Freddie Mac CEO David Brickman Discusses Second Quarter 2019 Financial Results

As Prepared for Delivery

Good morning and thank you for joining us to review our financial and business performance for the second quarter.

As many of you know, this is my inaugural earnings call as CEO of Freddie Mac, and I'm both proud and humbled by the responsibility. We'll turn to the numbers in just a moment and then I'll talk a little about my priorities as the leader of this pillar of the U.S. housing system.

But before I begin, I want to emphasize that our company remains in excellent financial health. The second quarter continued our growing track record of stable returns and a solid book of business. Our risks continue to be well-managed, as the amount of capital needed on our books further declined.

We are fully supporting our mission of providing liquidity, stability and affordability to the rental and home purchase markets. And we are protecting taxpayers by transferring increasing amounts of credit risk away from the company and into the private sector.

I also want to emphasize that our recent CEO transition was well-planned and executed, providing the company with new leadership in some areas, but overall with a level of continuity and consistency. "Continuity and consistency," in fact, is a good theme for my discussion today. I'll touch on that theme in connection with three important areas: our financial performance, our credit quality and our conservatorship capital.

I'll begin with our financial performance. In the second quarter, we earned comprehensive income of $1.8 billion dollars, a slight increase compared with the prior quarter and a 25 percent decrease compared with the second quarter of 2018, which included a $0.3 billion dollar gain from a legal judgement.

Our financial performance was propelled by solid business revenue, driven primarily by growth in single-family guarantee fee income. Market-related items had minimal impact while net revenue remained substantially flat.

Based on our earnings, we expect to deliver a $1.8 billion dollar dividend to the U.S. Treasury in September 2019. With that payment, we will have made $121.5 billion dollars in dividend payments. That total would exceed our aggregated Treasury draw by nearly $50 billion dollars, or close to 70 percent.

Second, we have now seen continuous and consistent improvement in our credit quality for several years. This is a testament to our solid risk management practices as well as generally stronger housing prices. In fact, over the quarter, Single Family's serious delinquency rate dropped to 0.63 percent, and Multifamily's remained near zero. This very strong credit quality not only underscores our risk management expertise, it also demonstrates how we are protecting the taxpayer.

The third and final area of continuity and consistency I'll mention concerns the amount of conservatorship capital required for our risks. Conservatorship capital needed for credit risk on new business activity decreased by 70 percent for Single-Family and 90 percent for Multifamily. This is thanks in part to our pioneering credit risk transfer activities and our programmatic sale of less-liquid assets from our mortgage-related investments portfolio.

Both of those efforts take risk off our balance sheet and distribute it to the private sector. That not only protects the taxpayer, it attracts more and more private capital to the mortgage market.

The reduction in conservatorship capital contributed to an increase in one of the key measures of our success, return on conservatorship capital, or ROCC. We consider this a proxy for return on equity. ROCC in the second quarter improved to a very solid 14.1 percent.

The fact that we can consistently report solid results like these, quarter after quarter, is a testament to Freddie Mac's remarkable transformation not just to a better with company with profoundly improved strategies around risk management, but to a fundamentally different company—one that is ready to take on the challenges that will lead us to our next chapter. **As CEO, I have set out three priorities to meet those challenges.**

The first is to leverage our position as a housing industry leader. We will use our research, analytics and technology to enhance the processes and tools necessary for a more dynamic housing market that does more for homebuyers, renters, investors and lenders of all sizes.

We are already playing this important leadership role. One example of it came to fruition in the second quarter, with the successful launch of the Uniform Mortgage Backed Security (UMBS).

This once-in-a-generation effort combined Freddie Mac and Fannie Mae mortgage-backed securities into a single to-be-announced (TBA) market. The transition took place formally on June 3 and it was seamless for investors, market participants and others in the industry. The new market is off to a robust start, with more than $8 trillion dollars of trades to date improving the liquidity of the previously separate TBA markets.

This transition was a real achievement, and I believe we're capable of *even more* consequential and more frequent innovation with the right environment and incentives.

That means not sitting on our laurels when it comes to innovations like credit risk transfer. For example, over time we have introduced a number of new structures for both our flagship Single Family STACR transactions and our Multifamily K-Deals, which launched the revolution in credit risk transfer at the GSEs. In the second quarter, we announced the KG Deal, which will exclusively securitize workforce housing loans made through our Green Advantage program to tap new investors and lower our cost of capital.

It also means continuing to innovate to make the dream of homeownership a reality for more Americans. For example, our Single-Family business brought a new offering to market in the second quarter. CHOICERenovation℠ is now a permanent loan offering that provides homebuyers a flexible choice to purchase a home and finance the cost of renovations with a single-close mortgage, saving them both time and money.

This leads me to my second priority: relentlessly focusing on our mission. This company was created for the purpose of improving liquidity, stability and affordability in the U.S. housing market. And with respect to the latter, we believe there are ways to tackle housing affordability that go beyond access to credit. For example, as an industry, we have a duty to use our expertise to help preserve existing housing and help foster affordable housing.

To that end, we hope to build responsibly on programs that focus on expanding the supply of affordable housing such as with our ChoiceHomes product, or our Low-Income Housing Tax Credit equity investments, and look for new ways to make a lasting impact, especially in our nation's most underserved communities.

That effort is already underway. In the second quarter, we helped 596,000 families own or rent a home, injecting $127 billion dollars of liquidity into the mortgage market.

I'm also proud that in the second quarter, first-time homebuyers represented 48 percent of single-family purchase loans acquired by Freddie Mac.

And we by no means do it alone. Throughout the country, regional and community lenders are on the front lines of ensuring access to credit for homebuyers. More than 900 regional and community single family lenders represented nearly half of our purchase volume in the quarter. We're fortunate to have great partners across the multifamily market as well.

Likewise, with many renters bearing the brunt of the affordable housing crisis, we focus our multifamily efforts on workforce housing. In the second quarter, 95 percent of our multifamily production went to rental apartments that those families, who generally earn 120 percent of area median income or less, could afford.

Finally, **my third priority is to prepare Freddie Mac for a potential end to conservatorship**. Nobody knows exactly what the future holds, but the conversation in Washington and the expected release of the Administration's Housing Finance Reform Plan demand that we be ready to follow the path set by that plan and the milestones established by the FHFA director. And make no mistake, we will be ready.

For my part, I intend to ensure that the new Freddie Mac remains a housing finance leader, one that is fully committed to its mission and firmly focused on hitting whatever milestones the Director lays out for us.

That concludes my prepared remarks. Thank you for listening, and now I'd be happy to take your questions.