Freddie Mac CEO and CFO Discuss First Quarter 2022 Financial and Business Results

Remarks by Michael J. DeVito, Chief Executive Officer
and Christian Lown, EVP and Chief Financial Officer

As Prepared for Delivery

Good morning and thank you for joining us to review our first quarter performance.

Today I'll cover some of the ways we advanced our strategic objectives and served the housing finance market. I'll also highlight some of our efforts to help borrowers and renters in the current economic environment.

Then our CFO, Chris Lown will take you through our financials.

A Look at the First Quarter

Let me begin with how we served our mission in the first quarter:

- We helped 835,000 families buy, refinance or rent a home.
- First-time homebuyers represented nearly half of all owner-occupied purchases financed by Freddie Mac.
- And, 52 percent of all eligible home loans -- and 95 percent of the 144,000 rental units we financed -- were affordable to families earning at or below 120 percent of area median income.
- This all added up to $223 billion of liquidity to the U.S. housing finance market.

Additionally, we advanced our three strategic objectives, all of which directly support our mission.

First, we continue to strive for risk management excellence. We made progress during the first quarter as delinquency rates on loans in our portfolio continued to decline. Single-Family serious delinquencies dropped to less than 1 percent -- the lowest in two years -- as the pandemic's impact on our portfolio continues to wane. Similarly, Multifamily's delinquency rate is at near pre-pandemic levels.

We also reduced our risks through a record quarter for Single-Family credit risk transfer. That included back-to-back record issuances for our flagship STACR product.

Second, we are growing our talent.

Heidi Mason joined Freddie Mac as our new general counsel. Heidi brings 25 years of experience in mortgage lending, financial services, consumer protection and securities law to Freddie Mac, including at Wells Fargo, where I had the pleasure to work alongside her.

We were also proud to announce Wendell Chambliss as chief diversity and inclusion officer. Wendell is a 20-year veteran of Freddie Mac's legal team, who most recently served as vice president and deputy general counsel for mission and government affairs.

With these two appointments, minority and women executives now make up more than half of our senior leadership.

Let me now turn to our third objective, delivering results.

We earned net income of $3.8 billion in the quarter, significantly more than the prior quarter and first quarter of 2021. Our earnings contributed to our increased net worth, which now stands at $31.7 billion.

We are very pleased with this progress, and we also know that there remains much to do.

Tools to Help Borrowers and Renters

Let me now move to the Housing market.

We observed house price growth of nearly 18 percent in 2021 and another 5 percent in the first quarter of 2022. Mortgage rates reached 4.67 percent at the end of Q1 and more broadly, inflation is at its highest rate in 40 years.

While we can likely expect the pace of house price appreciation to moderate as interest rates move higher, the demand for homes is simply outpacing supply. And, although the inventory of existing homes grew in March, homes for sale in February were 1.25 million, a record low. This supply imbalance is having a major influence on price growth and is likely to be with us for some time.

Similarly, supply issues have driven rents higher, growing 2.5 percent on a quarter-over-quarter basis and 15.6 percent over the past 12 months.

We acknowledge that this environment is challenging for renters, borrowers and lenders, and we remain committed to making sustainable ownership affordable and accessible.

For example, more than 20,000 borrowers took advantage of Freddie Mac's Home Possible loan products in the first quarter. This enabled them to acquire a home with as little as a 3 percent down payment

Most of these new homeowners will take advantage of borrower education through programs such as Freddie Mac's CreditSmart. In the first quarter alone, more than 18,000 consumers completed our CreditSmart "Homebuyer U" course, which offers potential homebuyers a comprehensive understanding of homebuying and is offered in both English and Spanish.

We also brought CreditSmart courses to Historically Black Colleges and Universities, including three seminars so far this year completed by more than 275 HBCU students.

Borrowers have taken to heart the importance of building a strong credit profile. Last quarter, we told you about our program that helps renters increase their credit scores by reporting on-time rental payments to credit reporting agencies. Since then, we have enrolled 43,000 households across more than 450 multifamily properties. More than 13,000 new credit scores have been established, and 71 percent of renters with an existing credit score saw their scores increase.

Additionally, for renters, we're building on the tenant protections we announced last year by extending protections to those who rent a home within a manufactured housing community. These include prior notice of rent increases and notice of a planned sale or closure of the community.

We are also helping to address supply issues through financing for manufactured homes, accessory dwelling units and homes in need of updates. Offerings such as CHOICERenovation® – which gives borrowers the ability to finance the cost of renovations – help bring more of these affordable home options into the housing supply. In the first quarter, Freddie Mac financed more than $40 million in CHOICERenovation loans.

Even in a challenging economic environment, we remain committed to helping advance equitable and sustainable housing.

Very importantly – I want to emphasize that we are taking on all of this work while maintaining our commitment to prudent and principled risk management.

Now I would like to hand over the call to Chris Lown, who will cover our financial and business results.

Business and Financial Results

Thank you, Michael, and good morning.

As Michael mentioned, I'm happy to report that Freddie Mac had another strong quarter.

We earned net income of $3.8 billion, an increase of one billion, or 37 percent, year-over-year. This increase was primarily driven by continued growth in our Single-Family Portfolio, higher investment gains on our mark-to-market commitments and higher benefit for credit losses. The benefit for credit losses was primarily driven by a reserve release due to observed house price appreciation and higher forecasted house prices.

First quarter net revenues increased 11 percent, to $5.8 billion, compared to $5.3 billion in the prior year quarter, as higher net interest income and higher investment gains were partially offset by lower Multifamily guarantee income.

Net Interest Income increased by 13 percent year-over-year to $4.1 billion, mainly driven by higher net interest income in the Single-Family segment. Investment gains were 25 percent higher year-over-year, primarily driven by mark-to-market gains on our commitments.

Observed house price appreciation and higher forecasted house prices drove the $837 million dollar benefit for credit losses in the quarter, resulting in a higher credit-related benefit of $641 million compared to a benefit $196 million in the prior year quarter.

Single-Family Business Segment

Turning to our individual business segments, in Single-Family, net income increased by almost $1.7 billion from the prior year quarter to $3.4 billion.

This increase was driven by higher net revenues of $5.2 billion, versus $3.8 billion in the prior year quarter.

The increase in net revenues was driven by higher net interest income of $498 million, due to a 17 percent year-over-year growth in the Single-Family mortgage portfolio, which grew to nearly $2.9 trillion at the end of the first quarter. The average guarantee fee earned on the portfolio also increased by 2 basis points year-over-year, to 47 basis points. The $867 million increase in non-interest income was primarily driven by higher net investment gains, primarily due to mark-to-market gains on commitments.

In addition, the benefit for credit losses increased $685 million from the prior year as we released reserves due to observed house price appreciation and higher forecasted house prices.

New business activity of $207 billion declined $155 billion year-over-year, as we saw a meaningful decline in refinance activity due to continued increases in mortgage interest rates. Refinance volumes declined $159 billion year-over-year.

On the credit side, the serious delinquency rate continued to decline to 92 basis points, a decline of 142 basis points from 1Q 2021 and 20 basis points from 4Q 2021. In 1Q 2022, we helped approximately 49,000 families remain in their homes through loan workouts. Our Single-Family portfolio credit characteristics remained strong with the weighted average current loan-to-value ratio at 54 percent and the weighted average current credit score at 756. At the end of the first quarter, 55 percent of our single-family portfolio had some form of credit enhancement.

Multifamily Business Segment

Looking to Multifamily, the segment reported net income of $387 million, down $642 million from the prior year quarter. This decline was primarily driven by lower investment gains due to spread widening, lower initial pricing margins on new loan purchases and lower guarantee fee income, which was impacted by rising interest rates and spread widening on the fair values of the guarantee assets.

Multifamily new business activity was $15 billion in the first quarter, and the Multifamily mortgage portfolio increased by 5 percent year-over-year to $415 billion.

The Multifamily delinquency rate, which does not include loans in forbearance, was 8 basis points as of March 31st, 2022, unchanged from last quarter. Approximately 94 percent of the Multifamily mortgage portfolio was covered by credit enhancements at the end of the first quarter.

Capital

On the capital front, our net worth increased to $31.7 billion at the end of the quarter, representing a 69 percent increase year-over-year.

With that I will turn it back over to Michael.

Conclusion

Thank you, Chris.

I believe we have much to be excited about in 2022. The year is off to a good start with a strong financial performance, prudent risk management and the addition of talented executives to our senior ranks. All of that is helping us to achieve our number one priority: fulfilling our vitally important mission, making home possible.

Thank you for joining us today.