Freddie Mac CFO Discusses First Quarter 2021 Financial Results

Remarks of Christian Lown, Chief Financial Officer
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As Prepared for Delivery

Good morning and thank you for joining us for our call today, where I will discuss our First Quarter 2021 Financial Results.

Providing Stability in Uncertain Times

Let's start with our mission to provide liquidity, stability and affordability to the U.S. housing market. Freddie Mac supplied $377 billion of liquidity to the single-family and multifamily segments in the quarter. Our funding helped 1.4 million families purchase, refinance, or rent a home—a significant increase compared with the 637,000 we supported in the first quarter of 2020.

Some key first quarter highlights include:

- Strong refinance activity helped us to provide funding that reduced mortgage payments for 940,000 families.
- We provided support for 113,000 first-time homebuyers, representing 46 percent of home purchase loans.
- And, 77 percent of the 134,000 multifamily units we financed were affordable to families making at or below 80 percent of area median income. Ninety-seven percent were within reach of moderate income families making at or below 120 percent of AMI.

Also, in the quarter, we took further action to reduce the pandemic's destabilizing effects on homeowners, renters and the markets:

- We extended our single-family foreclosure and eviction moratorium covering approximately 12 million homeowners, until at least June 30.
- We extended forbearance to a maximum of 18 months for the approximately 230,000 single-family borrowers remaining in forbearance.
- Similarly, we extended COVID-19 related forbearance to qualifying multifamily property owners for another three months to June 30. And, tenants of those properties remain protected from eviction for non-payment of rent.

Overall, we helped hundreds of thousands of at-risk homeowners and renters remain in their homes while supporting a vibrant U.S. housing finance system that remained a source of strength for the national economy.

Financial Results

Turning to our first quarter financial results, Freddie Mac reported net income of $2.8 billion and comprehensive income of $2.4 billion, increases of $2.6 billion and $1.8 billion, respectively, from the year-ago quarter. These increases were driven by mortgage portfolio growth and higher upfront fee income recognition in Single-Family, strong margins on loan commitments in Multifamily and lower credit expenses.

First quarter net revenues totaled $5.3 billion, an increase of almost 120 percent compared to $2.4 billion in the prior year quarter. Net interest income in the quarter increased by 31 percent year-over-year to $3.6 billion. This was primarily driven by growth in the Single-Family mortgage portfolio and higher upfront fee income recognition due to faster loan prepayments as a result of the low mortgage interest rate environment.

Net investment gains were $1.2 billion, compared to net investment losses of $0.8 billion dollars in the prior year quarter, primarily driven by continued strong margins on Multifamily loan commitments. The prior-year quarter included significant spread-related losses as a result of the market volatility caused by the COVID-19 pandemic.

Credit-related expense was $0.4 billion, compared to $1.1 billion in the first quarter of 2020. This reduction was primarily driven by improving economic conditions in the first quarter of 2021, partially offset by a decrease in credit enhancement recoveries. Credit-related expense in the prior year quarter was primarily driven by the negative economic effects of the COVID-19 pandemic.

Business Segments

Single-Family Business Segment

Turning to our individual business segments, as you can see, we have realigned our financial statements from three segments to two segments: Single-Family and Multifamily.

In the Single-Family segment, net income increased by $1.3 billion from the prior year quarter to $1.7 billion. This increase was primarily driven by higher net interest income, which was mainly due to 22 percent portfolio growth and increased upfront fee income recognition associated with faster loan prepayments. In addition, it was partly driven by lower credit-related expense.

New business activity of $362 billion increased on strong home purchase and refinance activity compared to the first quarter of 2020 but declined slightly from the fourth quarter of 2020.

The Single-Family serious delinquency rate of 2.34 percent continued to decline from its pandemic peak in the third quarter of 2020. We helped nearly 94,000 families remain in their homes through Single-Family loan workout activity that increased from 11,000 in the prior year quarter, driven by completed forbearance agreements and payment deferrals primarily related to the COVID-19 pandemic.

Multifamily Business Segment

The Multifamily business segment reported net income of nearly $1 billion, compared to a loss of $238 million dollars in the prior year quarter. This increase was mainly driven by investment gains, which were primarily due to continued robust margins on Multifamily loan commitments.

Those gains were partially offset by lower guarantee fee income driven by higher fair value losses on the guarantee asset as a result of an increase in interest rates from the prior year quarter. The fair value losses occurred because most multifamily loans are not pre-payable without penalty, and therefore, increases in interest rates generally result in lower Multifamily guarantee asset fair values.

We saw Multifamily new business activity of $14 billion, up 40 percent from $10 billion dollars in the prior year quarter. The Multifamily mortgage portfolio increased by 15 percent in the year-over-ago comparison to $394 billion, driven by new securitization activity.

The delinquency rate, which does not include Multifamily loans in forbearance, increased to 0.17 percent, compared with 0.08 percent in first quarter 2020. Approximately 92 percent of the Multifamily mortgage portfolio was covered by credit enhancements, with first-loss credit enhancement provided by subordination.

Capital

On the capital front, our capital position, or net worth, increased to $18.8 billion compared to $9.5 billion as of March 31, 2020.

Concluding Remarks

In summary, Freddie Mac posted solid earnings in the first quarter of 2021 and continued to build capital while delivering on its vital mission to make home possible for millions of families. With that, thank you all for joining us today.