Freddie Mac CEO and CFO Discuss Second Quarter 2023 Financial and Business Results

Remarks by Michael J. DeVito, Chief Executive Officer
and Christian Lown, EVP and Chief Financial Officer

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As Prepared for Delivery

Introduction (Remarks of Mr. DeVito)

Good morning and thank you for joining our second quarter call to review financial results. Today I'd like to cover three topics:

- Ongoing challenges in the housing market,
- Our efforts to tackle those challenges and fulfill our mission, and
- The results we delivered in the second quarter for homebuyers and renters.

The Housing Market

Let me begin with the housing market, which continues to challenge borrowers and renters.

Two years ago, the average 30-year fixed rate was near a historic low at 2.77 percent. Today, it's closer to 7 percent, representing the fastest increase in over 40 years.

The nearly six in ten borrowers who bought or refinanced when rates were low are understandably reluctant to give up that rate. They may want to move, but they are not selling.

This has consequences throughout the housing market.

First, it is exacerbating a supply shortage. Existing homes for sale are near record lows and June listings were down nearly 41 percent compared to pre-pandemic averages.

Second, it is challenging affordability for many families. Rising rates briefly reduced house prices, but low supply and high demand drove them even higher in many markets. In fact, according to the National Association of Realtors, median existing home sale prices in June were the second highest ever recorded.

In the multifamily space, owner/operators continue to navigate rising mortgage rates that are contributing to downward pressure on apartment values across the nation. This is driving up the cost of financing properties, which has slowed multifamily origination volume.

Unfortunately, renters continue to bear the brunt of these dynamics, as rents reached an all-time high in the second quarter.

Meeting the Market's Challenges

Now let me turn to how Freddie Mac is working to tackle the related challenges of housing affordability and availability. Here are some noteworthy examples of our progress in the second quarter:

First, our Single-Family business ramped up loan purchases under our BorrowSmart Access down payment assistance program. More than a dozen lenders already offer BorrowSmart Access to first-time homebuyers in disadvantaged neighborhoods of ten major cities.

Second, we introduced the HeritageOne mortgage product to support homeownership among Native Americans. HeritageOne provides educational resources, counseling and affordable financing options to Native Americans looking to purchase on tribal lands.

Third, we launched our Multifamily Workforce Housing Preservation program. The program offers favorable financing terms to multifamily owner/operators who agree to voluntarily keep a percentage of rental units at affordable levels.

This program builds on our Tenant Advancement Commitment, or TAC, which supports multifamily owner/operators looking to preserve affordable rents, provide social services and other resident-centered housing features.

We financed our first property under TAC in 2018 at Plant City Florida's Walden Lake complex, which features 352 garden-style apartments. To this day, rents on half of those units remain affordable to families earning no more than 80 percent of area median income.

Since inception, Freddie Mac has completed 48 TAC transactions like Walden Lake for nearly $1.5 billion and helped preserve thousands of affordable units.

And finally, we continue our work to address the national housing supply shortage. As I have previously reported, our Develop the Developer program helps close gaps in knowledge and critical skills for aspiring real estate developers.

To date, more than 90 single- and multi-family developers have graduated from the program, more than 80 percent of them from underrepresented communities.

Delivering Results for Homeowners, Renters and the Country

Now, let's look at Freddie Mac's overall results.

In the second quarter, we helped 372,000 families buy, refinance or rent a home. This was more than a 40 percent increase over the first quarter.

This includes 102,000 first-time homebuyers, representing more than 51 percent of the owner-occupied homes we helped finance. It is a historic high.

Overall, we financed 258,000 single-family mortgages and 114,000 rental units in the second quarter, with 55 percent of the single-family mortgages and 90 percent of rental units being affordable to low- to moderate-income families.

By remaining focused on our commitment to help families find an affordable place to call home, we earned $2.9 billion in net income, and we grew Freddie Mac's net worth to $42 billion. The nearly $8 billion we have added via retained earnings since second quarter 2022 contributes to Freddie Mac's financial stability and our ability to serve our mission.

For more on our financial performance, here is our CFO, Chris Lown.

Financial Results (Remarks of Mr. Lown)

Thank you, Michael, and good morning.

We earned net income of $2.9 billion this quarter, an increase of $491 million, or 20 percent, year-over-year. This increase was primarily driven by a credit reserve release in our Single-Family business versus a credit reserve build in the prior year quarter.

Second quarter net revenues were $5.3 billion, a slight decrease of $65 million year-over-year. This decline was driven by lower net interest income, which declined 5 percent year-over-year to $4.5 billion dollars, primarily driven by lower deferred fee income recognition resulting from slower prepayments due to higher mortgage rates. The decline in revenues was partially offset by higher non-interest income of $816 million, up 27 percent year-over-year, primarily driven by higher guarantee income and investment gains in our Multifamily business.

An improvement in observed and forecasted house price appreciation drove a $537 million benefit for credit losses in the quarter versus an expense of $307 million in the prior year quarter.

In the second quarter of 2022, the provision for credit losses was driven by portfolio growth and deterioration in forecasted economic conditions.

Our total mortgage portfolio at the end of this quarter was $3.4 trillion, a 3 percent increase year-over-year.

Single-Family Business Segment

Turning to our individual business segments, the Single-Family segment reported net income of $2.4 billion for the quarter, up 10 percent year-over-year.

Single-Family net interest income of $4.3 billion was down 5 percent year-over-year, primarily driven by lower deferred fee income recognition as prepayments slowed down due to higher mortgage interest rates. Mortgage interest rates at the end of this quarter were 6.71 percent, up 100 basis points from the prior year quarter and up almost 40 basis points from last quarter. Non-interest income for Single-Family was $65 million this quarter, down $271 million from the prior year quarter. This decline was primarily driven by changes in market spreads on mortgage commitments.

Our provision for Single-Family credit losses this quarter was a benefit of $638 million, primarily driven by improvements in observed and forecasted house price appreciation. In the prior year quarter, we had a provision expense of $298 million, which was primarily driven by portfolio growth and deterioration in forecasted economic conditions. House prices increased by 2.1 percent this quarter and our forecast assumes an increase of 0.8% over the next 12 months and 0.9% over the subsequent 12 months.

The Single-Family allowance for credit losses coverage ratio at the end of this quarter was 24 basis points, up from 17 basis points a year earlier.

The Single-Family serious delinquency rate continued to decline to 56 basis points at the end of the second quarter, down 20 basis points from 2Q 2022 and 6 basis points from 1Q 2023. In the second quarter, we helped approximately 20,000 families remain in their homes through loan workouts. Our loan workouts have continued to decline as the seriously delinquent loan population has declined.

Our single-family mortgage portfolio increased 3 percent year-over-year to $3 trillion at the end of this quarter. Credit characteristics of our single-family portfolio remained strong, with the weighted average current Loan-to-Value ratio at 54 percent and the weighted average current credit score at 756. At the end of the quarter, 62 percent of our single-family portfolio had some form of credit enhancement.

New business activity picked up versus the first quarter of 2023 and totaled $83 billion this quarter, an increase of $24 billion or 41 percent versus last quarter. However, year-over-year new business activity declined $55 billion, or 40 percent, as refinance activity declined substantially due to increased mortgage interest rates. Home purchase volume made up 88 percent of our total new business activity this quarter compared to 62 percent in 2Q 2022. The average guarantee fee rate charged on new business was 57 basis points this quarter.

Multifamily Business Segment

Moving on to Multifamily, the segment reported net income of $563 million dollars, up $278 million from the prior year quarter. This increase was primarily driven by higher non-interest income, which was partially offset by a higher provision for credit losses this period.

Non-interest income was $751 million, up $442 million year-over-year driven by higher guarantee income and higher investment gains. Guarantee income increased primarily due to lower fair value losses on guarantee assets as a result of smaller interest rate increases. Net investment gains increased primarily due to fair value gains from interest-rate risk management activities specific to our guarantee assets and index lock agreements.

The provision for credit losses in Multifamily this quarter was $101 million, driven by a credit reserve build due to deterioration in forecasted multifamily market conditions and current loan performance. The Multifamily allowance for credit losses coverage ratio at the end of this quarter was 50 basis points, up from 11 basis points a year earlier.

The Multifamily delinquency rate was 21 basis points at the end of the quarter, up from 13 basis points last quarter and 7 basis points at the end of June 2022. This change was primarily driven by an increase in delinquent loans in our seniors housing portfolio. Ninety-five percent of these delinquent loans have credit enhancement coverage.

Our Multifamily new business activity was $13 billion for the second quarter, down 13 percent from a year ago, as higher interest rates have reduced demand for multifamily mortgage financing. Our Multifamily mortgage portfolio increased by 3 percent year-over-year to $427 billion, of which 94 percent was covered by credit enhancements.

Capital

On the capital front, our net worth increased to $42 billion at the end of the quarter, representing a 23 percent increase year-over-year.

With this I will turn it back over to Michael.

Conclusion (Remarks of Mr. DeVito)

Thank you, Chris.

The second quarter saw single family home prices stabilize, influenced by strong demand, higher residential mortgage rates and limited homes for sale. Renters continue to be cost burdened as rents rose in the face of softening multifamily property prices.

Freddie Mac remained focused on its mission and delivered a solid quarter, helping 372,000 families buy, refinance, or rent a home, the majority of them affordable to low- or moderate-income borrowers and renters.

Our commitment to serving our mission remains our top priority.