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**HOUSINGWIRE EXCLUSIVE**

## LOOKING AHEAD

**FREDDIE MAC CEO**

Charles 'Ed' Haldeman Jr.  
is focused on the future  
of housing finance

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# Looking ahead

Freddie Mac CEO Charles Haldeman Jr. has one of the toughest jobs in America — but it's also one of the most rewarding.

BY JACOB GAFFNEY



As Congress and the Obama administration begin to turn their attention towards potential reform of the GSEs, there is perhaps no job tougher in America than leading Freddie Mac into what may very well be an uncertain future. But meet CEO Charles E. Haldeman Jr. — or Ed, to those that know him — and you will get the sense that Freddie's role in the mortgage market today is more important than ever before.

As one of the most dominant forces in housing finance today, after the near-total collapse of the private mortgage market, Freddie Mac has played a critical role in helping to set the pace of U.S. mortgage finance. In this exclusive and wide-ranging interview, Haldeman takes on the GSE's critics and discusses what it really means to serve the public good.

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**HousingWire:** In terms of your time there at Freddie Mac, what would you say the company is doing to really own its share of the distressed mortgage market?

**Ed Haldeman:** First, we have got to make sure everyone understands what "our share" of the distressed mortgage market is. Nationwide, there are more than five million seriously delinquent mortgages. Freddie Mac currently owns 10% of those five million mortgages — about 500,000 mortgages. That's relevant because we own 25% of the total mortgage market, but only 10% of the seriously delinquent market. Another way to look at our share is to look at our serious delinquency rate, which was under 4% in our second quarter release. That's the lowest in the industry.

While we do have less than our share of total mortgages seriously delinquent, we still have a large number that are seriously delinquent. We have been trying to help homeowners avoid foreclosure. During the past 18 months, since the beginning of 2009, we have helped 350,000 borrowers avoid foreclosure. We have done that by implementing many of our





traditional foreclosure prevention activities, such as forbearance and what we consider to be our traditional modification program. In addition to that, we have been very supportive of HAMP. We have increased our support staff to help homeowners. We have increased our staff by 70%. We have opened walk-in centers in some of the hardest-hit markets such as Phoenix, Chicago and the D.C. area to help borrowers get through the process and to answer their questions. We have also worked with a number of non-profit organizations, such as counseling organizations, to work with borrowers, particularly in our Second Look program, which is for those borrowers who have been declined a modification under HAMP.

We think we have been pretty active in working with homeowners and borrowers, trying to help them stay in their homes.


**HW:** As we have seen with the formulation of Basel III, the problem with rolling out new regulatory reform is convincing politicians — in Europe with Basel and here in the states with things like Dodd-Frank — that banks serve a socially useful function. Could you discuss the social usefulness of your company and how it goes about completing those tasks you mentioned?

**EH:** I think what you said is generally true of banks. If it is true for a generic bank, it is doubly true for Freddie Mac. It's always been part of our charter, our mission and our reason for being that we have these dual

objectives, which was to be both profit-seeking and supportive of the communities and American families that we serve. Many people who have come to work at Freddie Mac over the years have done so because that dual mission attracted them. It was an important part of the decision to work here. As an outsider, that has almost surprised me, because I have been in the financial services businesses where people talk about serving the customer or the public good. What is different here is that the people actually believe it and it's part of the reason they chose to work here.

Having said all that, essentially the mission of serving the public good is part of our DNA. I would also add that we think what we have done in terms of preventing foreclosures makes good business sense. We go through a rigorous net present value analysis when we are making a modification. The thought process is that foreclosure is a very expensive proposition for the investor.

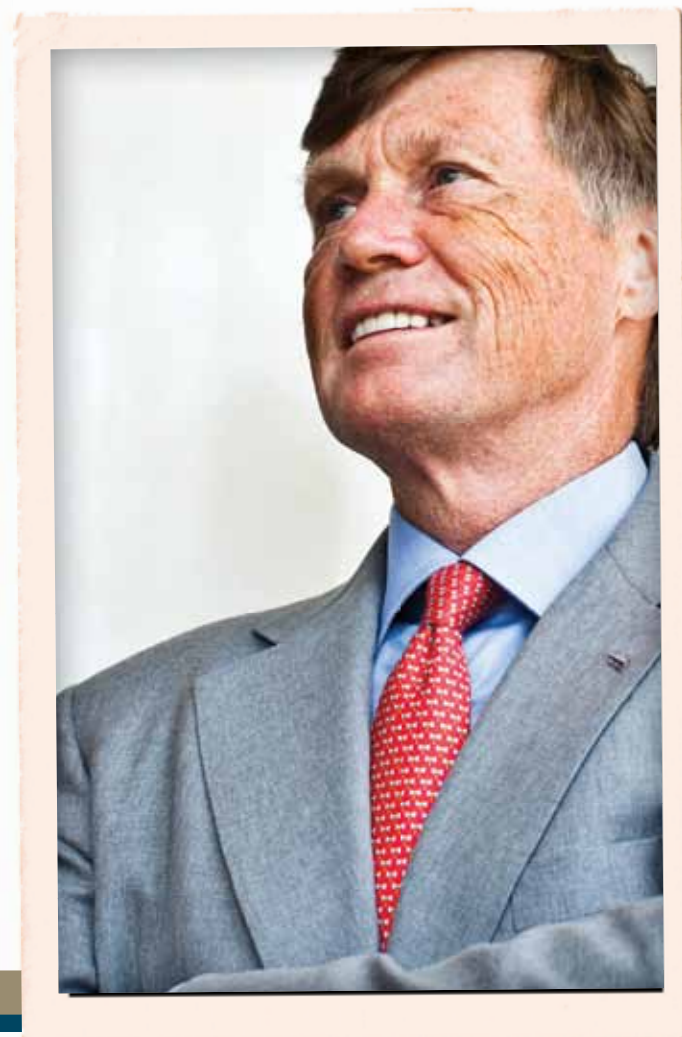
Therefore, if we can make a modification or adjustment that is significant but that keeps the homeowner in the home, then often the investor is better off economically. Further, because we own 25% of the total U.S. mortgage market, we are impacted dramatically by the number of foreclosures. The more foreclosures there are, the more pressure on house prices there is and the more vulnerable our current book becomes.

There are some good economic reasons that support our inherent nature, which is to be concerned about families, about communities, about keeping people in their homes. 

**HW:** Would you say that's the most important element in Freddie's part to stabilize the housing market — preventing foreclosures? Or would you say more broadly the most important housing stabilization function you play is keeping people in homes, whether in an ownership or rental capacity?

**EH:** I would be hard pressed to pick just one housing function we play. There are two that are right at the top. In terms of the number of families being helped, in terms of the dollars, I guess the most impactful way we influence the market is by keeping funds flowing in the overall mortgage market. To put numbers on it, I think that over the past 18 months we have purchased or guaranteed \$727 billion in mortgages and mortgage-backed securities. In 2009, Fannie and Freddie were 60% of the single-family mortgage market and over 70% of the multifamily mortgage market. Keeping the mortgage market in business, keeping the funds flowing, probably is the most important thing we are doing, because it impacts so many families and the dollars are so large.

But I could make a compelling case around mortgage foreclosure and short sales, that kind of thing, because if we had not been so aggressive in trying to prevent foreclosures, I think we would have seen a much more negative impact on house prices, which would have had a bigger impact in terms of how many mortgages became delinquent.



**HW:** It is interesting you mentioned forbearance earlier, because in the realm of finance — at least for investors — this is truly an “F-word” in the sense that it stops money altogether. Some argue that forbearance in an economy like this doesn't fit in with the reasoning you discussed before, because three months down the line, the borrower will be just as distressed. How do you make the case for forbearance as a traditional foreclosure option, and how do you respond to the claim that you are just delaying the inevitable?

**EH:** I will try to get at that several ways. First of all, you are right to use the word “traditional.” Forbearance is not a new idea. It is not a new government-imposed program like HAMP. It is a tool that Freddie has used for a long period of time.

It is traditional. In the traditional way it's been used, if someone gets ill or loses their job, we will traditionally use forbearance for six months and then the payments that are forborne are restructured into a new monthly payment going forward once the borrower recovers or gets a new job.

That has been helpful for many families who got in trouble over the past decades. Keeping them in their homes and keeping their kids in the same schools helps keep a sense of normalcy until people get themselves back together.

Secondly, while the critics would talk about the length of unemployment this time being different, at the start you do not know it is going to be longer. We have all seen statistics on the people who were unemployed for 99 weeks. If you knew that ahead of time, maybe that criticism would be justified, but you do not know that.

Further, while it may be true for the statistical average, there still will be exceptions for people who find employment in three, four or five months. Therefore, the traditional model works. I hope that is clear.

**HW:** It is. To add to that, however, we know you have asked the Treasury for additional funds through the senior preferred stock purchase agreement. Would that money be used to avoid the knock-on effect? With your forbearance plans, it seems you have to protect the homeowner's interest and the investor's rights. Is that part of what this funding is for — to provide a buffer between the right thing and the right thing on both sides of the coin?

**EH:** Ultimately, that's what the money is for. Of course, the direct answer is that the money is for keeping our assets and liabilities in balance. But the reason they get out of balance is because of situations like the ones we have been talking about.

I would like to get back to the critics. I think if we were in a normal recession with people getting a new job after three, four or five months, they would not be as troubled.

I think the reason critics are saying we are just prolonging the inevitable is that the unemployment period is so much longer and it seems like the foreclosure is almost inevitable. I think that this analysis is true in the aggregate, but there are many families that are finding jobs after a period of time.

The other point I would like to make is, even if there is a notion of postponing the inevitable, maybe that is not such a bad thing. There has not been a crush of foreclosures as much as there has been a spreading out of them over time, which I think has been beneficial for the housing market.





**HW:** What have you seen over your time there at Freddie Mac? What sorts of policies and governance changes have you managed as the company tightens the credit quality of its recent book of business?

**EH:** One thing we have done is put together a new management team. I was recruited last July.

**HW:** Does it feel much longer ago than that?

**EH:** It does, in some sense. You are right, I feel like I have been here a long time, but I was just recruited in July. At that point, there was not a CEO, there was not a chief financial officer and there was not a chief operating officer. Once I decided to join, one of the first things I did was to recruit a CFO and COO. We recruited Ross Kari as CFO and Bruce Witherell as COO. Ross most recently had been CFO of Fifth Third Bancorp in Cincinnati, but formerly had been the CFO of Wells Fargo and the COO of the Federal Home Loan Bank of San Francisco. So, he is an incredibly experienced financial executive. He has done a terrific job of rebuilding our finance function.

Then we hired Bruce Witherell as COO, and he came to us with a background from Lehman Brothers and Morgan Stanley in the mortgage area — a very strong operations background in mortgages.

We also changed our chief risk officer. I elevated Paige Wisdom to be chief risk officer. She was a very senior person in our finance organization, has a good risk background, and she has been doing a good job as our chief risk officer.

We hired Tony Renzi from GMAC Residential Mortgage. He was the chief operating officer. He is running our single-family portfolio management area and is now responsible for all of our default asset management area and problem loan area. He is an incredibly senior, experienced guy in the servicer area.

We have also made a change in head of operations and technology. We elevated a guy named Joe Rossi, who had run our operations area, to run the combined operations and technology area. He is doing a great job.

Right now, we have a search underway for a chief technology officer. We have created a new senior management team and I am really proud of the team we have built. We have hired some from the outside but also elevated some from the inside. ▶

A second thing we did was to strengthen our underwriting standards. That has been reflected in a third issue, our improved credit profile, which we cited in our second-quarter release. You can see much higher FICO scores and much lower loan-to-value ratios. So we are very pleased with the quality of the book that we are building. We are also pleased with the profitability of that recent book.

Another big focus for us has been for our systems and technology. We have a major, three-year program underway to dramatically improve and update our technology and systems.

We have worked very hard to build a good and strong relationship with our regulator. FHFA is led by a very strong team. Ed DeMarco is doing a great job, in my view. We have tried to be as responsive as possible to our regulator and to build a good relationship with them.

**HW:** When this crisis began, a lot of executives in the market were concerned. They accepted that a new regulatory regime was inevitable, but they were extremely worried about the politicalization of that process. It seems those fears were founded. You mentioned realigning your executive team. But at the end of the day, your fate is not entirely decided by these operations.

**EH:** It is an unusual business situation in that we could not really form a committee of our eight brightest people and say, “Figure out what our strategy and business model ought to be.” A lot of companies do that. They hire outside consultants to do that. We are really not in a position to do that. Our future business model will be determined by the Treasury, HUD and Congress working together.

There is no doubt that there is some uncertainty. There is no doubt that the final decision will not be ours. It will be outside of our control. But the management challenge for us is to be transparent about what I have just described, and at the same time to do everything we can to keep our employees energized and motivated and feeling good about their future. The way we talk about it is to be open and transparent, to recognize the uncertainty and recognize that the final decision will be made by others, but to emphasize that the work we are doing now is incredibly valuable. By that, I mean keeping the mortgage funds flowing and keeping families in their homes; our current focus is incredibly important and reason alone to be energized and feeling good about what we are doing.

More than that, we tell employees that the world does recognize the contribution we are making now. Many people, even critics, point out how impossible it would be to completely shut down the GSEs because the mortgage market is totally dependent on the GSEs right now. We remind our employees that there is a growing consensus that the function we are performing needs to be performed. It will be performed by somebody for sure, and there is a good likelihood it will be us in some form because we have the experienced employees, we have the knowledge base, we have the systems and technology. It would not make sense to throw all that away.

By and large, I think employees understand it is quite likely we will be there in some way. It is just unclear what the business model will be going forward.

**HW:** We appreciate the candid response there, in keeping with the idea of transparency in communication. If we could discuss some future goals for Freddie Mac, how would you paint the picture going into 2011?

**EH:** One way we look at goals is financial goals, and there we focus on our current business. We do not think so much in terms of aggregate economics as much as we do putting on a current book that is high quality and has high levels of profitability.

That is our principal focus. You can tell from our 10-Q and our press release that we are succeeding in terms of putting on a good book of business. But we recognize the aggregate economics are a function not only of the current book, but also the book that was put on in 2006, 2007 and 2008. In regard to that, our job is to do whatever we can to mitigate the losses in that area.

One of the broader economic profit-and-loss kinds of objectives is to make the investment in technology that we need to be a strong and responsive competitor going forward. That is a three-year undertaking. In addition to that, we are working hard on G&A expense control and trying to bring our aggregate dollar spending down. We have objectives about lowering G&A.

Beyond that, we certainly keep track of the aggregate number of families we help in terms of preventing foreclosures. We very much monitor quarter-to-quarter our impact on families.

Finally, we look at what percentage of the mortgage market we represent, because we think we have an obligation to keep funds flowing in the mortgage market.

**HW:** At the end of the day, you are a bond seller. We have seen reports here and there that the innovation on the structuring side of weighted average coupons — well, we see you are experimenting with venturing 25 basis points around the traditional coupon stacks to create products you think investors need. Is there any more about innovation on the bond-selling side that you can discuss?

**EH:** Not much; I would rather not talk about specific products, other than just to say we have a really well-seasoned group of people on our capital markets desk and they work hard to do what they can to make sure we get the most attractive rates possible. They are creative and thoughtful and do a good job.

**HW:** We respect that. It is a very competitive market and you have your business to look after. 🏠

“We think what we have done in terms of preventing foreclosures makes good business sense.”