

2025 Dodd-Frank Act Stress Test Severely Adverse Scenario Results

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Executive Summary



- Freddie Mac's (the company's) statutory mission is to provide liquidity, stability, and affordability to the U.S. housing market. Consistent with its charter, the company's business is focused exclusively on the U.S. residential mortgage market
- Freddie Mac is required to conduct annual stress tests to assess capital adequacy under FHFA's rule implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) stress testing requirements
- FHFA's stress test specifications include two required scenarios (Baseline scenario and Severely Adverse scenario with and without a valuation allowance against our Deferred Tax Assets (DTA)), each reflecting projections over a nine-quarter horizon. The Severely Adverse scenario requires a 33% decline in house prices, 30% drop in commercial real estate prices, and a severe global market shock (with our largest counterparty defaulting)
- Results are not expected outcomes. They are modeled projections based on hypothetical economic conditions. Actual outcomes may be very different

Stress Test Overview



■ Background

- For the Government-Sponsored Enterprises (GSEs), the FHFA-prescribed stress test assesses whether the GSEs will have the capital necessary to absorb losses resulting from severely adverse economic conditions
- FHFA provided the key scenario assumptions for the 2025 Dodd-Frank Act Stress Test (DFAST) in March 2025. The nine-quarter planning horizon includes 1Q25 to 1Q27, beginning with the December 31, 2024 balance sheet
- Overall DFAST results were reviewed by Freddie Mac's Board of Directors, senior management, and other key stakeholders

■ Key Economic Variables for the Severely Adverse Scenario as prescribed by FHFA

Macroeconomic Variables

2025 DFAST

➤ Residential House Prices (Trough)	(33)%
➤ Commercial Real Estate (Trough)	(30)%
➤ Real Gross Domestic Product (Peak-to-Trough)	(8)%
➤ Unemployment Rate (Peak)	10%

Interest-Rate Variables (Range)

➤ 30-yr Mortgage Rate (4Q 24 6.6%)	3.5% - 4.0%
➤ 10-yr Treasury Rate (4Q 24 4.3%)	1.0% - 1.5%
➤ Short-term Rate (4Q 24 4.4%)	0.1% - 1.8%

Global Market Shock

➤ Instantaneous Price Shock on Residential Mortgage-Backed Securities:	Up to (85)%
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2025 Severely Adverse Scenario Results



Cumulative Projected Financial Metrics (Q1 2025 - Q1 2027)

	Results without establishing valuation allowance on deferred tax assets		Impact of establishing valuation allowance on deferred tax assets	Results with establishing valuation allowance on deferred tax assets	
	Billions of dollars	Percent of average assets ⁶		Billions of dollars	Percent of average assets ⁶
1 Pre-provision net revenue ¹	25.6	0.73 %		25.6	0.73 %
2 (Provision) benefit for credit losses	(12.4)			(12.4)	
3 Mark-to-market gains (losses) ²	(3.6)			(3.6)	
4 Global market shock impact on trading securities and counterparty	(3.8)			(3.8)	
5 Net income before taxes	5.8	0.16 %		5.8	0.17 %
6 (Provision) benefit for taxes	(1.2)		(3.8)	(5.0)	
7 Other comprehensive income (loss) ³	(0.4)			(0.4)	
8 Total comprehensive income (loss)	4.2	0.12 %	(3.8)	0.4	0.01 %
9 Net Worth as of March 31, 2027	63.8			60.0	
10 CET1 Capital as of March 31, 2027	(27.8)			(26.9)	
11 Credit losses ⁴	(12.6)			(12.6)	
12 Credit losses (% of average portfolio balance) ⁵	0.35 %			0.35 %	

¹ Includes net interest income, operational risk losses, foreclosed property income (expense), and other non-interest income/expenses.

² Includes fair value gains (losses) on derivative and trading securities, and other gains (losses) on investment securities.

³ Includes global market shock impact on available-for-sale securities.

⁴ Credit losses are defined as charge-offs, net plus foreclosed property expenses.

⁵ Average portfolio balance over the nine-quarter planning horizon.

⁶ Average total assets over the nine-quarter planning horizon.

Appendix: Stress Test Assumptions and Methodologies

Stress Test Components



Pre-Provision Net Revenue (PPNR)	Business revenues (e.g., net interest income and guarantee fees), benefit and cost of credit risk transfer (CRT) transactions, and operating expenses (e.g., administrative expenses, operational risk losses, foreclosed property expense)
Provision for Credit Losses	Provision related to the Single-Family (SF) and Multifamily (MF) businesses, reflecting estimated credit losses recognized over the nine-quarter planning horizon. MF provision is net of certain credit protection received via security subordination
Mark-to-Market Gains (Losses) (MTM)	Mark-to-market gains (losses) based on the macroeconomic scenario related to 1) changes in fair value of derivatives not in hedge accounting relationships, including the related net interest income or expense, 2) certain loans, 3) trading securities, 4) certain debt, and 5) other financial instruments recorded at fair value, including available-for-sale (AFS) securities recorded to other comprehensive income (after-tax)
Global Market Shock (GMS)	Instantaneous global shocks of 1) interest rates, 2) volatility, 3) agency mortgage-backed securities (MBS) option adjusted spread (OAS), and 4) non-agency MBS prices applied to trading securities, AFS securities (after-tax), and loans held at fair value, as applicable. As specified by FHFA, results include the greater fair value loss of either the GMS or the macroeconomic scenario. Also includes the estimated impact of a default of the company's largest counterparty
ERCF	Projections reflect equity items (e.g., retained earnings, junior preferred stock) and adjustments and deductions to available CET1 capital (e.g., DTA deduction) as specified under the ERCF Rule

Pre-Provision Net Revenue



Description

- PPNR reflects business revenues and expenses
- Includes projections of net interest income (guarantee fees and capital reinvestment income), including the impact of derivatives in a hedge accounting relationship, non-interest income, benefit and cost of CRT transactions, foreclosed property expenses, operational risk losses (the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events), administrative and other non-interest expense for the existing book of business, and new business during the nine-quarter horizon
- Material risks covered include interest-rate risk, credit risk for the SF and MF portfolios as it relates to CRT recoveries, and foreclosed property expense, and operational risk

Methodologies

- Uses internal business assumptions and inputs from FHFA, including macroeconomic factors, for projecting business volume, retained portfolio size, guarantee fees, risk-sharing transactions (CRT recovery benefit is primarily based on provision expense), debt funding, and spreads for assets and debt
- Projects cash flows using internal models, incorporating internal business assumptions, and FHFA-provided scenario interest-rate paths
- Operational risk loss for the severely adverse scenario is calculated with an internal operational loss forecast model that aggregates historical loss and scenario analysis

Provision for Credit Losses



Description	▪ SF provision for credit losses reflects estimated credit losses recognized over the nine-quarter planning horizon, including costs due to reimbursement of servicer advances of property taxes and insurance. Credit loss amounts reflect mortgage insurance recoveries adjusted for the FHFA-prescribed counterparty haircuts ▪ MF provision for credit losses represents the credit provision recognized over the nine-quarter planning horizon pertaining to our MF business net of certain credit protection received via security subordination ▪ Captures SF and MF mortgage credit risk, which are the largest components of Freddie Mac's stress test losses
Methodologies	▪ Single-Family: • Leveraged Moody's Case-Shiller index at the metropolitan statistical area (which aggregates to the FHFA-provided national level house price appreciation) and then is used in Freddie Mac's internal models and stress test processes • Estimated scenario credit loss and reserves using our internal credit loss forecasting model and key house-price and interest-rate inputs from FHFA • Loans are assumed to perform in a similar way as in the most recent economic cycle that covers the housing market crisis and recovery, controlling for loan characteristics • Loss projections reflect haircuts provided by FHFA to mortgage insurance payment obligations • CRT benefit for the consolidated SF portfolio is recognized as a separate asset under generally accepted accounting principles (GAAP) and included in PPNR along with the CRT costs and foreclosed property expense ▪ Multifamily: • MF loan loss provision employs an internal model, an application that follows a Monte Carlo framework to simulate and project lifetime credit losses on multifamily mortgages. The application considers: 1) the terms and characteristics of individual mortgages of the forecasted portfolio balances and activities, 2) economic variables, such as CRE Price Index, unemployment rates, BBB spreads, and interest rates, provided by FHFA and supplemented with Moody's Comprehensive Capital Analysis and Review scenarios, and 3) Net Operating Income (NOI) Index projected by the internal model • MF loan level credit losses are aggregated in accordance with securitization structures to reflect credit protection from subordination. The MF loan loss reserve balance is reduced by credit protection received via security subordination

Other Components



Mark-to-Market Gains (Losses)

Description	▪ Mark-to-market gains (losses) based on the macroeconomic scenario related to 1) changes in fair value of derivatives not in a hedge accounting relationship, including the related net interest income or expense, 2) certain loans, 3) trading securities, 4) certain debt, and 5) other financial instruments recorded at fair value, including available-for-sale (AFS) securities recorded to other comprehensive income (after-tax) ▪ Material risk covered includes interest rate risk ▪ We consider hedge accounting in our results
Methodologies	▪ Applies FHFA-specified interest rate paths to estimated changes in fair value of derivatives, loans, and securities

Global Market Shock

Description	▪ The GMS is an instantaneous shock on Freddie Mac's assets as of 12/31/24 in the first quarter that is not recovered during the nine-quarter forecast horizon. This shock is treated as an add-on that is exogenous to the macroeconomic and financial market environment specified in the stress test scenario ▪ The GMS captures market risks related to changes in OAS, as well as price shocks ▪ Also includes the estimated impact of a default of the company's largest counterparty
Methodologies	▪ Applies FHFA-specified shocks of OAS to Freddie Mac's agency MBS, loans and trading security holdings ▪ Applies FHFA-specified price shocks to Freddie Mac's non-agency MBS holdings, aggregated by product-type, credit rating, and issuance year ▪ Includes tax benefit on AFS securities that the company has both the intent and ability to hold to recovery ▪ As specified by FHFA, results include the greater fair value loss of either the GMS or the macroeconomic scenario

Capital



Description

- Capital reflects the resources available to absorb losses, and meet regulatory capital requirements when fully capitalized
- Net Worth is the amount that total assets exceed total liabilities
- CET1 includes components of net worth, such as retained earnings, and includes certain regulatory adjustments and deductions
- Given the capital projections are based on income statement and balance sheet projections, the material risks covered include the risks highlighted under the individual components

Methodologies

- Capital actions comply with the terms of the PSPA, including the level of dividends to pay over the planning horizon
- Certain adjustments and deductions (primarily the DTA) to available CET1 capital are projected in accordance with the requirements of the ERCF Rule

Description of Key Drivers



Mortgage Credit Risk	▪ Mortgage credit risk is the risk that a borrower fails to make timely payments on a mortgage owned or guaranteed by Freddie Mac. Financial projections include certain offsets from credit enhancements, such as mortgage insurance and CRT transactions ▪ SF credit risk varies significantly based on the borrower's starting equity in the property (expressed as the loan-to-value ratio). Actual house price growth reduces potential future losses. More recent vintages that have experienced less house price growth are disproportionately impacted by the stress scenario ▪ MF credit risk is substantially reduced by the K-deal securitization program. Freddie Mac guarantees only the most senior tranches of K-deals, resulting in a significant portion of credit risk being transferred to the investors in subordinated tranches
Market Risk Including Interest Rate and Spread Risk	▪ Market risk is the economic risk associated with adverse changes in interest rates, volatility, and spreads ▪ Freddie Mac's GAAP financials are exposed to interest rate risk. The company employs hedge accounting to mitigate GAAP interest rate risk volatility ▪ The Investment portfolio is exposed to spread risk, related to adverse changes in the spread between security prices in related market sectors or benchmark rates
Counterparty Credit Risk	▪ Counterparty credit risk is the risk that an institutional counterparty is unable to meet its contractual obligations to Freddie Mac. The company's counterparty credit risk exposures include, but are not limited to, derivatives, repurchase agreement transactions, unsecured overnight demand deposits, insurance and activities related to mortgage selling and servicing. These counterparties include financial institutions, Seller/Service providers and insurers.
Operational Risk	▪ Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems, or from external events. Operational risk is inherent in the company's business activities and can manifest itself in various ways, including accounting or operational errors, business interruptions, fraud, and technology failures