Freddie Mac CEO and CFO Discuss Fourth Quarter and Full-Year 2021 Financial and Business Results

Remarks of Michael DeVito, CEO, and Christian Lown, EVP and Chief Financial Officer

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As Prepared for Delivery

Remarks of Mr. DeVito

Good morning and thank you for joining us to review another strong year for Freddie Mac.

Today I will briefly highlight the progress we made on our strategic priorities in 2021 and offer some thoughts on what we expect in 2022.

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

A Review of 2021

So, let me begin with a quick recap of our progress last year. Freddie Mac's mission has long been understood as delivering "liquidity, stability and affordability" to the housing market. As I've noted in prior calls, we interpret that mission expansively to meet the country's broader housing needs in all economic environments. That work includes:

- Enhancing liquidity within the mortgage and capital markets.
- Stabilizing the housing market and keeping families in their homes throughout the economic cycle.
- Working with an array of housing market participants to promote greater access to and supply of affordable and sustainable homes throughout the country.
- Promoting greater equity in housing.
- Helping lenders of all sizes better serve their communities.
- Integrating environmental, social and governance strategies into our business and operations.

In short, our mission is to Make Home Possible for millions of renters and borrowers across the nation. This is the overarching purpose of all our efforts, and everything we do is in furtherance of it.

Last year, I set out three pillars that support our mission: Delivering results, practicing risk management excellence, and growing our talent.

I would like to take a moment to highlight some of the progress we've made with respect to each of those pillars over the last year.

Let me begin with the strong results we delivered in 2021. Chris Lown will go into more depth in a few minutes, but the headline numbers are worth noting here: Freddie Mac earned net and comprehensive income of $12.1 billion and $11.6 billion, respectively, in 2021. This significantly exceeded our very strong 2020 performance. Our earnings helped bring the company's total equity to $28 billion – 71 percent greater than our net worth at year-end 2020.

I should also say a word about the importance of building capital and the integral relationship it has to our mission. Capital is essential both as the backstop for the risks we assume in supporting our mission and to signal safety and soundness to taxpayers, our partners, and the financial markets.

We remain undercapitalized, and our path to a stronger capital position is through consistently solid financial performance. To achieve that performance, we must demonstrate relentless focus on all aspects of our business.

Second, we practiced solid risk management in 2021. For example, our servicer outreach and loss mitigation efforts, combined with improving economic conditions, dramatically reduced delinquent loans in our portfolio. Our 2021 Single-Family serious delinquency rate declined to 1.12 percent, and our Multifamily delinquency rate dropped to 0.08 percent at year end, far below their respective pandemic peaks of 3.04 percent and 0.17 percent.

And third, we are growing talent by building a strong leadership team and supporting a culture where individuals from all backgrounds, who do things the right way, can succeed.

We often see this support materialize in awards and recognition. For example, the Human Rights Campaign just named Freddie Mac a Best Place to Work for LGBTQ+ Equality and gave our company a perfect score on its corporate equality index. It was the thirteenth consecutive time we've earned the award since 2010

Supporting Our Mission

As I said, the purpose of everything we do is ultimately to Make Home Possible for owners and renters. Our earnings, increased capital, focus on risk management, and committed team served this mission and the nation well in 2021.

We helped nearly 5 million families buy, refinance, or rent a home last year. We financed nearly 1.4 million purchases, including 554,000 for first time homebuyers. We enabled 2.9 million households to lower their monthly mortgage payments or receive more favorable terms through refinancing. And, of the 655,000 rental units we financed last year, 94 percent were affordable to renters earning 120 percent or less of area median income.

We also continued our effort to help families wrestling with the effects of a global pandemic remain in their homes. Last year, 317,000 Single-Family borrowers received a forbearance, deferral, or other relief from a Freddie Mac servicer. Since the earliest days of the pandemic in 2020, approximately 858,000 homeowners have entered into a forbearance agreement with our servicers, and we have helped more than 700,000 get back on their feet through the relief I mentioned earlier.

Multifamily borrowers and renters also benefitted from Freddie Mac's pandemic forbearance programs. More than 136,000 renters in properties subject to a forbearance agreement received protection from eviction for non-payment of rent over the course of the pandemic. Approximately 0.42 percent of loans in our Multifamily portfolio remained in COVID-19-related forbearance as of December 31, a marked decrease from 2.01 percent at the end of 2020.

Developing New Tools

While we put our existing tools to work in support of our mission in 2021, we continued to develop new ones that help homebuyers and renters access quality, sustainable housing.

In August, we expanded our home renovation loan offering with CHOICEReno eXPress mortgages. This Single-Family offering helps homebuyers and homeowners reduce their out-of-pocket costs via more affordable loan terms than using credit cards or unsecured financing when making small-scale renovations.

In November, our Multifamily division created a program to help renters build credit by reporting on-time rent payments to the three credit bureaus.

The early results are promising. By year end 2021, more than 73,000 tenant households had been offered this program across 284 properties. So far, we've helped establish credit scores for more than 6,000 individuals who were previously credit invisible. Participants with existing credit scores who saw an improvement in their score, improved their scores by an average of 43 points

Looking Ahead

Looking ahead for the balance of 2022, we will continue to emphasize our strategic priorities and our renewed focus on mission. We are off to a good start.

In January, we became subject to the regulatory capital reporting requirements in the Enterprise Regulatory Capital Framework, with our first quarterly capital report due by May 30. The framework, which establishes risk-based and leverage capital minimums for Freddie Mac, requires us to hold significantly more capital than we did under the former Conservatorship Capital Framework.

We have already announced a plan to further reduce our risk exposure with our biggest year ever for Single-Family Credit Risk Transfer or "CRT" issuance. By the end of 2022, we expect to have issued at least $25 billion, primarily of our flagship STACR and ACIS offerings, a more than 30 percent increase over our record year in 2021.

And finally, we are ramping up our sustainability efforts in 2022. We recently published our first annual sustainability report in accordance with the Sustainability Accounting Standards Board, or SASB. The document provides data on Freddie Mac's business practices, including metrics and activities related to equitable lending, flood risk and diversity in hiring.

The SASB report, together with our Multifamily Sustainability, Green and Social Bonds, and recently produced Single-Family Green Bond framework, reflects Freddie Mac's ongoing environmental, social and governance focus.

Now, let's turn to our Financial Results with Chris Lown.

Remarks of Mr. Lown

Financial Results

Thanks Michael.

For full year 2021, we reported net income of $12.1 billion, an increase of 65 percent from 2020. We also reported comprehensive income of $11.6 billion, an increase 54 percent from 2020.

2021 Results

Net revenues increased by 32 percent year-over-year to $22 billion, driven by a 38 percent increase in net interest income. The increase was primarily a result of 20 percent growth in the Single-Family mortgage portfolio and higher deferred fee income recognition due to faster loan prepayments as a result of low mortgage rates.

Net investment gains increased roughly 50 percent, or $900 million, to $2.7 billion, primarily driven by higher margins on Multifamily loan commitments and favorable spreads.

Full year credit-related expense declined by $1.3 billion to $1 billion in 2021, which was mainly due to the release of pandemic related provisions this year and benefit from a 16.8 percent increase in home prices in 2021.

Freddie Mac's mortgage portfolio grew by 18 percent year-over-year to $3.2 trillion at end 2021. This increase was primarily driven by a 20 percent increase in our Single-Family mortgage portfolio and a 7 percent increase in our Multifamily mortgage portfolio.

Fourth Quarter Results

Turning to fourth quarter 2021, we reported net income of $2.7 billion, down 6 percent from the fourth quarter last year, and comprehensive income of $2.7 billion, up 8 percent from the same period last year. The decline in net income was primarily driven by a credit expense this quarter, compared with a reserve release in the fourth quarter of 2020.

Getting into more detail, fourth quarter net revenues totaled $5.6 billion, an increase of 11 percent compared to $5 billion in the prior-year quarter, as a result of higher net interest income, partially offset by lower non-interest income. Net interest income increased by 30 percent year-over-year to $4.8 billion, mainly driven by higher net interest income in the Single-Family segment, which saw its mortgage portfolio grow by $466 billion.

Non-interest income was down from the prior year quarter due to lower investment gains, mostly in the Multifamily segment. Investment gains fell 39 percent due to lower volume of Multifamily mortgage loan purchase and securitization activity due to our $70 billion dollar FHFA loan purchase cap, and less favorable market spreads.

Single-Family Results

Looking at the individual business lines, the Single-Family segment reported full year comprehensive income of $8.4 billion, up from $4.3 billion in the prior year. This was largely due to a 40 percent increase in net interest income, mainly driven by an increase in guarantee fee income from growth in the Single-Family portfolio, and a higher average portfolio guarantee fee rate of 46 basis points compared with 44 basis points in 2020.

In terms of new business in 2021, we saw strong home purchase activity and moderating refinance activity versus 2020, though refi continued to make up the greatest share of loans. Total Single-Family new business activity increased by 12 percent to a record $1.2 trillion, reflecting a 32 percent increase in home purchase loans and a 3 percent increase in refinance loans.

At the end of 2021, 53 percent of our Single-Family mortgage portfolio had some form of credit enhancement coverage, an increase of 3 percentage points from 2020.

Multifamily Results

Moving to Multifamily, the business reported comprehensive income of $3.2 billion for 2021, a slight decline year-over-year. Our Multifamily mortgage portfolio grew seven percent year-over-year to $415 billion in 2021.

We saw new business activity decline by $13 billion from $83 billion in 2020 to the $70 billion regulatory cap in 2021. For 2022, FHFA increased this purchase cap for new business to $78 billion.
Finally, our Multifamily Credit Risk Transfer issuances during the year covered $84 billion of Multifamily unpaid principal balance, increasing the credit enhancement coverage on the Multifamily portfolio to 94 percent at the end of 2021 from 89 percent in 2020. In addition, approximately 69 percent of Multifamily loans in forbearance are included in securitizations with first-loss credit enhancement provided by subordination.

Overall, we saw a strong performance from both of our business lines that contributed substantially to our capital position, which ended the year just north of $28 billion.
And now I'll hand the call back to Michael.

Remarks of Mr. DeVito

Conclusion

As I recently shared with our team, 2021 was a year I spent listening, learning, and exploring the potential of a great organization. This included engaging with leadership, employees, customers, and other stakeholders as they worked to deliver extraordinary results for our housing finance market and economy. As we look to 2022, we at Freddie Mac are excited to get to work and take these efforts to the next level.

Thank you for joining us today.