Freddie Mac CEO and CFO Discuss Third 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

Introduction (**Remarks of Mr. DeVito**)

Good morning and thank you for joining our third quarter call to review financial results. Today I'd like to cover three topics:

- The dynamic economic environment and what we're seeing
- The positive impact of our efforts to provide liquidity, promote stability and advance affordability in the market
- And, within the context of the strategic priorities I've discussed on past calls, how our focus on risk management positions us to serve our mission in current and future economic environments.

The Economic Environment

As I noted, the current environment is rapidly changing, largely driven by inflation and the Federal Reserve's reaction to it.

Mortgage rates have risen quickly, and Freddie Mac's latest Primary Mortgage Market Survey shows the average mortgage rate is more than double from just a year ago.

Rising rates are slowing down house price appreciation year-over-year. In fact, most recently, month-to-month house price changes show modest declines in a number of markets. This change is reflected in our financial results, where the combination of price declines and higher rates drove an increase in our third quarter provision for loan losses. Our CFO, Chris Lown will address that later.

Higher rates also contributed to softening single-family loan demand, which is now below pre-pandemic levels. This is true for purchase and refinance loans, and we saw this reflected in our loan purchase volumes for the quarter.

The inventory of homes for sale is trending up modestly, but the housing market continues to remain undersupplied despite a large pipeline of homes under construction. Additionally, the current slowdown in residential construction that we are seeing will prolong affordability challenges for some time.

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Renters are also experiencing price pressures. As we have previously reported, a recent Freddie Mac survey found that nearly 60 percent of renters reported that their rents increased over the past year, with a ratio of nearly one in three seeing rent increases of 10 percent or more.

Taken together, rising rates, inflationary pressures and continued supply issues have made accessing and sustaining homeownership harder and more expensive for more families.

Earnings and Mission Performance

Given this context, it's very important that Freddie Mac continues to support a liquid, stable and affordable housing finance system. In the third quarter, our work resulted in:

- More than $135 billion of liquidity to the market, via our purchase of loans from nearly 1,000 sellers.
- Help for 542,000 families who bought, refinanced or rented a home.
- Support for 130,000 first-time homebuyers, who made up nearly half of all primary residence mortgages purchased by Freddie Mac.
- Continued affordability in the multifamily market, with 96 percent of all the rental units we financed affordable to low and moderate-income families earning at or below 120 percent area median income.
- And, in doing so, net income of $1.3 billion, which increased our net worth to $35.2 billion.

We also continued our work to help address the national housing shortage and affordability crisis, especially for underserved populations and neighborhoods. Over the course of the year, these efforts have included:

- Ramping up financing that supports newly constructed or substantially rehabilitated multifamily housing through an increased use of "forward commitments;"
- Enhancing access to credit and homeownership opportunities for borrowers who demonstrate positive monthly cash flow through automated analysis of bank account data as part of our loan purchase decisions;
- Responding to supply issues with a training program we call, "Develop the Developer," to help increase the number of developers, including minority-owned businesses, in underserved areas. We have trained more than 70 single- and multi-family developers to date;
- Expanding the types of loans Freddie Mac will purchase from Housing Finance Agencies to include manufactured homes and two- to four-unit properties; and
- Working to help small community lenders access Freddie Mac financing through a targeted correspondent multifamily lending program. These lenders are often focused on affordable lending.

Risk Management Supports our Mission Through the Economic Cycle

In prior calls, I have outlined a set of three priorities that support our mission. The pillars—managing risk, delivering results, and developing talent—are all important. But today I want to focus specifically on risk management. In fact, strong risk management is essential to ensure the stability of the housing finance system and Freddie Mac. This is especially the case in these dynamic economic times. To that end, I note that our risk metrics and our portfolio characteristics are solid.

For example:

- Single-Family serious delinquencies are as low as they have been since the start of the pandemic, and Multifamily delinquencies remain low compared with other market participants.
- Credit scores continued to be strong, with average overall initial scores remaining above 740.

While we remain undercapitalized from a regulatory standpoint, our earnings enable us to continue adding to our net worth, which helps improve our capital resilience. The most recent Dodd-Frank Act Stress Test confirmed that Freddie Mac has sufficient retained earnings today to weather a hypothetical severely adverse economic scenario.

Our Credit Risk Transfer program also contributes to this resilience. Since its inception, we have transferred risk on more than $3.2 trillion of mortgages to private investors through the program.

We see investors' continued willingness to invest in U.S. housing through Freddie Mac CRT and we continue to demonstrate focus on effectively managing default risk.

During the pandemic, we helped close to a million families avoid the risk of foreclosure through forbearance, deferrals and loan modification tools.

In various forms, these tools remain in place and ready to be deployed in the case of natural disasters or ongoing economic concerns.

In fact, they are being deployed right now in the wake of hurricanes striking Puerto Rico, Florida and the Carolinas. But I want to be clear, the assistance we provide after these storms, and the money we put aside to manage the financial fallout, are not distractions from our mission. They are part of our mission to help homeowners, renters and multifamily borrowers achieve and sustain the American dream.

Now, I'll turn the call over to Chris for a deeper look at our financial results.

Business and Financial Results (**Remarks of Chris Lown**)

Thank you, Michael. This morning we reported net income of $1.3 billion, a decrease of $1.6 billion, or 55 percent, year-over-year. This decrease was primarily driven by a net reserve build of $1.9 billion this quarter, caused by deterioration in observed and forecast house prices in the quarter.

Third quarter net revenues were $5.2 billion, down 1 percent year-over-year. This decline was largely driven by a $202 million decline in non-interest income due to lower guarantee income and a decrease in net investment gains in our Multifamily business. This was partially offset by a $136 million increase in net interest income driven in part by continued mortgage portfolio growth and higher average portfolio guarantee fee rates.

Business Segments

Single-Family Business Segment

Turning to our individual business segments, Single-Family reported net income of $843 million, a decrease of $1.2 billion from the prior year quarter.

This decrease resulted from a provision for credit losses of $1.8 billion, primarily driven by deterioration in housing market conditions, including lower observed and forecast house price appreciation in the third quarter. This was compared to a benefit of $244 million in the prior year quarter that was primarily driven by reduced expected credit losses related to COVID-19 and observed house price appreciation.

Our net allowance for loan losses for Single Family increased 35 percent, to $7.2 billion this quarter from $5.3 billion in the prior quarter. Our single-family allowance for credit losses coverage ratio increased to 23 basis points, up from 17 basis points in the prior quarter.

The increase in our allowance for loan losses was primarily driven by our third quarter house price appreciation forecast, which now forecasts a 6.7 percent increase in 2022 and a 0.2 percent decline in 2023. This forecast is significantly lower than our prior quarter forecast, which forecast an increase of 12.8 percent for 2022 and a 4 percent increase in 2023.

Single-Family net revenues of $4.4 billion increased $460 million dollars, or 12 percent, from the prior year quarter driven by higher net interest income primarily due to continued mortgage portfolio growth and higher average portfolio guarantee fee rates. This was partially offset by lower deferred fee income driven by slower prepayments due to higher mortgage interest rates.

New business activity of $121 billion declined $178 billion year-over-year as we continued to see a meaningful decline in refinance activity due to rising mortgage interest rates. Refinance volume declined $144 billion, or 86 percent, year-over-year. Purchase volume of $98 billion this quarter accounted for 80 percent of our total single-family new business activity.

Our Single-Family mortgage portfolio grew 11 percent year-over-year to $3.0 trillion at the end of the third quarter due to an increase in average portfolio loan size and a higher share of the overall market.

Single-Family portfolio credit characteristics remained strong, with the weighted average current loan-to-value ratio at 53 percent and the weighted average current credit score at 756. The serious delinquency rate declined to 67 basis points from 76 basis points in 2Q 2022.

Single-Family loan workout activity decreased to 28,000 units this quarter from 73,000 in the third quarter of 2021 as the overall forbearance population continued to decline.

At the end of the third quarter, 61 percent of our single-family mortgage portfolio was covered by some form of credit enhancement.

Multifamily Business Segment

The Multifamily segment reported net income of $470 million , down $421 million from the prior year quarter.

This decline was primarily driven by lower net investment gains due to lower margins on new loan purchases and securitizations, and lower guarantee income due to fair value losses on guaranteed assets as a result of higher interest rates.

Multifamily new business activity was $14 billion in the third quarter and the Multifamily mortgage portfolio increased by three percent year-over-year to $416 billion.

The Multifamily delinquency rate was 13 basis points at the end of the third quarter, up 1 basis point year-over-year. The increase in the Multifamily delinquency rate was driven by certain senior housing loans underlying K-deals with subordination.

Our credit risk exposure to these delinquencies is substantially reduced by our credit enhancement coverage.

Approximately 95 percent of the Multifamily mortgage portfolio was covered by credit enhancements at the end of the third quarter.

Capital

Our net worth increased to $35.2 billion at the end of the quarter, representing a 39 percent increase year-over-year.

And with that I will turn it back to Michael.

Conclusion (**Remarks of Mr. DeVito**)

Thank you, Chris. In a dynamic economic environment, Freddie Mac continued to provide much-needed liquidity, stability and affordability to the housing finance system. We earned quarterly net income of $1.3 billion and added to the capital that supports our mission. With our focus on risk management, we are actively managing the company to support home buyers, renters and the housing market throughout the economic cycle. Thank you.