

**Testimony of David M. Moffett  
Chief Executive Officer, Freddie Mac**

**COMMITTEE ON FINANCIAL SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES  
September 25, 2008**

Chairman Frank, Ranking Member Bachus and members of the Committee:

Good afternoon. My name is David Moffett, and I am the new Chief Executive Officer of Freddie Mac. I am pleased to appear before the Committee today to discuss the ongoing business operations of Freddie Mac, particularly our affordable housing and other mission activities.

I joined Freddie Mac less than three weeks ago when the company was placed under the conservatorship of its regulator, the Federal Housing Finance Agency (FHFA). I am working in cooperation with FHFA and other federal authorities to put the company on a sound footing and help the nation's housing market recover as quickly as possible.

Prior to joining Freddie Mac, I spent more than 30 years in the banking industry. I served as vice chairman and chief financial officer of U.S. Bancorp from 1993 until my retirement last year. Until September 7, 2008, I was a senior advisor to the Carlyle Group, focused on global financial services.

I consider it an honor to have been chosen to lead Freddie Mac at this critical time. Nothing could be more important to our country's long-term economic strength than to support the housing markets with a stable supply of low-cost mortgage money. Along with Freddie Mac's dedicated employees, I am firmly committed to achieving the goals of the conservatorship as described by Secretary Paulson on September 7 – namely, those of market stability, mortgage availability and taxpayer protection.

The decision to place an institution in conservatorship is a difficult one. I believe that the conservatorship, coupled with the Treasury's strong support, has already been beneficial to Freddie Mac, helping us meet our mission, lower mortgages rates and stabilize the nation's mortgage markets. The conservatorship lets us focus on restoring vitality to our institution, and the Treasury program lets us step forward with the confidence of those who help fund our operations and the broader markets.

In all of these activities, we are working closely with FHFA. While the conservatorship means more coordination with our regulator than in the past, I can tell you that FHFA is responsive and works with us to facilitate decision-making and planning. I intend to work with our non-executive chair, John Koskinen, to move quickly to build a new board of directors and to develop a planning strategy whereby we can move business plans quickly to FHFA and then into practice.

Now let me turn to the subject of this hearing – Freddie Mac’s business operations as they pertain to our affordable housing and mission activities, including loan modifications and the other steps we are taking to reduce foreclosures.

First and foremost, Freddie Mac is open for business. The company’s core business of buying mortgages and issuing securities has been strengthened by the conservatorship. The easing of capital and liquidity concerns made possible by the Treasury funding commitment under the Senior Preferred Stock Purchase Agreement and the Treasury’s GSE credit facility will enable us to bring greater liquidity to the market, as envisioned by Treasury Secretary Paulson, Federal Reserve Chairman Bernanke and Director Lockhart. Already we have begun ramping up our purchases of mortgage-backed securities and will continue to support the market as conditions warrant.

Taken together, these actions are having a positive effect on markets and consumers. Since September 5, spreads between Freddie Mac 10-year debt and comparable Treasuries have tightened about 15 basis points, and mortgage spreads to Treasuries have tightened by between 25 and 30 basis points. And while multiple factors are involved, conventional conforming mortgage rates have dropped by over a half percentage point in the past two weeks, based on our mortgage market survey.<sup>1</sup> In response, there has been a considerable increase in mortgage applications. According to the Mortgage Bankers Association, between September 5 and September 19, applications to refinance conventional mortgages rose 76 percent, pushing total conventional mortgage applications up 23 percent.<sup>2</sup> These are all encouraging signs.

In addition to providing needed liquidity, Freddie Mac remains focused on meeting our affordable housing mission, including the affordable housing goals. As was the case in 2007, market conditions are making it harder to meet certain affordable housing targets. Nevertheless, we estimate that our affordable mortgage purchases will substantially mirror the levels of goal-qualifying loans being originated in the market today. Our multifamily program also is continuing to provide needed liquidity to affordable rental housing during this turbulent period.

Finally, Freddie Mac remains actively engaged in reducing foreclosures. We start from the proposition that in the vast majority of cases foreclosure is in no ones’ interest – not the investor, not the lender and certainly not the homeowner. Every day we work

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<sup>1</sup> Freddie Mac’s Primary Mortgage Market Survey®. For the week ending September 18, 2008, the average rate for a 30-year fixed-rate conventional conforming mortgage was 5.8 percent. For the week ending September 4, the rate was 6.35 percent, a difference of 57 basis points.

<sup>2</sup> Mortgage Bankers Association’s Mortgage Applications Survey. For the week ending September 5, 2008, the total conventional applications index (seasonally adjusted) was 553.8 and the conventional refinance index was 998.3. For the week ending September 19, 2008, the total conventional index was 683.0 and the conventional refinance index was 1,756.8.

diligently with our servicers to provide borrowers viable workout alternatives, such as forbearance, repayment plans and loan modifications. In the past few months, we increased the financial incentives we pay servicers who help families avoid foreclosure and launched a Mass Modification pilot program in addition to our regular modification programs. In this new initiative, servicers solicit seriously delinquent borrowers with a pre-approved modification plan. Notwithstanding the continued difficulty of contacting many borrowers, early results are positive.

All these efforts are producing results. Of the 12 million single-family mortgages Freddie Mac currently guarantees, approximately 124,000 – or slightly more than one percent – are seriously delinquent, meaning they are 90 days or more past due or have begun the foreclosure process. So far in 2008, we have completed about 48,000 workouts of these seriously delinquent loans. All told, we are on track to enable 82,000 families avoid foreclosure by year-end.

Workouts are critically important, but they will not help stabilize the market unless borrowers are able to sustain homeownership going forward. As a general rule, we direct servicers to underwrite each modification based on the borrower's actual circumstances at the time. Reliance on outdated or less comprehensive information might simply set the borrower up for another failure. We also want to ensure that the borrower has sufficient cushion to cover unanticipated expenses that might otherwise force the borrower back into default. We have found this approach to be very successful over the past few years.

Currently, we are achieving affordability for many delinquent borrowers through combinations of permanent term and interest-rate modifications, thereby avoiding the losses associated with the reduction of principal. In situations where these steps are insufficient, other options may be considered, such as a partial reduction of principal.

On October 1, 2008, the HOPE for Homeowners refinance program becomes effective. Under this program, borrowers may refinance into new mortgages insured by FHA, provided the borrowers' existing lenders take the full market loss and an additional 10 percent write-down and pay a fee. We anticipate that, in certain cases, the HOPE for Homeowners program may be another viable option.

In closing, let me repeat that it is a great honor to be leading Freddie Mac at this critical time. I look forward to working with Chairman Frank, Ranking Member Bachus and the members of the Committee to ensure that Freddie Mac fully meets its mission going forward.

I look forward to your questions.