Freddie Mac CEO Discusses Third Quarter 2020 Financial and Business Results

Remarks of David Brickman, Chief Executive Officer
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As Prepared for Delivery

Introduction

Good morning and welcome to our third quarter earnings conference call. It's a pleasure to be speaking with you today about our company's strong performance and the work we've done to support the housing market and families affected by the pandemic.

While we continued to focus on stabilizing the market, we also drove important work in other areas—from advancing sustainable housing to making a smooth transition to a new reference rate. As a result, we again demonstrated the vital role we play in good times and bad—acting as a countercyclical force in times of crisis and bringing private-market solutions to difficult challenges in all economic environments.

I think you'll see those themes woven through the three topics I address today:

- First, I'll update you on our ongoing effort to provide stability during the pandemic, while we continue working to make the housing market better and more accessible.
- Second, I'll discuss our financial results for the quarter.
- Finally, I'll preview our outlook for both the Single-Family and Mutlifamily markets over the near to medium term.

Pandemic Update and Work to Improve the Market

First, let me provide an update on pandemic-related work and other actions we've taken to stabilize and improve the housing market.

Pandemic Update

Few companies are as well-positioned as Freddie Mac to blunt the housing impact of COVID-19, and we continued to do just that.

Our data shows that the vast majority of Freddie Mac borrowers who have fallen more than 60 days behind on their mortgage payments during the pandemic—96.1 percent to be exact—have enrolled in forbearance, and that figure is even higher among minority borrowers at 97.6 percent. Since the outbreak began, approximately 639,000 Single-Family borrowers have used our forbearance option, and 300,000 of those have already exited forbearance. In the third quarter, nearly 100,000 borrowers moved directly from forbearance to a payment deferral, bringing them current on their mortgage.

In the multifamily space, owners are currently taking advantage of Freddie Mac forbearance on 1,225 properties, and, as a result, more than 100,000 families are protected from eviction for nonpayment of rent.

We launched a number of online tools to help homeowners and renters get the assistance they need during this difficult time. I'm pleased to note that more than 15 million families have used these resources, which can be found by visiting **MyHome.FreddieMac.com**.

We also continued to provide lenders, borrowers and others flexibilities that helped ensure the mortgage markets continued to operate well, such as allowing electronic documents in lieu of employment verification and using appraisal alternatives to reduce the need for in-person inspections.

All of this, combined with historically low rates, enabled us to purchase record volumes, providing an unprecedented level of liquidity to families across the nation. It's also important to note that we did this while distributing risk into the private market. We're pleased with the results, which have helped ensure the housing market continues to be a source of strength in an otherwise troubling economy. The housing market's strength is evident in a range of economic indicators, including:

- Purchase applications were up 24 percent year-over-year in the recent period.
- Existing-home sales rose 9.4 percent in September to a seasonally adjusted annual rate of 6.54 million, the highest since May 2006.
- And the Commerce Department reported Monday that despite the modest decrease in September, sales of new homes increased 32.1 percent from a year earlier.

Clearly, housing has been very strong, and as you'll see later in our financial reporting, we have benefitted from it. But we have also contributed to that strength by enabling the mortgage market to function seamlessly.

Work to Improve the Market for Everyone

Our pandemic-related activities in the third quarter went hand-in-hand with the day-in, day-out work of making our housing finance system better for everyone. We've done this by focusing on affordability, industry leadership, and diversity and inclusion.

Affordability

We pressed forward on affordability in the quarter, for example by announcing two additions to our Multifamily Impact Bond Offerings – Sustainability Bonds and Social Bonds. These offerings are aimed at attracting capital to support economic mobility for residents and economic growth for communities, consistent with Freddie Mac Multifamily's long history of supporting sustainable communities through its financing for affordable and workforce housing.

Industry Leadership

In the quarter, we continued playing our leading role in the difficult and complex transition away from LIBOR as an index rate, an issue that I've mentioned in the past. As a member of the Federal Reserve's Alternative Reference Rates Committee we've provided critical support for the move to the Secured Overnight Funding Rate, or SOFR. Over the past few months, we rolled out new SOFR-indexed collateralized mortgage obligations, started purchasing Multifamily SOFR loans, continued to issue SOFR-indexed K deals and issued a new SOFR-indexed Single-Family credit-risk transfer—or CRT—deal this month. Also, we intend to roll out a new Single-Family adjustable rate mortgage product in the fourth quarter.

The first SOFR-indexed CRT transaction was significant for us and for the market. It was one among several Freddie Mac CRT offerings coming after a pandemic pause on those offerings by both GSEs. Freddie Mac's third quarter issuances, many of which were upsized due to strong investor demand, demonstrated Freddie Mac's ongoing commitment to CRT and re-energized the market for an asset class we pioneered.

Diversity and Inclusion

Also, in the third quarter, we continued to address the troubling disparities in economic outcomes we see across our nation. It is abundantly clear to me, and I think to many of you and others throughout our industry, that we need to rise to the challenge to do more to counteract the heartbreaking gap between Black and white Americans in homeownership, which is currently wider than it was in 1960. As written, our mission focuses on liquidity, stability and affordability. Yet I believe that because circumstances have irrevocably changed in the last year, our mission should now focus on liquidity, stability, affordability and *equity.*

To achieve that goal, our work generally falls into three areas:

- First, we are helping people of color enter and prosper in our industry, including at Freddie Mac, for example by working with organizations that recruit, train and place students from Historically Black Colleges and Universities into internships with mortgage and real estate companies. We also partner with the Hispanic Scholarship Fund to leverage their Career Services for sourcing diverse talent, which helped drive a 10 percent increase in Hispanic applicants for our college analyst programs.

- Second, we are helping more businesses owned by people of color prosper, for instance by actively growing and developing our diverse supplier pipeline through our "Supplier

Academy," a training program which helps vendors network with company leaders, learn how to do business with Freddie Mac and grow their business not only with us, but with other companies as well.

More than 40 diverse suppliers have graduated from our Supplier Academy and, to date, nearly 40 percent of them have competitively bid and earned a contract with us post-graduation.

We're also bringing diverse suppliers into our capital markets transactions through a broad-based program that provides training, access and opportunities to win business. To date, we've conducted more than 50 trainings with diverse suppliers to help enhance the knowledge of our programs. We've also engaged four different diverse suppliers to serve as underwriters on various Multifamily transactions this quarter. And, Freddie Mac was among the first firms to use a diverse supplier as a co-lead underwriter on a debt issuance indexed to SOFR.

- And finally, we are focused on helping more families of color achieve homeownership, which is at the core of what we do. This includes through CreditSmart, our multilingual financial education curriculum designed to help consumers build and maintain better credit and make better financial decisions. We also are aggressively supporting and promoting our suite of very successful low-down payment loan products—including our HomePossible and HomeOne mortgages and HFA Advantage, designed to work in tandem with state housing finance agency programs to support homeownership.

  We're also exploring alternative credit for underbanked populations and renters. And we are working with a wide range of business partners and non-profit organizations engaged in activities in communities across the country to promote homeownership and community revitalization. And we also are supporting innovative research targeted toward lowering housing costs and increasing housing supply.

This is just a sample of the many initiatives we are working on as part of our broad-based efforts to advance the cause of equality.

Financial and Business Results

Now, let's look at our financial and business results in a third quarter that saw historic Single-Family volume and above-average Multifamily activity.

Earnings/Equity

Freddie Mac earned comprehensive income of $2.4 billion in the quarter, up 26 percent or $0.5 billion from the prior quarter, primarily driven by higher net revenues from the company's growing guarantee portfolios, upfront fee recognition and new multifamily business.

Credit-related expense declined compared to the second quarter. Provision for credit losses was lower, as realized house price growth in the third quarter was robust and estimates of expected credit losses related to the COVID-19 pandemic have started to stabilize. Credit costs related to portfolio growth and a lower benefit from expected credit enhancement recoveries also affected credit-related expenses.

Total equity increased to $13.9 billion, up from $11.4 billion at the end of the second quarter, representing a 22 percent increase in our capital.

It’s important to note that this level of capital puts Freddie Mac in a very solid financial position. It is enough that we would not have needed a draw in any of the nine hypothetical quarters contemplated by the last published Dodd-Frank stress test’s most plausible severely adverse scenario.

New Business Activity/Portfolio

As I said earlier, Single-Family had a record quarter. New business activity was $337 billion, reflecting unprecedented home purchase and refinance activity, while new Multifamily business activity was $18 billion.

The Single-Family guarantee portfolio grew 11 percent year over year, and Multifamily’s portfolio grew by 14 percent despite a challenging environment for rental properties.

Credit Quality

Credit quality remained strong for both Single-Family and Multifamily new business activity, with weighted original average loan-to-value ratios of 71 percent and 66 percent, respectively.

While still low by historic standards, the serious delinquency rate for Single-Family increased to 3.04 percent, from 2.48 percent in the prior quarter driven by loans in forbearance due to the pandemic. The Multifamily delinquency rate, which does not include loans in forbearance, increased from the prior quarter but the rate remained very low at 0.13 percent.

Mission

Most importantly in the quarter we continued to execute on our mission, making home possible 1.3 million times. That includes funding more than 1.1 million single-family purchase and refinance loans, including more than 137,000 to first-time homebuyers. This is the highest number of first time homebuyers we’ve served since 2010.

And we helped multifamily borrowers finance more than 185,000 units, 96 percent of which were affordable to renters making 120 percent of area median income or less.

Economic and Market Outlook

Turning to our outlook for the housing market, while much uncertainty remains, we expect the fundamentals of the Single-Family market to remain strong while the Multifamily market will likely see modest weakness over the short term.

Single Family

For Single-Family, we expect mortgage rates to remain near their record lows for the remainder of this year. The refinance segment of the market remains strong, accounting for about two thirds of our forecasted $3.6 trillion in total originations for 2020, and we're expecting purchases to increase to about $1.4 trillion, resulting in over 6 million total home sales for this year. We're also forecasting 2020 house price growth to remain strong with an annualized rate of 5.5 percent.

Multifamily

Short-term on the Multifamily side, vacancy rates could increase as much as 2 percentage points by year end, and rents may decline by 1.2 to 1.7 percent. However, forecasts are generally improving as more data becomes available.

We expect the multifamily market to continue to do well in the medium-to-long term, but that ultimately will depend on resumption of economic growth. However, the core driver is the same as it has been for some time—inadequate supply and the rising cost of single family homes—which limit access to homeownership and drive demand in the rental market.

To ensure that all families can find quality, affordable housing—especially vulnerable low income families—we must ensure the multifamily lending market remains liquid and stable through the current economic crisis. As other debt providers have stepped back from the multifamily market, Freddie Mac has stepped forward. This is precisely the countercyclical support borrowers need from us, and for which we are almost uniquely suited.

Conclusion

While the future may be uncertain, I have complete confidence in Freddie Mac's ability to meet its challenges. That confidence flows from the many strengths of this company, not the least of which is an employee base utterly committed to its mission of providing liquidity, stability, affordability—and equity to borrowers, renters and lenders in the U.S. housing finance system. Our response to the pandemic showed we're an organization that can rapidly adapt to the realities of the day while continuing to prepare for the future. I am very proud of our performance and ready for our next chapter as we work to exit conservatorship.

With that, I'd be happy to take your questions.