Freddie Mac Fourth Quarter and Full-Year 2023 Financial Results Conference Call

Remarks by
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As Prepared for Delivery

Introduction

Good morning and thank you for joining our call to review Freddie Mac's fourth quarter and full-year 2023 financial results.

For the company, 2023 marked a year of continued progress. We put our housing mission at the center of all we do, helping more than 1.4 million families buy, refinance or rent a home in the past year. And of the more than 800,000 home purchases we financed in 2023, nearly 51 percent of those who purchased a primary residence were first-time homebuyers. That is the highest percentage of first-time homebuyers since Freddie Mac started tracking that statistic three decades ago.

Freddie Mac achieved these mission-oriented goals while continuing to develop a strong and talented workforce, manage its risks, and deliver solid financial results.

Now let's take a look at those results in more detail.

Financials

This morning we reported full-year 2023 net income of $10.5 billion, an increase of 13 percent from the prior year, and comprehensive income of $10.7 billion, an increase of 19 percent from the prior year. These increases were primarily driven by a credit reserve release in the Single-Family business, which resulted from an improvement in house prices in 2023.

Full-year net revenues of $21.2 billion were slightly lower than last year as the increase in net interest income was offset by lower non-interest income. Full-year net interest income was $18.5 billion, a 3 percent year-over-year increase, driven primarily by higher investments net interest income as a result of higher short-term interest rates. The increase in investments net interest income was partially offset by lower guarantee net interest income, which declined by seven percent year-over-year. This was primarily driven by a decrease in deferred fee income as prepayments slowed due to higher mortgage rates.

Non-interest income was $2.7 billion, down 18 percent year-over-year, as the prior year period included spread-related gains on commitments to hedge the Single-Family securitization pipeline that did not recur in 2023.

An improvement in house prices drove an $872 million benefit for credit losses this year versus a provision of $1.8 billion in the prior year. In 2022, the provision for credit losses was driven by deterioration in housing market conditions.

Our non-interest expense grew 14 percent year-over-year, or $1.1 billion, to $8.9 billion, primarily driven by an increase of $646 million in our net credit enhancement expense. The increase in our net credit enhancement expense was due to a higher volume of outstanding cumulative CRT transactions combined with higher losses on STACR note repurchases, as well as a decrease in our credit enhancement recoveries due to a decline in expected credit losses on covered loans. 2023 non-interest expense also includes an expense accrual of $313 million related to a previously reported adverse litigation judgement.

Our total mortgage portfolio grew 2 percent year-over-year to $3.5 trillion dollars at the end of 2023, driven by a 2 percent increase in our Single-Family mortgage portfolio and a 3 percent increase in our Multifamily mortgage portfolio.

Fourth Quarter Results

Turning to our fourth quarter 2023 results, we reported net income of $2.9 billion, an increase of 65 percent from the fourth quarter of 2022. The increase in net income was primarily driven by higher revenues and a credit reserve release in the Single-Family business.

Net revenues for the fourth quarter totaled $5.4 billion, an increase of 11 percent year-over-year, driven by an increase in both net interest income and non-interest income. Fourth quarter net interest income of $4.8 billion was up 4 percent from the prior year quarter. This was primarily driven by an increase in our investments net interest income, which benefited from higher short-term interest rates. Non-interest income for the fourth quarter was $604 million, an increase of 147 percent from the prior year quarter.

This was primarily driven by higher multifamily guarantee income and higher net investment gains, which benefited from a decline in interest rates in the quarter and higher volume of single-family held-for-sale loan sales.

Our benefit for credit losses last quarter was $467 million and was primarily driven by a credit reserve release in our Single-Family business due to an improvement in house prices. In the prior year quarter, we had a credit reserve provision of $575 million that was driven by deterioration in house prices.

Non-interest expense for the fourth quarter was $2.2 billion, up $148 million dollars, or 7 percent, year-over-year, primarily driven by a decrease in credit enhancement recoveries, which was due to a decline in expected credit losses on covered loans.

Single-Family Results

Turning to our individual business segments, Single-Family reported full-year net income of $9.0 billion, an increase of $1.1 billion, or 14 percent, from the prior year.

This was primarily driven by a credit reserve release in 2023. The benefit for credit losses was $1.2 billion driven by an improvement in house prices. In 2022, we had a provision expense of $1.8 billion, which was primarily driven by deterioration in housing market conditions and a slowdown in actual house price appreciation. House prices increased 6.6 percent in 2023 compared to 4.9 percent in 2022. Our current forecast assumes house prices will grow by 2.8 percent over the next 12 months and 2.0 percent over the subsequent 12 months, whereas our December 2022 forecast assumed a decline of 3 percent in the next 12 months followed by a decline of 1.8 percent in the subsequent 12 months.

The Single-Family allowance for credit losses coverage ratio at the end of the year was 20 basis points, down from 25 basis points a year earlier.

Full-year Single-Family net revenues of $18.3 billion declined by $484 million, or 3 percent, from 2022.

This decline was primarily driven by lower non-interest income of $610 million, a decline of $1.1 billion year-over-year, as the prior year period included spread-related gains on commitments to hedge the Single-Family securitization pipeline that did not recur in 2023. This decline was partially offset by higher net interest income of $17.7 billion, which increased 3 percent year-over-year, primarily driven by higher investments net interest income benefitting from higher interest rates, partially offset by lower deferred fee income driven by slower mortgage prepayments. The liquidation rate on our Single-Family mortgage portfolio declined to 8.3 percent for 2023 versus 12.4 percent for 2022.

Full-year new business activity was $300 billion, down $241 billion, or 45 percent, from 2022 as both refinance and purchase activity declined due to higher mortgage interest rates. According to Freddie Mac's Primary Mortgage Market Survey, mortgage rates for the 30-year at the end of 2023 were 6.61 percent, up from 6.42 percent on December 31, 2022. Home purchase volume of $265 billion accounted for 88 percent of our total new business activity for the year.

As I noted earlier, first-time homebuyers represented 51 percent of new Single-Family home purchase loans. The average guarantee fee rate charged on new business was 56 basis points, up 5 basis points from 2022. The credit characteristics of our new business remained strong with an average estimated loan-to-value ratio of 78 percent and a weighted average credit score of 752.

Our Single-Family mortgage portfolio increased 2 percent year-over-year to more than $3.0 trillion at the end of 2023.

Our Single-Family portfolio credit characteristics remained strong, with the weighted average current loan-to-value ratio at 52 percent and the weighted average current credit score at 755. Our Single-Family serious delinquency rate declined to 55 basis points as of December 31, 2023, down 11 basis points from 66 basis points at year-end

2022. The Single-Family serious delinquency rate remains historically low and is down 8 basis points from the pre-COVID rate of 63 basis points at the end of 2019.

During the year, we helped approximately 81,000 families remain in their homes through loan workouts. Our loan workouts have continued to decline in line with the decline in the seriously delinquent loan population.

At the end of the year, 61 percent of our Single-Family portfolio had some form of credit enhancement.

Multifamily Results

Moving to Multifamily, the business reported full-year net income of $1.5 billion, up 5 percent from the prior year, primarily driven by higher non-interest income.

Full year net revenues of $3.0 billion increased 18 percent year-over-year. This increase was primarily driven by an increase in non-interest income, which increased 32 percent year-over-year to $2.1 billion, primarily driven by lower fair value losses on guarantee assets as a result of lower medium-term interest rates.

The provision for credit losses for 2023 was $300 million, an increase of $231 million from 2022. The increased credit reserve build was primarily driven by heightened uncertainty in forecasted economic and multifamily market conditions as well as deterioration in overall loan performance.

Multifamily new business activity for the full year was $48 billion, a decrease of 34 percent from 2022 and below the FHFA cap of $75 billion. The decline in new business activity was driven by the overall slowdown in the multifamily origination market as higher rates reduced the demand for multifamily financing. For 2024, FHFA has reduced the cap to $70 billion dollars with at least 50 percent of the activity to support mission-driven affordable housing.

Our Multifamily mortgage portfolio at the end of 2023 was $441 billion, an increase of 3 percent year-over-year.

The Multifamily delinquency rate was 28 basis points at the end of the year, up from 12 basis points at the end of 2022. This increase was primarily driven by an increase in delinquent loans in our senior housing and small balance loan portfolios.

Eighty-nine percent of these delinquent loans have credit enhancement coverage, reducing our credit risk exposure.

At year-end, 94 percent of the Multifamily mortgage portfolio was covered by credit enhancements.

Capital

Our net worth increased to $47.7 billion at the end of the year, representing a 29 percent increase from 2022.

Conclusion

In conclusion, Freddie Mac made home possible for more than a million families in 2023, while delivering solid financial results. Looking ahead, we will continue our mission while remaining safe and sound.