Freddie Mac CEO and CFO Discuss Second Quarter 2022 Financial and Business Results

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

As Prepared for Delivery

Introduction (**Remarks of Mr. DeVito**)

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

Today I will offer an overview of our company's performance and provide some thoughts on the challenges posed by the economic environment. I will also discuss the opportunities we have to work collaboratively across the industry to increase sustainable homeownership, rental opportunities and equity.

Second Quarter Recap

It was a good quarter for Freddie Mac, so let's begin with a brief summary of how we performed on our strategic objectives.

First, we served our mission to provide liquidity, stability and affordability to the U.S. housing finance market. Liquidity is essential for the proper operation of the market, and we take seriously our obligation to keep money flowing through the system.

In a quarter that saw sluggish home sales and refinancings, we provided approximately $153 billion of liquidity to support borrowers and renters.

- Overall, we helped 617,000 families buy, refinance or rent a home.
- Loans to first-time homebuyers made up nearly half of all owner-occupied purchases financed by Freddie Mac. Additionally, 61 percent of all loans we financed were affordable to low- to moderate-income families.
- And, 97 percent of all rental units we financed were affordable to families earning at or below 120 percent of area median income.

We continue to be keenly focused on prudent risk management. For example, our Single-Family and Multifamily serious delinquency rates at June 30 were near pre-pandemic lows.

We also delivered solid financial results. We earned $2.5 billion in the quarter, and our net worth increased to $34 billion.

Challenges in the current economic environment

Of course, all our work has taken on greater complexity and importance in the current economic environment.

Higher mortgage rates, continued house price appreciation and persistent lack of supply are slowing the housing market and challenging affordability for many families.

- Mortgage rates increased nearly two-and-a-half percentage points in the first six months of 2022
- House price appreciation exceeded 17 percent last year and is expected to average nearly 13 percent in 2022.
- Much of this is being driven by a shortage of homes. We estimate the deficit to be in the millions.

We continue to observe the rising cost of rent at a time when families are challenged by inflation more broadly. These challenges often fall disproportionately on underserved populations. That is why it is so important that we work across the industry to help increase sustainable homeownership, improve rental affordability, and promote equity. We are making progress.

Making progress and engaging the industry

We have provided funding to increase the availability of affordable and sustainable rental housing. Our Multifamily Impact Bond program surpassed $10 billion in the second quarter.

This included Social Bonds supporting 1,500 affordable units across four seniors housing properties in Arizona. Half of those units are affordable to low-income seniors earning at or below 50 percent of area median income.

Building on first quarter's announcement of the industry's first automated-assessment of direct deposit income, in June we added automated underwriting capabilities available to lenders. Taken together, lenders can now verify assets, income and employment using borrower-approved bank account data. These automated capabilities can reduce cycle time from application to loan acceptance, and by utilizing bank account data directly, risk for lenders and Freddie Mac is reduced.

Finally, we introduced our Equitable Housing Finance Plan and we have made progress here as well.

For example, we expanded our efforts to help renters build a credit history. Seventy-seven thousand rental households across more than 820 multifamily properties are now enrolled in our on-time rent payment credit reporting program.

And, beginning this month, on-time rent payments are now included in our loan purchase decisions. This should make it possible for more underserved groups to qualify for mortgages.

We are also enhancing CreditSmart, the centerpiece of our financial capability curriculum through which we conduct hundreds of financial education sessions a year. The update includes a focus on building financial awareness from childhood through homeownership.

Additionally, this month we surpassed our 2022 goal to offer $3 billion in Single-Family affordable housing bonds months ahead of our schedule. This bond program supports affordable homeownership and serves historically underserved markets.

We are also looking at supply issues. To address the deficit of homes, we expanded our eligibility requirements for mortgages secured by properties with accessory dwelling units. ADUs attached to single-family properties – from in-law suites and garage top apartments to guest cottages – may offer borrowers rental income to help offset the cost of homeownership while increasing density in highly desirable neighborhoods.

Lastly, we've held a series of networking sessions to help diverse multifamily borrowers grow and scale their business.

This is all good work and a good start. Success will require sustained commitment, and close cooperation with lenders and the housing industry across the market. We look forward to more opportunities to work together.

Expect us to update you from time to time on our progress.

Now I'll ask Chris Lown to take you through our financials.

Business and Financial Results (**Remarks of Chris Lown**)

Thank you, Michael, and good morning.

As Michael mentioned, I'm happy to report that Freddie Mac had another solid quarter.

We earned net income of $2.5 billion, a decrease of $1.2 billion, or 33 percent, year-over-year. This decrease was primarily driven by a provision for credit losses of $307 million dollars compared to a benefit of $740 million in the prior year quarter.

Second quarter net revenues decreased by 8 percent to $5.4 billion, compared to $5.9 billion in the prior year quarter. This decline was primarily driven by a $454 million decline in non-interest income due to lower initial pricing margin gains on new multifamily loan purchases and securitizations.

Business Segments

Single-Family Business Segment

Turning to our individual business segments, Single-Family reported net income of $2.2 billion, a decrease of $687 million from the prior year quarter. This decrease resulted from a provision for credit losses of $298 million in the current quarter, primarily driven by portfolio growth and deterioration in forecasted economic conditions. This was compared to a benefit of $686 million in the prior year quarter that was driven by observed house price appreciation and improved economic conditions.

Single Family net revenues of $4.9 billion increased by $156 million compared to the prior year quarter driven by higher net interest income primarily due to continued mortgage portfolio growth and higher average portfolio guarantee fee rates. This was partially offset by lower deferred fee income driven by slower prepayments as a result of higher mortgage interest rates.

New business activity of $138 billion declined $150 billion year-over-year as there was a meaningful decline in refinance activity due to rising mortgage interest rates. Refinance volumes declined $138 billion year-over-year.

Our Single-Family mortgage portfolio grew 14 percent year-over-year to $2.9 trillion at the end of the second quarter due to an increase in average portfolio loan size and a higher share of the overall market.

Single-Family portfolio credit characteristics remained strong, with the weighted average current loan-to-value ratio at 52 percent and the weighted average credit score at 756. The serious delinquency rate continued to decline to 76 basis points, a decline of 110 basis points from the second quarter of 2021 and 16 basis points from the first quarter of 2022. Single-Family loan workout activity decreased to 37,000 this quarter from 88,000 in the second quarter of 2021 as the overall forbearance population continued to decline.

Our single-family allowance for credit losses to total loans outstanding coverage ratio increased to 17 basis points this quarter from 15 basis points in the previous quarter.

At the end of the second quarter, 59 percent of our single-family portfolio was covered by some form of credit enhancement.

Multifamily Business Segment

The Multifamily segment reported net income of $285 million, down $539 million from the prior year quarter.

This decline was primarily driven by lower net investment gains due to lower initial pricing margins on new loan purchases and securitizations, and lower guarantee fee income as continued growth in the Multifamily guarantee portfolio was offset by the impact of rising interest rates on the fair value of guarantee assets.

Multifamily new business activity was $15 billion in the second quarter and the Multifamily mortgage portfolio increased by 4.3 percent year-over-year to $415 billion.

The Multifamily delinquency rate, which does not include loans in forbearance, was 7 basis points at the end of the second quarter, slightly lower than last quarter's 8 basis points. Approximately 96 percent of the Multifamily mortgage portfolio was covered by credit enhancements at the end of the second quarter.

Capital

Our net worth increased to $34.1 billion at the end of the quarter, representing a 52 percent increase year-over-year.

With that I'll turn it back over to Michael.

Conclusion (**Remarks of Mr. DeVito**)

To summarize, this was a good quarter for Freddie Mac:

- In an uncertain time for the market, we achieved solid financial results and continued to build equity to withstand potential economic stress.
- We helped more than 600,000 families buy, refinance or rent a home and introduced innovations that allow lenders to simplify the loan underwriting process and improve risk management.
- And, as rising mortgage rates, house price appreciation, and other economic factors challenge affordability, we are committed to working across the industry to promote equity and sustainable housing nationwide.

Thank you for joining us.