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Socially Responsible Housing Investment Program (SHIP)

SECOND QUARTER 2002 RETURN

SHIP investors enjoyed very robust net returns on their CMO and MBS investments during the second quarter of 2002. Both the **CMOs** (Collateralized Mortgage Obligations) structured by SS&TG and the agency mortgage passthrough securities (**MBS**) are fixed income securities backed by low- income mortgage loans. **SHIP investors benefit low-income families by providing affordable home ownership opportunities¹ and have the timely payment of principal and interest backed by the full faith and credit of Freddie Mac**, chartered by the federal government and a Fortune 500 company with solid financials.

The returns of fixed income investments are generally more predictable than those of equity investments. Moreover, SHIP investors will have the timely payment of their principal and interest guaranteed by Freddie Mac. For **MBS**, returns are based upon the coupon of the security. Thus, a 6.5% security will pay 6.5% interest payments monthly, guaranteed. Prepayment of loans in the passthrough underlying collateral is also made as principal payments to the investor. Investors receive repayments of their principal in increments over the life of the security, as the underlying mortgage loans are paid off. As with any fixed-income security, mortgage security investment yields depend on the purchase price in relation to the coupon rate and the length of time the principal is outstanding.

Similarly, the quarterly returns of SHIP **CMOs** are based on an aggregation and compounding of the guaranteed monthly principal and interest payments, applicable to the tranches purchased. Thus, a 6.5% coupon tranche would pay 6.5% interest payments monthly. Prepayment of loans in the CMO's underlying collateral also engender payments to CMO investors who receive these principal repayments according to the payment priorities of each CMO and the class of securities they own. When this happens, the investors' remaining interest in the pool is reduced by the amount of prepayments. Because the principal is reduced over the life of the security, the interest income also decreases in terms of absolute dollars paid to investors. As with passthroughs, the yield on the CMO investment depends on the price in relation to the coupon rate and the length of time the principal is outstanding.

It can be difficult to predict the precise return on a pool of mortgage loans. However, because of this uncertainty, mortgage securities have traditionally provided returns that exceed those of most other fixed-income securities of comparable quality. Below are the total net returns for the second quarter, 2002 and for the 12 month period:

Investment	Coupon Rate	Average Life	Prepayment Speed	2nd Quarter Return ²	Year To Date Return	12 Month Return
CMO Sequential	6.5%	1.7 years	13.3 CPR	2.04%	4.48%	9.70%
MBS (Passthrough)	6.5%	4.2 years	15.0 CPR	3.37%	5.94%	10.13%

¹ Investors can support affordable housing throughout the U.S. or in states or metropolitan regions of their choice.

² Actual 2nd quarter net return to investors. **There are no management fees.**