Freddie Mac CEO David Brickman Discusses Third Quarter 2019 Financial Results

As Prepared for Delivery

Good morning and welcome to our third quarter earnings conference call. I'm looking forward to walking you through our solid and consistent financial performance today and discussing our significant progress in serving our mission. Following that, I'm happy to answer any questions you may have.

But I want to start today's discussion with the recent events that are probably top of mind for many of you. These events have the potential to significantly change our business and the housing finance system itself.

Freddie Mac's Top Strategic Priority: Exiting Conservatorship

On September 5, the Treasury Department released its plan for reforming the nation's housing finance system. It contains nearly 50 legislative and administrative recommendations, many of which have received significant attention in the media and on Capitol Hill. But without question, the most important among these for Freddie Mac relate to the proposal to end conservatorship.

Many of you have heard FHFA Director Calabria say that ending the conservatorships will help move us toward a mortgage finance system that meets the housing needs of American families, protects the American taxpayer, and supports financial stability. From our perspective, exiting conservatorship will put Freddie Mac in a position to do a better job of providing liquidity, stability and affordability to the single-family and multifamily housing markets. It will allow us to combine our industry expertise with the competitiveness of a private company to bring down costs for borrowers, create more opportunities for renters, and better serve lenders and investors. In short, it will allow us to fulfill our mission, expand opportunities for families and help to ensure the United States housing market remains a critical driver of the economy.

Earlier this week the Federal Housing Finance Agency published our 2020 scorecard and strategic plan, which instructs us to work with the agency in developing a roadmap with "milestones" to facilitate our exit from conservatorship. Those milestones will include raising capital and further enhancing our overall risk management framework.

Let me be clear: Our top strategic priority will be meeting those milestones. We will remain steadfastly focused on doing so quickly and responsibly.

We have already taken an important first step. Late in September, FHFA and Treasury agreed to permit the GSEs to begin building capital beyond their existing $3 billion dollar capital reserves. In Freddie Mac's case, the agreement will allow Freddie Mac to retain capital up to $20 billion dollars. With our third-quarter earnings, we now have more than $6 billion dollars in equity. I won't forecast when we will reach a point where we have sufficient capital to exit conservatorship, but I will tell you it will be as soon as we responsibly can. Until then, our "speed to exit" will remain top of mind.

Another important milestone will be the finalization of FHFA's capital rule for Freddie Mac. We look forward to seeing that rule and better understanding the specific capitalization target we will need to hit to exit conservatorship and start our next chapter.

Financial Performance

Now let me turn to our solid financial performance for the third quarter.

Today's comprehensive income of $1.8 billion dollars is substantially unchanged from the prior quarter. Although the declining interest rate environment in the third quarter resulted in market-related losses of $0.3 billion dollars as higher fair value losses were recognized on our derivative portfolio, primarily those used to hedge single-family upfront fees, these losses were more than offset by strong business revenues.

Despite this continued market volatility, our business model still produced strong returns. Our total guarantee portfolio grew $120 billion dollars, or 6%, year over year, driven by increases in both the Single-Family and Multifamily portfolios. Additionally, we continue to reduce risk through our credit risk transfer activities, and our credit quality remains strong. This consistent business performance should help us achieve our top priority of exiting conservatorship more quickly.

Mission-Related Activities

Finally, I would like to provide an update on our progress in serving our mission. I'm proud to say that we helped finance homes for 810,000 families this quarter, injecting $173 billion of liquidity into the U.S. housing finance system. Approximately 45 percent of the homes we financed this quarter were for first-time homebuyers. Of the rental units we financed, 95 percent were affordable to families making less than 120 percent of the area mean income. And we once again served over 900 financial institutions, the majority of which are smaller lenders, including community banks.

Across Freddie Mac, we continue to focus on building a more resilient, more efficient company that will help confront the growing affordable housing crisis. But as I've said many times in many forums, this is a broad problem that goes well beyond access to credit. In fact, issues of limited supply and the rising cost of home building are leading contributors to this crisis.

We believe exiting conservatorship would help us identify new opportunities to lower the cost of building, preserving, and financing housing and provide economic incentives for private capital to invest in affordable housing solutions. Regardless of what comes next, we are committed to this goal.

I will close by saying that more so than any time in the past 11 years, we at Freddie Mac believe our fate is in our own hands. Director Calabria has made clear that FHFA will set out the milestones, but how fast we achieve them is up to us. Freddie Mac employees are committed to ensuring we achieve them — and achieve them quickly. Serving our mission demands it.

That concludes my prepared remarks. I thank you very much for listening and I'm happy to take questions.