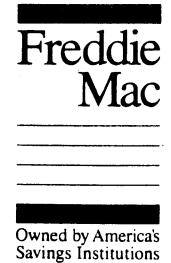


**Offering Circular Supplement  
(To Offering Circular Dated July 1, 1988)**



# **Federal Home Loan Mortgage Corporation**

## **Cost of Funds Rate Capped Adjustable Rate Mortgage Participation Certificates (Guaranteed)**

Cost of Funds Rate Capped Adjustable Rate Mortgage Participation Certificates ("Rate Capped COF ARM PCs") represent undivided interests in specified adjustable rate, fully amortizing, first lien, 1-4 family conventional residential mortgages or participations therein (the "Mortgages"). The Federal Home Loan Mortgage Corporation ("Freddie Mac") has purchased the Mortgages from a single seller ("Seller") in exchange for Freddie Mac Rate Capped COF ARM PCs representing undivided interests in the same Mortgages. The interest rate on a Rate Capped COF ARM PC ("PC Coupon") adjusts either annually or semiannually to a rate equal to the applicable Index plus the applicable PC Margin, subject to the applicable Adjustment Cap on the amount of any single increase or decrease in the PC Coupon and subject to the applicable PC Lifetime Ceiling. The PC Coupon always is rounded to the nearest 0.125%. There is no minimum PC Coupon. Capitalized terms used but not defined in this Supplement have the meanings given them in the Cost of Funds Rate Capped Adjustable Rate Mortgage Participation Certificates Offering Circular dated July 1, 1988 (the "Offering Circular").

This Supplement describes the Indices that may be used to adjust the Mortgage Coupons of the related Mortgages in addition to the Index described in the Offering Circular. This Supplement also provides additional information regarding Convertible Rate Capped COF ARM PCs.

### **THE RATE CAPPED COF ARM PC POOLS**

Each Rate Capped COF ARM PC Pool consists entirely of Semiannual Rate Capped COF ARMs or entirely of Annual Rate Capped COF ARMs. The Mortgage Coupons of the Mortgages in each Rate Capped COF ARM PC Pool will adjust based upon one of the three Indices described in this Supplement. Each Rate Capped COF ARM PC Pool will be identified by a PC Pool Number beginning with a two-digit prefix indicating which of the Indices described in this Supplement is applicable to the Rate Capped COF ARM PC Pool. Prefixes for Rate Capped COF ARM PCs identifying the Indices are set forth under "The Index," below.

#### **The Index**

Effective as of the date of this Supplement, the definition of the term "Index" as used in the Offering Circular is amended to include two additional Indices as described in this Supplement. The Mortgage Coupon of all of the Mortgages in each COF Rate Capped ARM PC Pool will adjust using the same Index. Each Index is expressed as a percentage. The particular Index used to adjust the Mortgage Coupon of the Mortgages in each COF Rate Capped ARM PC Pool will be identified in the Offering Circular Supplement applicable to each Rate Capped COF ARM PC Pool (the "Pool Supplement").

The Index described in the Offering Circular which reflects the monthly weighted average interest rate being paid on all sources of funds by savings and loan associations and savings banks in Arizona, California and Nevada that are member institutions of the Eleventh Federal Home Loan Bank District is referred to herein as the "Eleventh District COF Index". The Index may also be the "National

Average Contract Interest Rate for Major Lenders on the Purchase of Previously Occupied Homes” as reported by the Federal Home Loan Bank Board (“FHLBB”; referred to herein as the “FHLBB Contract Rate Index”) or the “Monthly Median Annualized Cost of Funds for FSLIC Insured Institutions” as reported by the FHLBB (referred to herein as the “National COF Index”). The FHLBB defines the National COF Index as interest (dividends) paid or accrued on deposits, FHLB advances and other borrowed money during a month as a percent of balances of deposits and borrowings at month end. The National COF Index reflects rates on all funds, not only new funds, and is annualized by multiplying by 12 and adjusted for variations in the length of months. The FHLBB Contract Rate Index is defined by the FHLBB as a weighted average of rates reported for mortgage transactions during the first five working days of the index month by a sample of mortgage lenders. As defined by the FHLBB, the FHLBB Contract Rate Index reflects rates on new transactions, not rates on outstanding loans.

Prefixes for Rate Capped COF ARM PCs identifying the Indices are as follows:

- 74 — National COF Index
- 77 — Eleventh District COF Index
- 87 — FHLBB Contract Rate Index

Information regarding the FHLBB Contract Rate Index for a given month is provided by the FHLBB on or about the 15th day of the following month in the FHLBB news release “ARM Index Rates.” Information regarding the National COF Index for a given month is provided by the FHLBB on or about the 15th day of the second following month in the FHLBB news release “ARM Index Rates.” The most recent available information with regard to these indices is available from the FHLBB (outside the Washington, D.C. metropolitan area, telephone 800/424-5405; within the Washington, D.C. metropolitan area, telephone 377-6988).

The table attached as Exhibit A to this Supplement sets forth the historical values for the Eleventh District COF Index, the FHLBB Contract Rate Index and the National COF Index either for 1978 through 1987 or since inception of the availability of the Index if later than 1978, and for the nine month period ended September 1988.

#### **CONVERTIBLE RATE CAPPED COF ARM PCs**

Commencing as of the date of this Supplement, Rate Capped COF ARM PCs may represent undivided interests in Rate Capped COF ARM PC Pools composed entirely of Mortgages which contain provisions allowing the borrower to convert the adjustable interest rate of the Mortgage to a fixed interest rate (“Convertible Mortgages”). The Pool Supplement for each Rate Capped COF ARM PC Pool will identify those pools consisting entirely of Convertible Mortgages. Rate Capped COF ARM PCs representing interests in Convertible Mortgages are referred to herein as “Convertible Rate Capped COF ARM PCs.”

#### **The Mortgages**

A Rate Capped COF ARM PC Pool including Convertible Mortgages will be composed entirely of Convertible Mortgages (“Convertible Rate Capped COF ARM PC Pool”) and Convertible Mortgages will not be placed in Rate Capped COF ARM PC Pools with Mortgages that are not Convertible Mortgages.

Each Convertible Mortgage includes a provision which allows a qualified borrower to convert the adjustable mortgage interest rate into a fixed rate of interest (the “Conversion Option”) at any time during a four-year period beginning on the date that the Mortgage Coupon first adjusts and ending on the date of the fifth adjustment to the Mortgage Coupon, in the case of Annual Rate Capped COF ARMs, or beginning on the date of the second semiannual adjustment to the Mortgage Coupon and ending on the date of the tenth semiannual adjustment to the Mortgage Coupon, in the case of Semiannual Rate Capped COF ARMs (the “Conversion Period”). To exercise the Conversion Option, the borrower must give notice to the servicer that the borrower intends to convert the adjustable

interest rate into a fixed interest rate (the "Conversion Request"). After all conditions of the borrower's exercise of the Conversion Option have been met, the Convertible Mortgage will be converted to a mortgage bearing a fixed rate of interest (a "Converted Mortgage") as of the first day of the first or the second month following the month in which the borrower makes a Conversion Request (the "Conversion Date"). The Conversion Option may not be exercised if the borrower is in default under the terms of the mortgage note or security instrument at the time of the Conversion Request or as of the Conversion Date. The aggregate fee, if any, paid by the borrower to exercise the Conversion Option may not exceed \$250.

Unless otherwise indicated in the related Pool Supplement, the Conversion Period for all the Convertible Mortgages in a Convertible Rate Capped COF ARM PC Pool will begin on the same date. Unless otherwise indicated in the related Pool Supplement, the Conversion Period for the Convertible Mortgages in a particular Convertible Rate Capped COF ARM PC Pool composed of Annual Rate Capped COF ARMs will begin one month prior to the initial PC Coupon Adjustment Date applicable to that Convertible Rate Capped COF ARM PC Pool, and will end on the first day of the same month four years later. For example, the Conversion Period for the Convertible Mortgages in a Convertible Rate Capped COF ARM PC Pool composed of Annual Rate Capped COF ARMs with a December 1, 1989 initial PC Coupon Adjustment Date will be the period from November 1, 1989 through November 1, 1993. (Unless otherwise indicated in the related Pool Supplement, the Conversion Period for the Convertible Mortgages in a particular Convertible Rate Capped COF ARM PC Pool composed of Semiannual Rate Capped COF ARMs will begin one month prior to the second PC Coupon Adjustment Date applicable to that Convertible Rate Capped COF ARM PC Pool, and will end on the first day of the same month four years later.) The adjustable Mortgage Coupon may be converted into a fixed interest rate that is equal to the rate described in the applicable Pool Supplement.

Freddie Mac permits each Seller to specify its own procedures for determining the time of the month the borrower may exercise the Conversion Option and the date of the quotation pursuant to which the new fixed interest rate will be determined. The fixed interest rate upon conversion of a Convertible Mortgage may not exceed the Mortgage Lifetime Ceiling applicable to the Convertible Mortgage.

Each Converted Mortgage will be repurchased from the related Convertible Rate Capped COF ARM PC Pool. Freddie Mac may agree that the Seller will repurchase the Converted Mortgage, but if the Seller fails to do so for any reason, Freddie Mac will repurchase the Converted Mortgage no later than the 15th day of the same month as the Conversion Date. If the Seller is obligated to repurchase the Converted Mortgages, the Seller generally will be obligated to repurchase any Converted Mortgage as of the 15th day of the month preceding the Conversion Date. Section 2.02 of the Federal Home Loan Mortgage Corporation Cost of Funds Rate Capped Adjustable Rate Mortgage Participation Certificate Agreement, dated as of July 1, 1988 and included as Exhibit A to the Offering Circular, is amended by deleting present subsection (v) and inserting the following language in place thereof: "(v) if any borrower exercises an option to convert the adjustable interest rate of a Mortgage to a fixed interest rate, Freddie Mac will repurchase such Mortgage at its unpaid principal balance as of the 15th day of the month in which the fixed interest rate becomes effective or, if Freddie Mac and the Seller of such Mortgage have so agreed, the Seller will repurchase such Mortgage at its unpaid principal balance as of an agreed upon date which may be either the 15th day of the same month the fixed interest rate becomes effective or the 15th day of the month prior thereto, and".

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

**Weighted Average Life and Payment Behavior**

In addition to those factors generally affecting the payment behavior of Rate Capped COF ARM PC Pools as described in "Description of the Rate Capped COF ARM PCs — Weighted Average Life and Payment Behavior" in the Offering Circular, the payment behavior of a Convertible Rate Capped COF ARM PC Pool may vary from the payment behavior of a Rate Capped COF ARM PC Pool comprised of similar mortgages without the Conversion Option based upon the relationship between the costs of conversion of the Convertible Mortgages and the costs of refinancing the mortgages which do not have a Conversion Option.

**Tax Status**

All of the Convertible Mortgages in Convertible Rate Capped COF ARM PC Pools were originated after July 18, 1984. See "Certain Federal Income Tax Consequences" in the Rate Capped COF ARM PC Offering Circular.

**Secondary Market**

Currently, there is a limited secondary market in Rate Capped COF ARM PCs and Convertible Rate Capped COF ARM PCs using the Eleventh District COF Index. Freddie Mac makes no representation as to the characteristics of the secondary market in such Rate Capped COF ARM PCs, and makes no representation as to the extent to which the existing limited secondary market may develop.

Currently, no secondary market exists for Rate Capped COF ARM PCs or Convertible Rate Capped COF ARM PCs using the National COF Index or the FHLBB Contract Rate Index. No representations are made hereby as to whether or when a secondary market in such Rate Capped COF ARM PCs may develop. Freddie Mac may sell and repurchase such Rate Capped COF ARM PCs in the secondary market through its Security Sales and Trading Group. Prospective Rate Capped COF ARM PC purchasers and Holders wishing to obtain prices of such Rate Capped COF ARM PCs may contact securities dealers who may sell or make markets in such Rate Capped COF ARM PCs or Freddie Mac (outside Washington, D.C. metropolitan area, telephone 800/424-5401; within the Washington, D.C. metropolitan area, telephone 789-4800).

EXHIBIT A

HISTORICAL VALUES OF THE INDICES

| <u>Year/Month</u>   | <u>National<br/>Cost of Funds</u> | <u>Eleventh District<br/>Cost of Funds</u> | <u>FHLBB<br/>Contract Rate</u> |
|---------------------|-----------------------------------|--|--------------------------------|
| 1978                |                                   |  |                                |
| January . . . . .   |                                   | 6.485%                                     |                                |
| February . . . . .  |                                   | 7.104                                      |                                |
| March . . . . .     |                                   | 6.513                                      |                                |
| April . . . . .     |                                   | 6.685                                      |                                |
| May . . . . .       |                                   | 6.607                                      |                                |
| June . . . . .      |                                   | 6.751                                      |                                |
| July . . . . .      |                                   | 6.686                                      |                                |
| August . . . . .    |                                   | 6.713                                      |                                |
| September . . . . . |                                   | 6.890                                      |                                |
| October . . . . .   |                                   | 6.627                                      |                                |
| November . . . . .  |                                   | 7.106                                      |                                |
| December . . . . .  |                                   | 7.036                                      |                                |
| 1979                |                                   |  |                                |
| January . . . . .   |                                   | 7.253                                      |                                |
| February . . . . .  |                                   | 7.922                                      |                                |
| March . . . . .     |                                   | 7.418                                      |                                |
| April . . . . .     |                                   | 7.666                                      |                                |
| May . . . . .       |                                   | 7.665                                      |                                |
| June . . . . .      |                                   | 7.762                                      |                                |
| July . . . . .      |                                   | 7.684                                      |                                |
| August . . . . .    |                                   | 7.774                                      |                                |
| September . . . . . |                                   | 7.909                                      |                                |
| October . . . . .   |                                   | 7.794                                      |                                |
| November . . . . .  |                                   | 8.424                                      |                                |
| December . . . . .  |                                   | 8.646                                      |                                |
| 1980                |                                   |  |                                |
| January . . . . .   |                                   | 8.758                                      | 11.78%                         |
| February . . . . .  |                                   | 9.647                                      | 12.30                          |
| March . . . . .     |                                   | 8.857                                      | 12.56                          |
| April . . . . .     |                                   | 9.822                                      | 13.21                          |
| May . . . . .       |                                   | 10.405                                     | 13.74                          |
| June . . . . .      |                                   | 10.077                                     | 12.88                          |
| July . . . . .      |                                   | 9.667                                      | 12.23                          |
| August . . . . .    |                                   | 9.392                                      | 11.89                          |
| September . . . . . |                                   | 9.292                                      | 12.00                          |
| October . . . . .   |                                   | 9.113                                      | 12.31                          |
| November . . . . .  |                                   | 9.518                                      | 12.85                          |
| December . . . . .  |                                   | 9.632                                      | 13.15                          |
| 1981                |                                   |  |                                |
| January . . . . .   |                                   | 10.451                                     | 13.24                          |
| February . . . . .  |                                   | 11.156                                     | 13.73                          |
| March . . . . .     |                                   | 10.951                                     | 13.91                          |
| April . . . . .     |                                   | 11.144                                     | 13.99                          |
| May . . . . .       |                                   | 11.428                                     | 14.19                          |

| <u>Year/Month</u>   | <u>National<br/>Cost of Funds</u> | <u>Eleventh District<br/>Cost of Funds</u> | <u>FHLBB<br/>Contract Rate</u> |
|---------------------|-----------------------------------|--|--------------------------------|
| June . . . . .      |                                   | 12.139%                                    | 14.40%                         |
| July . . . . .      |                                   | 11.848                                     | 14.77                          |
| August . . . . .    |                                   | 12.029                                     | 15.03                          |
| September . . . . . |                                   | 12.325                                     | 15.38                          |
| October . . . . .   |                                   | 12.293                                     | 15.47                          |
| November . . . . .  |                                   | 12.469                                     | 15.80                          |
| December . . . . .  |                                   | 12.182                                     | 15.53                          |
| 1982                |                                   |  |                                |
| January . . . . .   |                                   | 11.950                                     | 15.37                          |
| February . . . . .  |                                   | 12.341                                     | 15.22                          |
| March . . . . .     |                                   | 12.140                                     | 15.07                          |
| April . . . . .     |                                   | 12.168                                     | 15.39                          |
| May . . . . .       |                                   | 12.167                                     | 15.57                          |
| June . . . . .      |                                   | 12.673                                     | 15.01                          |
| July . . . . .      |                                   | 12.234                                     | 14.96                          |
| August . . . . .    |                                   | 11.957                                     | 15.03                          |
| September . . . . . |                                   | 11.766                                     | 14.71                          |
| October . . . . .   | 10.91%                            | 11.286                                     | 14.37                          |
| November . . . . .  | 10.62                             | 11.042                                     | 13.74                          |
| December . . . . .  | 10.43                             | 11.093                                     | 13.44                          |
| 1983                |                                   |  |                                |
| January . . . . .   | 10.14                             | 10.462                                     | 13.04                          |
| February . . . . .  | 9.75                              | 10.423                                     | 12.88                          |
| March . . . . .     | 9.72                              | 9.873                                      | 12.61                          |
| April . . . . .     | 9.62                              | 9.807                                      | 12.42                          |
| May . . . . .       | 9.62                              | 9.626                                      | 12.36                          |
| June . . . . .      | 9.54                              | 9.824                                      | 12.21                          |
| July . . . . .      | 9.65                              | 9.676                                      | 12.18                          |
| August . . . . .    | 9.81                              | 9.969                                      | 12.25                          |
| September . . . . . | 9.74                              | 9.996                                      | 12.38                          |
| October . . . . .   | 9.85                              | 9.997                                      | 12.19                          |
| November . . . . .  | 9.82                              | 10.030                                     | 12.11                          |
| December . . . . .  | 9.90                              | 10.192                                     | 11.94                          |
| 1984                |                                   |  |                                |
| January . . . . .   | 9.89                              | 10.032                                     | 11.70                          |
| February . . . . .  | 9.73                              | 10.172                                     | 11.73                          |
| March . . . . .     | 9.73                              | 9.982                                      | 11.69                          |
| April . . . . .     | 9.64                              | 10.135                                     | 11.61                          |
| May . . . . .       | 9.74                              | 10.260                                     | 11.63                          |
| June . . . . .      | 9.67                              | 10.434                                     | 11.79                          |
| July . . . . .      | 9.90                              | 10.712                                     | 12.03                          |
| August . . . . .    | 10.01                             | 10.857                                     | 12.24                          |
| September . . . . . | 9.93                              | 11.039                                     | 12.43                          |
| October . . . . .   | 10.15                             | 10.994                                     | 12.52                          |
| November . . . . .  | 10.04                             | 10.891                                     | 12.38                          |
| December . . . . .  | 9.92                              | 10.520                                     | 12.26                          |
| 1985                |                                   |  |                                |
| January . . . . .   | 9.75                              | 10.217                                     | 12.09                          |
| February . . . . .  | 9.40                              | 10.160                                     | 11.90                          |

| <u>Year/Month</u>   | <u>National<br/>Cost of Funds</u> | <u>Eleventh District<br/>Cost of Funds</u> | <u>FHLBB<br/>Contract Rate</u> |
|---------------------|-----------------------------------|--|--------------------------------|
| March . . . . .     | 9.36%                             | 9.976%                                     | 11.72%                         |
| April . . . . .     | 9.29                              | 9.872                                      | 11.62                          |
| May . . . . .       | 9.19                              | 9.704                                      | 11.62                          |
| June . . . . .      | 8.95                              | 9.565                                      | 11.29                          |
| July . . . . .      | 8.87                              | 9.365                                      | 11.02                          |
| August . . . . .    | 8.77                              | 9.273                                      | 10.87                          |
| September . . . . . | 8.63                              | 9.129                                      | 10.76                          |
| October . . . . .   | 8.59                              | 9.027                                      | 10.86                          |
| November . . . . .  | 8.50                              | 9.036                                      | 10.80                          |
| December . . . . .  | 8.48                              | 8.867                                      | 10.70                          |
| 1986                |                                   |  |                                |
| January . . . . .   | 8.50                              | 8.770                                      | 10.40                          |
| February . . . . .  | 8.29                              | 8.964                                      | 10.46                          |
| March . . . . .     | 8.35                              | 8.744                                      | 10.24                          |
| April . . . . .     | 8.22                              | 8.587                                      | 10.00                          |
| May . . . . .       | 8.12                              | 8.441                                      | 9.80                           |
| June . . . . .      | 7.95                              | 8.374                                      | 9.83                           |
| July . . . . .      | 7.94                              | 8.196                                      | 9.88                           |
| August . . . . .    | 7.80                              | 8.018                                      | 9.88                           |
| September . . . . . | 7.59                              | 7.901                                      | 9.71                           |
| October . . . . .   | 7.50                              | 7.717                                      | 9.59                           |
| November . . . . .  | 7.33                              | 7.602                                      | 9.48                           |
| December . . . . .  | 7.28                              | 7.509                                      | 9.29                           |
| 1987                |                                   |  |                                |
| January . . . . .   | 7.22                              | 7.396                                      | 9.19                           |
| February . . . . .  | 7.02                              | 7.448                                      | 8.89                           |
| March . . . . .     | 6.99                              | 7.314                                      | 8.80                           |
| April . . . . .     | 6.93                              | 7.245                                      | 8.79                           |
| May . . . . .       | 6.92                              | 7.223                                      | 8.93                           |
| June . . . . .      | 6.90                              | 7.274                                      | 9.02                           |
| July . . . . .      | 6.96                              | 7.275                                      | 9.05                           |
| August . . . . .    | 6.95                              | 7.277                                      | 9.05                           |
| September . . . . . | 6.93                              | 7.394                                      | 8.91                           |
| October . . . . .   | 7.03                              | 7.444                                      | 8.86                           |
| November . . . . .  | 7.04                              | 7.562                                      | 8.89                           |
| December . . . . .  | 7.11                              | 7.645                                      | 8.86                           |
| 1988                |                                   |  |                                |
| January . . . . .   | 7.12                              | 7.615                                      | 8.92                           |
| February . . . . .  | 7.11                              | 7.647                                      | 8.84                           |
| March . . . . .     | 7.13                              | 7.509                                      | 8.84                           |
| April . . . . .     | 7.12                              | 7.519                                      | 8.93                           |
| May . . . . .       | 7.11                              | 7.497                                      | 8.90                           |
| June . . . . .      | 7.11                              | 7.618                                      | 8.98                           |
| July . . . . .      | 7.14                              | 7.593                                      | 8.98                           |
| August . . . . .    | 7.21                              | 7.659                                      | 9.00                           |
| September . . . . . | —                                 | 7.847                                      | 8.98                           |