Freddie Mac

Multifamily Mortgage Participation Certificates

Multifamily Mortgage Participation Certificates

Freddie Mac issues and guarantees Multifamily Mortgage Participation Certificates, or **"PCs."** PCs are securities that represent interests in, and receive payments from, pools of residential mortgages. The mortgages are primarily first lien mortgages on multifamily residential rental properties, including assisted living or skilled nursing properties, that contain five or more dwelling units.

Freddie Mac's Guarantee

We guarantee the payment of interest and principal on the PCs as described in this Offering Circular. We alone are responsible for making payments on our guarantee. Principal and interest payments on the PCs 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 PCs. For each offering, we prepare an offering circular supplement. The supplement will describe more specifically the particular PCs included in that offering.

Tax Status and Securities Law Exemptions

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

The PCs may not be suitable investments for you. You should consider carefully the risks of investing in them. The *Risk Factors* section on pages 6 and 7 highlights some of these risks.

Offering Circular dated January 1, 2001

If you intend to purchase PCs, you should rely 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 PCs in any jurisdiction that prohibits their offer.

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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 market.
- To provide ongoing assistance to the secondary market for residential markets (including mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities).
- 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.

To meet these statutory purposes, we purchase mortgages and mortgage related securities from lenders, other mortgage sellers and securities dealers. We finance our purchases of mortgages primarily by sales of guaranteed mortgage securities. Mortgages we retain are financed with 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 also prepare quarterly Information Statement Supplements that include unaudited financial data and other information concerning our business and operations. As of any given date, this Offering Circular incorporates by reference the most recent Information Statement and any subsequent Information Statement Supplements.

You can obtain any of these documents, as well as any disclosure documents for our PCs and other securities, from:

Freddie Mac - Investor Inquiry
8200 Jones Branch Drive
McLean, Virginia 22102-3110
Telephone: 1-800-336-FMPC
(703-450-3777 within Washington, D.C. area)
E-mail: Investor_Inquiry@freddiemac.com
Internet Web-Site: www.freddiemac.com

SUMMARY

This summary highlights selected information about the PCs. Before buying PCs, 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.

PCs .... PCs represent beneficial ownership interests in pools of mortgages that we form (**"PC Pools"**).

Types of Mortgages......... The assets in each pool include mortgages or participation interests in mortgages that we have purchased and are not guaranteed or insured by the United States or any federal agency or instrumentality (**"Mortgages"**). The Mortgages are secured by first or second liens on multifamily residential rental properties and may be either fixed rate Mortgages or adjustable rate Mortgages (**"ARMs"**).

A **"Fully Amortizing Mortgage"** provides for level monthly payments of principal and interest based upon an amortization schedule calculated to pay the original balance of the Mortgage in full over the original term to maturity.

An **"Amortizing Balloon Mortgage"** provides for level monthly payments of principal and interest for a term of less than 30 years, based upon an amortization schedule calculated to pay the original balance of the Mortgage in full over a period of up to 30 years, and a balloon payment at maturity.

An **"Interest Only Balloon Mortgage"** provides for payments of interest only during its term and a balloon payment at maturity.

Types of PCs .... Each **"Gold PC"** represents an interest in a PC Pool consisting of fixed rate Amortizing Balloon Mortgages, Fully Amortizing Mortgages or Interest Only Balloon Mortgages. Gold PCs have a payment delay of 45 days.

Each **"ARM PC"** represents an interest in a PC Pool consisting of ARMs. ARM PCs have a payment delay of 75 days.

Payments .... We pay principal and interest monthly on each Payment Date beginning in (1) the month after issuance for Gold PCs or (2) the second month after issuance for ARM PCs. Payment Dates fall on or about the 15th of each month.

- **Interest** .... We pay interest on each PC at its applicable per annum interest rate (**"PC Coupon"**). Interest payable on a Payment Date accrues during (1) the preceding calendar month for Gold PCs or (2) the second preceding calendar month for ARM PCs.

- **Principal** .... We base principal payments on servicers' reports of payments received on the Mortgages and, for Gold PCs, our calculation of scheduled monthly principal payments. The Holders of PCs issued from the same PC Pool receive principal payments on a pro rata basis.

Guarantee .... For Gold PCs, we guarantee timely payment of interest at the applicable PC Coupon and the timely payment of scheduled principal, whether or not we receive these payments from the underlying Mortgages.

For ARM PCs, we guarantee timely payment of interest at the applicable PC Coupon, whether or not we receive these payments from the underlying Mortgages, and the full and final payment of principal. We do not guarantee the timely payment of scheduled principal on ARM PCs.

Agreement .... We issue and administer PCs according to our Multifamily Mortgage Participation Certificates Agreement (the **"Agreement"**), which we summarize in this Offering Circular. You should refer to the Agreement for a complete description of your rights and obligations and those of Freddie Mac.

Tax Status .... We will classify each PC Pool as a grantor trust. As an investor in a PC Pool, you will be treated as the owner of a pro rata undivided interest in the ordinary income and the principal of the related grantor trust, and will be considered the owner of a pro rata undivided interest in each of the underlying Mortgages.

RISK FACTORS

Although we guarantee the payments on PCs, 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. The section of this Offering Circular entitled *Prepayment, Yield and Suitability Considerations* discusses them in more detail.

PCs May Not be Suitable Investments for You. PCs 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, PCs are not suitable investments for you. If you purchase PCs, you need to have enough financial resources to bear all of the risks related to your investment.

Principal Payment Rates are Uncertain. Principal payment rates on PCs 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.

We cannot predict the rate of prepayments on the Mortgages, which is influenced by a variety of economic, social and other factors, including local and regional economic conditions, the existence and enforceability of lockout periods and prepayment premiums and the availability of alternative financing. Prepayments are also affected by servicing decisions and policies, such as decisions to pursue alternatives to foreclosure.

Prepayments Can Reduce Your Yield. Your yield on a PC will depend on its price, the rate of prepayments on its underlying Mortgages and the actual characteristics of those Mortgages. The Mortgages may be voluntarily prepaid at any time, subject to any applicable lockout period and to the payment of any applicable prepayment premiums. The Mortgages with lockout periods may be voluntarily prepaid at any time outside of the lockout period. The Mortgages also may be prepaid due to defaults, casualties, condemnations and repurchases. The yield on your PC could be lower than you expect if either:

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

Reinvestment of Principal Payments May Produce Lower Yields. The 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 PC.

Index Levels Will Affect Yields of ARM PCs. If you invest in ARM PCs, and the index level used to adjust the interest rates on the underlying Mortgages is lower than you expect, the yield on your investment could be lower than you expect, especially if prepayments are slow. Even if the index level is high but prepayments are fast, your yield could be lower than you expect. ARM interest rate adjustments typically occur less frequently than monthly, and all adjustments have "lookback" periods. As a result, interest rates on the ARMs and the related ARM PCs may not reflect current index levels.

PCs are Subject to Market and Liquidity Risks. The market values of your PCs will vary over time, primarily in response to changes in prevailing interest rates. If you sell your PCs when their market values are low, you may experience significant losses. A secondary market for some types of PCs may not develop. Even if a market does develop, it may not be liquid enough to allow you to sell your PCs easily or at your desired price.

You May Not be Allowed to Buy PCs. 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 PCs or in PCs generally.

Mortgages Underlying PCs May be Riskier than Single Family Mortgages. The Mortgages may present more risk than single family mortgages because, among other things:

- Mortgage repayment depends largely upon the successful operation and management of the related mortgaged property.
- Absence of borrower recourse decreases the likelihood of Mortgage repayment.
- Changes in economic conditions will affect the supply and demand for rental units and rent levels.
- Changes in government regulations may have an adverse effect on future income from the related mortgaged property.

Since the individual Mortgage amounts often are large, one Mortgage is likely to comprise a larger portion of the PC Pool than would one single family mortgage and, therefore, principal prepayments may significantly affect the yield on your PC. We are unable to predict whether or to what extent the above factors actually will occur.

A PC Pool May Consist of Only a Single Mortgage. PCs backed by a single Mortgage present more risk than PCs backed by multiple Mortgages because you may receive early repayment of your entire investment on the PC.

DESCRIPTION OF THE MORTGAGES

General

Mortgages typically are evidenced by mortgage notes secured by mortgages or deeds of trust or other similar security instruments creating first or second liens on multifamily properties containing five or more dwelling units and designed in whole or in part for residential use. Mortgages include both whole loans and participation interest in loans. They may have been originated for the purpose of purchasing, refinancing or rehabilitating the mortgaged properties. The properties may include high-rise buildings, garden apartments, townhouse apartments and assisted living or skilled nursing properties. Under certain circumstances, the Mortgages may be secured by dwellings subject to ground or similar leases or to subordinate liens. Borrowers may be individuals, partnerships, limited liability companies, corporations, trusts or other entities, including cooperative corporations or associations.

Mortgages are not guaranteed or insured by the United States or any federal agency or instrumentality. Unless otherwise stated in the applicable Supplement, the Mortgages generally are documented on modified Freddie Mac Uniform Instruments for multifamily mortgages made in the state in which the related mortgaged properties are located.

The types of Mortgages that we typically buy are described under *Summary — Types of Mortgages*. If a PC Pool includes a different type of Mortgage, we will describe it in the applicable Supplement.

Mortgages bear interest at either a fixed or an adjustable interest rate. Most of the Mortgages we purchase are fixed rate Mortgages with level monthly payments.

ARMs have original or modified terms to maturity of generally up to 30 years with interest rates that adjust periodically at specified intervals over the term of the Mortgage. The interest rate is equal to a fixed margin (the **"Margin"**) plus the value of a specified index (**"Index"**). ARMs may have some combination of (a) limits on the amounts they can adjust up or down on each adjustment date (adjustment caps), (b) maximum Mortgage Coupons and (c) minimum Mortgage Coupons.

Appendix II shows the most common Indices for the ARMs we purchase, as well as the current sources for various Indices.

Interest on the Mortgages may be payable on the basis of a 360-day year and the actual number of days elapsed in the month for which interest is being calculated (**"Actual/360 Basis"**) or on the basis of a 360-day year, with each month being assumed to have 30 days (**"30/360 Basis"**).

Transfer and Assumption Provisions

The Mortgage documents generally permit the transfer of the related mortgaged property, or any interest therein, or the transfer of any material interest in the borrower, if certain conditions are met. Upon any such transfer, the related Mortgage may be assumed at the existing interest rate (the **"Mortgage Coupon"**) for the remaining Mortgage term. Certain Mortgages allow such transfers only upon our consent, in which case we consider various factors in determining whether to permit an assumption of the related Mortgage. For additional information concerning our policies on assumptions, see *— Mortgage Purchase and Servicing Standards — Transfer and Assumption Policies.*

We or the servicer will retain any fees collected in connection with assumptions as compensation for services and will not distribute those fees to Holders. See *— Mortgage Purchase and Servicing Standards — Fees.*

We will provide information regarding any permissible transfers and assumptions in the applicable Supplement.

Prepayment Premium and Lockout Provisions

The Mortgage documents generally allow voluntary prepayment in full at any time, subject to the payment of a prepayment fee (a **"Prepayment Premium"**). The Mortgages also generally require the payment of a Prepayment Premium upon certain default prepayments. Prepayment Premiums may vary significantly among the Mortgages in a PC Pool.

Prepayment Premiums will apply for a period of time specified in the related Supplement (the **"Yield Maintenance Period"**) and generally will be calculated using a formula equal to the greater of (a) one percent of the then outstanding principal balance of the Mortgage or (b) a yield maintenance amount based upon the then current yield of the applicable direct, non-callable and non-prepayable obligations of the United States (**"U.S. Treasury Securities"**). The yield maintenance amount equals (a) the excess, if any, of (i) one-twelfth of the Mortgage Coupon over (ii) the "Assumed Reinvestment Rate," times (b) the "Present Value Factor," times (c) the outstanding principal balance of the Mortgage as of the prepayment date.

The **"Assumed Reinvestment Rate"** or **"ARR"** means one-twelfth of the per annum yield on the U.S. Treasury Securities specified in the related Supplement as reported in *The Wall Street Journal* five business days before the prepayment date; it is expressed as a decimal calculated to five digits. The **"Present Value Factor"** means the factor that discounts to present value the costs due to the difference in interest rates during the months remaining in the Yield Maintenance Period; it is expressed as follows:

$$\frac{1 - \left(\frac{1}{1 + \mathrm{ARR}}\right)^{n}}{\mathrm{ARR}}$$

where **n** is the number of months, and any fraction thereof, remaining between the prepayment date and the end of the Yield Maintenance Period.

If no yield is published on the applicable date for the U.S. Treasury Securities specified in the related Supplement, we may select other U.S. Treasury Securities maturing in the same year as the U.S. Treasury Securities specified in the related Supplement with the lowest yield published in *The Wall Street Journal* as of the applicable date. If *The Wall Street Journal* no longer publishes such yields, we may select a security with a comparable rate and term to the U.S. Treasury Securities specified in the related Supplement. Our selection will be made in our sole discretion and shall be conclusive.

Prepayment Premiums collected from borrowers will be passed through to Holders only to the extent specified in the related Supplement.

Certain Mortgages may contain lockout provisions prohibiting prepayments by borrowers during a portion or all of the Mortgage term. The related Supplement will identify the period of time the lockout applies.

Prepayment Premium and lockout provisions will not apply to:

- The receipt of proceeds from a condemnation or an insured casualty loss of a mortgaged property.
- Our decision to treat, in certain bankruptcy cases, the unsecured portion of a Mortgage as a partial prepayment; see — *Mortgage Purchase and Servicing Standards — Defaults and Delinquencies.*
- Our decision to repurchase and remove a Mortgage from a PC Pool as permitted under Section 1.02 of the Agreement; see — *Mortgage Purchase and Servicing Standards — Prepayments.*

A Prepayment Premium or lockout provision may or may not prevent the borrower from making a Mortgage prepayment. For information concerning how we require servicers to enforce Prepayment Premiums and lockout provisions, see — *Mortgage Purchase and Servicing Standards — Prepayments.*

We will provide information regarding any other permissible Prepayment Premium and lockout provisions in the applicable Supplement.

Subordinate Financing Provision

The Mortgage documents generally permit the borrowers to obtain subordinate financing and use the related mortgaged properties to secure liens junior to the Mortgages, upon our consent and in accordance with our Second Mortgage Purchase Program in effect from time to time. See — *Mortgage Purchase and Servicing Standards — Second Mortgage Purchase Program.*

We will provide information regarding any other permissible subordinate financing in the applicable Supplement.

Defeasance Provision

The Mortgage documents generally permit the borrowers to defease the Mortgages, if certain conditions are met. **"Defeasance"** is the release of a mortgaged property from the lien of a Mortgage in exchange for the pledge of securities as replacement collateral. The securities typically consist of U.S. Treasury Securities or non-callable and non-prepayable obligations of a government-sponsored enterprise or a federal agency or instrumentality (**"Eligible Securities"**).

We will provide additional information regarding any defeasance option in the applicable Supplement.

Substitution Provision

The Mortgage documents generally permit the borrowers to substitute the related mortgaged properties with one or more comparable multifamily properties, if certain conditions are met. Certain Mortgages also permit the borrowers to substitute the related mortgaged properties with Eligible Securities or other non-real estate instruments under limited circumstances.

We will provide additional information regarding any substitution option in the applicable Supplement.

Mortgage Purchase and Servicing Standards

General

Any Mortgages that we purchase must satisfy the mortgage purchase standards that are contained in the Freddie Mac Act. These standards require us to purchase Mortgages of a quality, type and class that meet generally the purchase standards imposed by private institutional mortgage investors. This means the Mortgages must be readily marketable to institutional mortgage investors.

The Guide

In addition to the standards in the Freddie Mac Act, which we cannot change, we have established our own multifamily mortgage purchase standards, credit, appraisal and underwriting guidelines and servicing policies and procedures. These are in our Multifamily Seller/Servicer Guide (the **"Guide"**). The Guide also contains forms of our mortgage purchase documents.

We may waive or modify our mortgage purchase standards and guidelines and servicing policies and procedures when we purchase any particular Mortgages. We will describe those changes in the applicable Supplement if we think they will materially change the prepayment behavior of the Mortgages. We also reserve the right to change our own mortgage purchase standards, credit, appraisal, underwriting guidelines and servicing policies and procedures at any time. This means that the Mortgages in any PC Pool may not conform at any particular time to all of the provisions of the Guide, our mortgage purchase documents or this Offering Circular.

We summarize below certain aspects of our mortgage purchase and servicing guidelines. However, this summary is qualified in its entirety by the Guide, any applicable mortgage purchase documents, any applicable servicing agreement and any applicable supplemental disclosure. You may obtain copies of the Guide from us for a fee by contacting our Investor Inquiry Department as shown on page 3.

Mortgage Purchase Standards

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 portfolio. The information we use varies over time, and may include:

- The loan-to-value and debt service coverage ratios of the Mortgage.
- The strength of the market in which the mortgaged property is located.
- The strength of the mortgaged property's operations.
- The physical condition of the mortgaged property.
- The financial strength of the borrower and its principals.
- The management experience and ability of the borrower and its principals or the property manager, as applicable.

- Our evaluation of and experience with the seller.

To the extent allowed by the Freddie Mac Act, we have discretion to determine our mortgage purchase standards and whether the Mortgages we purchase will be securitized or held in our portfolio.

Eligible Sellers, Servicers and Warranties

We approve sellers and servicers of Mortgages based on a number of factors, including their financial condition, operational capability and mortgage origination and servicing experience. The seller or servicer of a Mortgage need not be the originator of that Mortgage.

Before we purchase a Mortgage, we rely on the representations and warranties of the seller with respect to certain matters, as is customary in the secondary market. These warranties cover such matters as:

- The accuracy of the information provided by the borrower.
- The accuracy and completeness of any third party reports prepared by a qualified professional.
- The validity of each Mortgage as a first or second lien, as applicable.
- The timely payments on each Mortgage at the time of delivery to us.
- The physical condition of the mortgaged property.
- The accuracy of rent schedules.
- The originator's compliance with applicable state and federal laws.

Mortgage Servicing Policies and Procedures

We generally supervise servicing of the Mortgages according to the policies and procedures in the Guide. Each servicer must diligently perform all services and duties customary to the servicing of multifamily mortgages. These include:

- Collecting and posting payments on the Mortgages.
- Investigating delinquencies and defaults.
- Analyzing and recommending any special borrower requests, such as requests for assumptions, subordinate financing and partial release.
- Submitting monthly electronic remittance reports and annual financial statements obtained from borrowers.
- Administering escrow accounts.
- Inspecting properties.
- Responding to inquiries of mortgagors or government authorities.
- Collecting insurance claims.

Servicers service the Mortgages, either directly or through approved subservicers, and receive fees for their services. We monitor the servicer's performance through periodic and special reports and inspections to ensure it complies with its obligations. A servicer may remit payments to us under various arrangements but these arrangements do not affect the timing of payments to investors. We invest those payments at our own risk and for our own benefit until we pass through the payments to investors.

Prepayments

Mortgages generally allow voluntary prepayment in full at any time, subject to the payment of a Prepayment Premium. The Mortgages also generally require the payment of a Prepayment Premium upon certain default prepayments. Prepayment Premiums collected on the Mortgages will be passed through to Holders if so provided in the related Supplement. If the Mortgages contain lockout provisions prohibiting prepayments by borrowers, the related Supplement will identify the period of time the lockout applies. We generally require the servicer to enforce any lockout provisions and to collect any Prepayment Premiums on each Mortgage in the same manner as we enforce lockout periods and collect Prepayment Premiums on comparable multifamily mortgages in our own portfolio. However, certain states limit the amounts that a lender may collect from a borrower as an additional charge if a mortgage is prepaid, and the enforceability of prepayment penalty provisions upon a prepayment is unclear under the laws of many states. In addition, we may waive the collection of Prepayment Premiums or the enforcement of lockout provisions for various reasons, including:

- Efforts to resolve existing or impending defaults or litigation.
- When the benefits resulting from prepayment protection are likely to be substantially offset by the cost or result of enforcement.

We also may repurchase a Mortgage from a PC Pool, or allow or require the servicer to repurchase a Mortgage from a PC Pool, if:

- The seller or servicer materially breaches one of its warranties, representations or agreements with us.
- The mortgaged property is condemned or suffers an insured casualty loss.
- The repurchase is necessary to resolve an existing or impending delinquency or other default, to maintain proper servicing of a Mortgage or to minimize loss.
- It is necessary to maintain the classification of any PC Pool as a grantor trust for federal income tax purposes.
- We make payments under our guarantee of full and final payment of principal.

In determining whether a Mortgage should be repurchased, we consider various factors, including whether the repurchase will reduce our administrative costs or our possible exposure under our guarantee and our statutory and other legal obligations.

We will treat the proceeds of any repurchase in the same manner as if a prepayment of the Mortgage had occurred. However, no Prepayment Premium will be payable in the event of such prepayment.

Second Mortgage Purchase Program

We may purchase second lien mortgages on the same properties on which we have purchased first lien Mortgages that we have securitized. A second mortgage will be cross-defaulted with the corresponding first lien Mortgage. Therefore, an event of default under the second mortgage would also be an event of default under the corresponding first lien Mortgage, and we may accelerate and foreclose upon such Mortgage. We will resolve any existing or impending delinquency or other default on a second mortgage in the same manner as we would resolve it on the corresponding first lien Mortgage.

Defaults and Delinquencies

In determining which measures to pursue to resolve an existing or impending delinquency or other Mortgage default, and when, we may take any one of the following measures:

- Approve an assumption of an Mortgage by a new borrower.
- Allow a repayment plan or a forbearance period during which regular Mortgage payments may be reduced or suspended.
- Approve a modification of certain terms of the Mortgage if we determine that the borrower would be able to make all payments under the modified Mortgage terms.
- Pursue a refinancing of the Mortgage or a preforeclosure contract for sale of the underlying property.
- Charge off all or part of the unpaid principal balance of the Mortgage.
- Initiate a foreclosure proceeding.

When considering our options, we determine, in our sole discretion, whether to remove a Mortgage from a PC Pool. Removing a Mortgage from its PC Pool has the same effect on Holders as a prepayment. If we determine not to remove the Mortgage from its PC Pool, the measures we take may affect the timing of payments of principal to Holders.

If we do not remove a Mortgage from its PC Pool, we generally demand accelerated payment of principal and initiate foreclosure proceedings when a Mortgage has become 60 days' delinquent. However, we also continue to pursue alternative measures to resolve the delinquency before the conclusion of the foreclosure proceedings, if this appears likely to mitigate our potential losses. If a borrower repays all delinquent amounts or agrees with us to accept an arrangement for reinstatement of the Mortgage, we may terminate the foreclosure proceedings and withdraw our demand. If the borrower again becomes delinquent, we generally will make a new demand for acceleration and commence new foreclosure proceedings.

The bankruptcy of a borrower on a Mortgage may differ significantly from the bankruptcy of a borrower on a single family mortgage. The underlying multifamily property is often the sole asset of the borrower, if other than an individual. A borrower may commence bankruptcy proceedings involving a multifamily property, for example, when the property value decreases or when the revenues from the property become insufficient to pay debt service and operating expenses.

In certain bankruptcy cases where the borrower owes more on a Mortgage than the current value of the property, some bankruptcy courts have approved a borrower's plan reducing the borrower's obligation under the Mortgage to the current value of the property and treated the remaining amount of the original Mortgage indebtedness as an unsecured obligation. We may treat the unsecured portion of the Mortgage as a partial prepayment and pass through that amount as a guarantee payment as early as the date of the court action.

Prepayment Premium and lockout provisions in a Mortgage will not apply to our decision to treat the unsecured portion of a Mortgage as a partial prepayment.

Our Information Statement and Information Statement Supplements provide information regarding our overall delinquency, default and foreclosure experience.

Transfer and Assumption Policies

The Mortgage documents generally allow a new borrower to assume a Mortgage if there is a transfer of the related property, or any interest therein, or a transfer of any material interest in the borrower. Certain Mortgages, however, allow transfers and assumptions only upon our consent. In this case, we will consider factors such as the creditworthiness and management ability of the new borrower and the physical and financial condition of the property in determining whether a Mortgage can be assumed.

The Mortgage will remain in its PC Pool if it is assumed. Otherwise, we will remove the Mortgage from its PC Pool, resulting in a prepayment to Holders.

Fees

We or servicers generally retain fees paid by borrowers, such as late payment fees and review and transfer charges on assumptions. These fees are not passed through to Holders and are treated as additional compensation for services that we and the servicer provide. However, any Prepayment Premiums collected on the Mortgages will be passed through to Holders, if so provided in the related Supplement.

DESCRIPTION OF THE PCs

General

We issue two types of PCs — Gold PCs and ARM PCs. Gold PCs have a payment delay (the delay between the time interest begins to accrue and the time the investor receives an interest payment) of approximately 45 days. ARM PCs have a payment delay of approximately 75 days.

Each PC represents an undivided interest in the Mortgages contained in its related PC Pool. Once we have identified a Mortgage to a PC Pool, the Mortgage remains in that PC Pool unless it is paid in full, foreclosed upon, repurchased or replaced by a substitute Mortgage. The rate of interest payable to us on the Mortgages in a PC Pool will equal or exceed the PC Coupon of the related PCs, and we retain any difference as compensation for administering the PC Pool and guaranteeing payments on the related PCs. The excess of the interest payable by the borrower on a Mortgage above the interest the servicer remits to us may be retained by the servicer as compensation for servicing the Mortgage or by the seller of the Mortgages as additional compensation.

Pooling Criteria for PC Pools

Some of our general pooling practices for Gold PC Pools or ARM PC Pools are summarized below. Our pooling practices are subject to change. We may also grant exceptions in our sole discretion. If we apply any other criteria to a specific PC Pool, we will describe those differences in a Supplement.

We pool by general and specific Mortgage type. We pool fixed rate Mortgages separately from ARMs. We pool first lien Mortgages separately from second lien Mortgages. Each PC Pool will include only one specific Mortgage type. For example, a PC Pool will contain only Amortizing Balloon Mortgages, Fully Amortizing Mortgages, Interest Only Balloon Mortgages or ARMs, but not a combination of these Mortgages.

We also limit the range of Mortgage Coupons in a PC Pool. At the time we form a PC Pool:

- In the case of a Gold PC Pool, the Mortgage Coupon of each Mortgage must be within a range from (a) the related PC Coupon plus any minimum required servicing fee through (b) 250 basis points above the related PC Coupon.
- In the case of an ARM PC Pool, the lowest and highest Margin must be within a range not exceeding 200 basis points.

The minimum PC Pool size is $1,000,000 at the time the PC Pool is formed.

Pool Factors and Monthly Reporting Periods

Pool Factors

Each month, we calculate and make available, including on our Internet Web-Site, the Pool Factor for each PC Pool. The **"Pool Factor"** for any month is based on reports we receive from servicers, and is a truncated seven-digit decimal which, when multiplied by the original principal amount of the related PC Pool, will equal its remaining principal amount. The Pool Factor for any month reflects the remaining principal amount after the payment to be made on the Payment Date:

- In the same month for Gold PCs.
- In the following month for ARM PCs.

Currently, Pool Factors are available on or about:

- The first business day of each month for Gold PCs.
- The seventh business day of each month for ARM PCs.

The Pool Factor for a PC Pool for the month of formation is always 1.0000000 and is not published. We have the right to change when the Pool Factors will be available and how we calculate them.

Use of Factors

For any Payment Date, you can calculate principal payments on a PC by multiplying its original principal amount by:

- The difference between its Pool Factors for the preceding and current months for Gold PCs.
- The difference between its Pool Factors for the two preceding months for ARM PCs.

We have the right to make payments on any PC based on its applicable Pool Factors.

Monthly Reporting Periods

Each month, servicers report payments, including all prepayments, on the Mortgages in a PC Pool for the applicable one-month reporting period, generally from the 16th of a month through the 15th of the next month (a **"Monthly Reporting Period"**). For any Payment Date, the applicable Monthly Reporting Period generally ends on:

- The 15th of the month preceding that Payment Date for Gold PCs.
- The 15th of the second month preceding that Payment Date for ARM PCs.

We have the right to change the Monthly Reporting Period for any PCs as provided in the Agreement. We also have the right to modify our procedures for passing through full or partial prepayments to Holders. For example, we may include, as part of the aggregate principal payment for each month, prepayments reported to us after the end of the related Monthly Reporting Period and before the publication of the applicable Pool Factor. In that case, the applicable Pool Factor would reflect any of these prepayments.

Payment Dates

We make payments to the Holders of PCs on each Payment Date beginning in:

- The month after issuance for a Gold PC.
- The second month after issuance for an ARM PC.

The **"Payment Date"** is the 15th of each month or, if the 15th 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 our main offices in Virginia are closed.
- A day when the Federal Reserve Bank of New York (or other agent acting as our fiscal agent) is closed or, as to any Holder, a day when the Federal Reserve Bank that maintains the Holder's account is closed.

Payments of Principal

General

We pay principal to the Holders of PCs on each applicable Payment Date.

Calculation of Principal Payments for Gold PCs

The aggregate principal payment in any month on any Gold PC reflects:

- The scheduled principal payments due on the Mortgages in the related PC Pool for the Monthly Reporting Period ending in the current month.
- Prepayments on the related Mortgages as reported by servicers for the Monthly Reporting Period ending in the previous month.

The principal balance of a PC Pool sometimes is different from the aggregate principal balance of the underlying Mortgages due to delays or errors in processing mortgage information, such as a servicer's failure to file an accurate or timely report of its collections of principal or its having filed a report that cannot be processed. For Gold PCs, we calculate the scheduled principal due on the related Mortgages based upon:

- The principal balance of each Mortgage in the PC Pool (adjusted for any prepayments and any principal amounts previously passed through pursuant to our guarantee).
- The Mortgage Coupon of each Mortgage and the scheduled monthly principal and interest payment applicable to that Mortgage at the time of formation of the PC Pool.

Our calculation of scheduled principal may not reflect actual payments on the Mortgages. We will account for any differences as soon as practicable by adjusting subsequent Pool Factors.

Calculation of Principal Payments for ARM PCs

The aggregate principal payment in any month on the ARM PCs reflects any principal payments on the related Mortgages, including scheduled principal payments and prepayments, reported by servicers for the Monthly Reporting Period that ended in the second preceding month. We do not calculate principal payments for ARM PCs in the absence of reports from servicers, nor do we adjust the related Pool Factor. Rather, we reconcile any differences between actual payments on the Mortgages and principal payments on the ARM PCs in future periods.

Payments of Interest

General

Interest will accrue on each PC during each Accrual Period at its PC Coupon. In the case of a Gold PC, the PC Coupon is set at the time of issuance and does not change. In the case of an ARM PC, the PC Coupon adjusts monthly based on the weighted average of the interest rates of the underlying ARMs.

Unless otherwise stated in the related Supplement, we compute interest on a 30/360 Basis, whether or not interest on the underlying Mortgages is payable on a 30/360 Basis. If interest on the underlying Mortgages is payable on an Actual/360 Basis, we will adjust the interest allocation for each monthly Mortgage payment in order to conform the interest allocation on the Mortgages as closely as practicable to interest payments on the PCs. Any difference resulting from this adjustment will be minimal. Absent clear error, our adjustment to the interest allocation will be final and binding.

Interest accrues on the principal amount of a PC as determined by its Pool Factor for:

- The month preceding the month of the Payment Date for Gold PCs.
- The second month preceding the month of the Payment Date for ARM PCs.

The **"Accrual Period"** relating to any Payment Date is:

- The calendar month preceding the month of the Payment Date for Gold PCs.
- The second calendar month preceding the month of the Payment Date for ARM PCs.

Calculation of ARM PC Coupon

The PC Coupon of an ARM PC adjusts as of the first day of each Accrual Period and equals the weighted average of the underlying Mortgage Coupons, less the servicing fee, the management and guarantee fee and any amounts retained by the seller or servicer as additional compensation. The PC Coupon of an ARM PC is an exact decimal truncated to three places. It is recalculated monthly to reflect changes in the unpaid principal balance of the related Mortgages and adjustments to the Mortgage Coupons of the related Mortgages, unless otherwise provided in the applicable Supplement. *Appendix II* shows the Indices most often used to adjust ARM PCs.

There is no limit on the amount of permissible monthly adjustments to the PC Coupons on ARM PCs, although the related Mortgages may have an adjustment cap that limits the permissible amount that the Mortgage Coupon may adjust on its regular adjustment date. There is no minimum or maximum PC Coupon, although each related Mortgage may have a minimum or maximum Mortgage Coupon. The Mortgage Coupons of each of the Mortgages in a PC Pool may have regular adjustment dates, each in a different month, and accordingly some, all or none of the Mortgages in a PC Pool may adjust on a given date. As a result, the ARM PC Coupon may not fully reflect recent changes in the value of the applicable Index. In addition, disproportionate principal payments on the underlying Mortgages will affect the ARM PC Coupon. The applicable Supplement will specify any applicable limits on the permissible adjustments to the Mortgage Coupons on the Mortgages comprising an ARM PC Pool.

You can obtain the PC Coupons for ARM PCs for the current Accrual Period on our Internet Web-Site or from our Investor Inquiry Department as shown on page 3. Absent clear error, our determination of the applicable Index levels and our calculation of the PC Coupon for each Accrual Period will be final and binding.

Record Dates

We pass through 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 Gold PCs.
- The second preceding month for ARM PCs.

Final Payment Date

The **"Final Payment Date"** of a PC will be the first day of the month of the final due date on the latest maturing Mortgage in the related PC Pool. The actual final payment on any PC will be made on a regular Payment Date, not on the first day of a month. The final payment on any PC could occur significantly earlier than the month of its Final Payment Date.

Guarantees

We guarantee to each Holder of a PC:

- The timely payment of interest at the applicable PC Coupon.
- In the case of Gold PCs only, the timely payment of scheduled principal on the underlying Mortgages.

- The full and final payment of principal on the underlying Mortgages by the Payment Date that falls (a) in the month of its Final Payment Date for a Gold PC or (b) in the month after its Final Payment Date for an ARM PC.

We do not guarantee the payment of any Prepayment Premiums on the Mortgages.

Form of PCs, Holders and Payment Procedures

Form

PCs are issued, held and transferable only on the book-entry system of the Federal Reserve Banks. This means PCs are not represented by a definitive certificate. The Department of Housing and Urban Development's regulations governing our book-entry securities (24 C.F.R. Part 81, Subpart H) and any procedures that we and a Federal Reserve Bank may adopt apply to the issuance and recordation of, and transfers of interests (including security interests) in, the PCs. Holders' individual accounts are governed by operating circulars and letters of the Federal Reserve Banks.

Each issue of PCs is identified by a unique nine-character designation, known as a **"CUSIP Number."**

Holders

The term **"Holder"** means any entity that appears on the records of a Federal Reserve Bank as a holder of particular PCs. Only banks and other entities eligible to maintain book-entry accounts with a Federal Reserve Bank may be Holders of PCs. Investors who own PCs typically are not the Holders of those PCs. Investors ordinarily will hold PCs through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. For example, as an investor, you may hold a PC through a brokerage firm which, in turn, holds through an entity eligible to maintain accounts with a Federal Reserve Bank. In that case, you would be the beneficial owner and that eligible entity would be the Holder.

A Holder that is not also the beneficial owner of a PC, 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. Neither we nor any Federal Reserve Bank will have a direct obligation to a beneficial owner of a PC that is not also the Holder.

The Federal Reserve Banks and we may treat the Holder as the absolute owner of a PC for the purpose of receiving payments and for all other purposes, regardless of any notice to the contrary. As an investor, you may exercise your rights only through the Holder of your PCs.

Denominations

Holders must hold and transfer their PCs in minimum original principal amounts of $1,000 and additional increments of $1. A Holder may not transfer a PC if, as a result of the transfer, the Holder would have remaining in its account PCs of the same issue having an original principal amount of less than $1,000. A Holder of PCs will also have to comply with any Federal Reserve Bank minimum wire transfer requirements.

Payment Procedures

Federal Reserve Banks credit payments on PCs to the appropriate Holders' accounts. Each Holder and each other financial intermediary will be responsible for remitting payments to the beneficial owners of the PCs that it represents. The Agreement provides that if a principal or interest payment error occurs, we may correct it by adjusting payments to be made on future Payment Dates or in any other manner we consider appropriate.

PREPAYMENT, YIELD AND SUITABILITY CONSIDERATIONS

Prepayments

The rates of principal payments on the PCs will depend on the rates of principal payments on the underlying 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 we make under our guarantee of principal, other than payments of scheduled amortization.
- Payments of principal on insurance claims by Mortgage insurers.
- Repurchases of Mortgages from their PC Pool (including any repurchase pursuant to our guarantee of full and final payment of principal).

Unless otherwise specified in the applicable Supplement, the Mortgages may be voluntarily prepaid in full at any time, subject to any applicable Prepayment Premiums or lockout periods.

Mortgage prepayment rates may fluctuate significantly over time. Prepayment rates are influenced by many factors, which may exist in multiple combinations, including:

- The age, principal amount, geographic distribution and payment terms of the Mortgages.
- The remaining depreciable lives of the underlying properties.
- The physical condition of the underlying properties (including the presence of any hazardous substances or other environmental problems).
- Any applicable tax laws (including depreciation benefits) in effect from time to time.
- Characteristics of the borrowers (such as credit status and management ability) and their equity positions in the underlying properties.
- Any partial or full guarantees by borrower affiliates.
- Changes in local industry and population migration and relocation as they affect the supply and demand for rental units and rent levels.
- Prevailing rent levels (as may be limited by any applicable rent control or stabilization laws) affecting cash flows from the underlying properties.
- Levels of current mortgage interest rates and borrower refinancing activities.

- Activity of lenders in soliciting refinancing, including refinancing without significant transaction costs by the borrower.
- Attractiveness of other investment alternatives.
- The existence of Prepayment Premiums or lockout provisions.
- Certain state laws limiting the enforceability of lockout periods and the collection of Prepayment Premiums.
- In the case of ARMs, fluctuations in the reference Index values and the extent of periodic adjustments to the Mortgage Coupon.

The characteristics of particular Mortgages may also influence their prepayment rates. For example, ARMs tend to have higher default rates than fixed rate Mortgages. Also, different types of Mortgages may be affected differently by the same factor, and some factors may affect prepayment behavior on only some types of Mortgages. For example, second lien mortgages may be more sensitive than first lien Mortgages to the general cost of credit to borrowers.

The rate of defaults and resulting repurchases of the Mortgages in a PC Pool will also affect the prepayment behavior of that PC Pool. Defaults may increase if the Mortgages in a PC Pool are cross-collateralized and cross-defaulted, during periods of declining property values or as a result of other factors that decrease borrowers' equity.

In addition, mortgage servicing decisions, including seeking alternatives to foreclosure, may impact the prepayment behavior of particular PC Pools. In approving alternatives to foreclosure and in determining whether or when Mortgages should, or must, be repurchased from a PC Pool, we consider a variety of factors, including whether such steps will reduce our administrative costs or increase our possible exposure under our guarantee.

The factors affecting the prepayment behavior of the Mortgages differ in certain respects from those affecting the prepayment behavior of single family mortgages. A borrower typically views multifamily properties solely as an investment and, therefore, economic rather than personal considerations primarily will affect the prepayment behavior of the Mortgages. Also, individual Mortgage amounts often are large and one Mortgage is likely to comprise a larger portion of the PC Pool than would be the case with a pool of single family mortgages. Therefore, principal prepayments may significantly affect the yield on the PCs. Similarly, the prepayment behavior of a PC Pool containing only one or a small number of Mortgages is likely to be more volatile than the prepayment behavior of a PC Pool containing a large number of Mortgages, because a prepayment on a single Mortgage may result in the payment to Holders of all or a substantial portion of the principal amount of the PC Pool.

We cannot make any representation regarding the likely prepayment experience of the Mortgages underlying any PC or the particular effect that any factor may have on Mortgage prepayment behavior. For example, although we may expect Mortgages with higher Prepayment Premiums to prepay less frequently than Mortgages with lower or no Prepayment Premiums, Prepayment Premium provisions may or may not effectively deter prepayments. Similarly, lockout provisions may or may not prevent prepayments.

Yields

General

In general, your yield on any PCs will depend on several variables, including:

- The price you paid for the PCs.
- The rate of principal prepayments on the underlying Mortgages.
- The actual characteristics of the underlying Mortgages.
- The payment delay of your PCs.
- In the case of ARM PCs, the levels of the applicable Index.
- In the case of ARM PCs, the effect of any periodic interest rate and payment adjustments (and any minimum or maximum Mortgage Coupons) on the underlying ARMs.
- Whether Prepayment Premiums are passed through to investors.

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

- If you purchase a PC at a discount to its principal amount and the rate of principal payments on the underlying Mortgages 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.
- If you purchase a PC at a premium over its principal amount and the rate of principal payments on the underlying Mortgages 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.
- In general, the rate of Mortgage prepayments 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 prepayments at a higher (or lower) rate than you expect in the period immediately following your purchase of a PC 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.

Yields of ARM PCs

If you invest in ARM PCs, you should consider the following additional risks:

- If the Index levels used to adjust the interest rates of underlying ARMs are lower than you expect, the yield on your investment could be lower than you expect.
- PC Coupons for ARM PCs generally adjust monthly based on a weighted average of the interest rates on the underlying Mortgages. Several factors will affect these PC Coupons:
  - •• Disproportionate principal payments, including prepayments, on the underlying Mortgages that have relatively low and high interest rates compared to the other

Mortgages in the same pool will affect the level of the PC Coupon for the related ARM PCs, even if the interest rates on the remaining Mortgages do not change.

- •• The underlying Mortgage interest rates may adjust on various dates and at various intervals. Moreover, there is a gap of several months from the publication of an applicable Index value until the PC Coupon reflects that value. As a result, the PC Coupon of your ARM PCs may not fully reflect current interest rates or Index values.

- •• Although there are generally no limits on the monthly PC Coupon adjustments, the underlying ARMs may be subject to adjustment caps, minimum Mortgage Coupons and maximum Mortgage Coupons.

- When mortgage interest rates are generally low, which usually results in faster prepayments, the Index value may be high. On the other hand, when mortgage interest rates are generally high, which usually results in slower prepayments, the Index value could be low. Either of these scenarios could result in a lower than expected yield on the ARM PCs.

- 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.

- Treasury Indices and LIBOR generally reflect current market rates, and their values may be more volatile than the value of COFI, which reflects averages of rates in effect over longer periods of time.

Payment Delay

The effective yield on any PC will be less than the yield that its PC Coupon and purchase price would otherwise produce, because:

- On its first Payment Date, 30 days' interest will be payable on the PC even though interest began to accrue approximately 45 or 75 days earlier.

- On every other Payment Date, the interest payable on the PC will accrue during its Accrual Period, which will end approximately 15 or 45 days before that Payment Date.

Suitability

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

- PCs 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 types of PCs after their initial issuance. Even if a market develops, it may not continue. As a result, you may not be able to sell your PCs easily or at prices that will allow you to realize your desired yield.

- The market values of your PCs 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 PCs, especially those that are particularly sensitive to prepayment or interest rate risk.
- PCs are complex securities. Before investing in a PC, 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 PCs that may result from your particular circumstances, nor does it project how PCs will perform under all possible interest rate and economic scenarios. You should purchase PCs only if you understand and can bear the prepayment, yield, liquidity and market risks associated with your investment under a variety of interest rate and economic scenarios. If you purchase PCs, you need to have enough financial resources to bear all the risks related to your PCs.

THE AGREEMENT

We form PC Pools and create and sell PCs under the terms of the Agreement dated the same date as this Offering Circular. The following summary describes various provisions of the Agreement. This summary is not complete. You should refer to the Agreement for a complete description of your rights and obligations and our rights and obligations. You can obtain copies of the Agreement from our Internet Web-Site or by contacting our Investor Inquiry Department as shown on page 3. Your receipt and acceptance of a PC, without any signature or further manifestation of assent, constitutes your unconditional acceptance of all the terms of the Agreement.

Transfer of Mortgages to PC Pool

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

Under certain circumstances, we may repurchase or substitute eligible Mortgages for those originally included in a PC Pool. We will make any repurchase or substitution in accordance with applicable laws in effect at the time of repurchase or substitution. The initial rate of principal payments on the related PCs may be faster or slower than if the applicable PC Pool had originally included the substitute or repurchased Mortgages.

Various Matters Regarding Freddie Mac

We and our 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.

We are required to hold and administer Mortgages in a PC Pool using the same standards as for similar mortgages that we hold in our own portfolio. Holders will not be able to direct or control our actions under the Agreement, unless an Event of Default occurs.

Except for our guarantee obligations or other payment obligations, we will not be liable for any Holder's direct damages unless we fail to exercise the same degree of ordinary care that we exercise in the conduct of our own affairs. We will not be liable for any Holder's consequential damages.

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

We may acquire PCs. PCs we hold will be treated the same as PCs held by other Holders.

The Agreement will be binding upon any of our successors.

Events of Default

"Events of Default" under the Agreement are:

- Our failure to pay principal or interest that lasts for 30 days.
- Our failure to perform in any material way any other obligation under the Agreement, if the failure lasts for 60 days after we receive notice from the Holders of at least 65% of the outstanding principal amount of the affected PCs.
- Specified events of bankruptcy, insolvency or similar proceedings involving us (but not including the appointment of a conservator or similar official for us).

Rights upon Event of Default

If an Event of Default under the Agreement is not remedied, the Holders of a majority of the outstanding principal amount of the affected PCs may remove us and nominate our successor, except as to our guarantee obligations. That nominee will replace us unless we object within ten days after the nomination. In that event, either we or anyone who has been a bona fide Holder of an affected PC for at least six months may ask a court to appoint a successor. The court may then appoint our successor except as to our guarantee obligations.

Amendment

We may amend the Agreement without the consent of any Holders to:

- Cure any ambiguity or correct or add to any provision in the Agreement, if the amendment does not adversely affect Holders in any material way.
- Maintain the classification of any PC Pool as a grantor trust for federal income tax purposes.
- Avoid the imposition of any state or federal tax on a PC Pool.
- Modify our procedures for calculating payments to Holders or passing through prepayments.

With the consent of the Holders of a majority of the outstanding principal amount of any affected PCs, we also may amend the Agreement in any other way. However, unless each affected Holder consents, we may not amend the Agreement to impair the rights of a Holder 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 is a general discussion of the material federal income tax consequences relating to the purchase, ownership and transfer of PCs. It does not address all the federal income tax consequences that may apply to particular categories of investors. Some investors may be subject to special rules. **The tax laws and other authorities for this discussion are subject to change or differing interpretations, and any change or interpretation may apply retroactively. You should consult your own tax advisors to determine the federal, state, local and any other tax consequences that may be relevant to you.**

Although we are a government-sponsored enterprise, neither the PCs nor the income received from them is exempt from federal income, estate or gift taxes under the Internal Revenue Code of 1986, as amended (the **"Code"**). Further, neither the Code nor the Freddie Mac Act exempts the PCs or income on them from taxation by any state, any United States possession or any local taxing authority.

Tax Status

The arrangement under which a PC is created and sold and the related PC Pool is administered will be classified as a grantor trust under subpart E, part I of subchapter J of the Code and not as an association taxable as a corporation. As an investor in a PC, you will be treated for federal income tax purposes as the owner of a pro rata undivided interest in the underlying Mortgages.

If you own PCs, you must report on your federal income tax return your pro rata share of the entire income from the Mortgages in the related PC Pool, in accordance with your method of accounting. Income will include gross interest income at the interest rates on the mortgages and incidental fees, if any.

You generally will be able to deduct, under Section 162 or 212 of the Code, your pro rata share of servicers' fees or any of our guarantee fees, including incidental fees paid by the borrowers and retained by the servicer or us and all administrative and other expenses of the PC Pool, in accordance with your method of accounting. The Code limits the deductions for these miscellaneous itemized deductions for some investors.

Unless otherwise disclosed in the Supplement, PCs will be considered to represent "real estate assets" within the meaning of Section 856(c)(5)(B) of the Code. Interest income from the PCs will be considered to represent "interest on obligations secured by mortgages on real property" within the meaning of Section 856(c)(3)(B) of the Code.

Unless otherwise disclosed in the Supplement, PCs may not constitute "loans. . . secured by an interest in real property which is. . . residential real property" within the meaning of Section 7701(a)(19)(C)(v) of the Code for purposes of determining whether an institution qualifies as a "domestic building and loan association." PCs qualify for such treatment in their entirety only if the planned residential use with respect to the property securing the Mortgage exceeds 80 percent of the property's planned use (determined as of the time the Mortgage was created). According to the legislative history to this provision, Congress intended that this determination be based on the usable space in the building. Even if the property securing the Mortgage does not meet this test, counsel is of the opinion that, based on authority addressing analogous circumstances, the PCs will be treated as "obligations of a corporation which is an instrumentality of the United States" within the meaning of Section 7701(a)(19)(C)(ii) of the Code. Thus, the PCs will be a qualifying asset for a domestic building and loan association.

Discount and Premium

If you purchase a PC, you will be treated as purchasing an interest in each of the underlying Mortgages at a price determined by allocating the purchase price paid for that PC among the Mortgages in proportion to their fair market values at the time of purchase. To the extent that the portion of the purchase price allocated to a Mortgage is less than or greater than the portion of the principal balance of the Mortgage allocated to the PC, the interest in the Mortgage will be deemed to have been acquired with discount or premium, respectively. The treatment of any discount will depend on whether the discount represents original issue discount or market discount.

You should consult your own tax advisors to determine whether Section 1272(a)(6) of the Code, as expanded by the Taxpayer Reform Act of 1997, could affect the accrual of discount or amortization of premium on your PCs or otherwise affect the tax accounting for your PCs.

If you recognize gain or loss attributable to discount or premium that is not characterized as original issue discount, market discount or amortizable bond premium (described below), your gain or loss will be treated as capital gain or loss.

Original Issue Discount

You will be required to report as ordinary income your pro rata share of any original issue discount related to the mortgages underlying the PC pursuant to Sections 1271-1273 and 1275 of the Code. Original issue discount may arise as a result of initial incentive or "teaser" interest rates on ARMs. You will be required to accrue original issue discount into current income only if it exceeds a *de minimis* amount. The mortgages also would be subject to the original issue discount rules if, as discussed below, the "stripped bond" provisions of the Code were determined to be applicable.

Market Discount

The market discount rules of Sections 1276-1278 of the Code will apply to treat market discount in excess of a *de minimis* amount as ordinary income. You must recognize accrued market discount to the extent of gain realized on disposition or to the extent of principal payments that you receive. The market discount rules provide that:

- Market discount will be considered to accrue under a straight-line method unless you elect to calculate it under a constant interest method.
- Interest that you paid or that accrues on indebtedness that you incurred or continued to purchase or carry mortgages acquired at a market discount will be allowed as a deduction only to the extent that such interest, reduced by the interest on the mortgages includible in income, including original issue discount, is greater than the market discount that accrued but was not taken into account during the taxable year such interest was paid or accrued. Any such interest expense that is deferred will, in general, be allowed as a deduction when the related market discount income is recognized.
- Alternatively, you may elect to include market discount in income currently, under either a straight-line method or a constant interest method, on all market discount obligations you hold except those acquired in taxable years before the year of the election. An election to include market discount as income currently can be revoked only with the consent of the Internal Revenue Service (the **"Service"**). In this event, the rules about ordinary income on disposition and interest deferral discussed above will not apply.

The exact application of the market discount rules is not clear.

Premium

If you have purchased your interest in any mortgage at a premium, the premium may be amortizable under a constant interest method at your election under Section 171 of the Code. The premium is treated as an offset to interest income includable with respect to the mortgage. An election to amortize premium will apply to all debt instruments you hold at the beginning of the tax year for which you make the election and to all such instruments acquired after the election. An election to amortize premium can be revoked only with the Service's consent.

Constant Yield Method

You may elect to include in gross income all interest that accrues on a mortgage by using the constant yield method. For purposes of this election, interest would include stated interest, *de minimis* original issue discount, original issue discount, *de minimis* market discount and market discount, as adjusted by any premium. You should consider the relationship between this election and the elections described above under *Market Discount* and *Premium*.

Prepayment Premiums

You should consult your own tax advisors regarding the tax treatment of Prepayment Premiums.

Sale or Exchange of a PC

If you sell a PC, you will recognize gain or loss equal to the difference between your adjusted tax basis in the PC and the amount you realized on the sale (not including amounts attributable to accrued and unpaid interest, which will be treated as ordinary interest income).

In general, your adjusted tax basis in the PC will equal what you paid for the PC, plus the amount of any discount income you previously reported on the PC, less the amount of any premium you previously offset against interest income on the PC and the amount of any principal payments you received on it.

You must report accrued but unrecognized market discount as ordinary income, but your gain or loss otherwise will be a capital gain or loss if you held the PC as a capital asset. The capital gain or loss will be long-term or short-term, depending on whether you owned the PC for the long-term capital gain holding period (currently more than one year).

Application of the Stripped Bond Rules

When we issue a PC, Revenue Ruling 71-399, 1971-2 C.B. 433, issued to us by the Service, indicates that any difference between interest payable at the mortgage interest rate and the sum of (a) interest payable at the class coupon plus (b) fees applicable to the mortgages (servicers' fees or any of our guarantee fees) should be accounted for as discount income or premium expense. If such sum exceeds the mortgage interest rate, the difference is characterized as "discount" and considered additional gross income. If such sum is less than the mortgage interest rate, the net difference is characterized as "premium expense."

In Revenue Ruling 71-399, the Service ruled that discount income is to be included as ordinary income in accordance with the beneficial owner's method of accounting, and that premium expense may be deductible in accordance with applicable rules. The Service, however, may contend that by reason of enactment of the stripped bond rules of Section 1286 of the Code (or its predecessor, Section 1232B), Revenue Ruling 71-399 is no longer applicable in characterizing such difference.

The Service has issued guidance taking the position that, when mortgages are sold and the servicer is entitled to receive amounts that exceed reasonable compensation for the mortgage servicing to be performed, the mortgages are treated as stripped bonds within the meaning of Section 1286 of the Code. If this treatment applies, you would not be treated as having a pro rata undivided interest in the underlying mortgages, but rather you would be treated as owning "stripped bonds" to the extent of your share of principal payments and "stripped coupons" to the extent of the class coupon plus reasonable servicing fees and guarantee fees. Under Section 1286, you would be treated as if the payments to be received in respect of your ownership interest in the Mortgages were purchased at an original issue discount equal to the difference between the price at which you are considered to have paid for such payments and the total amount of such payments. You would include in income such original issue discount in accordance with the rules for original issue discount under the Code. Effectively, you would report both interest and discount on the Mortgages as ordinary income as income accrues under a constant yield method under Series 1271-1273 and 1275 of the Code.

The Service has also issued guidance providing that a purchaser of a mortgage that is a stripped bond must treat it as a market discount bond if the amount of original issue discount on the stripped bond is considered to be zero after application of the *de minimis* rule of Section 1273(a)(3) of the Code or if the annual stated rate of interest payable on the stripped bond is 100 basis points or less below the annual stated rate of interest payable on the mortgage. These conditions apparently are based on the premise that the interest payments which remain associated with the stripped bond are treated, for purposes of the original issue and market discount provisions of the Code, as stated interest payable with respect to the stripped bond. If these conditions are met, you would be required to account for any market discount in accordance with the rules for market discount as described above under *Discount and Premium.*

It is unclear whether the position taken by the Service in the guidance would be upheld if challenged.

Backup Withholding, Foreign Withholding and Information Reporting

If you are a U.S. Person, you may be subject to backup withholding tax under Section 3406 of the Code on payments on your PCs, unless you comply with applicable information reporting procedures or are an exempt recipient. Any such amounts withheld would be allowed as a credit against your United States federal income tax.

Payments made to an investor who is not a U.S. Person, or to a Holder on behalf of such an investor, generally will not be subject to United States federal income tax or withholding tax if:

- The Mortgages underlying the investor's PCs all were originated after July 18, 1984.
- The PC is not held by the investor in connection with a trade or business in the United States.
- The investor is not with respect to the United States a personal holding company or corporation that accumulates earnings in order to avoid United States federal income tax.
- The investor provides a statement signed under penalties of perjury that includes its name and address and certifies that it is not a U.S. Person in accordance with applicable requirements.

Payments to an investor who is not a U.S. Person that represent interest on mortgages originated before July 19, 1984 may be subject to United States withholding tax at the rate of 30 percent or any lower rate provided by an applicable tax treaty.

Regardless of the date of origination of the mortgages, backup withholding tax will not apply to payments on a PC made to an investor who is not a U.S. Person if the investor furnishes an appropriate statement of non-U.S. status.

The Treasury Department has issued new regulations which make certain modifications to the withholding, backup withholding and information reporting rules. The new regulations generally are effective for payments made after December 31, 2000. You should consult your tax advisors regarding these regulations.

We will make available to each Holder of a PC, within a reasonable time after the end of each calendar year, information to assist Holders and investors in preparing their federal income tax returns. The information made available to you may not be correct for your particular circumstances.

For these purposes, the term "**U.S. Person**" means one of the following:

- A citizen or resident of the United States.
- A corporation, partnership or other entity organized under the laws of the United States, any state or the District of Columbia, other than a partnership that is not treated as a U.S. Person under Treasury Department regulations.

- An estate whose income is subject to United States income tax, regardless of its source.
- 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.
- To the extent provided in Treasury Department regulations, certain trusts in existence on August 20, 1996, and treated as U.S. Persons prior to such date, that elect to be treated as U.S. Persons.

LEGAL INVESTMENT CONSIDERATIONS

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

DISTRIBUTION ARRANGEMENTS

We purchase Mortgages from eligible sellers under various purchase programs. We may retain or repurchase PCs for our own portfolio, and may offer or re-offer such PCs from time to time. These transactions may affect the market prices and yields of PCs. Certain dealers, including our Securities Sales & Trading Group (**"SS&TG"**), may buy, sell and make a market in PCs. The secondary market for PCs may be limited.

INDEX OF TERMS

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INTEREST RATE INDICES

The following are the Indices most often used in the ARMs we pool. We make no representation as to the continuing availability of any Index or source of Index values.

An Index will adjust based on the most recent Index value available as of a specified date (for example, 45 days) before the effective date of the adjustment of the related ARM. The period of time between the Index adjustment date and the ARM adjustment date is sometimes referred to as the "lookback period." For adjustment purposes, an Index value is available as of the date the information is released or publicly available.

If an Index becomes unavailable, we will designate a new one based upon comparable information and methodology.

- **COFI:** The weighted average cost of funds for member savings institutions of the Eleventh District of the Federal Home Loan Bank.
- **LIBOR:** The arithmetic mean of the London interbank offered quotations for Eurodollar deposits with a maturity of one month, three months, six months, one year or some other maturity, in each case as specified in the applicable Supplement.
- **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, in each case as specified in the applicable Supplement.

Freddie Mac