Freddie Mac CEO and CFO Discuss Fourth Quarter and Full Year 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 us for a discussion of our financial and business results for 2022. Today I'd like to cover three items:

- First, our work to advance our mission, particularly as it relates to affordable housing;
- Second, our financial performance, which is so vital to our ability to advance that mission;
- And third, since our work on these issues is ongoing, I'll touch on our priorities for 2023.

Mission Performance

Let me start with our work in 2022 to enhance the company's focus on the affordable housing component of our mission. I want to highlight three areas of progress that demonstrate our focus on improving affordability and equity for renters, homebuyers and the housing industry.

First, we undertook a company-wide effort to help more renters improve their credit scores and achieve homeownership. Although there are more than 40 million renters in the United States, on-time rent payments have not been counted historically as part of their credit profile. This makes it harder for them to qualify for a mortgage, and Freddie Mac is working hard to help change that.

We implemented a program that encourages multifamily owner/operators to report on-time rent payments to the major credit bureaus. I'm pleased to report this effort has grown rapidly, with over 150,000 families enrolling. To date, over 21,000 of them have established credit scores for the first time.

This impacts our Single-Family business as well. We now take into account on-time rent payments as part of our loan purchase decisions.

We also introduced an innovation that allows us to review a borrower's bank account data to quickly identify assets, income, employment and a history of positive monthly cash flow activity. This simplifies the underwriting process and helps make ownership more accessible to those who may not have qualified with traditional underwriting, such as first-time homebuyers and families in underserved communities.

While these are still new initiatives, we're already seeing positive results from lenders who are using these strategies with borrowers, resulting in higher loan accept rates.

The second example of our company-wide focus on affordable and equitable housing is the record-setting year we had supporting affordable housing for low- and very low-income families, particularly those living in underserved communities.

For example, our Multifamily Targeted Affordable Housing business provided a record $15 billion to finance 139,000 rent-restricted affordable units in 2022. That represented nearly 60 percent growth over 2021. The growth reflects the strong year Multifamily had with respect to affordable housing overall.

Over 74 percent of all units financed were affordable to low-income households, and nearly 23 percent were affordable to very low-income households last year.

In Single-Family, we made home possible for 440,000 first-time homebuyers, representing nearly half of our primary residence purchases. We also purchased tens of thousands of loans through our HomePossible program, which helps low-income homebuyers by offering a down payment as low as three percent. Nearly 40 percent of HomePossible loans purchased last year supported majority-minority communities.

Third, we ramped up our efforts to promote minority-, women- and disabled-owned businesses and small firms.

This included building out our “Develop the Developer” program to increase the number of minority-owned businesses in underserved areas. To date, we have educated more than 400 developers on sustainable home development and affordable housing development financing.

We also launched a targeted correspondent lending program to help small community lenders access Freddie Mac financing.

And we’re working to bring minority brokers into our capital markets transactions. Last year, our credit risk transfer teams acquired credit protection on more than $50 billion in unpaid principal balance of mortgage loans sub-brokered by a certified minority-business enterprise.

Financial Results

Our solid financial performance and growing capital is vital to serving our mission. In 2022, Freddie Mac delivered net income of $9.3 billion and increased our net worth to $37 billion. That enabled us to:

- Help 2.5 million families buy, refinance or rent a home.
- Provide $614 billion of liquidity to the housing market through more than 1,000 lenders.
- Finance approximately one million home purchases, with more than half of the owner-occupied homes affordable to low- and moderate-income families.
- And, finance 695,000 rental units, 96 percent of which were affordable to families earning at least 120 percent of area median income.

Looking Forward into 2023

While we made meaningful progress in 2022, we have much more to do. Affordability continues to challenge families across the nation. Freddie Mac is working every day to increase affordable access to housing. Here are several examples:

First, we are expanding the Credit Building, rental history and cash flow initiatives I discussed earlier.

Second, we will work to support the creation, preservation, and rehabilitation of affordable and workforce housing. We will finance more homes with accessory dwelling units and expand our use of Multifamily Forward Commitments, with a goal of executing commitments in support of at least 20,000 new units this year. We will also increase our use of Preservation Rehab loans.

Perhaps most important given the state of the rental market, we will expand our use of loan agreements that commit property owners to maintain rents at affordable levels.

Finally, we will work to increase opportunities for diverse and emerging lenders by growing our business with market participants who serve low-income and diverse communities, including smaller lenders, Housing Finance Agencies, and Community Development Financial Institutions.

Our expectations for 2023 are high, but they are not beyond the reach of the Freddie Mac team and our partners in the housing finance community. And they are just the start.

To talk more about the financial results that supported our mission in 2022, here's Chris Lown.

Remarks by Mr. Lown

Financial Results

Thank you, Michael, and good morning.

For full year 2022, we reported net income of $9.3 billion and comprehensive income of $9 billion, both of which declined 23 percent from the prior year.

Full year net interest income was $18 billion, a 2 percent year-over-year increase, driven primarily by 7 percent growth in the Single-Family mortgage portfolio and a 2 basis point increase in the average Single-Family guarantee fee. The impact of portfolio growth and higher average guarantee fees was partially offset by lower deferred fee income recognition resulting from slower prepayments due to higher mortgage rates.

Non-interest income for full-year 2022 was $3.3 billion, down 25 percent year-over-year. That was primarily driven by lower net investment gains in Multifamily due to higher interest rates and spread widening on our Multifamily securities.

Our provision for credit losses was $1.8 billion for the year compared to a benefit for credit losses of $1 billion in 2021. The increase in provision this year was primarily driven by declining observed and forecasted house prices.

Freddie Mac's mortgage portfolio grew 6 percent year-over-year to $3.4 trillion at the end of 2022, driven by a 7 percent increase in our Single-Family mortgage portfolio and a 3 percent increase in our Multifamily mortgage portfolio.

Fourth Quarter Results

Turning to our fourth quarter 2022 results, we reported net income of $1.8 billion, down 36 percent from the fourth quarter of 2021. The decline in net income was primarily driven by lower net revenues and a credit reserve build in Single-Family.

Net revenues for the fourth quarter totaled $4.8 billion, down 13 percent year-over-year, driven by a decline in both non-interest and net interest income. Fourth quarter non-interest income of $0.2 billion was down 70 percent year-over-year, primarily driven by a decline in net investment gains in both Single-Family and Multifamily. Those net investment gains resulted from lower gains on Single-Family held-for-sale loans due to lower volumes and on new loan purchases and securitizations in Multifamily due to lower volumes and margins.

Net interest income of $4.6 billion decreased 4 percent year-over-year, primarily driven by lower deferred fee income due to slower prepayments as a result of higher mortgage rates.

Provision for credit losses for the fourth quarter of 2022 was $0.6 billion, up from $0.1 billion for the fourth quarter of 2021. This was primarily driven by declining observed and forecasted house price appreciation, partially offset by lower purchase volumes.

Non-interest expense for the fourth quarter was $2.0 billion, up $50 million or 3 percent year-over-year, primarily driven by higher credit enhancement expense due to a higher volume of outstanding credit risk transfer transactions and higher spreads on recent transactions.

Single-Family Results

Turning to our individual business segments, Single-Family reported full year net income of $7.9 billion, a decrease of $918 million, or 10 percent, from 2021, primarily resulting from a credit reserve build. Our net allowance for credit losses for Single-Family increased 42 percent to $7.7 billion at the end of 2022 from $5.4 billion at the end of 2021.

Our Single-Family allowance for credit losses coverage ratio increased to 25 basis points, up from 18 basis points last year. The increase in our allowance for credit losses was primarily driven by a slowdown in the housing market and lower house price appreciation, which was 4.1 percent in 2022 compared to 17.9 percent in 2021.

Our net charge-offs for the year were $357 million, down from $910 million in 2021.

Full-year Single-Family net revenues of $18.8 billion increased $1.5 billion, or 9 percent, from 2021. This was driven in part by higher net interest income due to continued mortgage portfolio growth and a higher average portfolio guarantee fee rate of 48 basis points, an increase of 2 basis points from 2021, partially offset by lower deferred fee income driven by slower prepayments due to higher mortgage interest rates. The liquidation rate on our Single-Family mortgage portfolio declined to 12.4 percent for 2022 compared to 32.4 percent for 2021. Single-Family non-interest income of $1.7 billion was up 77 percent from 2021, primarily driven by gains on commitments to hedge the Single-Family securitization pipeline.

Full-year new business activity of $541 billion declined $679 billion, or 56 percent, from 2021 primarily driven by a 75 percent decline in refinance activity due to rising mortgage interest rates. Home purchase volume of $340 billion accounted for 63 percent of our total Single-Family new business activity for the year.

The average guarantee fee on new business increased by 2 basis points year-over-year to 51 basis points in 2022. The credit characteristics of our new business remained strong with an average estimated loan to value ratio of 75 percent and a weighted average credit score of 746.

Our Single-Family mortgage portfolio grew 7 percent year-over-year to nearly $3.0 trillion, primarily driven by house price appreciation in recent periods which contributed to our new business acquisitions having a higher average loan size compared to older vintages that continued to run off.

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. Our Single-Family serious delinquency rate declined to 0.66 percent as of December 31, 2022, compared to 1.12 percent as of December 31, 2021, as borrowers continued to exit forbearance and completed loan workout activities that returned their mortgages to current status.

Single-Family loan workout activity for the year decreased to 136,000 loans, compared to 317,000 loans in 2021, as the overall forbearance population continued to decline.

At the end of the year, 61 percent of our Single-Family mortgage portfolio was covered by some form of credit enhancement, an increase of 8 percentage points year-over-year.

Multifamily Results

Moving to Multifamily, the business reported net income of $1.4 billion, down $1.9 billion or 57 percent from 2021. This was primarily due to lower net investments gains on spread widening and lower revenue from held-for-sale loan purchases and securitizations as a result of lower volumes and margins.

Multifamily new business activity for the full year was $73 billion, up from $70 billion in 2021. That was beneath the FHFA 2022 loan purchase cap of $78 billion. For 2023, that cap has been decreased to $75 billion. Our Multifamily mortgage portfolio was $429 billion, an increase of 3 percent year-over-year.

The Multifamily delinquency rate was 12 basis points at the end of the year, up from 8 basis points at the end of 2021. This increase was primarily due to delinquencies related to a single loan pool having a common sponsor. Our credit risk exposure to these delinquencies is substantially reduced by our credit enhancement coverage.

Finally, our Multifamily credit risk transfer issuance during the year covered $62 billion of Multifamily UPB. Approximately 93 percent of the Multifamily mortgage portfolio was covered by credit enhancements at year-end.

Capital

Finally, a word on capital: Our net worth increased to $37 billion at the end of the year, representing a 32 percent increase from 2021.

With that I will turn it back to Michael.

Remarks by Mr. DeVito

Conclusion

Thank you, Chris.

In a year with significant volatility and a challenging macroeconomic environment, Freddie Mac made home possible for 2.5 million families, while delivering solid financial results. Looking ahead, we expect to place even more emphasis on our mission by further advancing affordable, sustainable and equitable housing plans without compromising safety and soundness. We expect to accomplish these objectives by leveraging our talented workforce, collaborating with market participants to find new solutions and continuously working to effectively manage risk.

These actions will enable Freddie Mac to continue to build financial strength and stability that is central to fulfilling our mission.