying a Participation included in the related Mortgages, 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. 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. Payments of principal, interest or any other sum due to Holders will be made by crediting the Holders' accounts at the Federal Reserve Banks. 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 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 Freddie Mac shall have determined 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 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) may 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, Freddie Mac shall correct any difference 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 contractual net yield which the servicer is obligated by contract to pay 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 paid to Freddie Mac and prepayment fees, if any, paid 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 at Freddie Mac's contractual net yield on the Mortgage over the amount of such interest paid to Holders at the PC Coupon; provided, however, that the amount retained by Freddie Mac hereunder shall be automatically adjusted to the extent a Pool Factor does not reflect the unpaid principal balance of the Mortgages. Any such adjustment shall be equal to the difference between (i) interest at the 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 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 Freddie Mac *Sellers' & Servicers' 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 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 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 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 or required to be paid under Freddie Mac's guarantees of timely payment of Scheduled Principal and interest and guarantee of ultimate collection of principal.

Section 4.12. Modification of Final Payment Date. The Final Payment Date in respect of a PC may be accelerated by virtue of prepayments of principal or extended 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 Date in respect of a PC may also be extended 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 and additional increments of one dollar and shall at all times remain on deposit with a Federal Reserve Bank in accordance with the provisions of the Book-Entry Rules. The Federal Reserve Banks shall maintain a book-entry recordkeeping system for all transactions in PCs.

Section 5.02. Transfer of PCs. PCs may be transferred only in minimum original principal amounts of $1,000 and additional increments of $1.00. PCs may not be transferred if, as a result of the transfer, the 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, as now set forth in Treasury Department Circular No. 300, and such other procedures as shall be agreed upon from time to time by Freddie Mac and the Federal Reserve Banks. A 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. A purchase of a PC from Freddie Mac is effective as of the opening of business on the first day of the month of settlement for that purchase. A transfer of a PC made on or before the close of business of the last business day of a month is effective as of the opening of business on the first day of that month for purposes of payments of principal and interest on the PCs by Freddie Mac.

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 PC Coupon as and when the same shall become due and payable as herein provided, and continuance of such default for a period of thirty 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 thirty 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 60 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, 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, 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 ten 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 person who was a Holder on the records of the Federal Reserve Banks at any time during such year, information regarding the amount of the Holder's pro rata share of interest on the Mortgages, net interest paid at the PC Coupon, and such other 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 harmless Freddie Mac and any director, officer, employee or agent of Freddie Mac 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 in any manner otherwise control 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 interests 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 written 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 Banks, or any agent of Freddie Mac or the Federal Reserve Banks, 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 Banks, nor any agent of Freddie Mac or the Federal Reserve Banks, 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 Banks may be exercised only through the Holder. Freddie Mac and the Federal Reserve Banks 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 or served to or 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 a 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 or served to or upon Freddie Mac shall be given in writing addressed (until another address is published by Freddie Mac) as follows: Federal Home Loan Mortgage Corporation, 1776 G Street, N.W., P.O. Box 37248, Washington, D.C. 20013-7248, 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

Federal
Home Loan
Mortgage
Corporation

Owned by America's
Savings Institutions