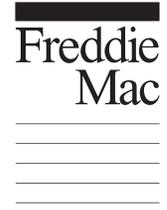


# Freddie Mac

## Multiclass Certificates

The Freddie Mac logo consists of the words "Freddie" and "Mac" stacked vertically. "Freddie" is in a serif font and "Mac" is in a bold sans-serif font. To the right of the text are four horizontal lines of varying lengths, with the top line being the longest and the bottom line being the shortest.

**REMIC Certificates**

**MACR Certificates**

### **The Certificates**

Freddie Mac issues and guarantees Multiclass Certificates, including REMIC Certificates and MACR Certificates. The Certificates are securities that represent interests in pools of assets that are backed by residential mortgages.

REMIC Certificates include:

- Multiclass PCs, which receive their payments from Freddie Mac PCs.
- Multiclass Securities, which receive their payments from GNMA Certificates.

MACR Certificates receive their payments from related REMIC Certificates.

### **Freddie Mac's Guarantee**

We guarantee the payment of interest and principal on the Certificates as described in this Offering Circular. We alone are responsible for making payments on our guarantee. Principal and interest payments on the Certificates are not guaranteed by and are not debts or obligations of the United States or any federal agency or instrumentality other than Freddie Mac.

### **Freddie Mac Will Provide More Information for Each Offering**

This Offering Circular describes the general characteristics of the Certificates. For each offering, we prepare an offering circular supplement. The supplement will describe more specifically the particular Certificates included in that offering.

### **Tax Status and Securities Law Exemptions**

The Certificates are not tax-exempt. Because of applicable securities law exemptions, we have not registered the Certificates with any federal or state securities commission. No securities commission has reviewed this Offering Circular.

**The Certificates may not be suitable investments for you. You should consider carefully the risks of investing in them. The *Risk Factors* section on pages 7 and 8 highlights some of these risks.**

Offering Circular dated March 1, 2002

If you intend to purchase Certificates, you should rely only on the information in this Offering Circular and in the related offering circular supplement (“**Supplement**”), including the information in any disclosure documents that we incorporate by reference. We have not authorized anyone to provide you with different information.

This Offering Circular, the related Supplement and any incorporated documents may not be correct after their dates.

We are not offering the Certificates in any jurisdiction that prohibits their offer.

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*Appendix I* shows the page numbers where definitions of capitalized terms appear. *Appendix II* contains our standard definitions and abbreviations for various types of Certificates.

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## FREDDIE MAC

Freddie Mac was chartered in 1970 under the Federal Home Loan Mortgage Corporation Act (the “**Freddie Mac Act**”). Freddie Mac’s statutory purposes are:

- To provide stability in the secondary market for residential mortgages.
- To respond appropriately to the private capital markets.
- To provide ongoing assistance to the secondary market for residential mortgages, including mortgages on housing for low- and moderate-income families.
- To promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

We fulfill these statutory purposes by purchasing residential mortgages and mortgage-related securities from mortgage lenders, other mortgage sellers and securities dealers. We finance our purchases by issuing guaranteed mortgage securities, debt securities, other liabilities and equity capital.

## ADDITIONAL INFORMATION

We prepare an annual Information Statement that describes our business and operations and contains our audited financial statements. We prepare quarterly Information Statement Supplements that include unaudited financial data and other information concerning our business and operations.

We also prepare offering circulars for our Mortgage Participation Certificates (the “**PC Offering Circular**”) and our Giant, Stripped Giant and Callable Pass-Through Certificates (the “**Giant Offering Circular**”).

You can obtain any of these documents, as well as the disclosure documents and current information for any securities we issue, from:

**Freddie Mac - Investor Inquiry**  
**8200 Jones Branch Drive**  
**McLean, Virginia 22102-3110**  
**Telephone: 1-800-336-FMPC**  
**(703-903-4000 within Washington, D.C. area)**  
**E-mail: [Investor\\_Inquiry@freddiemac.com](mailto:Investor_Inquiry@freddiemac.com)**  
**Internet Web-Site: <http://www.freddiemac.com>**

## SUMMARY

This summary highlights selected information about the Certificates. Before buying Certificates, you should read the remainder of this Offering Circular and the Supplement for the particular offering. You should rely on the information in the Supplement if it is different from the information in this Offering Circular.

**Issuer and Guarantor** . . . . . Federal Home Loan Mortgage Corporation, or “**Freddie Mac**,” a shareholder-owned government-sponsored enterprise.

**REMIC Certificates** . . . . . “**REMIC Certificates**” represent beneficial ownership interests in “**REMIC Pools**,” which are pools of assets that we form. We issue REMIC Certificates in series (“**Series**”), each consisting of two or more “**REMIC Classes**.”

“**Multiclass PCs**” are REMIC Certificates backed directly or indirectly by Freddie Mac PCs. “**Multiclass Securities**” are REMIC Certificates backed directly or indirectly by GNMA Certificates.

**MACR Certificates** . . . . . Some Series include Classes (“**MACR Classes**”) of Modifiable and Combinable REMIC Certificates (“**MACR Certificates**”). In a Series with MACR Classes, the Holders of specified REMIC Classes can exchange all or part of those Classes for proportionate interests in related MACR Classes and vice versa. The MACR Classes receive payments from their related REMIC Classes.

*Appendix III* describes MACR Certificates and exchange procedures and fees.

“**Certificates**” and “**Classes**” . . . . . In this Offering Circular and related Supplements, we use the term “**Certificates**” to include REMIC Certificates and MACR Certificates, and the term “**Classes**” to include REMIC Classes and MACR Classes.

**Assets and Mortgages** . . . . . The assets in each REMIC Pool (the “**Assets**”) include Freddie Mac PCs, GNMA Certificates or other securities we have created or acquired. The Assets are backed by residential mortgages that we have purchased (the “**Mortgages**”). The Mortgages may be secured by single-family or multifamily residential properties, and may have either fixed or adjustable interest rates.

**Payments** ..... We pay principal and interest due on a Class monthly on the applicable Payment Date. Payment Dates fall on or about:

- The 15th of each month, for Classes backed by PCs.
- The 17th or 20th of each month, as applicable, for Classes backed by GNMA Certificates.

• **Interest** ..... We pay interest on each Class at its applicable per annum interest rate (“**Class Coupon**”). Interest payable on a Payment Date accrues during the monthly periods specified in the related Supplement. However, interest on Accrual Classes and Partial Accrual Classes is paid only to the extent described in the related Supplements. Principal Only Classes have a Class Coupon of 0% and do not receive interest.

• **Principal** ..... We pay principal on the Certificates of each Series on each Payment Date as described in the related Supplement. The Holders of any Class that receives principal payments receive those payments on a pro rata basis, subject to any special allocation procedures that may apply to Retail Classes.

Notional Classes receive interest payments but not principal payments. They have notional principal amounts on which we calculate their interest.

**Retail Classes** ..... Some Series include Retail Classes, which are designed primarily for individual investors. We typically issue and pay Retail Classes in \$1,000 increments, or “**Retail Class Units.**” *Appendix IV* describes principal payments on most Retail Classes.

#### **REMIC Election and Tax**

**Status of the Certificates** . . We will elect to treat each REMIC Pool as a real estate mortgage investment conduit (“**REMIC**”) under the Internal Revenue Code of 1986 (the “**Code**”). “**Regular Classes**” constitute “regular interests” in their related REMIC Pools and each “**Residual Class**” constitutes the “residual interest” in its related REMIC Pool.

In general, Regular Classes are taxed as debt instruments, but Residual Classes are not. Special tax rules apply to Residual Classes. These rules often impose tax liabilities on Residual Classes that exceed any payments they receive. You should not purchase a Residual Class before consulting your tax advisor.

The arrangements under which MACR Classes are created (“**MACR Pools**”) will be classified as grantor trusts for federal income tax purposes.

**Form of Certificates** . . . . . Each Supplement will specify the form of the Certificates offered by that Supplement.

- Non-Retail Regular and MACR Classes in most cases are issued, held and transferable on the book-entry system of the Federal Reserve Banks (the “**Fed System**”).
- Retail Classes and some other Regular and MACR Classes are issued, held and transferable on the book-entry system (the “**DTC System**”) of The Depository Trust Company or its successor (“**DTC**”).
- We issue some Classes, including all Residual Classes, in registered certificated form. They are transferable at our office, in our capacity as registrar, or at the office of any successor registrar we designate (the “**Registrar**”). You may contact Freddie Mac as Registrar through our Investor Inquiry Department or at:

Office of Registrar — MS 300  
Freddie Mac  
8200 Jones Branch Drive  
McLean, VA 22102-3110

**Holders** . . . . . As an investor in Certificates, you are not necessarily the Holder of those Certificates. You ordinarily must hold your Certificates through one or more financial intermediaries. You may exercise your rights as an investor only through the Holder of your Certificates, and we may treat the Holder as the absolute owner of your Certificates. The term “**Holder**” means:

- For a Class held on the Fed System, any entity that appears on the records of a Federal Reserve Bank as a holder of that Class.
- For a Class held on the DTC System, DTC or its nominee.
- For a certificated Class, any entity or individual that appears on the records of the Registrar as a registered holder of that Class.

## RISK FACTORS

Although we guarantee the payments on the Certificates, and so bear the associated credit risk, as an investor you will bear the other risks of owning mortgage securities. This section highlights some of these risks. *Prepayment, Yield and Suitability Considerations* discusses them in more detail.

**The Certificates May Not be Suitable Investments for You.** The Certificates are complex securities. You need to understand the risks of your investment, and you need to be able to analyze the information in the related offering documents as well as the economic and other factors that may affect your investment. If you require a definite payment stream, or a single payment on a specific date, the Certificates are not suitable investments for you. If you purchase Certificates, you need to have enough financial resources to bear all of the risks related to your Certificates.

**Principal Payment Rates are Uncertain.** Principal payment rates on the Certificates will depend on the rates of principal payments on the underlying Mortgages. Mortgage principal payments include scheduled payments and prepayments. Prepayment rates fluctuate continuously and (in some market conditions) substantially. In general, prepayments tend to increase when current interest rates decline, as more borrowers choose to refinance their existing mortgages. As current interest rates increase, refinancings and prepayments generally decline.

**Prepayments Can Reduce Your Yield.** Your yield on a Class of Certificates will depend on its price, the rate of prepayments on its underlying Mortgages and the actual characteristics of those Mortgages. The Mortgages may be prepaid at any time, in most cases without penalty. The yield on your Class could be lower than you expect if:

- You buy your Class at a discount to its principal amount and principal payments are slower than you expect.
- You buy your Class at a premium over its principal amount and principal payments are faster than you expect.

If you buy an Interest Only Class or any other Class at a significant premium and prepayments are fast, you may not even recover your investment.

**Callable Classes are Subject to Redemption Risks.** If you own a Callable Class, a redemption of the underlying Assets will be similar in its principal payment effect to a full prepayment of all the related Mortgages. After a Callable Class becomes redeemable, its value is not likely to exceed, and may be lower than, its redemption price.

**Reinvestment of Principal Payments May Produce Lower Yields.** Mortgages tend to prepay fastest when current interest rates are low. When you receive principal payments in a low interest rate environment, you may not be able to reinvest them in comparable securities with as high a yield as your Certificates.

**Index Levels Can Reduce Your Yield if You Own a Floating Rate or Inverse Floating Rate Class.** The yield on your Class could be lower than you expect if:

- You own a Floating Rate Class and the levels of the applicable Index are lower than you expect.
- You own an Inverse Floating Rate Class and the levels of the applicable Index are higher than you expect.

If you buy an Interest Only Floating Rate Class, you may not even recover your investment if the level of the applicable Index is low or prepayments are fast. If you buy an Interest Only Inverse Floating Rate Class, you may not even recover your investment if the level of the applicable Index is high or prepayments are fast.

**Classes That Support Other Classes are More Sensitive to Prepayment Rates.** If you own a Class, such as a Support Class, that supports the principal payment stability of other Classes, your Class is likely to be more sensitive to prepayment rates than are any Classes it supports. You may not receive principal payments on your Class for extended periods of time, and you may receive principal payments that change significantly from period to period. The same may be true if the Assets underlying your Certificates include a previously issued Class that supports other Classes in its own Series.

**Classes May Not Adhere to Their Principal Payment Schedules.** If you own a Class, such as a PAC, TAC or Scheduled Class, that was structured to receive principal payments in accordance with a schedule, we cannot assure you that your Class will adhere to that schedule. Your Class will become more sensitive to Mortgage prepayments after its own supporting Classes are retired. Moreover, your Class may support other Classes. The same may be true if the Assets underlying your Certificates include a previously issued Class that was structured to receive principal payments in accordance with a schedule in its own Series.

**The Certificates are Subject to Market Risks.** The market value of your Certificates will vary over time, primarily in response to changes in prevailing interest rates. If you sell your Certificates when their market value is low, you may experience significant losses. A secondary market for some Certificates may not develop. Even if a market does develop, it may not be liquid enough to allow you to sell your Certificates easily or at your desired price. Moreover, you may not be able to sell very small or very large amounts of Certificates at prices available to other investors.

**Your Ability to Exchange REMIC Certificates and MACR Certificates May be Limited.** You must own the right Classes in the right proportions to enter into an exchange involving MACR Certificates. If you do not own the right Classes, you may not be able to obtain them because:

- The owner of a Class that you need for an exchange may refuse or be unable to sell that Class to you at a reasonable price or at any price.
- Some Classes may be unavailable because they have been placed into other financial structures, including other REMIC Pools.
- Principal payments and prepayments over time will decrease the amounts available for exchange.

**You May Not be Allowed to Buy Some Certificates.** If you are subject to legal investment laws and regulations or to review by regulatory authorities, you may not be allowed to invest in some types of Certificates or in Certificates generally. See *Legal Investment Considerations*.

## DESCRIPTION OF CERTIFICATES

### REMIC POOL STRUCTURES

Each Series will be either a “**Single-Tier Series**” or a “**Double-Tier Series.**”

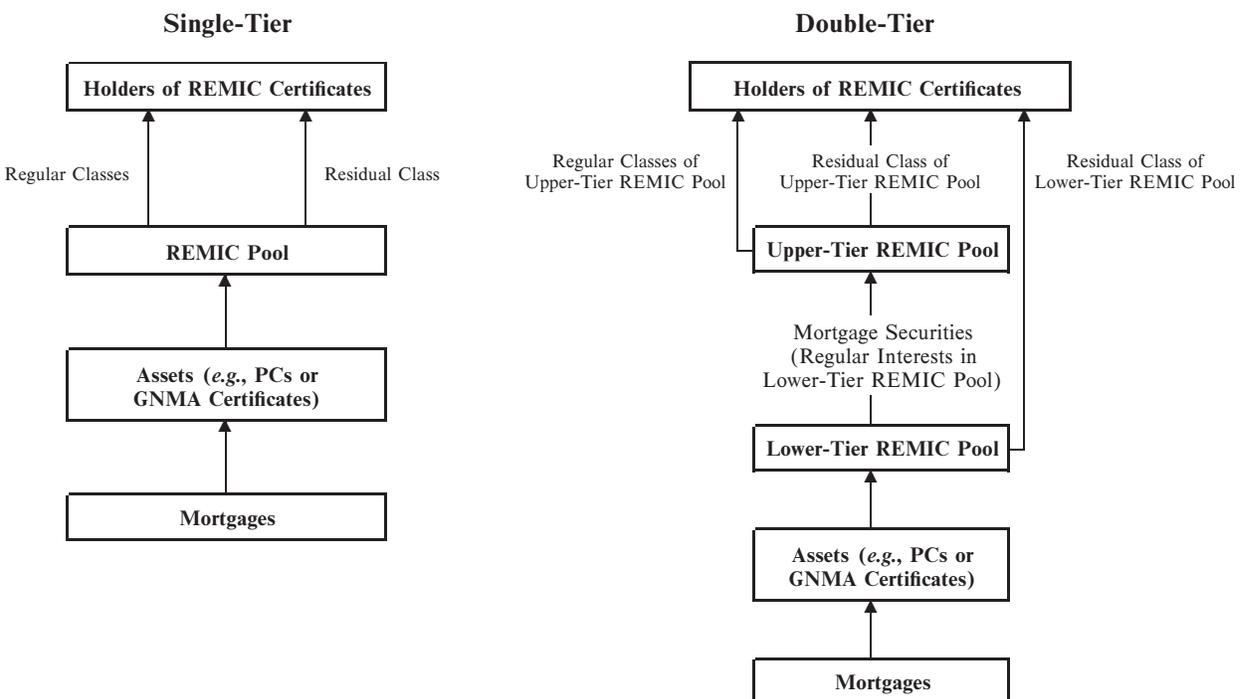
The REMIC Certificates of a Single-Tier Series represent beneficial ownership interests in a single REMIC Pool. The REMIC Certificates of a Double-Tier Series represent beneficial ownership interests in an “**Upper-Tier REMIC Pool**” and one or more “**Lower-Tier REMIC Pools.**”

In a Double-Tier Series:

- The Classes issued from each Lower-Tier REMIC Pool (the “**Lower-Tier Classes**”) represent beneficial ownership interests in that Pool.
- One or more Lower-Tier Classes are included in the Upper-Tier REMIC Pool, where they will constitute the “**Mortgage Securities**” of that Pool.
- The Classes issued from the Upper-Tier REMIC Pool (the “**Upper-Tier Classes**”) represent beneficial ownership interests in that Pool.

The REMIC Certificates offered in a Double-Tier Series usually include all of the Upper-Tier Classes plus the Residual Class of each Lower-Tier REMIC Pool.

The following diagrams illustrate the structures for typical Single-Tier and Double-Tier Series. Any particular Series may have a different structure, as described in the related Supplement. Double-Tier Series frequently include more than one Lower-Tier REMIC Pool. Series with Guaranteed Maturity Classes include additional REMIC Pools, as described in the related Supplements.



The Classes of Certificates fall into different descriptive categories. Each Supplement will identify the categories applicable to each Class by using standard abbreviations. These abbreviations and their definitions appear in *Appendix II*.

## REMIC POOL ASSETS

### General

Each REMIC Pool includes any one or more of the following Assets:

- PCs, including Freddie Mac Mortgage Participation Certificates and Freddie Mac Giant PCs.
- GNMA-Related Securities, including GNMA Certificates and Freddie Mac Giant Securities.
- Previously issued REMIC or MACR Classes.
- Freddie Mac Stripped Giant Certificates.
- A Callable Class of a Series of Freddie Mac Callable Pass-Through Certificates (“CPCs”).
- Any other types of securities that are eligible for inclusion in a REMIC and that receive payments from PCs or GNMA Certificates.

Each REMIC Pool may also include cash or other eligible assets. See *The Agreement — Transfer of Assets to REMIC Pool*. In Series with Retail Classes, REMIC Pools usually include non-interest bearing cash deposits in amounts specified in the related Supplement (“**Retail Rounding Accounts**”) to be applied as described in *Appendix IV*.

In any Series, the underlying Assets may be divided into two or more groups (“**Asset Groups**”). The Supplement for each Series will contain more specific information regarding the Assets for the Series.

The remainder of this section describes the general characteristics of PCs and GNMA-Related Certificates, which directly or indirectly back all Certificates.

### PCs

“PCs” include Freddie Mac Mortgage Participation Certificates and Freddie Mac Giant PCs. Our PC Offering Circular and Giant Offering Circular describe the characteristics of the various types of PCs. Supplements for Certificates backed by PCs will incorporate by reference the current PC and Giant Offering Circulars.

#### *Mortgage Participation Certificates*

Mortgage Participation Certificates are single-class securities, guaranteed by us, that represent undivided interests in pools of Mortgages. Nearly all Mortgages that back Mortgage Participation Certificates are conventional mortgages, which means that neither the United States nor any federal agency or instrumentality guarantees or insures them.

If the underlying Mortgages have fixed rates of interest, the Mortgage Participation Certificates may be either “**Gold PCs**” or “**Original PCs.**” If the underlying Mortgages have adjustable rates of interest (“**ARMs**”), the related Mortgage Participation Certificates are called “**ARM PCs.**”

For Gold PCs, there is a delay of approximately 45 days between the time interest begins to accrue and the time the investor receives the interest payment. This time period is a “**Payment Delay.**” Original PCs and ARM PCs have a Payment Delay of approximately 75 days.

#### *Giant PCs*

“**Giant PCs**” are Freddie Mac Giant Certificates that represent pass-through interests in Mortgage Participation Certificates. Giant PCs have names — “**Gold Giant PCs,**” “**Original Giant PCs**” and “**ARM Giant PCs**” — that identify their underlying assets and the applicable Payment Delay.

#### *Non-Standard Mortgages*

Some PCs represent interests in special types of Mortgages, such as relocation mortgages, cooperative share mortgages, extended buydown mortgages, biweekly mortgages, newly originated assumable mortgages or prepayment protection mortgages. These types of mortgages may prepay differently than standard mortgages. If any one of these types of PCs represents more than 10%, or if any two or more of them represent more than 15%, of the original principal balance of a REMIC Pool, the applicable Supplement will say so.

#### **GNMA-Related Securities**

“**GNMA-Related Securities**” may be either GNMA Certificates or Freddie Mac Giant Securities.

#### *GNMA Certificates*

“**GNMA Certificates**” are mortgage-backed securities that the Government National Mortgage Association (“**GNMA**”) guarantees. GNMA is a corporate instrumentality of the United States within the Department of Housing and Urban Development (“**HUD**”). GNMA guarantees the timely payment of principal and interest on certificates that are backed by pools of mortgages insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, the Rural Housing Service or HUD.

Investors in GNMA Certificates receive monthly payments of interest and scheduled principal, even if the borrowers on the underlying mortgages have not made their monthly payments. GNMA’s guarantee obligations, unlike Freddie Mac’s, are backed by the full faith and credit of the United States.

Mortgage banking companies and other financial concerns approved by GNMA issue and service GNMA Certificates. GNMA guarantees securities under its GNMA I program (“**GNMA I Certificates**”) and GNMA II program (“**GNMA II Certificates**”). Holders of GNMA I Certificates and GNMA II Certificates have substantially similar rights, although a few differences do exist.

Under the GNMA I program, a single GNMA issuer assembles a pool of mortgages and issues and markets GNMA I Certificates that are backed by that pool. The origination date of mortgages

in the pool must be within two years of the date that the related GNMA I Certificates are issued. All mortgages underlying a particular GNMA I Certificate must be of the same type (for example, all single-family, level payment mortgages) and have the same fixed interest rate. The pass-through rate on each GNMA I Certificate is 50 basis points less than the interest rate on the mortgages included in the pool. Holders of GNMA I Certificates receive payments on or about the 15th of each month. GNMA I Certificates have a Payment Delay of approximately 45 days.

Under the GNMA II program, a pool may consist of mortgages submitted by more than one GNMA issuer. The resulting pool backs a single issue of GNMA II Certificates, which each participating issuer markets to the extent that it contributed mortgages to the pool. Each GNMA II Certificate issued from a multiple issuer pool, however, represents an interest in the entire pool, not just in mortgages contributed to the pool by a particular GNMA issuer. GNMA II Certificates also may be backed by a custom pool of fixed-rate mortgages formed by a single issuer. Holders of GNMA II Certificates receive payments on or about the 20th of each month. GNMA II Certificates have a Payment Delay of approximately 50 days.

Each GNMA II Certificate pool consists entirely of fixed-rate mortgages or entirely of ARMs. Fixed-rate mortgages underlying any particular GNMA II Certificate must be of the same type, but may have annual interest rates that vary from each other by up to 100 basis points. The pass-through rate on each fixed-rate GNMA II Certificate will be 50 to 150 basis points less than the annual interest rate on any mortgage included in the pool.

ARMs underlying any particular GNMA II Certificate will have interest rates that adjust annually based on the one-year Treasury index. GNMA pooling specifications require that all ARMs in a given pool have an identical first adjustment date, annual adjustment date, index reference date and means of adjustment. All of the ARMs underlying a particular GNMA II Certificate must have interest rates that are 50 to 150 basis points above the interest rate of the GNMA II Certificate. In addition, the mortgage margin for any given ARM must be 50 to 150 basis points greater than the margin for the related GNMA II Certificate. The ARMs and GNMA II Certificates have an annual adjustment cap of  $\pm 1\%$  and lifetime cap of  $\pm 5\%$  above or below the initial interest rate. Thirty days after each annual adjustment date, the payment amount of an ARM resets so that its remaining principal balance would fully amortize in equal monthly payments over its remaining term to maturity, assuming its interest rate were to remain constant at the new rate.

Under its “Platinum” program, GNMA guarantees certificates that represent pass-through interests in pools of GNMA I Certificates or GNMA II Certificates. The terms “GNMA I Certificates” and “GNMA II Certificates” include certificates guaranteed under the Platinum program.

### *Giant Securities*

“**Giant Securities**” are Freddie Mac Giant Certificates that represent pass-through interests in GNMA Certificates. Our Giant Offering Circular describes the characteristics of Giant Securities. Supplements for Certificates backed by GNMA-Related Securities will incorporate by reference the current Giant Offering Circular.

## PAYMENTS

### Class Factors

#### *General*

For each month, we calculate and make available (including on our Internet Web-Site) the Class Factor for each Class of Certificates having a principal amount.

The “**Class Factor**” for any Class for any month is a truncated seven-digit decimal that, when multiplied by the original principal amount of a Certificate of that Class, will equal its remaining principal amount. The Class Factor for any month reflects payments of principal (or, in the case of Accrual and Partial Accrual Classes, additions to principal) to be made on the Payment Date:

- In the same month, for Classes backed by Gold PCs or GNMA Certificates.
- In the following month, for Classes backed by Original PCs or ARM PCs.

Class Factors will be available on or about:

- The fifth business day of each month, for Classes backed by PCs.
- The tenth business day of each month, for Classes backed by GNMA Certificates.

A Class Factor for a Notional Class reflects the remaining notional principal amount of a Certificate of that Class in the same manner. The Class Factor for a Retail Class applies to that Class as a whole, not to individual Retail Class Units, and disregards any rounding of principal payments.

For Component Classes, we also make available “**Component Factors**” for each Component. The Component Factor for a Component is analogous to the Class Factor for a Class. You can obtain Component Factors from our Investor Inquiry Department.

We calculate the Class Factors for MACR Classes and REMIC Classes that are exchangeable for MACR Classes assuming that the maximum possible amount of each Class is outstanding at all times, without regard to any exchanges that may occur.

The Class Factor for each Class for the month of its issuance is 1.0000000.

#### *Class Factors for Multiclass Securities*

We calculate Class Factors for Multiclass Securities and related MACR Classes by using GNMA Certificate factors reported each month. Currently, the reported factors that we use are preliminary and subject to revision. In addition, there may not be reported factors for some GNMA Certificates. If a factor has not been reported, we will estimate it on the basis of assumed Mortgage amortization schedules. Our estimate will reflect payment factor information previously reported and estimated subsequent scheduled amortization (but not prepayments) on the related Mortgages.

Because GNMA factors may be preliminary, and we must estimate factors when reported factors are not available, there may be variances between the principal payments we receive on the GNMA Certificates in any month and the amounts we pay on the related Certificates, as reflected by their Class Factors for that month. However, the Class Factors for any month will reconcile any variances that occurred in the preceding month. Our determination of the Class Factors in the manner described above will be final.

## Payment Dates

We make payments to the Holders of Certificates on each applicable Payment Date. A “Payment Date” is:

- For Classes backed by PCs, the 15th of each month or, if the 15th is not a Business Day, the next Business Day.
- For Classes backed entirely by GNMA I Certificates, the 17th of each month or, if the 17th is not a Business Day, the next Business Day.
- For Classes backed entirely or partly by GNMA II Certificates, the 20th of each month or, if the 20th is not a Business Day, the next Business Day.

For this purpose, “Business Day” means a day other than:

- A Saturday or Sunday.
- A day when the offices of the federal government in the District of Columbia generally are closed.
- A day when Freddie Mac is closed.
- For Classes on the Fed System, a day when the Federal Reserve Bank of New York (or other agent acting as Freddie Mac’s fiscal agent) is closed or, as to any Holder, a day when the Federal Reserve Bank that maintains the Holder’s account is closed.
- For Classes on the DTC System, a day when DTC is closed.

## Payments of Principal

On each Payment Date, we pay principal to the Holders of each Class on which principal is then due, as described in the related Supplement.

For any Payment Date, the total amount of principal payments to be made on the Classes of any Series equals the sum of:

- Any interest that has accrued on any Accrual or Partial Accrual Classes of that Series during the applicable Accrual Period and is not payable as interest on that Payment Date.
- The amount of principal payments required to be made in the same month on the underlying Assets. For Multiclass Securities, we calculate this amount as described under *Class Factors — Class Factors for Multiclass Securities* above.

Subject to special allocation procedures that may apply to a Retail Class, the Holders of Certificates of any Class entitled to receive principal payments on any Payment Date receive those payments on a pro rata basis. *Appendix IV* describes how we typically make principal payments on Retail Classes.

For convenience in describing payments on it, each Component Class is deemed to consist of two or more “Components.” These Components, together, constitute a single Class and are not separately issued or transferable. However, discussions in this Offering Circular and in Supplements regarding the payment characteristics of the various categories of Classes also apply to Components within the same categories.

## Payments of Interest

Interest accrues on each Certificate during each Accrual Period at the applicable Class Coupon, if any, described in the related Supplement. We compute interest on the basis of a 360-day year of twelve 30-day months. Interest accrued on an Accrual or Partial Accrual Class is payable to the extent provided in the related Supplement, and the amount of any interest accrued and not paid as interest is added to the principal amount of that Class. Any accrued interest so added will also accrue interest. No interest at all will be paid on any Class (including any Retail Class Unit) after its balance has been reduced to zero.

Each Residual Class receives interest on each Payment Date either (a) at its Class Coupon, if any, or (b) in an amount equal to the interest payments received on the Assets in the related REMIC Pool on that Payment Date in excess of the total amount of interest payable on (or added to) the related Regular Classes on that Payment Date. In most cases, any such excess is insignificant.

The “**Accrual Period**” relating to any Payment Date is:

- For a Fixed Rate, Ascending Rate, Descending Rate or Delay Class backed by Gold PCs or GNMA Certificates, the calendar month preceding the Payment Date.
- For a Fixed Rate, Ascending Rate, Descending Rate or Delay Class backed by Original PCs or ARM PCs, either the period:
  - From the 15th of the second month preceding the Payment Date to the 15th of the month preceding the Payment Date.
  - The second calendar month preceding the Payment Date.
- For a Floating Rate or Inverse Floating Rate Class (other than a Delay Class) backed by PCs, the period from the 15th of the month preceding the Payment Date to the 15th of the month of the Payment Date.
- For a Floating Rate or Inverse Floating Rate Class (other than a Delay Class) backed by GNMA Certificates, the period:
  - From the 17th of the month preceding the Payment Date to the 17th of the month of the Payment Date (for Classes backed entirely by GNMA I Certificates).
  - From the 20th of the month preceding the Payment Date to the 20th of the month of the Payment Date (for Classes backed in whole or in part by GNMA II Certificates).

## Interest Rate Indices

Each Floating Rate or Inverse Floating Rate Class bears interest during each Accrual Period by reference to one of the following indices (each, an “**Index**”), as described in the related Supplement:

- “**LIBOR**,” the arithmetic mean of the London interbank offered quotations for Eurodollar deposits with a maturity of one month, three months, one year or some other maturity, as described in the related Supplement.

- “**COFI**,” the weighted average cost of funds for member savings institutions of the Eleventh Federal Home Loan Bank District.
- A “**Treasury Index**,” the auction average (investment) yield on three-month or six-month U.S. Treasury bills or the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one, three, five, seven, ten or thirty years or to some other constant maturity, as specified in the related Supplement.
- The “**Prime Rate**,” the prime or base lending rate of major banks as published in *The Wall Street Journal*.

Classes bearing interest based on these Indices are called “**LIBOR Classes**,” “**COFI Classes**,” “**Treasury Index Classes**” and “**Prime Rate Classes**,” as applicable.

*Appendix V* describes how we determine these Indices for each Accrual Period. Absent clear error, our determination of the applicable Index levels and our calculation of the Class Coupons for Floating Rate and Inverse Floating Rate Classes for each Accrual Period will be final and binding. You can get the Class Coupons for the current and all preceding Accrual Periods from our Internet Web-Site or from our Investor Inquiry Department.

### **Residual Classes**

Holders of each Residual Class are entitled to receive:

- On each Payment Date, any payments of principal and interest described in the related Supplement.
- Upon surrender of their Certificates to the Registrar, the proceeds of any remaining Assets of the related REMIC Pool after we have made all required principal and interest payments on all Classes issued from that REMIC Pool.

Residual Classes are subject to transfer restrictions, including restrictions on ownership by foreign persons. See *Certain Federal Income Tax Consequences — Transfers of Interests in a Residual Class*.

We will provide Holders of Residual Classes information to enable them to prepare reports required under the Code or applicable Treasury regulations. Because we do not intend to hold any Residual Class, applicable law may not allow us to perform tax administrative functions for the REMIC Pools. Therefore, if you own a Residual Class, you may have certain tax administrative obligations, for which we will act as your attorney-in-fact and agent. See *Certain Federal Income Tax Consequences*.

### **Record Dates**

We make payments on each Payment Date to Holders as of the related Record Date. The “**Record Date**” for any Payment Date is the close of business on:

- The last day of the preceding month, for a Class backed by Gold PCs or GNMA Certificates.
- Either the 14th of the preceding month or the last day of the second preceding month, for a Class backed by Original PCs or ARM PCs.

## **Final Payment Dates**

The “**Final Payment Date**” for each Class is the latest date by which it will be paid in full and will retire. We calculate Final Payment Dates using highly conservative assumptions, and the actual retirement of any Class could occur significantly earlier than its Final Payment Date.

## **Guarantees**

We guarantee to each Holder of a Certificate:

- The timely payment of interest at its Class Coupon.
- The payment of its principal amount as described in the related Supplement, including payment in full by its Final Payment Date.

We also guarantee:

- For all of our Mortgage Participation Certificates, the timely payment of interest and the full and final payment of principal on the underlying Mortgages.
- For our Gold PCs only, the timely payment of scheduled principal on the underlying Mortgages, calculated as described in the PC Offering Circular.
- For our Giant Certificates, the timely payment of interest and the payment of principal as described in the Giant Offering Circular.

## **1% Clean-up Call**

We will have the right (a “**1% Clean-up Call Right**”) to redeem all the remaining Classes of any Series or, in the case of a Double-Tier Series, all the remaining Classes of any Lower-Tier REMIC Pool, on any Payment Date when their aggregate remaining principal amount would be less than 1% of their aggregate original principal amount. The aggregate remaining principal amount gives effect to any principal payments that would be made on that Payment Date in the absence of a redemption.

We will give notice of any exercise of our 1% Clean-up Call Right to the affected Holders 30 to 60 days before the redemption date. For each redemption, we will pay a redemption price equal to 100% of the unpaid principal amount of the Classes redeemed, plus interest for the related Accrual Period. In the case of a Double-Tier Series, this price will be applied to retire the related Upper-Tier Classes. An exercise of our 1% Clean-up Call Right will result in the retirement of all outstanding related Classes, including any MACR Classes.

If a REMIC Pool includes a Callable Class of CPCs, we will not exercise our 1% Clean-up Call Right if that Callable Class is to be redeemed.

For each optional redemption, we will adopt a liquidation plan that meets the requirements of a “qualified liquidation” under Section 860F(a)(4) of the Code. This plan will allow us to liquidate all of the Assets in the REMIC Pool, or the applicable Lower-Tier REMIC Pool in the case of a Double-Tier Series, at fair market value as we determine, and apply the net proceeds of that liquidation to pay the redemption price. If the proceeds are not sufficient to pay the redemption price, we will contribute the necessary funds. After any redemption, we will distribute any remaining proceeds from the liquidation, net of expenses, to the Holders of the related Residual Class, upon surrender of their Certificates to the Registrar.

All decisions regarding the exercise of our 1% Clean-up Call Right, including its timing, will be at our discretion. We will be under no obligation to any Holder to make or not make an optional redemption, even if it would be in that Holder's interest. PCs and GNMA-Related Securities are not redeemable.

### **Redemption of Callable Class Held by REMIC Pool**

If the Assets of a REMIC Pool include a Callable Class of CPCs, we will adopt a liquidation plan for that REMIC Pool if the Callable Class is redeemed. This plan will meet the requirements of Section 860F(a)(4) of the Code, and will govern the liquidation of the REMIC Pool as a result of the redemption of the Callable Class.

## **FORM, HOLDERS AND PAYMENT PROCEDURES**

### **Form and Denominations**

*Fed System.* Investors who own Certificates held on the Fed System typically are not the Holders of those Certificates. Only banks and other entities eligible to maintain book-entry accounts with a Federal Reserve Bank ("**Fed Participants**") may be Holders of Certificates held on the Fed System.

Certificates held on the Fed System are subject to the HUD regulations governing Freddie Mac's book-entry securities (24 C.F.R. Part 81, Subpart H) and any procedures that Freddie Mac and a Federal Reserve Bank may agree to. These regulations and procedures relate to the issuance and recordation of, and transfers of interests (including security interests) in, all of Freddie Mac's book-entry securities held on the Fed System, regardless of when the securities were issued. Fed Participants' individual accounts are governed by operating circulars and letters of the Federal Reserve Banks.

*DTC System.* DTC is a New York-chartered limited purpose trust company that performs services for its participants ("**DTC Participants**"), mostly brokerage firms and other financial institutions. Certificates held on the DTC System are registered in the name of DTC or its nominee. Therefore, DTC or its nominee is the Holder of Certificates held on the DTC System.

*Certificated Classes.* Certificated Classes, including Residual Classes, are transferable only at the office of the Registrar. A Holder may have to pay a service charge to the Registrar for any registration of transfer of a certificated Class, and will have to pay any transfer taxes or other governmental charges.

*CUSIP Number.* Each Class of Certificates has a unique nine-character designation, known as a "**CUSIP Number,**" used to identify that Class.

*Denominations.* All Classes other than Retail and Residual Classes are issued, held and transferred in minimum original principal or notional principal amounts of \$1 and additional increments of \$1. A Holder of a Certificate on the Fed System also has to comply with any Federal Reserve Bank minimum wire transfer requirements. DTC holds each Retail Class in \$1,000 Retail Class Units.

A Residual Class without an original principal amount or notional principal amount is issued in minimum percentage interests of 1%. Other Residual Classes are issued in minimum original principal or notional principal amounts of \$1,000 and additional increments of \$1.

## **Holders**

A Holder of a Certificate is not necessarily its beneficial owner. Beneficial owners ordinarily will hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. For example, as an investor, you may hold a Certificate through a brokerage firm which, in turn, holds through a Fed Participant. In that case, you would be the beneficial owner and the Fed Participant would be the Holder.

If your Class is held on the DTC System, your ownership will be recorded on the records of the brokerage firm, bank or other financial intermediary where you maintain an account for that purpose. In turn, the financial intermediary's interest in the Class will be recorded on the records of DTC (or of a DTC Participant that acts as agent for the financial intermediary, if the intermediary is not itself a DTC Participant).

A Holder that is not also the beneficial owner of a Certificate, and each other financial intermediary in the chain between the Holder and the beneficial owner, will be responsible for establishing and maintaining accounts for their customers. Freddie Mac and any Federal Reserve Bank will not have a direct obligation to a beneficial owner of a Certificate that is not also the Holder. A Federal Reserve Bank or DTC will act only upon the instructions of the Fed Participant or DTC Participant, as applicable, in recording transfers of a Class.

Freddie Mac, the Registrar, the Federal Reserve Banks and DTC may treat the Holder as the absolute owner of a Certificate for the purpose of receiving payments and for all other purposes, regardless of any notice to the contrary. Your rights as a beneficial owner of a Certificate may be exercised only through the Holder.

## **Payment Procedures**

Federal Reserve Banks credit payments on Classes held on the Fed System to the appropriate Fed Participants.

We make payments on Classes held on the DTC System in immediately available funds to DTC. DTC is responsible for crediting the payment to the accounts of the appropriate DTC Participants in accordance with its normal procedures.

The Registrar makes payments on a certificated Class by check mailed to the addresses of the Holders shown on the Registrar's records or, if the related Supplement provides, by wire transfer to the Holders. However, a Holder will receive the final payment on a certificated Class only upon presentation and surrender of the Holder's Certificate to the Registrar.

Each Holder and each other financial intermediary will be responsible for remitting payments to the beneficial owners of a Class that it represents.

If a principal or interest payment error occurs, we may correct it by adjusting payments to be made on later Payment Dates or in any other manner we consider appropriate.

## **MACR CERTIFICATES**

In each Series that includes MACR Certificates, we will issue the REMIC Classes shown on the front cover of the related Supplement on the Closing Date. Some of those Classes may be exchanged, in whole or in part, for MACR Classes at any time on or after the Closing Date. The

related Supplement will describe the characteristics of the MACR Classes and the available “Combinations” of REMIC Certificates and MACR Certificates.

The specific Classes of REMIC Certificates and MACR Certificates that are outstanding at any given time, and the outstanding principal or notional principal amounts of those Classes, will depend on payments on those Classes and any exchanges that have occurred. Exchanges of REMIC Certificates for MACR Certificates, and vice versa, may occur repeatedly. The total outstanding principal amount of all the REMIC Classes and MACR Classes that are backed by the same Assets, not including any notional principal amount, will always equal the total remaining principal amount of the underlying Assets.

MACR Certificates receive interest payments from their related REMIC Certificates at their applicable Class Coupons. On each Payment Date when MACR Certificates entitled to principal are outstanding, we allocate principal payments from the applicable REMIC Certificates to the related MACR Certificates that are entitled to principal. If there are two or more outstanding MACR Classes of the same Combination entitled to principal, they receive principal payments pro rata. If the applicable REMIC Certificates include an Accrual or Partial Accrual Class and a related Accretion Directed Class, we allocate the net reduction in their aggregate principal amount to the related MACR Certificates.

*Appendix III* describes MACR Certificates and exchange procedures and fees.

## **PREPAYMENT, YIELD AND SUITABILITY CONSIDERATIONS**

### **PREPAYMENTS**

#### **General**

The rates of principal payments on the Assets and the Certificates will depend on the rates of principal payments on the related Mortgages. Mortgage principal payments may be in the form of scheduled amortization or partial or full prepayments. Prepayments include:

- Prepayments by the borrower.
- Liquidations resulting from default, casualty or condemnation.
- Payments made by Freddie Mac or GNMA under their guarantees of principal (other than payments of scheduled amortization).

The Mortgages may be prepaid at any time, in most cases without penalty. We cannot make any representation regarding the likely prepayment experience of the Mortgages underlying any REMIC Pool.

Mortgage prepayment rates are likely to fluctuate significantly over time. Prepayment rates are influenced by many factors, especially mortgage interest rates. In general, as mortgage interest rates decline, borrowers tend to refinance their current mortgages, which results in faster prepayment rates on a mortgage pool. On the other hand, as mortgage interest rates increase, borrowers tend not to refinance their mortgages, which results in slower prepayment rates on a mortgage pool. Either of these scenarios can affect the yield of your investment in a Certificate, as discussed in more detail below.

Transfers of mortgaged properties also influence prepayment rates. The Mortgages underlying fixed-rate PCs generally include “due-on-transfer” clauses which provide that the holder of the Mortgage may demand full payment of the Mortgage upon the transfer of the mortgaged property. Freddie Mac, in most cases, requires mortgage servicers to enforce these clauses where permitted by applicable law. The PC Offering Circular discusses this further. ARMs and Mortgages underlying GNMA Certificates generally do not include due-on-transfer clauses.

Our pooling criteria for PCs also may affect prepayment rates, as discussed in the PC Offering Circular. We use mortgage information available to us to determine which Mortgages we will purchase, the prices we will pay for Mortgages, how to pool the Mortgages we purchase and which Mortgages we will retain in our own portfolio. The information we use varies over time, and may include, among other things, loan-to-value ratios, loan size and age, geographic distribution, weighted average interest rate, purpose or source of origination, borrower median income and credit scoring. We have discretion to determine whether the Mortgages we purchase will be securitized or held in our portfolio.

The rate of principal payments on a PC may fluctuate significantly from month to month as a result of fluctuations in the principal payment rates of its underlying Mortgages. A PC may experience payment behavior that is similar to or different from that experienced by other PCs backed by similar Mortgages. In addition, a PC could experience payment behavior that is significantly different from other PCs, particularly if it is backed by a relatively small number of Mortgages or Mortgages from only one originator, or if its pool has been formed specifically to emphasize one or more specific loan characteristics, such as borrower income, credit rating or loan size. We can make no representation concerning the particular effect that any factor may have on Mortgage prepayment behavior, or the prepayment rates for any type of Mortgage as compared to other kinds of Mortgages.

GNMA Certificates are subject to prepayment uncertainty similar to that discussed above for PCs.

### **Principal Payment Stability of Classes**

The Mortgages and the Certificates are subject to principal prepayment uncertainty. As we describe in Supplements, some Classes of Certificates, such as PAC Classes and other Classes that receive principal payments in accordance with schedules, are expected to have a lower level of prepayment uncertainty than their underlying Mortgages. These Classes have a degree of “stability.” Stability in one Class or group of Classes is always offset by instability in other Classes, such as Support Classes. These types of Classes “support” the more stable Classes.

## **YIELDS**

### **General**

In general, your yield on any Class of Certificates will depend on several variables, including:

- The price you paid for that Class.
- The rate of principal payments on the underlying Mortgages and Assets.
- The actual characteristics of the underlying Mortgages.

- In the case of a Floating Rate or Inverse Floating Rate Class, the levels of the applicable Index.
- The payment priorities of your Class and the related Classes in the same Series.
- The Payment Delay of your Class.
- In the case of a Class backed by previously issued Certificates, the payment priorities of the Classes in the underlying Series.
- In the case of a Callable Class, whether a redemption of the underlying Asset occurs.

You should carefully consider the yield risks associated with the Certificates, including these:

- If you purchase a Class at a discount to its principal amount and the rate of principal payments on the underlying Assets is slower than you expect, you will receive payments over a longer period than you expect, so the yield on your investment will be lower than you expect. This is especially true for a Principal Only Class.
- If you purchase a Class at a premium over its principal amount and the rate of principal payments on the underlying Assets is faster than you expect, you will receive payments over a shorter period than you expect, so the yield on your investment will be lower than you expect.
- If you purchase an Interest Only Class or any other Class at a significant premium over its principal amount and there are fast principal payments on the underlying Assets, you may not even recover your investment in that Class.
- If you purchase a Class that is backed by previously issued Certificates, your yield will be affected by the manner in which we allocate payments both in your own Series and in the underlying Series.
- In general, the rate of Mortgage principal payments early in your investment has the greatest effect on your yield to maturity. As a result, a negative effect on your yield produced by principal payments at a higher (or lower) rate than you expect in the period immediately following your purchase of a Certificate is not likely to be offset by an equivalent reduction (or increase) in that rate in later periods.
- Mortgages tend to prepay fastest when prevailing interest rates are low. When this happens, you may not be able to reinvest your principal payments in comparable securities at as high a yield.

### **Floating Rate and Inverse Floating Rate Classes**

If you invest in a Floating Rate or Inverse Floating Rate Class, you should consider the following additional risks:

- If you own a Floating Rate Class, Index levels lower than you expect could result in yields lower than you expected, especially if the Class Coupon varies based on a multiple of the Index. Also, the Class Coupon of your Class can never be higher than its stated maximum rate, regardless of the level of the Index. If you own an Interest Only Floating Rate Class, you may not even recover your investment if the level of the applicable Index is low or Mortgage prepayments are fast.

- If you own an Inverse Floating Rate Class, Index levels higher than you expect could result in yields lower than you expected, especially if the Class Coupon varies based on a multiple of the Index. The Class Coupons of most Inverse Floating Rate Classes can fall as low as 0%. If you own an Interest Only Inverse Floating Rate Class, you may not even recover your investment if the level of the applicable Index is high or Mortgage prepayment rates are fast.
- When mortgage interest rates are generally low, which usually results in faster prepayments, the applicable Index value may be high. On the other hand, when mortgage interest rates are generally high, which usually results in slower prepayments, the applicable Index value could be low. Either of these scenarios could result in a lower than expected yield on your Certificates.
- No Index will remain constant at any value. Even if the average value of an Index is consistent with what you expect, the timing of any changes in that value may affect your actual yield. In general, the earlier a change in the value of the applicable Index, the greater the effect on your yield. As a result, a negative effect on your yield produced by an Index value that is higher (or lower) than you expect early in your investment is not likely to be offset by an equivalent reduction (or increase) in that value in later periods.

If you invest in a Floating Rate Class that is backed by ARMs, you should also consider the following:

- If the Index levels used to adjust the interest rates of the ARMs are lower than you expect, the yield on your investment could be lower than you expect.
- The interest rates on ARMs usually are subject to limits on the amount they can adjust on each adjustment date. The total amount that an ARM can adjust may also be limited by lifetime ceilings and, in some cases, lifetime floors.
- Interest rates for ARM PCs and ARM Giant PCs generally adjust monthly, based on a weighted average of the interest rates on the underlying ARMs. The interest rates on the underlying ARMs may adjust monthly, semi-annually, annually or at other intervals. Moreover, there is a gap of several months from the publication of an applicable Index value until the interest rate of an ARM PC or ARM Giant PC reflects that value. As a result, the interest rates of the ARM PCs and ARM Giant PCs in a REMIC Pool may not fully reflect current interest rates.
- Disproportionate principal payments, including prepayments, on ARMs that have relatively low and high interest rates compared to the other ARMs in the same pool will affect the level of the interest rates on the related ARM PCs and ARM Giant PCs, even if the interest rates on those ARMs remain unchanged.

### **Callable Classes**

If you invest in a Callable Class of Certificates, you should consider the following additional risks:

- A redemption of the underlying Callable Class of CPCs will be similar in its principal payment effect to a full prepayment of all the related Mortgages.

- After your Callable Class becomes redeemable, its value is not likely to exceed, and may be lower than, its redemption price.
- A redemption is most likely to occur when prevailing interest rates are low. In this scenario, you may not be able to reinvest the redemption price in comparable securities at as high a yield.
- We will redeem the underlying Callable Class of CPCs only at the direction of the investor in the related Call Class of CPCs. The Call Class investor may have economic incentives particular to that investor either to exercise or to refrain from exercising the call right. For example, the Call Class investor may own a related Interest Only (or Principal Only) Class of REMIC Certificates, in which case the investor may be less likely (or more likely) to exercise the call right. The Call Class investor also could sell or lend the call right to an investor with similar incentives.

### **Payment Delay**

The effective yield on any Certificate that has a Payment Delay of more than 30 days will be less than the yield that its Class Coupon and purchase price would otherwise produce, because:

- On its first Payment Date, 30 days' interest will be payable on (or, in the case of an Accrual or Partial Accrual Class, added to the principal amount of) the Certificate even though interest began to accrue 45 or more days earlier, depending on its Payment Delay.
- On each Payment Date after the first, interest on the Certificate will accrue during its Accrual Period, which will end 15 or more days before that Payment Date, depending on its Payment Delay.

### **SUITABILITY**

The Certificates may not be suitable investments for you. You should consider the following before you invest in Certificates.

- The Certificates are not appropriate investments if you require a single lump sum payment on a date certain, or if you require an otherwise definite payment stream.
- A market may not develop for the sale of some Certificates after their initial issuance. Even if a market develops, it may not continue. As a result, you may not be able to sell your Certificates easily or at prices that will allow you to realize your desired yield.
- The market values of your Certificates are likely to fluctuate, primarily in response to changes in prevailing interest rates. Such fluctuations may result in significant losses to you.
- The secondary markets for mortgage-related securities have experienced periods of illiquidity in the past, and can be expected to do so in the future. Illiquidity can have a severely negative effect on the prices of Certificates, especially those that are particularly sensitive to prepayment, redemption or interest rate risk or that have been structured to meet the investment needs of limited categories of investors.

- You may not be able to sell very small or very large amounts of Certificates at prices available to other investors.
- The Certificates are complex securities. Before investing in a Certificate, you should be able, either alone or with a financial advisor, to evaluate the information contained and incorporated in this Offering Circular and in the related Supplement. You should evaluate the information in the context of your personal financial situation and your views on possible and likely interest rate and economic scenarios.

This Offering Circular does not describe all the possible risks of an investment in Certificates that may result from your particular circumstances, nor does it predict how Certificates will perform under all possible interest rate and economic scenarios. You should purchase Certificates only if you understand and can bear the prepayment, redemption, interest rate, yield and market risks associated with your investment under a variety of interest rate and economic scenarios. If you purchase Certificates, you need to have enough financial resources to bear all the risks related to your Certificates.

## TABULAR INFORMATION IN SUPPLEMENTS

In order to illustrate the effect of prepayments or Index levels on Classes of Certificates, the related Supplements may include tables that show the following information, in each case under various prepayment or Index scenarios:

- Weighted average lives.
- Pre-tax yields to maturity.
- Declining principal or notional principal balances.
- Amounts payable as principal annually.

All of the tables shown in a Supplement will be based on assumptions (“**Modeling Assumptions**”) about the underlying Mortgages. Because the Mortgages will have characteristics that differ from those assumed in preparing any table, the actual weighted average lives, pre-tax yields, cash flows and declining principal balances are likely to differ from those shown, even in the unlikely event that all the underlying Mortgages were to prepay at the assumed rates.

### Yield Calculations

We calculate pre-tax yields by:

1. Determining the monthly discount rates (whether positive or negative) that, when applied to the assumed stream of cash flows to be paid on a Class, would cause the discounted present value of those cash flows to equal the assumed purchase price (including accrued interest, if any) of the Class.
2. Converting the monthly rates to corporate bond equivalent (semiannual payment) rates.

These yield calculations do not take into account any variations in the interest rates at which you might reinvest payments that you receive. Consequently, they will not reflect the return on any investment when those reinvestment rates are considered.

### **Weighted Average Lives**

The weighted average life of a security refers to the average amount of time that will elapse from the date of its issuance until each dollar of principal has been repaid to the investor. The weighted average lives of the Classes of Certificates will depend primarily on the rate at which principal is paid on the Mortgages. We calculate weighted average lives by:

1. Multiplying the assumed net reduction, if any, in the principal amount on each Payment Date by the number of years from the date of issuance to that Payment Date.
2. Summing the results.
3. Dividing the sum by the aggregate amount of the assumed net reductions in principal amount.

We calculate weighted average lives for a Notional Class assuming that a reduction in its notional principal balance is a reduction in principal balance.

### **Prepayment Models**

Prepayments on pools of mortgages can be measured based on a variety of prepayment models. The models typically used in Supplements will be The Bond Market Association's standard prepayment (or "PSA") model and the constant (or conditional) prepayment rate (or "CPR") model.

The PSA model assumes that:

- Mortgages will prepay at an annual rate of 0.2% in the first month after origination.
- The prepayment rate will increase by an annual rate of 0.2% per month up to the 30th month after origination.
- The monthly prepayment rate will be constant at 6% per annum in the 30th and later months.

This assumption is called "100% PSA." For example, at 100% PSA, mortgages with a loan age of three months (mortgages in their fourth month after origination) are assumed to prepay at an annual rate of 0.8%. "0% PSA" assumes no prepayments; "50% PSA" assumes prepayment rates equal to 0.50 times 100% PSA; "200% PSA" assumes prepayment rates equal to 2.00 times 100% PSA; and so forth.

The CPR model assumes an annual constant mortgage prepayment rate each month relative to the then outstanding principal balance of a pool of mortgages for the life of that pool. For example, at 6% CPR, the CPR model assumes that the monthly prepayment rate will be constant at 6% per annum. (For mortgages in their 30th and later months, 6% CPR corresponds to 100% PSA.)

Neither the PSA nor the CPR model describes historical prepayment experience or can predict the prepayment rate of any actual mortgage pool.

Even though the tables in a Supplement will use assumed constant Mortgage prepayment rates, the underlying Mortgages will not prepay at a constant rate until maturity, nor will all of those Mortgages prepay at the same rate. You must make an independent decision regarding the appropriate principal prepayment scenarios to use in deciding whether to purchase Certificates.

## THE AGREEMENT

We create Certificates under a Multiclass Certificates Agreement dated the same date as this Offering Circular. We prepare a **“Terms Supplement”** for each offering of Certificates. For any particular offering, the Multiclass Certificates Agreement and the applicable Terms Supplement together constitute the **“Agreement.”**

The following summary describes various provisions of the Agreement. This summary is not complete. You should refer to the Agreement if you would like further information about its provisions. You can obtain copies of the Agreement, including any Terms Supplements, from our Investor Inquiry Department. Your receipt and acceptance of a Certificate constitutes your unconditional acceptance of all the terms of the Agreement.

### TRANSFER OF ASSETS TO REMIC POOL

The Assets in each REMIC Pool will be identified to that Pool. We will hold the Assets, directly or through our agent, for the benefit of the Holders of each related Series as required by the Agreement.

A REMIC Pool that includes GNMA Certificates may also include the rights of that REMIC Pool under a Guaranteed Investment and Fee Contract (a **“GIFC”**). A GIFC allows us to invest amounts received on the GNMA Certificates from the date received to the next Payment Date for the related Certificates. It also provides for the payment of a fee to us.

Under certain circumstances, we may substitute eligible Assets for those originally included in a REMIC Pool. We will make any substitution in accordance with applicable laws and regulations in effect at the time of substitution and only if tax counsel advises us that the REMIC Pool will continue to be classified as a REMIC for federal income tax purposes. The initial rate of principal payments on the related Certificates may be faster or slower than if the applicable REMIC Pool had originally included the substitute Assets.

### VARIOUS MATTERS REGARDING FREDDIE MAC

Freddie Mac and its directors, officers, employees and agents will not be liable to Holders for any action taken or omitted in good faith or for errors in judgment. However, they will not be protected against any liability that results from their willful misfeasance, bad faith, gross negligence or reckless disregard of their obligations.

The Agreement requires Freddie Mac to hold and administer Assets of REMIC Pools using the same standards as for similar assets that it owns. Holders will not be able to direct or control Freddie Mac’s actions under the Agreement, unless an Event of Default occurs.

Except with regard to its guarantee obligations or other payment obligations, Freddie Mac will not be liable for any Holder’s direct damages unless Freddie Mac has failed to exercise the same degree of ordinary care that it exercises in the conduct of its own affairs. Freddie Mac will not be liable for any Holder’s consequential damages.

In addition, Freddie Mac need not appear in any legal action that is not incidental to its responsibilities under the Agreement and that we believe may result in any expense or liability. However, Freddie Mac may undertake any legal action that we believe is necessary or desirable in the interests of the Holders. Freddie Mac will bear the legal costs of any such action.

Freddie Mac may acquire all or part of the Certificates of any Class. The Certificates we hold will be treated the same as Certificates of the same Class held by other Holders.

The Agreement will be binding upon any successor to Freddie Mac.

## **EVENTS OF DEFAULT**

“Events of Default” under the Agreement are:

- Any failure by Freddie Mac to pay principal or interest that lasts for 30 days.
- Any failure by Freddie Mac to perform in any material way any other obligation under the Agreement, if the failure lasts for 60 days after Freddie Mac receives notice from the Holders of at least 60% of the outstanding principal or notional principal amount of an affected Class.
- Specified events of bankruptcy, insolvency or similar proceedings involving Freddie Mac (but not including the appointment of a conservator or similar official for Freddie Mac).

## **RIGHTS UPON EVENT OF DEFAULT**

If an Event of Default under the Agreement is not remedied, the Holders of at least 50% of the outstanding principal or notional principal amount of any affected Class of Certificates may remove Freddie Mac and nominate a successor to Freddie Mac, except as to its guarantee obligations. That nominee will replace Freddie Mac unless Freddie Mac objects within ten days after the nomination. In that event, either Freddie Mac or anyone who has been a bona fide Holder of an affected Class for at least six months may ask a court to appoint a successor. The court may then appoint a successor to Freddie Mac except as to its guarantee obligations.

## **VOTING UNDER ANY UNDERLYING AGREEMENT**

Holders of PCs, Giant Securities, Stripped Giant Certificates and Callable Classes of CPCs have various rights under the agreements governing their securities. If a default occurs under one of these underlying agreements, holders of a specified percentage of the affected PCs, Giant Securities, Stripped Giant Certificates or CPCs may seek to remove Freddie Mac under that agreement. We will hold the PCs, Giant Securities, Stripped Giant Certificates and CPCs that back Certificates. However, the Agreement generally allows the Holders of the Certificates, rather than Freddie Mac, to act if a default occurs under the related underlying agreement. For this purpose, the Holders of Certificates will be treated as the holders of the affected PCs, Giant Securities, Stripped Giant Certificates or CPCs in proportion to the outstanding principal amounts of their Certificates.

Holders of PCs, Giant Securities, Stripped Giant Certificates and CPCs also have the right to consent to amendments to their governing agreements. The Agreement provides that, as the holder of a PC, Giant Security, Stripped Giant Certificate or CPC that backs Certificates, Freddie Mac may consent to such an amendment. However, if the amendment would adversely affect in any material way the interests of the Holders of Certificates, Freddie Mac may not agree to it unless Holders of at least 50% of the outstanding principal or notional principal amount of each affected Class consent in writing. Despite this rule, Freddie Mac may amend an agreement governing Mortgage Participation Certificates, without the consent of Holders, if the amendment changes Freddie Mac’s procedures for calculating payments or passing through prepayments on Mortgage Participation Certificates that

back REMIC Pools formed after September 1, 1995. See the PC Offering Circular for information about payments on Mortgage Participation Certificates.

## **AMENDMENT**

Freddie Mac may amend the Agreement without the consent of any Holders to:

- Cure any ambiguity or to correct or add to any provision in the Agreement, if the amendment does not adversely affect Holders in any material way.
- Maintain the qualification of any REMIC Pool as a REMIC under the Code.
- Maintain the qualification of any MACR Pool as a grantor trust under the Code.
- Avoid the imposition of any state or federal tax on a REMIC Pool or MACR Pool.

With the consent of the Holders of at least 50% of the outstanding principal or notional principal amount of any affected Class, Freddie Mac also may amend the Agreement in any other way. However, unless each affected Holder consents, Freddie Mac may not amend the Agreement to impair the rights of Holders to receive payments (including guarantee payments) when due or to sue for any payment that is overdue.

## **GOVERNING LAW**

The Agreement is to be interpreted in accordance with federal law. If there is no applicable federal precedent and if the application of New York law would not frustrate the purposes of the Freddie Mac Act, the Agreement or any transaction under the Agreement, then New York law will be deemed to reflect federal law.

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

### **GENERAL**

The following generally describes the anticipated material federal income tax consequences of purchasing, owning and disposing of the Certificates. It does not address special rules which may apply to particular types of investors. The authorities on which this discussion is based are subject to change or differing interpretations, and any such change or interpretation could apply retroactively. Investors should consult their own tax advisors regarding the Certificates.

### **REMIC ELECTION**

We will elect to treat each REMIC Pool as a REMIC under the Code. Assuming (1) such election, (2) compliance with the Agreement and (3) compliance with changes in the law, each REMIC Pool will qualify as a REMIC. In that case, the REMIC Pool generally will not be subject to tax, the related Regular Classes will be “regular interests” in a REMIC and the related Residual Class will be the “residual interest” in a REMIC.

### **STATUS OF REMIC CERTIFICATES**

REMIC Certificates will constitute assets described in Code Section 7701(a)(19)(C) and “real estate assets” under Code Section 856(c)(4)(A), to the extent the assets of the related REMIC Pool are so treated. Interest on the REMIC Certificates will be “interest on obligations secured by mortgages on real property or on interests in real property” within the meaning of Code

Section 856(c)(3)(B) in the same proportion that the income of the REMIC Pool is so treated. If at all times 95% or more of the assets or income of the related REMIC Pool qualifies for any of the foregoing treatments, the REMIC Certificates (and income on them) will qualify for the corresponding status in their entirety. In determining the tax status of an Upper-Tier REMIC Pool, however, we will apply the 95% test assuming the Lower-Tier Classes have the same characteristics as the related Lower-Tier REMIC Pool. We anticipate that the REMIC Certificates will qualify for the foregoing treatments in their entirety. Regular Classes will be “qualified mortgages” under Code Section 860G(a)(3) for another REMIC and “permitted assets” under Code Section 860L(c)(1)(G) for a financial asset securitization investment trust.

## **TAXATION OF REGULAR CLASSES**

### **General**

The Regular Classes will be taxed as newly originated debt instruments for federal income tax purposes. Interest, original issue discount and market discount accrued on a Regular Class will constitute ordinary income to the beneficial owner (the “**Owner**”). As an investor in a Regular Class, you must account for interest income on the accrual method.

### **Original Issue Discount**

The REMIC Pool may issue certain Regular Classes with “original issue discount.” You must include original issue discount in income as it accrues, without regard to the timing of payments. In the absence of guidance which applies specifically to REMIC regular interests, we will report original issue discount, if any, to the Internal Revenue Service and the Holders of the Regular Classes based on regulations under Code Sections 1271 through 1275 (the “**OID Regulations**”).

The total amount of original issue discount on a Regular Class is the excess of its “stated redemption price” over its “issue price.” The issue price is the price at which a substantial portion of the Regular Class is first sold to the public. The issue price generally includes any pre-issuance accrued interest unless you exclude such amount from the issue price and treat a portion of the stated interest payable on the first Payment Date as a return of that accrued interest rather than as an amount payable under the instrument. In general, the stated redemption price is the sum of all payments except for stated interest actually payable based on a single fixed rate, certain variable rates, or certain combinations of fixed and variable rates. In the case of an Interest Only Class, as described below, or an Accrual Class, however, the stated redemption price will include all payments.

Interest based on certain variable rates or certain combinations of fixed and variable rates which would otherwise be excluded from the stated redemption price will be included in the stated redemption price if the excess, if any, of the issue price of the Regular Class over the principal amount of the Regular Class is more than 0.015 multiplied by the product of the principal amount and the weighted average maturity (as defined below) or, if the weighted average maturity of the Regular Class is more than ten years, 15% of the principal amount.

If the interval between the issue date and the first Payment Date exceeds the interval between subsequent Payment Dates, a portion of the interest payments in all periods is included in the stated redemption price, unless a special rule relating to debt instruments with increasing rates of interest, described below, applies. The portion included in the stated redemption price is equal to the

difference between (1) the stated interest rate for subsequent periods and (2) the effective rate of interest for the long first accrual period.

We intend to report income from Interest Only Classes based on the assumption that the stated redemption price is the sum of all payments determined under the Pricing Speed (as defined below). As a result, such Classes would be issued with original issue discount. The Internal Revenue Service might contend, however, that in the case of certain fixed rate Interest Only Classes with a nominal principal amount, the stated redemption price is the principal amount. If such a position prevailed, the rules described below under “Premium” would apply.

Under a *de minimis* rule, original issue discount on a Regular Class will be considered zero and all interest payments will be excluded from the stated redemption price if the amount of the original issue discount is less than 0.25% of the Class’s stated redemption price multiplied by the Class’s weighted average maturity. The weighted average maturity of a Regular Class is computed based on the number of full years (*i.e.*, rounding down partial years) each distribution of principal is scheduled to be outstanding. The schedule of such distributions likely should be determined in accordance with the assumed rate of prepayment of the related Mortgages used in pricing the Regular Classes (the “**Pricing Speed**”), which will be set forth in the related Supplement. For purposes of applying the *de minimis* rule and for all other purposes, we will not adjust the Pricing Speed to take into account the possibility of the early retirement of a Callable Class.

The OID Regulations provide a special application of the *de minimis* rule for certain debt instruments where the interest payable for the first period or periods is at a rate less than that which applies in all other periods. In such cases, the OID Regulations provide that the stated redemption price is equal to the issue price of the Regular Class plus the greater of (1) the interest foregone during the first period or periods and (2) the excess, if any, of the debt instrument’s stated principal amount over its issue price.

The Owner of an interest in a Regular Class generally must include in income the original issue discount accrued for each day on which the Owner holds such interest, including the date of purchase, but excluding the date of disposition. The original issue discount accruing on an interest in a Regular Class in any period equals:

$$\text{PV End} + \text{Dist} - \text{PV Beg}$$

Where:

PV End = present value of all remaining distributions to be made as of the end of the accrual period;

Dist = distributions made during the accrual period includable in stated redemption price; and

PV Beg = present value of all remaining distributions as of the beginning of the accrual period.

The present value of the remaining distributions is calculated based on (1) the original yield to maturity of the Regular Class, (2) events (including actual prepayments) that have occurred prior to the end of the period and (3) the Pricing Speed. For these purposes, the original yield to maturity of an interest in a Regular Class will be calculated based on its issue price and assuming that it will be prepaid in all periods in accordance with the Pricing Speed. The original issue discount accruing during any accrual period will then be divided by the number of days in the period to determine the daily portion of original issue discount for each day.

The daily portions of original issue discount generally will increase if prepayments on the underlying Mortgages exceed the Pricing Speed and decrease if prepayments are slower than the Pricing Speed (changes in the rate of prepayments having the opposite effect in the case of an Interest Only Class). If the relative principal payment priorities of the Classes of a Series change (e.g., for Sticky Jump Classes), any increase or decrease in the present value of the remaining payments to be made on any such Class will affect the computation of original issue discount for the period in which the change in payment priority occurs.

If original issue discount accruing during any accrual period, computed as described above, is negative for any such period, you will be entitled to offset such amount only against future positive original issue discount accruing from your Class, and we intend to report income to the Internal Revenue Service in all cases in this manner. The treatment of such negative amounts is not entirely clear, however, particularly in the case of an Interest Only Class. For example, you may be entitled to deduct a loss to the extent that your remaining basis would exceed the maximum amount of future payments to which you are entitled, assuming no further prepayments of the Mortgages (or, perhaps, assuming prepayments at a rate equal to the Pricing Speed). While the issue is not clear, all or a portion of such loss may be treated as a capital loss if you treat the Regular Class as a capital asset.

If you are the initial purchaser of interests in two or more Regular Classes issued from the same REMIC Pool, you should be aware that the OID Regulations may treat such interests as a single debt instrument for purposes of the original issue discount provisions.

If a subsequent Owner of an interest in a Regular Class acquires such interest for a price greater than its “adjusted issue price,” but less than its remaining stated redemption price, the daily portion for any day is reduced by an amount equal to the product of (1) such daily portion and (2) a fraction, the numerator of which is the amount by which the price exceeds the adjusted issue price and the denominator of which is the sum of the daily portions for such Regular Class interest for all days on and after the date of purchase. The adjusted issue price of an interest in a Regular Class on any given day is equal to its issue price, increased by all original issue discount previously includable with respect to that interest and reduced by the amount of all previous distributions with respect to that interest included in its stated redemption price at maturity.

### **Market Discount**

The market discount rules may also apply to you. Market discount equals the excess of (a) either (1) the stated redemption price (less any prior distributions included in the stated redemption price) or (2) in the case of a Regular Class having original issue discount, the adjusted issue price over (b) your initial basis in the Regular Class.

The Conference Committee Report accompanying the Tax Reform Act of 1986 (the “**Committee Report**”) provides that, until the Treasury Department issues regulations, market discount would accrue (a) on the basis of a constant interest rate (similar to the method described above for accruing original issue discount) or (b) alternatively, either (1) in the case of a Regular Class issued without original issue discount, in the ratio of stated interest distributable in the relevant period to the total stated interest remaining to be distributed from the beginning of such period (computed taking into account the Pricing Speed) or (2) in the case of a Regular Class issued with original issue discount, in the ratio of original issue discount accrued for the relevant period to the total remaining original issue discount at the beginning of such period.

You generally must recognize accrued market discount as ordinary income to the extent of any distributions includable in the stated redemption price. Moreover, you generally must treat a portion of any gain on a sale or exchange as ordinary income to the extent of the accrued, but unrecognized, market discount to the date of disposition. Alternatively, you may elect to include market discount in income currently as it accrues on all market discount instruments that you acquire in that taxable year or after. You may revoke such an election only with the consent of the Internal Revenue Service.

In addition, the deduction for a portion of interest expense on any indebtedness that you incur or maintain in order to purchase or carry an interest in a Regular Class purchased with market discount may be required to be deferred. The deferred portion would not exceed the portion of market discount that accrues but is not taken into income currently. Any such deferred interest expense is, in general, allowed as a deduction not later than the year in which the related market discount income is recognized.

Market discount with respect to a Regular Class will be considered to be zero if it is *de minimis* under a rule similar to that described above under “Original Issue Discount.” You should consult your tax advisors regarding the application of the market discount rules as well as the advisability of making any election with respect to market discount.

### **Premium**

An interest in a Regular Class, other than an Interest Only Class, an Accrual Class and certain other Classes whose stated interest is partially or entirely included in their stated redemption prices, that is purchased at a cost (net of accrued interest) greater than its principal amount generally is considered to be purchased at a premium. You may elect under Code Section 171 to amortize such premium under the constant interest method, using the Pricing Speed. Such premium is an offset to interest income from an interest in a Regular Class, rather than a separate interest deduction. In addition, the Committee Report indicates Congress intended that the methods for determining the accrual of market discount described above which are alternatives to accrual on the basis of a constant interest rate also will apply for purposes of amortizing bond premium on obligations such as Regular Classes. An election made by you generally would apply to all your debt instruments, unless the election is revoked with the Internal Revenue Service’s consent. If your election to amortize bond premium was effective as of October 22, 1986, you may choose to have such election apply to obligations issued after September 27, 1985.

### **Constant Yield Election**

The OID Regulations allow you to elect to include in gross income all interest that accrues on a debt instrument by using the constant yield method. For purposes of this election, interest includes stated interest, *de minimis* original issue discount, original issue discount, *de minimis* market discount and market discount, as adjusted by any premium. You should consult your tax advisors regarding the advisability of making this election.

### **Retail Classes**

For purposes of the original issue and market discount rules, a payment in full of an interest in a Retail Class that is subject to payment in Retail Class Units or other increments, rather than on a

pro rata basis with other interests in such Retail Class, will be treated as a distribution with respect to such Class.

### **Floating Rate, Inverse Floating Rate and Weighted Average Coupon Classes**

Based on the OID Regulations and regulations relating to the amortization of premium, the rules relating to original issue discount and premium generally will apply to a Floating Rate, Inverse Floating Rate or Weighted Average Coupon Class by assuming that the variable rate is a fixed rate that reflects the overall yield that is reasonably expected for such Class. We also intend to apply the rules of the Code relating to market discount based on this assumption. The rules will apply to certain Floating Rate or Inverse Floating Rate Classes, however, by assuming that the variable rate is a fixed rate equal to the value of the variable rate as of the date of the applicable Supplement. The Supplement will identify those Classes as to which the assumption described in the preceding sentence applies.

### **Callable Classes**

Any amount received in redemption of a Regular Class that is a Callable Class will be treated under the original issue discount and market discount rules as a distribution with respect to that Class.

## **TAXATION OF RESIDUAL CLASSES**

### **Taxation of REMIC Income**

REMIC taxable income is determined under the accrual method of accounting in the same manner as the taxable income of an individual, with certain modifications. The REMIC Pool's gross income includes interest, original issue discount income and market discount income, if any, reduced by amortization of any premium, on the assets in the REMIC Pool. In this regard, the REMIC Pool will elect to take all such items into account by accruing interest based on a constant yield. Deductions include interest and original issue discount expense on the Regular Classes, reduced by the amortization of any premium, servicing fees on the REMIC Pool's Assets and other administrative expenses. An Owner of an interest in a Residual Class (a "**Residual Owner**") will take into account, as ordinary income or loss, the Residual Owner's allocable share of taxable income or net loss of the REMIC Pool.

If a REMIC Pool includes a Callable Class of CPCs, the REMIC Pool will be treated as owning the assets underlying such Callable Class and as having written a call option on such assets. The material federal income tax consequences to the REMIC Pool of acquiring, holding and disposing of such assets will be described in Freddie Mac's offering document for the applicable CPCs. The Residual Owner will take into account, as ordinary income or loss, any gain or loss from the disposition of such assets and any amortization of option premium with respect to such call option.

If a REMIC Pool includes GNMA Certificates, the REMIC Pool may invest the payments it receives from the GNMA Certificates for a temporary period under a GIFC. Any income derived from such investment, to the extent not applied to interest and principal payments on the related Multiclass Securities, will be used to pay the fees and expenses of the REMIC Pool and will not be distributable to Residual Owners.

A Residual Owner may not amortize the cost of its Residual Class interest. Taxable income of the REMIC Pool, however, will not include cash received by the REMIC Pool that represents a recovery of the REMIC Pool's basis in its Assets. Such recovery of basis by the REMIC Pool will have the effect of amortization of the issue price of the Residual Class over its life. The period of time over which such issue price is effectively amortized, however, may be longer than the economic life of the Residual Class.

A subsequent Residual Owner must report on its federal income tax returns amounts of taxable income or net loss equal to that which an original Residual Owner must report. Adjustments to reduce (or increase) the income of a subsequent Residual Owner that purchased such an interest at a price greater than (or less than) the adjusted issue price of such interest apparently are not permitted or required.

The taxation of a Residual Owner is based on the income and expense of the REMIC Pool, and not on distributions to the Residual Owner. This method of taxation can produce a significantly less favorable after-tax return for a Residual Owner than would be the case if (1) the Residual Class were taxable as a debt instrument or (2) no portion of the taxable income on the Residual Class in each period were treated as "excess inclusions" (as defined below). In certain periods, taxable income and the resulting tax liability on an interest in the Upper-Tier Residual Class in a Double-Tier Series or the Residual Class in a Single-Tier Series may exceed any payments received on that Class. This may occur because the yield of the Mortgage Securities in a Double-Tier Series, or the Assets in a Single-Tier Series, typically will exceed the average yield of the Regular Classes in earlier periods. In addition, a substantial tax may be imposed on certain transferors of an interest in a Residual Class and certain Residual Owners that are "pass-thru" entities. See *Transfers of Interests in a Residual Class*. You should consult your tax advisors before purchasing an interest in a Residual Class.

### **Losses**

A Residual Owner may recognize a net loss of the REMIC Pool only to the extent of the adjusted basis of its interest in the Residual Class. A Residual Owner that is a U.S. person (as defined below), however, may carry over any disallowed loss to offset any taxable income generated by the same REMIC Pool.

### **Treatment of Certain Items of REMIC Income and Expense**

*Original Issue Discount.* In the case of a Double-Tier Series, the OID Regulations provide, and we intend to report assuming, that the Mortgage Securities issued in respect of the same Lower-Tier REMIC Pool will be treated as a single debt instrument for purposes of the original issue discount provisions. As previously discussed, the timing of recognition of negative original issue discount, if any, on a Regular Class, particularly an Interest Only Class, is uncertain; as a result, the timing of recognition of the related REMIC taxable income is also uncertain. For example, the related REMIC taxable income may be recognized when the adjusted issue price of such Regular Class would exceed the maximum amount of future payments with respect to such Regular Class, assuming no further prepayments of the Mortgages (or, perhaps, assuming prepayments at a rate equal to the Pricing Speed).

*Market Discount.* In respect of Mortgages that have market discount, such market discount would be recognized in the same fashion as if it were original issue discount.

*Premium.* The election to amortize premium under Code Section 171 will not be available for premium on Mortgages that are obligations of individuals originated on or prior to September 27, 1985. Premium on such Mortgages may be deductible, if in accordance with a reasonable method. The allocation of such premium pro rata among principal payments or on the basis of a constant interest rate should be considered a reasonable method.

### **Excess Inclusions**

A portion of the REMIC taxable income of each Residual Owner will be subject to federal income tax in all events. That portion, referred to as the “excess inclusion,” is equal to the excess of REMIC taxable income for the calendar quarter over the daily accruals for such period. The daily accruals are equal to the product of (1) 120% of the federal long-term rate (based on quarterly compounding) under Code Section 1274(d) determined for the month in which the Residual Class is issued and (2) the adjusted issue price of such interest at the beginning of such quarter. The federal long-term rate for the month of issuance of a Residual Class is published by the Internal Revenue Service on or about the 20th of the preceding month. The adjusted issue price of an interest in a Residual Class at the beginning of a quarter is the issue price of the interest, plus the amount of the daily accruals of REMIC income attributable to such interest for all prior quarters, decreased (but not below zero) by any prior distributions. The Internal Revenue Service has authority to promulgate regulations providing that if the aggregate value of the Residual Class is not considered to be “significant,” then a Residual Owner’s entire share of REMIC taxable income will be treated as an excess inclusion. This authority has not been exercised.

“Excess inclusions” may not be offset by unrelated losses or loss carryforwards of a Residual Owner. The rule that formerly permitted thrift institutions to use net operating losses and other allowable deductions to offset their excess inclusion income from REMIC residual interests has been repealed, effective for taxable years beginning after December 31, 1995, except with respect to REMIC residual interests that are held at all times after October 31, 1995.

A Residual Owner’s excess inclusion is treated as unrelated business taxable income for an organization subject to the tax on unrelated business income. In addition, under Treasury regulations yet to be issued, if a real estate investment trust, regulated investment company or certain other pass-through entities are Residual Owners, a portion of distributions made by such entities would constitute excess inclusions. Moreover, for purposes of computing alternative minimum tax for taxpayers other than thrift institutions, taxable income is determined without regard to the rule for excess inclusions, and the alternative minimum taxable income of any such Residual Owner is not less than such Residual Owner’s excess inclusion for the year, effective for all taxable years beginning after December 31, 1986, unless the Residual Owner elects application only to taxable years beginning after August 20, 1996.

### **Prohibited Transactions**

Income from certain transactions, called prohibited transactions, will not be part of the calculation of income or loss includable in the federal income tax returns of Residual Owners, but rather will be taxed directly to the REMIC Pool at a 100% rate. Because of Freddie Mac’s guarantee, in the event such tax is imposed on a REMIC Pool, payments of principal and interest on the REMIC Certificates will not be affected.

## **SALE OR EXCHANGE OF REMIC CERTIFICATES**

You generally will recognize gain or loss upon sale or exchange of a REMIC Certificate equal to the difference between the amount received and your adjusted basis in the REMIC Certificate. The adjusted basis in a REMIC Certificate generally will equal the cost of the REMIC Certificate, increased by income previously included and reduced (but not below zero) by previous distributions and by any amortized premium, in the case of an interest in a Regular Class, or net losses allowed as a deduction, in the case of an interest in a Residual Class.

Except as described below, any gain or loss on the sale or exchange of a REMIC Certificate held as a capital asset will be capital gain or loss and will be long-term or short-term depending on whether the interest has been held for the long-term capital gain holding period (more than one year). Such gain or loss will be ordinary income or loss (1) for a bank or thrift institution; and (2) in the case of an interest in a Regular Class, (a) to the extent of any accrued, but unrecognized, market discount or (b) to the extent income recognized by you is less than the income that you would have recognized if the yield on such interest were 110% of the applicable federal rate under Code Section 1274(d).

Whether the termination of the REMIC will be treated as a sale or exchange of a Residual Owner's interest is not clear. If it is, the Residual Owner will recognize a loss at that time equal to the amount of the Residual Owner's remaining adjusted basis in such interest.

Except as provided in Treasury regulations, the wash sale rules of Code Section 1091 will apply to dispositions of an interest in a Residual Class where the seller of the interest, during the period beginning six months before the sale or disposition of the interest and ending six months after such sale or disposition, acquires (or enters into any other transaction that results in the application of Code Section 1091 with respect to) any residual interest in any REMIC or any interest in a "taxable mortgage pool" (such as a non-REMIC owner trust) that is economically comparable to a Residual Class.

## **TRANSFERS OF INTERESTS IN A RESIDUAL CLASS**

### **Disqualified Organizations**

A transfer of an interest in a Residual Class to a "disqualified organization" (as defined below) may result in a tax equal to the product of (1) the present value of the total anticipated future excess inclusions with respect to such interest and (2) the highest corporate marginal federal income tax rate. Such a tax generally would be imposed on the transferor of the interest in the Residual Class, except that if the transfer is through an agent for a disqualified organization, the agent is liable. A transferor is not liable for this tax if the transferee furnishes to the transferor an affidavit that the transferee is not a disqualified organization and, as of the time of the transfer, the transferor does not have actual knowledge that such affidavit is false.

A "pass-thru entity" (as defined below) is subject to tax (at the highest corporate marginal federal income tax rate) on excess inclusions to the extent disqualified organizations hold interests in the pass-thru entity. However, this tax will not apply if the pass-thru entity receives an affidavit that the record holder is not a disqualified organization and does not have actual knowledge that the affidavit is false. For purposes of the tax described in this paragraph, all interests in an electing large partnership, as defined under Code Section 775, will be treated as held by disqualified organizations.

For these purposes, (1) “disqualified organization” means the United States, any state or political subdivision thereof, any foreign government, any international organization, any agency or instrumentality of any of the foregoing, certain organizations that are exempt from taxation under the Code (including tax on excess inclusions) and certain corporations operating on a cooperative basis and (2) “pass-thru entity” means any regulated investment company, real estate investment trust, common trust fund, partnership, trust or estate and certain corporations operating on a cooperative basis. Except as may be provided in Treasury regulations, any person holding an interest in a pass-thru entity as a nominee for another will, with respect to such interest, be treated as a pass-thru entity.

The Agreement provides that any attempted transfer of a beneficial or record interest in a Residual Class will be null and void unless (1) the proposed transferee provides to Freddie Mac (a) an affidavit that the transferee is not a disqualified organization and is not purchasing such interest on behalf of a disqualified organization and (b) if requested by Freddie Mac, an opinion of counsel to the effect that the proposed transfer will not cause the Residual Class interest to be held by a disqualified organization; or (2) Freddie Mac consents to the transfer.

#### **Additional Transfer Restrictions**

The regulations under Code Sections 860A through 860G (the “**REMIC Regulations**”) provide that a transfer of a noneconomic residual interest is disregarded for all federal income tax purposes if a significant purpose of the transfer is to impede the assessment or collection of tax. Such a purpose exists if, at the time of the transfer, the transferor knew or should have known that the transferee would be unwilling or unable to pay taxes on its share of the taxable income of the REMIC. Pursuant to a safe harbor, a transferor will be presumed to lack such knowledge (or reason to know) if, after a reasonable investigation, the transferor finds that the transferee historically paid its debts as they came due, and finds no significant evidence that the transferee would not continue to do so, and the transferee represents to the transferor that (1) the transferee understands that it might incur tax liabilities in excess of any cash received with respect to the residual interest and (2) the transferee intends to pay the taxes associated with owning the residual interest as they come due. The scope of due diligence required under this rule is uncertain. A residual interest in a REMIC (including a residual interest with significant value at issuance) is a noneconomic residual interest unless, at the time of the *transfer*, (1) the present value of the expected future distributions on the residual interest at least equals the product of the present value of the anticipated excess inclusions and the highest corporate income tax rate in effect for the year in which the transfer occurs and (2) the transferor reasonably expects that for each anticipated excess inclusion the transferee will receive distributions from the REMIC at or after the time at which taxes accrue on the anticipated excess inclusion in an amount sufficient to satisfy the taxes accrued.

In February 2000, the Treasury Department proposed regulations that would modify the safe harbor described above relating to transfers of noneconomic residuals. In order to comply with the safe harbor, the proposed regulations would impose an additional requirement that the present value of the anticipated tax liabilities associated with holding the residual interest not exceed the sum of (1) the present value of any consideration given to the transferee to acquire the residual interest, (2) the present value of the expected future distributions on the residual interest and (3) the present value of the anticipated tax savings associated with holding the interest as the REMIC generates

losses. The regulations are proposed to be effective for transfers of noneconomic residuals on or after February 4, 2000.

The Internal Revenue Service has issued additional guidance in Rev. Proc. 2001-12 concerning the safe harbor relating to transfers of noneconomic residuals. The Revenue Procedure provides an alternative means of complying with the safe harbor to the present value test described above. The alternative test is satisfied for a transfer if:

- the transferee's gross assets for financial reporting purposes exceed \$100 million and its net assets for financial reporting purposes exceed \$10 million at the time of the transfer and at the close of each of the transferee's two fiscal years preceding the year of transfer,
- the transferee is an eligible corporation (any domestic subchapter C corporation other than a tax-exempt corporation, regulated investment company, real estate investment trust, REMIC or cooperative) and agrees in writing that any subsequent transfer of the residual interest will be to another eligible corporation in a manner that satisfies the safe harbor, and
- the facts and circumstances, including the amount of consideration paid to the transferee, do not reasonably indicate to the transferor that the taxes associated with the residual interest will not be paid.

The Revenue Procedure further provides that a transfer will not satisfy the alternative test if the transfer is to a foreign branch of an eligible corporation or involves any other arrangement by which the residual interest is at any time subject to net tax by a foreign country or possession of the United States.

The REMIC Regulations provide that any transfer of a residual interest (whether or not a noneconomic residual interest) to a non-U.S. person is disregarded for all federal tax purposes if the residual interest has "tax avoidance potential." A residual interest has tax avoidance potential under the REMIC Regulations unless, at the time of transfer, the transferor reasonably expects that:

- for each excess inclusion, the REMIC will distribute on the residual interest an amount that will equal at least 30% of the excess inclusion, and
- the transferee will receive each such distribution from the REMIC at or after the time at which the excess inclusion accrues and not later than the close of the calendar year following the calendar year of accrual.

The reasonable expectation requirement will be satisfied if the above test would be met assuming that the Mortgages underlying the REMIC's assets were to prepay at each rate between 50 percent and 200 percent of the Pricing Speed. The REMIC Regulations also provide that a transfer from a non-U.S. person to a U.S. person or to a non-U.S. person engaged in a United States trade or business is disregarded if the transfer has "the effect of allowing the transferor to avoid tax on accrued excess inclusions."

With respect to a Residual Class that has been held at any time by a non-U.S. person, we (or our agent) will be entitled to withhold (and to pay to the Internal Revenue Service) any portion of any payment on such Residual Class that we reasonably determine is required to be withheld. If we (or our agent) reasonably determine that a more accurate determination of the amount required to be withheld from a distribution can be made within a reasonable period after the scheduled date for

such distribution, we may hold such distribution in trust for the Owners of any such Residual Class, until we can make the more accurate determination.

Certain restrictions will be imposed on transfers of the interests in Residual Classes, including the requirement that no transfer to a non-U.S. person (or, for certain Residual Classes, to any person) will be permitted without our written consent. These restrictions, together with those imposed under the REMIC Regulations, may have the practical effect of rendering the interests in certain Residual Classes non-transferable.

The term “non-U.S. person” means any person that is not a “U.S. person.” A U.S. person is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any state (other than a partnership that is not treated as a U.S. person under any applicable Treasury regulations), an estate whose income is subject to United States federal income tax regardless of its source, or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996 and treated as U.S. persons prior to such date, that elect to continue to be treated as a U.S. persons, also will be U.S. persons.

#### **Miscellaneous**

If the equity interest in a non-U.S. person investor is held in whole or in part by a U.S. person, the investor or U.S. person should consult its own tax advisors regarding any tax consequences to such U.S. person of the investor’s purchase of an interest in a Residual Class.

The federal income tax consequences of any consideration paid to a transferee on a transfer of an interest in a Residual Class are unclear. The preamble to the REMIC Regulations indicates that the Internal Revenue Service is considering the tax treatment of these types of residual interests. A transferee of such an interest should consult its tax advisors.

#### **TREATMENT OF SERVICING COMPENSATION**

If you are an individual, estate or trust, you will be subject to limitation with respect to certain itemized deductions described in Code Section 67, to the extent that such deductions, in the aggregate, do not exceed 2% of your adjusted gross income, and you may not be able to deduct such fees and expenses to any extent in computing your alternative minimum tax liability. Such deductions will include servicing, guarantee and administrative fees paid to the servicer of the Mortgages or, if applicable, to GNMA or to Freddie Mac. These deductions will be allocated entirely to the Residual Owners in the case of REMIC Pools with multiple classes of interests that pay their principal amounts sequentially. As a result, the REMIC Pool will report additional taxable income to Residual Owners in an amount equal to their allocable share of such deductions, and individuals, estates, or trusts holding an interest in such a Residual Class may have taxable income in excess of the cash received. In the case of a “Single-class REMIC” as defined in applicable Treasury regulations, such deductions will be allocated proportionately among the Regular and Residual Classes.

## TAXATION OF MACR CLASSES

### General

Each MACR Pool will be classified as a grantor trust under subpart E, part I of subchapter J of the Code. The interests in the Regular Classes that have been exchanged with us for MACR Classes (including any exchanges effective on the date of issuance of the Regular Classes) will be the assets of the MACR Pool and the MACR Classes will represent beneficial ownership of these interests in the Regular Classes.

### Tax Status

The MACR Classes should be considered to represent “real estate assets” within the meaning of Code Section 856(c)(4)(A) and assets described in Code Section 7701(a)(19)(C). Original issue discount and interest accruing on MACR Classes should be considered to represent “interest on obligations secured by mortgages on real property or on interests in real property” within the meaning of Code Section 856(c)(3)(B). MACR Classes will be “qualified mortgages” under Code Section 860G(a)(3) for a REMIC and “permitted assets” under Code Section 860L(c)(1)(G) for a financial asset securitization investment trust.

### Tax Accounting for MACR Classes

A MACR Class will represent beneficial ownership of an interest in one or more related Regular Classes. If it represents an interest in more than one Regular Class, you must allocate your basis in the MACR Class among the interests in the Regular Classes in accordance with their relative fair market values as of the time of acquisition. Similarly, on the sale of such a MACR Class, you must allocate the amount received on the sale among the interests in the Regular Classes in accordance with their relative fair market values as of the time of sale.

As an investor in a MACR Class, you must account separately for each interest in a Regular Class (there may be only one such interest). Where the interest represents a pro rata part of a Regular Class, you should account for such interest as described under *Taxation of Regular Classes* above. Where the interest represents beneficial ownership of a disproportionate part of the principal and interest payments on a Regular Class (a “Strip”), you will be treated as owning, pursuant to Code Section 1286, “stripped bonds” to the extent of your share of principal payments and “stripped coupons” to the extent of your share of interest payments on such Regular Class. Although the tax treatment of a Strip is unclear, we intend to treat each Strip as a single debt instrument for purposes of information reporting. The Internal Revenue Service, however, could take a different position. For example, the Internal Revenue Service could contend that a Strip should be treated as a pro rata part of the Regular Class to the extent that the Strip represents a pro rata portion of it, and “stripped bonds” or “stripped coupons” with respect to the remainder. You should consult your tax advisors regarding this matter.

We intend to report with respect to a MACR Class assuming that all payments on a Strip are included in the stated redemption price of the Strip. You should calculate original issue discount with respect to each Strip and include it in ordinary income as it accrues, which may be prior to the receipt of cash attributable to such income, in accordance with a constant interest method that takes into account the compounding of interest. See *Taxation of Regular Classes — Original Issue Discount* above. You should determine your yield to maturity based on your purchase price allocated

to the Strip and on a schedule of payments projected using a prepayment assumption, and then make periodic adjustments to take into account actual prepayment experience. It is not clear whether the prepayment assumption you should use to calculate original issue discount would be determined at the time of purchase of the Strip or would be the original Pricing Speed with respect to the related Regular Class. Further, if the related Regular Class is a Callable Class, it is not clear whether such prepayment assumption should take into account the possibility of the retirement of the Strip concurrently with the redemption of the Regular Class. You should consult your tax advisors regarding these matters. For purposes of information reporting relating to original issue discount, we will use the original yield to maturity of the Strip determined as of the date of issuance of the Series, calculated based on the original Pricing Speed.

If original issue discount accruing with respect to a Strip, computed as described above, is negative for any period, you will be entitled to offset such amount only against future positive original issue discount accruing from such Strip, and we intend to report income in all cases in this manner. Although not entirely free from doubt, you may be entitled to deduct a loss to the extent that your remaining basis would exceed the maximum amount of future payments to which you are entitled with respect to such Strip, assuming no further prepayments of the Mortgages (or, perhaps, assuming prepayments at a rate equal to the Pricing Speed). Although the issue is not free from doubt, all or a portion of such loss may be treated as a capital loss if you treat the Strip as a capital asset.

You will realize gain or loss on the sale of a Strip in an amount equal to the difference between the amount realized and your adjusted basis in the Strip. Your adjusted basis generally is equal to your allocated cost of the Strip, increased by income previously included, and reduced (but not below zero) by distributions previously received. Except as described below, any gain or loss on such sale will be capital gain or loss if you held your interest as a capital asset and will be long-term if the interest has been held for the long-term capital gain holding period (more than one year). Such gain or loss will be ordinary income or loss (1) for a bank or thrift institution or (2) to the extent income recognized by you is less than the income that would have been recognized if the yield on such interest were 110% of the applicable federal rate under Code Section 1274(d).

If you exchange a Regular Class for several MACR Classes and then sell one of the MACR Classes, the sale will subject you to the coupon stripping rules of Code Section 1286. You must allocate your basis in the exchanged Regular Class between the part of the Regular Class underlying the MACR Class sold and the part of the Regular Class underlying the MACR Classes retained in proportion to their relative fair market values as of the date of such sale. You are treated as purchasing the interest retained for the amount of basis allocated to such interest. You must calculate original issue discount with respect to the retained interest as described above.

Although the matter is not free from doubt, if you acquire in one transaction a combination of MACR Classes that may be exchanged for a Regular Class, you should be treated as owning the Regular Class.

## **EXCHANGES OF MACR CLASSES AND REGULAR CLASSES**

An exchange of an interest in one or more Regular Classes for an interest in one or more MACR Classes, or vice versa (or, if permitted, an exchange of an interest in one or more MACR Classes for an interest in one or more other MACR Classes), will not be a taxable exchange. After

the exchange, you will be treated as continuing to own the interests in the Regular Class or Classes that you owned immediately prior to the exchange.

## **TAXATION OF CERTAIN FOREIGN INVESTORS**

### **Regular Classes and MACR Classes**

Interest, including original issue discount, distributable to an investor in a Regular Class or MACR Class that is a non-U.S. person not engaged in a U.S. trade or business will be considered “portfolio interest” and, therefore, will not be subject to the 30% United States withholding tax provided that the non-U.S. person provides Internal Revenue Service Form W-8BEN (or an acceptable substitute form), signed under penalties of perjury, identifying the investor and stating, among other things, that the investor in the Regular Class or MACR Class is a non-U.S. person. In the case of a Regular Class or MACR Class held by a foreign partnership or foreign trust, the form described in the preceding sentence must be provided by the partners or beneficiaries, as the case may be, rather than by the foreign partnership or foreign trust. If this form is not provided, the 30% United States withholding tax may apply unless an income tax treaty reduces or eliminates such tax. If the interest is effectively connected with the conduct of a trade or business within the United States by a non-U.S. person and the non-U.S. person provides an Internal Revenue Service Form W-8ECI (or an acceptable substitute form), the interest payments will not be subject to the 30% United States withholding tax. The non-U.S. person, however, will be subject to United States federal income tax at regular rates. If you are an investor in a Regular Class or MACR Class and are a non-U.S. person, you should consult your tax advisors.

### **Residual Classes**

A distribution to a Residual Owner that is a non-U.S. person will not be subject to the 30% withholding tax provided that (1) the conditions described in the preceding paragraph are met and (2) the distribution does not constitute an “excess inclusion” (but only, in the case of a Single-Tier Series or a Lower-Tier REMIC Pool in a Double-Tier Series, to the extent the Mortgages were originated after July 18, 1984). Excess inclusions are subject to a 30% withholding tax in all events when distributions are made (or when the interest in the Residual Class is disposed of). The Code grants the Treasury Department authority to issue regulations requiring withholding earlier if necessary to prevent avoidance of tax. The preamble to the REMIC Regulations indicates that the Internal Revenue Service is considering this issue. Residual Owners that are non-U.S. persons should consult their own tax advisors.

## **BACKUP WITHHOLDING**

Distributions made on the Certificates and proceeds from the sale of Certificates to or through certain brokers may be subject to a United States federal “backup” withholding tax on “reportable payments” (including interest accruals, original issue discount and, under certain circumstances, distributions in reduction of principal amount) unless, in general, you comply with certain procedures or are an exempt recipient. Any amounts so withheld from distributions on the Certificates would be refunded by the Internal Revenue Service or allowed as a credit against your federal income tax.

## REPORTING AND ADMINISTRATIVE MATTERS

Reports will be made to the Internal Revenue Service and to Holders of record of Certificates that are not excepted from the reporting requirements.

We will prepare, sign and file federal income tax returns for each REMIC Pool. To the extent allowable, we will also act as the tax matters partner for each REMIC Pool. Each Residual Owner, by the acceptance of its interest in a Residual Class, agrees that we will act as the Owner's fiduciary in the performance of any duties required of the Owner in the event that the Owner is the tax matters partner.

A Residual Owner is required to treat items on its returns consistently with their treatment on the REMIC Pool's return, unless the Owner owns 100% of the Residual Class for the entire calendar year or the Owner either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the REMIC Pool. The Internal Revenue Service may assess a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the REMIC level. Any person that holds a Residual Class interest as a nominee for another person may be required to furnish the REMIC Pool, in a manner to be provided in Treasury regulations, the name and address of such other person and other information.

## ERISA CONSIDERATIONS

A Department of Labor regulation provides that if an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (“ERISA”) acquires a “guaranteed governmental mortgage pool certificate,” then, for purposes of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code, the plan's assets include the certificate and all of its rights in the certificate, but do not, solely by reason of the plan's holding of the certificate, include any of the mortgages underlying the certificate. Under this regulation, the term “guaranteed governmental mortgage pool certificate” includes a certificate “backed by, or evidencing an interest in, specified mortgages or participation interests therein” if Freddie Mac guarantees the interest and principal payable on the certificate.

The regulation makes it clear that Freddie Mac and other persons, in providing services for the assets in the pool, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, or the prohibited transaction provisions of Section 406 of ERISA or Code Section 4975, merely by reason of the plan's investment in a certificate.

The Certificates should qualify as “guaranteed governmental mortgage pool certificates.”

The purchase of an interest in a Residual Class by a plan may give rise to “unrelated business taxable income” as described in Code Sections 511 through 515 and Section 860E. See *Certain Federal Income Tax Consequences — Taxation of Residual Classes — Excess Inclusions*.

Special ERISA considerations may apply to Callable Classes, as the related Supplements will describe.

## **LEGAL INVESTMENT CONSIDERATIONS**

You should consult your own legal advisors to determine whether Certificates are legal investments for you and whether you can use Certificates as collateral for borrowings. In addition, financial institutions should consult their legal advisors or regulators to determine the appropriate treatment of Certificates under risk-based capital or similar rules.

If you are subject to legal investment laws and regulations or to review by regulatory authorities, you may be subject to restrictions on investing in some types of Certificates or in Certificates generally. Institutions regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Treasury Department or any other federal or state agency with similar authority should review applicable regulations, policy statements and guidelines before purchasing or pledging Certificates.

## **PLAN OF DISTRIBUTION**

For each Series of Certificates, Freddie Mac will enter into a purchase agreement with one or more underwriters, who will offer the Classes of that Series as described in the related Supplement. Underwriters and their affiliates may engage in other transactions with and perform services for Freddie Mac in the ordinary course of business. Freddie Mac, the underwriters or other parties may receive compensation, trading gain or other benefits in connection with such transactions. We typically receive a fee from the underwriter for each offering.

We may engage in transactions that affect the payment behavior and market prices of Certificates. For any Series, we may furnish some or all of the PCs or other Assets from our own portfolio, and we may acquire some or all of the related Classes of Certificates. Assets from our portfolio may emphasize specific Mortgage characteristics, such as loan purpose, source of origination, geographic distribution or loan size, or specific borrower characteristics, such as median income, credit rating or equity in the property. In addition, from time to time we may repurchase Certificates on the market for our portfolio, and we may offer for sale any Certificates that we hold.

## **INCREASE IN SIZE**

Before any offering of Certificates closes, Freddie Mac may increase the size of the offering by increasing the amount of the Assets or any Asset Group. In that event, the Certificates receiving payments from those Assets will have the same characteristics as described in the related Supplement, except that (a) the original principal or notional principal amount of each REMIC Class, (b) the maximum original principal or notional principal amount of each MACR Class and (c) the dollar values of any applicable principal payment schedules or priority amounts, all will increase by the same proportion. The related Terms Supplement will reflect any increase in size of an offering.

INDEX OF TERMS

The following is a list of defined terms used in this Offering Circular and the pages where their definitions appear.

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**STANDARD DEFINITIONS AND ABBREVIATIONS FOR CLASSES**

The following chart identifies and generally defines most categories of Classes. The first column of the chart shows our standard abbreviation for each category. Each Supplement will identify the categories of Classes of the related Series by means of one or more of these abbreviations.

**PRINCIPAL TYPES**

<u>Freddie Mac Standard Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
AD	Accretion Directed	Classes that are designed to receive principal payments primarily from the interest that accrues on specified Accrual or Partial Accrual Classes. These Classes also may receive principal payments from principal paid on the underlying Assets.
AFC	Available Funds	Classes that may receive as principal, in addition to other amounts, a portion of the funds received as interest on the underlying Assets, to the extent that such funds remain available after accrued interest due on the same or related Classes has been paid.
CALL	Call	Classes whose Holders have the right to direct Freddie Mac to redeem the related Callable Class or Classes, as provided in the applicable Supplement.
CALLABLE	Callable	Classes that are redeemable, directly or indirectly, at the direction of the Holder of the related Call Class, as provided in the applicable Supplement.
CPT	Component	Classes consisting of Components. The Components of a Component Class may have different principal and/or interest payment characteristics but together constitute a single Class. Each Component of a Component Class may be identified as falling into one or more of the categories in this chart.
GMC	Guaranteed Maturity Class	Classes that have a Final Payment Date earlier than the latest date by which those Classes could be retired by payments on their underlying Assets. Typically, Holders of a Guaranteed Maturity Class receive payments up to their Final Payment Date from payments made on a related underlying REMIC Class. On its Final Payment Date, however, the Holders of an outstanding Guaranteed Maturity Class will be entitled to receive the entire outstanding principal balance of their Certificates, plus interest at the applicable Class Coupon accrued during the related Accrual Period, even if the related underlying REMIC Class has not retired.

<u>Freddie Mac Standard Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
NPR	No Payment Residual	Residual Classes that are designed to receive no payments of principal.
NSJ	Non-Sticky Jump	Classes whose principal payment priorities change temporarily upon the occurrence of one or more “trigger” or other priority-changing conditions. A Non-Sticky Jump Class “jumps” or is “jumped” (changes its principal payment priority to its new priority) on each Payment Date when the condition is met and reverts to its original priority (does not “stick” to the new priority) on each Payment Date when the condition is not met.
NTL	Notional	Classes having only a notional principal amount. A notional principal amount is the amount used as a reference to calculate the amount of interest due on an Interest Only Class that is not entitled to any principal. The Supplements typically indicate parenthetically the type of Class with which a Notional Class will reduce or how a Notional Class will reduce with respect to its underlying Assets. For example, “NTL(PAC)” may designate a Notional Class whose notional principal amount will reduce based on principal reductions of one or more PAC Classes, and “NTL(PT)” or “NTL(STP)” may designate a Notional Class whose notional principal amount will reduce proportionately with principal reductions of the related Assets.
PAC	PAC (or Planned Amortization Class)	Classes that are designed to receive principal payments using a predetermined schedule derived by assuming two <i>constant</i> prepayment rates (a “ <b>Structuring Range</b> ”) for the underlying Mortgages. A PAC schedule generally will reflect a Structuring Range at least 30% PSA above and at least 30% PSA below the Pricing Speed for the related Series. The PAC Classes in any Series may include two or more “Types.” The PAC Class or Classes within any Type paying from the same Asset Group generally have a single Structuring Range. The different Types have different Structuring Ranges and/or different principal payment priorities. In cases where there is more than one Type, the PAC Classes may be assigned such designations as <i>Type I PAC Classes</i> , <i>Type II PAC Classes</i> and so forth (standard abbreviations: <i>PAC I</i> , <i>PAC II</i> and so forth).
PT	Pass-Through	Classes which receive all or a specified portion of the principal payments on the underlying Assets (or designated portion of the Assets) and that are not designated as Strip or Sequential Pay Classes.
RTL	Retail	Classes designated for sale to retail investors. Retail Classes typically are issued in small Retail Class Units and may receive principal payments in accordance with special priorities and allocation procedures.

<u>Freddie Mac Standard Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
SC	Structured Collateral	Classes that receive payments from one or more previously issued REMIC or MACR Classes. In some cases, a Structured Collateral Class also may have the designation of its underlying Class; in other cases, a Structured Collateral Class also may have a designation based on the principal payment priorities in its Series. For example, “SC/PAC” may designate a Structured Collateral Class whose underlying Class is a PAC Class or a Structured Collateral Class whose underlying Class is a Sequential Pay Class but which is designed as a PAC in its Series.
SCH	Scheduled	<p>Classes that are designed to receive principal payments using a predetermined schedule or a specified monthly dollar amount, but that are not designated as PAC or TAC Classes. Scheduled Classes may include, among others, the following:</p> <ul style="list-style-type: none"> <li>• “High/Low Scheduled Classes” are designed to receive principal payments using two or more predetermined schedules, each of which is derived using either a single <i>constant</i> prepayment rate (a “<b>Structuring Rate</b>”) or a Structuring Range for the underlying Mortgages.</li> <li>• “Absolute Maturity Scheduled Classes” are designed to receive principal payments using a predetermined schedule (typically based on a percentage of the remaining principal balance of the underlying Assets) such that they will be retired by the last date of such schedule under all Mortgage prepayment scenarios, including a scenario in which no prepayments occur.</li> <li>• “Limited Range Scheduled Classes” are designed to receive principal payments using a predetermined schedule derived from a Structuring Range that is less than 30% PSA above or less than 30% PSA below the Pricing Speed for the related Series.</li> <li>• “Component Scheduled Classes” are Classes consisting of PAC and TAC Components, PAC and Scheduled Components or Scheduled and TAC Components.</li> </ul> <p>The Scheduled Classes in any Series may include two or more “Types.” The Scheduled Class or Classes within any Type paying from the same Asset Group generally have a single Structuring Range. The different Types have different Structuring Ranges and/or different principal payment priorities. In cases where there is more than one Type, the Scheduled Classes may be assigned such designations as <i>Type I Scheduled Classes</i>, <i>Type II Scheduled Classes</i> and so forth (standard abbreviations: <i>SCH I</i>, <i>SCH II</i> and so forth).</p>
SEG	Segment	A Class which, together with one or more other Classes, constitutes one or more principal payment “segments.”

<u>Freddie Mac Standard Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
SEQ	Sequential Pay	Classes that receive principal payments in a prescribed sequence, that do not have predetermined schedules and that, in most cases, receive payments of principal continuously from the first Payment Date on which they receive principal until they are retired. Sequential Pay Classes may receive principal payments concurrently with one or more other Sequential Pay Classes. A single Class that receives principal payments before, after or concurrently with all other Classes in the same Series may be identified as a Sequential Pay Class.
SJ	Sticky Jump	Classes whose principal payment priorities change permanently upon the occurrence of one or more “trigger” or other priority-changing conditions. A Sticky Jump Class “jumps” or is “jumped” (changes its principal payment priority to its new priority) on the first Payment Date when the condition is met and retains (“sticks” to) that priority until retired.
SPP	Shifting Payment Percentage	Classes that receive principal attributable to prepayments on the underlying Mortgages in a different manner than principal attributable to scheduled payments and/or in shifting proportions over time.
STP	Strip	Classes that receive a constant proportion, or “strip,” of the principal payments on the underlying Assets (or designated portion of the Assets).
SUP	Support	Classes that receive principal payments from the underlying Assets on any Payment Date only if scheduled payments have been made on specified PAC, TAC and/or Scheduled Classes.
TAC	TAC (or Targeted Amortization Class)	Classes that are designed to receive principal payments using a predetermined schedule derived from a single Structuring Rate for the underlying Mortgages. The TAC Classes in any Series may include two or more “Types.” The different Types have different principal payment priorities and/or have schedules that are derived from different Structuring Rates. In cases where there is more than one Type, the TAC Classes may be assigned such designations as <i>Type I TAC Classes</i> , <i>Type II TAC Classes</i> and so forth (standard abbreviations: <i>TAC I</i> , <i>TAC II</i> and so forth).
XAC	Index Allocation Class	Classes whose principal payment allocations are based on the value of an Index.

## INTEREST TYPES

AFC	Available Funds	Classes whose entitlement to be paid accrued interest is subject to the availability of funds received as interest and/or principal payments on the underlying Assets. In the event such funds are insufficient, the amount of the deficiency may, if so provided in the applicable Supplement, be carried forward to subsequent Payment Dates (and may itself accrue interest) until sufficient funds are available to provide for the payment of the deficiency. Any deficiency that remains unpaid after the underlying Assets are retired will not be owing or paid and will not be covered by Freddie Mac's guarantees.
ARB	Ascending Rate	Classes that have predetermined Class Coupons that increase one or more times on dates determined before issuance.
DLY	Delay	A Floating Rate, Inverse Floating Rate or WAC Class for which there is a delay of 15 or more days from the end of its Accrual Period to the related Payment Date.
DRB	Descending Rate	Classes that have predetermined Class Coupons that decrease one or more times on dates determined before issuance.
EXE	Excess	Classes that receive any principal and interest paid on the underlying Assets in excess of the amount of the prescribed principal and interest required to be paid on all Classes in the Series. Excess Classes sometimes have specified principal amounts but no specified Class Coupon.
FIX	Fixed Rate	Classes with Class Coupons that are fixed throughout the life of the Class.
FLT	Floating Rate	Classes with Class Coupons that are reset periodically based on an Index and that vary directly with changes in the Index.
IDC	Index Differential	Classes with Class Coupons that are reset periodically based on the difference (or other specified relationship) between two or more designated Indices.
INV	Inverse Floating Rate	Classes with Class Coupons that are reset periodically based on an Index and that vary inversely with changes in the Index.
IO	Interest Only	Classes that receive some or all of the interest payments made on the underlying Assets and little or no principal. Interest Only Classes have either a nominal or a notional principal amount. A nominal principal amount represents actual principal that will be paid on the Class. It is referred to as nominal since it is extremely small compared to other Classes. A notional principal amount is the amount used as a reference to calculate the amount of interest due on an Interest Only Class that is not entitled to any principal.
NPR	No Payment Residual	Residual Classes that are designed to receive no payments of interest.
PEC	Payment Exchange Certificates	Classes whose Class Coupons vary, in whole or in part, based upon payments of interest made to or from one or more related Classes.

PO	Principal Only	Classes that do not receive any interest.
PZ	Partial Accrual	Classes that accrete a part of their interest, which is added to the outstanding principal balance, and receive payments of the remainder as interest.
W	WAC (or Weighted Average Coupon)	Classes whose Class Coupons represent a blended interest rate that may change from period to period. WAC Classes may consist of Components with different interest rates or may be backed by Assets with different interest rates.
Z	Accrual	Classes that accrete all of their interest, which is added to their outstanding principal balance. This accretion may continue until the Class begins receiving principal payments, until some other event has occurred or until the Class is retired.

### MACR CERTIFICATE EXCHANGES

The Supplement for each Series that includes one or more MACR Classes will identify those Classes and the Combinations of related REMIC Classes and MACR Classes.

#### Exchanges

We permit any exchange of Classes within a Combination, subject to the following constraints:

- The Classes must be exchanged in the applicable “exchange proportions,” if any, shown in the Supplement. As described below, these are based on the *original* principal amounts (or *original* notional principal amounts, if applicable) of the REMIC Classes or MACR Classes, as applicable.
- The aggregate principal amount (rounded to whole dollars) of the Certificates received in the exchange, immediately after the exchange, must equal that of the Certificates surrendered for exchange immediately before the exchange (for this purpose, the principal amount of any Notional Class always equals \$0).
- The aggregate “Annual Interest Amount” (rounded to whole dollars) of the Certificates received in the exchange must equal that of the Certificates surrendered for exchange. The “**Annual Interest Amount**” for any Certificate equals its outstanding principal or notional principal amount times its current Class Coupon.

Where “exchange proportions” are shown for Classes that are exchangeable for other Classes, we base those proportions on the *original*, rather than on the *outstanding*, principal or notional principal amounts of the Classes. If the Classes receive principal payments pro rata with each other, the exchange proportions also will apply to their *outstanding* principal amounts. If the Classes do not receive principal payments pro rata with each other, you can calculate current exchange proportions for the Classes, based on their *outstanding* principal amounts, by (1) multiplying the exchange proportion for each Class by its current Class Factor and (2) dividing each resulting percentage by the sum of such percentages.

*Example:* Class A and Class B, which together are exchangeable for a MACR Class, have equal *original* principal amounts and therefore have exchange proportions of 50% and 50%. However, they receive principal payments in alphabetical order, so that no principal payment is made on Class B until Class A has been retired. If the current Class Factors are 0.6000000 for Class A and 1.0000000 for Class B, you would calculate their current exchange proportions, based on their *outstanding* principal amounts, as follows:

Step (1):

$$\text{Class A: } 50\% \times 0.6000000 = 30\%$$

$$\text{Class B: } 50\% \times 1.0000000 = 50\%$$

Step (2):

$$\text{Class A: } 30\% \div (30\% + 50\%) = 37.5\%$$

$$\text{Class B: } 50\% \div (30\% + 50\%) = 62.5\%$$

A permitted exchange might include \$375,000 *outstanding* principal amount of Class A and \$625,000 *outstanding* principal amount of Class B (equivalent to \$625,000 *original* principal amount of Class A and \$625,000 *original* principal amount of Class B). If Class A has been retired, its *current* exchange proportion would be 0%, that of Class B would be 100%, and only Class B would be included in the exchange.

Any exchanges will be subject to the rules, regulations and procedures applicable to our book-entry securities, in the case of Classes in book-entry form.

The first payment on a REMIC Certificate or a MACR Certificate received in an exchange transaction will be made on the Payment Date in either the first or the second month after the exchange, depending on its Payment Delay. We will make this payment to the Holder of record as of the applicable Record Date.

### Types of Combinations

Within a particular Series, one or more types of Combinations may exist.

In some cases you can exchange two or more REMIC Classes for a single MACR Class, and vice versa. The following illustrates such a Combination:

REMIC Certificates				MACR Certificates			
Class	Original Balance	Exchange Proportions	Class Coupon	Class	Maximum Original Balance	Exchange Proportions	Class Coupon
A	\$10,000,000	50%	10%	M	\$20,000,000	100%	5%
PO	10,000,000	50	0				

In some cases you can exchange a single REMIC Class for two or more MACR Classes, and vice versa. The following illustrates such a Combination:

REMIC Certificates				MACR Certificates			
Class	Original Balance	Exchange Proportions	Class Coupon	Class	Maximum Original Balance	Exchange Proportions	Class Coupon
A	\$10,000,000	100%	10%	M	\$10,000,000	100%	0%
				MI	10,000,000(notional)	*	10

\* Not applicable. The notional principal amount of the MI Class being exchanged equals the principal amount of the M Class being exchanged.

Finally, in some cases you can exchange a REMIC Class or Classes for various combinations of “ratio-stripping” MACR Classes, and you can exchange these MACR Classes for REMIC Classes or for other MACR Classes. In such cases, subject to the constraints listed under *Exchanges* above, numerous subcombinations are possible. The following illustrates a “ratio-stripping” Combination:

REMIC Certificates				MACR Certificates			
Class	Original Balance	Exchange Proportions	Class Coupon	Class	Maximum Original Balance	Exchange Proportions	Class Coupon
A	\$10,000,000	100%	7.00%	MI	\$10,000,000(notional)	N/A	7.00%
				MA	10,000,000	N/A	6.00
				MB	10,000,000	N/A	6.25
				MC	10,000,000	N/A	6.50
				MD	10,000,000	N/A	6.75
				ME	9,655,172	N/A	7.25
				MF	9,333,333	N/A	7.50
				MG	9,032,258	N/A	7.75
				MH	8,750,000	N/A	8.00
				MP	10,000,000	N/A	0.00

Within this Combination you could, for example, exchange (a) any one of the first four subcombinations of Classes shown in the following table for any other such subcombination or (b) any one of the last three subcombinations shown for any other such subcombination.

### Subcombinations

<u>Subcombination</u>	<u>Class</u>	<u>Original Balance</u>	<u>Class Coupon</u>	<u>Annual Interest Amount</u>
1	A	\$10,000,000	7.00%	\$700,000
2	MI MP	\$10,000,000 (notional) 10,000,000 <u>\$10,000,000</u>	7.00% 0.00	\$700,000 0 <u>\$700,000</u>
3	MI MA	\$ 1,428,571 (notional) 10,000,000 <u>\$10,000,000</u>	7.00% 6.00	\$100,000 600,000 <u>\$700,000</u>
4	MB MH MP	\$ 1,600,000 7,500,000 900,000 <u>\$10,000,000</u>	6.25% 8.00 0.00	\$100,000 600,000 0 <u>\$700,000</u>
5	MF	\$ 5,000,000	7.50%	\$375,000
6	MH MP	\$ 4,687,500 312,500 <u>\$ 5,000,000</u>	8.00% 0.00	\$375,000 0 <u>\$375,000</u>
7	MA MB MI	\$ 2,500,000 2,500,000 982,143 (notional) <u>\$ 5,000,000</u>	6.00% 6.25 7.00	\$150,000 156,250 68,750 <u>\$375,000</u>

### Procedures and Fees

#### *Notice*

- If you want to exchange Classes, you must notify our Structured Finance Department through a dealer that belongs to our REMIC dealer group. The dealer must notify us by telephone (703-903-2767) or by fax (703-903-3929).
- We must receive the notice not later than two Business Days before the proposed exchange date, which, subject to our approval, can be any Business Day other than the first or last Business Day of the month. The notice must include:
  - The outstanding principal or notional principal amount of both the Certificates to be exchanged and the Certificates to be received.
  - The proposed exchange date.
- After we receive a notice, we will telephone the dealer to give instructions for delivering the Certificates and the exchange fee to us by wire transfer.
- Your notice becomes irrevocable on the second Business Day before the proposed exchange date.

### *Exchange Fee*

We charge a fee for each exchange. In most cases, the fee is  $\frac{2}{32}$  of 1% of the outstanding principal amount (exclusive of any notional principal amount) of the Certificates submitted for exchange, but not less than \$5,000. However, the fee for an exchange involving Classes that have only *notional* principal amounts is  $\frac{2}{32}$  of 1% of the outstanding notional principal amount of the Certificates submitted for exchange or received in the exchange, whichever is lower, but not less than \$5,000 or more than \$60,000.

**RETAIL CLASS PRINCIPAL PAYMENTS**

The following describes how we make principal payments on most Retail Classes.

**Summary**

We have arranged with DTC and the Registrar (which currently is Freddie Mac) to make principal payments on Retail Classes in \$1,000 Retail Class Units. We do this to accommodate retail investors who may not wish to receive their principal payments in amounts smaller than \$1,000, to give a limited payment priority to investors who request early payment, and to give the first limited payment priority to the requesting estates of deceased investors.

We make principal payments on a Retail Class as follows:

- We determine the amount of principal, if any, payable on the entire Retail Class on each Payment Date as described in the related Supplement.
- The Registrar rounds the principal payment to a multiple of \$1,000, using the Retail Rounding Account described in the Supplement, and pays the rounded amount to DTC.
- DTC remits the principal payment for the Retail Class, in multiples of \$1,000, to the applicable DTC Participants. The DTC Participants and other financial intermediaries in turn remit principal payments to investors in the Retail Class, also in multiples of \$1,000.
- Investors who have properly requested early payment are paid first, to the extent of available principal, with a first priority given to “Deceased Owners” and a second priority to “Living Owners.”
- If more principal is available for payment on the Retail Class than the amount covered by valid requests for early payment, non-requesting investors in that Class receive principal payments in multiples of \$1,000 under random lot procedures.

The rest of this Appendix describes these procedures in more detail.

**Rounding of Principal Payments**

On each Payment Date when principal is payable on a Retail Class, the amount payable on that Class is rounded to a multiple of \$1,000. On the first such Payment Date, the Registrar withdraws from the Retail Rounding Account any funds needed to round the principal payment upward to the next multiple of \$1,000 and pays the rounded amount on the Retail Class. On the next such Payment Date, the Registrar applies the principal payable on the Retail Class first to repay any amount withdrawn from the Retail Rounding Account on the previous Payment Date. The Registrar then rounds the remainder of the principal payment upward to the next multiple of \$1,000, by making another withdrawal from the Retail Rounding Account, and pays this amount on the Retail Class. This process continues on each following Payment Date until the Retail Class has been retired.

## **Principal Payment Requests and Withdrawals**

If you own Retail Class Units, you may request that any or all of your Units be paid in full on the earliest possible Payment Date. You must submit your request to your broker or other financial intermediary, who must in turn make the request in writing to DTC on a prescribed form. DTC will date and time stamp all requests in accordance with its established procedures and forward the requests to the Registrar. The Registrar will keep a list of DTC Participants that represent beneficial owners that have requested Retail Class principal payments, together with the order of receipt and the amounts of the requests. You can get information regarding the number of Retail Class Units for your Class for which requests have been made and the status of your own request by contacting the Registrar as shown on page 6.

You may withdraw a request for a Retail Class principal payment by notifying your broker or other financial intermediary, who must in turn forward the notice of withdrawal in writing to the Registrar on a prescribed form. Your request for a Retail Class principal payment will terminate if the Registrar receives notice that you have transferred the related Retail Class Units.

For a request or a notice of withdrawal to be effective for any Payment Date, it must be received by DTC (in the case of a request) or the Registrar (in the case of a withdrawal) by the last business day of the preceding calendar month. Once effective, a request will remain effective for all Payment Dates unless it is withdrawn or terminates.

DTC honors requests for Retail Class principal payments in accordance with the procedures described below. The Registrar will notify DTC and the appropriate DTC Participants which of the requests should be honored on each Payment Date. The decisions of the Registrar and DTC concerning these matters, and any related rules and procedures they establish, will be binding on all affected persons.

## **Principal Payment Allocations**

*Payments to Requesting Beneficial Owners.* For any Payment Date, we give priority of payment on a Retail Class to beneficial owners of that Class who have requested principal payments. DTC honors requests in the following order of priority:

1. Requests of Deceased Owners in the order that DTC received those requests, up to \$100,000 for each requesting Deceased Owner.
2. Requests of Living Owners in the order established by the random lot procedures of the Registrar, up to \$10,000 for each requesting Living Owner.

DTC will then honor requests of each Deceased Owner as provided in Step 1 up to a second \$100,000, and requests of each Living Owner as provided in Step 2 up to a second \$10,000. DTC will repeat this order of priorities until it has honored all principal payment requests.

If there is not enough principal available on a given Payment Date to honor all requests, the requests will be honored on following Payment Dates as principal becomes available. In the case of requests of Living Owners, the Registrar will establish a new order of priority for each Payment Date by random lot. This order will apply both to previously unsatisfied payment requests and to newly submitted requests. A principal payment request of a Living Owner who later dies will become entitled to the priority of a newly submitted request of a Deceased Owner. This priority will be

effective for each subsequent Payment Date only if DTC has received appropriate evidence of death and any requested tax waivers by the last business day of the preceding calendar month.

*Payments to Non-Requesting Beneficial Owners.* If the amount of principal available for payments on a Retail Class on a given Payment Date is more than the amount needed to honor all principal payment requests, DTC will determine which Retail Class Units will be paid by using its established random lot procedures. Each DTC Participant receiving principal payments, and each financial intermediary in the chain to the beneficial owners, will remit payments to their customers according to their own procedures, which may or may not be by random lot. A DTC Participant or financial intermediary could decide to allot Retail Class principal payments to certain customers (which could include the DTC Participant or intermediary) without allotting payments to others. You may ask your brokers or other intermediaries what allocation procedures they use.

### **Beneficial Owners**

A “**Deceased Owner**” is the estate of an individual who owned the applicable Retail Class Units at the time of death, provided the executor or other authorized representative of the estate furnishes to DTC evidence of death satisfactory to the Registrar and any tax waivers requested by the Registrar. A “**Living Owner**” is any other beneficial owner of Retail Class Units.

The following rules will apply to determine beneficial ownership in the case of Deceased Owners:

- Retail Class Units beneficially owned by tenants by the entirety, joint tenants or tenants in common will be regarded as beneficially owned by a single owner. The death of a tenant by the entirety, joint tenant or tenant in common will be regarded as the death of the beneficial owner, and the Retail Class Units beneficially owned will become eligible for the principal payment priority described above.
- Retail Class Units beneficially owned by a trust will be regarded as beneficially owned by each beneficiary of the trust to the extent of that beneficiary’s interest in the trust (however, a trust’s beneficiaries collectively cannot be beneficial owners of more Retail Class Units than are owned by the trust). The death of a beneficiary of the trust will be regarded as the death of a beneficial owner of the Retail Class Units beneficially owned by the trust to the extent of that beneficiary’s interest in the trust.
- The death of an individual who was a tenant by the entirety, joint tenant or tenant in common in a tenancy which is the beneficiary of a trust will be regarded as the death of the beneficiary of the trust.
- The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interest in a Retail Class Unit will be regarded as the death of the beneficial owner of that Retail Class Unit, regardless of the registration of ownership, if the beneficial ownership interest can be established to the satisfaction of the Registrar. A beneficial ownership interest will exist in many cases of street name or nominee ownership, ownership by a trustee, ownership under the Uniform Gifts to Minors Act and community property or other joint ownership arrangements between spouses. A beneficial ownership interest will be evidenced by such factors as the power to sell or otherwise dispose of a Retail Class Unit, the right to receive the proceeds of sale or disposition and the right to receive interest and principal payments on a Retail Class Unit.

## INTEREST RATE INDICES

We determine the Indices for Floating Rate and Inverse Floating Rate Classes as follows. Our methods for determining Indices are subject to modification as necessary to reflect technological and market changes.

### LIBOR

We calculate the Class Coupons of LIBOR Classes for each Accrual Period (after the first) on the second business day before the Accrual Period begins (an “**Adjustment Date**”). For this purpose, a “business day” is a day on which banks are open for dealing in foreign currency and exchange in London, New York City and Washington, D.C. We determine LIBOR by using either:

- The “Interest Settlement Rate” for U.S. dollar deposits of the applicable maturity set by the British Bankers’ Association (the “**BBA**”) as of 11:00 a.m. (London time) on the Adjustment Date (the “**BBA Method**”).
- The offered quotations of the Reference Banks (as defined below) as of 11:00 a.m. (London time) on the Adjustment Date (the “**LIBO Method**”).

Each applicable Supplement will specify which method we use.

*BBA Method.* The BBA’s Interest Settlement Rates are currently displayed on the Dow Jones Telerate Service page 3750. That page, or any other page that may replace page 3750 on that service or any other service the BBA nominates as the information vendor to display the BBA’s Interest Settlement Rates for deposits in U.S. dollars, is a “**Designated Telerate Page.**” Reuters Monitor Money Rates Service page “LIBOR01” and Bloomberg L.P. page “BBAM” also currently display the BBA’s Interest Settlement Rates. The BBA’s Interest Settlement Rates currently are rounded to five decimal places.

If the BBA’s Interest Settlement Rate does not appear on the Designated Telerate Page as of 11:00 a.m. (London time) on an Adjustment Date, or if the Designated Telerate Page is not then available, we will obtain the Interest Settlement Rate from Reuters’ or Bloomberg’s page. If neither of those two pages publishes the Interest Settlement Rate for the Adjustment Date, LIBOR for that date will be the most recently published Interest Settlement Rate. If the BBA no longer sets an Interest Settlement Rate, we will designate an alternative index that has performed, or that we expect to perform, in a manner substantially similar to the BBA’s Interest Settlement Rate. We will select an alternative index only if tax counsel advises us that the alternative index will not cause any affected REMIC Pools to lose their classification as REMICs.

*LIBO Method.* Under the LIBO Method, we will determine LIBOR for each Adjustment Date as follows:

- If at least two Reference Banks provide offered quotations of the applicable maturity, LIBOR for the next Accrual Period will be the arithmetic mean of those quotations (rounded upwards, if necessary, to the next whole multiple of 1/16%).

- If less than two Reference Banks provide such offered quotations, LIBOR for the next Accrual Period will be the higher of (a) LIBOR as determined on the previous Adjustment Date or (b) the Reserve Interest Rate.
- If we cannot determine the Reserve Interest Rate, LIBOR for the next Accrual Period will be LIBOR as determined on the previous Adjustment Date or, in the case of the first Adjustment Date, the level of LIBOR used to calculate the initial Class Coupon of the particular LIBOR Class.

For purposes of the LIBO Method:

- **“Reference Banks”** means four leading banks engaged in Eurodollar deposit transactions in the international Eurocurrency market (1) with an established place of business in London, (2) whose quotations appear on the Reuters Screen LIBO Page on the Adjustment Date in question, (3) that we have designated as Reference Banks and (4) that are able and willing to provide quotations to us on each Adjustment Date. If any Reference Bank is removed from the Reuters Screen LIBO Page or fails to meet the qualifications of a Reference Bank, we may, in our sole discretion, designate an alternative Reference Bank. If the quotations of more than four banks appear on the Reuters Screen LIBO Page on an Adjustment Date, we will select the four Reference Banks by alternately excluding first the bank (or one of the banks) whose quotation is the highest, then the bank (or one of the banks) whose quotation is the lowest, and so forth, until only four banks remain.
- **“Reuters Screen LIBO Page”** means the display designated as page “LIBO” on the Reuters Monitor Money Rates Service, or any page that may replace page “LIBO” on that service or any successor service for the purpose of displaying London interbank offered quotations of major banks.
- **“Reserve Interest Rate”** means:
  - The arithmetic mean (rounded upwards, if necessary, to the next whole multiple of 1/16%) of the Eurodollar lending rates of the applicable maturity that the New York City banks we select are quoting, on the relevant Adjustment Date, to the principal London offices of leading banks in the London interbank market.
  - If we cannot determine this arithmetic mean, the lowest Eurodollar lending rate of the applicable maturity that the New York City banks we select are quoting on that Adjustment Date to leading European banks.

## COFI

We calculate the Class Coupons of COFI Classes for each Accrual Period (after the first) on the related Adjustment Date (for non-Delay Classes) or on the second business day of the Accrual Period (for Delay Classes), by reference to COFI as published most recently by the Federal Home Loan Bank of San Francisco (the **“FHLB of San Francisco”**). The FHLB of San Francisco currently publishes COFI on or about its last working day of each month.

COFI is designed to represent the monthly weighted average cost of funds for savings institutions in the Eleventh District (which consists of Arizona, California and Nevada) for the month prior to the month of publication. The FHLB of San Francisco computes COFI for each

month by dividing the cost of funds (interest paid during the month by Eleventh District savings institutions on savings, advances and other borrowings) by the average of the total amount of these funds outstanding at the end of that month and the prior month. It then annualizes and adjusts the result to reflect the actual number of days in the particular month. If necessary, the FHLB of San Francisco adjusts the component figures to neutralize the effect of events such as member institutions leaving the Eleventh District or acquiring institutions outside the Eleventh District. COFI has been reported each month since August 1981.

COFI is intended to reflect the interest costs paid on all types of funds held by Eleventh District member savings associations and savings banks. COFI is weighted to reflect the relative amount of each type of funds held at the end of the relevant month. The three major components of funds of Eleventh District member institutions are: (1) savings deposits, (2) Federal Home Loan Bank advances and (3) all other borrowings, such as reverse repurchase agreements and mortgage-backed bonds. Unlike most other interest rate measures, COFI does not necessarily reflect current market rates, since the component funds represent a variety of terms to maturity whose costs may react in different ways to changing conditions. The FHLB of San Francisco periodically prepares percentage breakdowns of the types of funds held by Eleventh District member institutions. You can get these breakdowns from the FHLB of San Francisco.

A number of factors affect the performance of COFI that may cause it to move in a manner different from indices tied to specific interest rates, such as LIBOR or any Treasury Index. Because of the various terms to maturity of the liabilities upon which COFI is based, COFI may not necessarily reflect the average prevailing market interest rates on new liabilities of similar maturities. Also, COFI may not necessarily move in the same direction as market interest rates at all times because, as longer term deposits or borrowings mature and are renewed at prevailing market interest rates, COFI is influenced by the difference between the prior and the new rates on those deposits or borrowings. Because COFI is based on a regional and not a national cost of funds, it may not behave as would a nationally based index. In addition, the movement of COFI, as compared to other indices tied to specific interest rates, may be affected by changes instituted by the FHLB of San Francisco in the method used to calculate COFI.

You can order an informational brochure explaining COFI by writing or calling the FHLB of San Francisco's Marketing Department, P.O. Box 7948, San Francisco, California 94120 (415-616-2610.) You can obtain the current level of COFI by calling the FHLB of San Francisco at 415-616-2600 or from its Internet Web-Site at [www.fhlbsf.com](http://www.fhlbsf.com).

If the FHLB of San Francisco fails to publish COFI for a period of 65 calendar days, we will calculate the Class Coupons of the COFI Classes for subsequent Accrual Periods by using, in place of COFI, any replacement index published or designated by the FHLB of San Francisco. If the FHLB of San Francisco does not publish or designate a replacement index, we will select an alternative index that has performed, or that we expect to perform, in a manner substantially similar to COFI. At the time we first select an alternative index, we will determine the average number of basis points, if any, by which the alternative index differed from COFI for the period we, in our sole discretion, reasonably determine reflects fairly the long-term difference between COFI and the alternative index, and will adjust the alternative index by that average. We will select a particular index as the alternative index only if tax counsel advises us that the alternative index will not cause any affected REMIC Pools to lose their classification as REMICs.

If the FHLB of San Francisco later resumes publication of COFI, we will calculate the Class Coupons of the COFI Classes for each following Accrual Period by reference to COFI.

### **Treasury Index**

We calculate the Class Coupons of Treasury Index Classes for each Accrual Period (after the first) on the fourth business day before the Accrual Period begins (a “**Treasury Index Adjustment Date**”). On each Treasury Index Adjustment Date, we will determine the applicable Treasury Index, which will be either:

- The auction average (investment) yield, expressed as a per annum rate, on three-month or six-month U.S. Treasury bills as made available by the Treasury Department in the most recent edition of its Public Debt News that is available to us.
- The weekly average yield, expressed as a per annum rate, on U.S. Treasury securities adjusted to a constant maturity of one, three, five, seven, ten or thirty years or to some other constant maturity (as specified in the applicable Supplement) that the Federal Reserve Board publishes in the most recent edition of Federal Reserve Statistical Release No. H.15 (519) that is available to us.

The Treasury Department releases its Public Debt News on the day of the applicable auction. You can get it by contacting the Treasury Department’s Bureau of Public Debt or from its Internet Web-Site at [www.treasury.gov](http://www.treasury.gov). Statistical Release No. H.15 (519) is released on Monday or Tuesday of each week. You can get it from the Publications Department at the Board of Governors of the Federal Reserve System, 21st and C Streets, N.W., M.S. 138, Washington, D.C. 20551 or from its Internet Web-Site at [www.federalreserve.gov](http://www.federalreserve.gov).

We consider a new value for the Treasury Index to have been made available on the day following the date it is released. In the event the applicable Treasury Index is no longer published in the Public Debt News or Federal Reserve Statistical Release No. H.15 (519), or either publication is no longer published, we will designate a new source for obtaining the applicable Treasury Index.

The applicable auction average (investment) yield for a given week is the yield resulting from the auction of three-month or six-month U.S. Treasury bills held that week.

The weekly average yield reflects the average yields of the five calendar days ending on Friday of the previous week. Yields on Treasury securities at “constant maturity” are estimated from the Treasury Department’s daily yield curve. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations reported by five leading U.S. Government securities dealers to the Federal Reserve Bank of New York. This method permits estimation of the yield for a given maturity even if no security with that exact maturity is outstanding.

If the applicable Treasury Index becomes unavailable, we will designate an alternative index based upon comparable information and methodology. At the time we first select an alternative index, we will determine the average number of basis points, if any, by which the alternative index differed from the applicable Treasury Index for the period we, in our sole discretion, reasonably determine reflects fairly the long-term difference between the applicable Treasury Index and the alternative index, and will adjust the alternative index by that average. We will select a particular

index as the alternative index only if tax counsel advises us that the alternative index will not cause any affected REMIC Pools to lose their classification as REMICs.

If the applicable Treasury Index becomes available again, we will calculate the Class Coupons for the related Treasury Index Classes for each following Accrual Period by reference to the applicable Treasury Index.

Notwithstanding the above, we adjust the Class Coupons of Treasury Index Classes backed by adjustable rate GNMA Certificates by reference to the same value for the applicable Treasury Index as is used to adjust the interest rates of the GNMA Certificates.

### **Prime Rate**

On each Adjustment Date, we calculate the Class Coupons of Prime Rate Classes for the next Accrual Period by reference to the rate published as the “Prime Rate” in the “Money Rates” section or other comparable section of *The Wall Street Journal* on that Adjustment Date. The rate published in *The Wall Street Journal* currently represents the base rate on corporate loans posted by at least 75% of the 30 largest commercial banks in the United States. If *The Wall Street Journal* instead publishes a prime rate range, the average of that range, as determined by us, will be the Prime Rate.

If *The Wall Street Journal* no longer publishes a “Prime Rate” entry, we will designate a new method for determining the Prime Rate based on comparable data. We will select an alternative method only if tax counsel advises us that the method will not cause any affected REMIC Pools to lose their classification as REMICs.

If the Prime Rate becomes available in *The Wall Street Journal* again, we will calculate the Class Coupons for the Prime Rate Classes for each following Accrual Period by reference to the Prime Rate published in *The Wall Street Journal*.