Freddie Mac CEO and CFO Discuss
Second Quarter 2021 Financial Results

Remarks of Michael Devito, CEO and Christian Lown, Chief Financial Officer

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As Prepared for Delivery

REMARKS OF MR. DEVITO

Good morning and thank you for joining us. I am pleased to participate in my first earnings call for Freddie Mac. Today, I will offer some early thoughts on priorities for the firm before handing it over to our CFO, Chris Lown—who will walk through our financials and outline some of the vital relief we've provided during the pandemic.

New Leader, Refocused Priorities

I've engaged with Freddie Mac for nearly three decades as a lender and a servicer. Over this time, I have developed great respect for the company. So, let me begin by stating that I believe strongly in the important role Freddie Mac plays in the housing market and its "mission" – a term I use expansively. For more than 50 years, Freddie Mac has supported this mission by providing liquidity, stability, and continuously seeking to advance affordability through our core operations.

We have many opportunities to support affordable housing to further this mission. First, with renewed focus on meeting our housing goals and reaching underserved markets. Additionally, through the financial contributions we make to two affordable housing funds.

Importantly, I'm confident Freddie Mac can be a source of positive influence in addressing longstanding issues of fundamental fairness for people and communities of color at every income level. This mission – and these opportunities – are among the main reasons I joined the firm.

Moving forward, we have several goals for our company.

First, we are committed to ensuring Freddie Mac is a world-class risk manager. We have a solid foundation and talented employees to achieve this goal. With continued focus, we can demonstrate safety and soundness, and continuously enhance how we evaluate risk, all while broadly supporting the housing finance market through the economic cycle. In short, the better our risk management, the more broadly we can serve our mission, even in the face of a crisis.

Second, we are focused on building capital and enhancing financial performance, which is the foundation that supports the risks we manage, promotes safety and soundness and serves as an important stepping-stone to our company's long-term aspirations post- conservatorship. As you are about to hear, our retained earnings for this quarter have contributed meaningfully to this goal.

And, finally, we are supporting and developing our people, in particular, growing the next generation of leaders. We are privileged to have a strong management team, and our goal is to continue to develop our team as an investment in Freddie Mac's strength, stability, and industry leadership for the long-run.

I look forward to sharing our progress on this work in future quarters.

And now, I will hand over the presentation to our CFO Chris Lown.

REMARKS OF MR. LOWN

Financial Results

Good morning. I'm happy to report that Freddie Mac had another strong quarter. We earned net income of $3.7 billion and comprehensive income of $3.6 billion, increases of $1.9 billion and $1.7 billion, respectively, from the second quarter last year. These increases were driven by higher net revenues and a credit reserve release, primarily in the Single-Family segment.

Second quarter net revenues totaled $5.9 billion, an increase of 41 percent compared to $4.1 billion in the prior year quarter, primarily driven by higher net interest income.

Net Interest Income increased by 66 percent year-over-year to $4.8 billion. This increase was driven by higher Single-Family net interest income.

Realized house price appreciation and improving economic conditions drove the reserve release in the quarter, resulting in $0.2 billion of benefit on credit-related items, compared to credit-related expense of $0.7 billion for the second quarter of 2020.

Business Segments

Single-Family Business Segment

Turning to our individual business segments, in the Single-Family segment, net income increased by $2.1 billion from the prior year quarter to $2.9 billion.

This increase was driven by higher net interest income, primarily due to continued mortgage portfolio growth, higher average guarantee fee rates, and higher deferred fee income recognition.
In addition, credit-related items, including the reserve release, partly offset by a decrease of credit enhancement recoveries, contributed to the increase in net income.

New business activity of $288 billion increased on strong home purchase and refinance activity compared with $232 billion in the second quarter of 2020, but declined from $362 billion in the first quarter of 2021.

The Single-Family serious delinquency rate of 1.86 percent continued its decline from the pandemic peak of 3.04 percent in the third quarter of 2020.

And in the quarter, Single-Family loan workout activity helped approximately 88,000 families remain in their homes, including through completed forbearance agreements and 55,000 payment deferrals primarily related to the COVID-19 pandemic. Approximately 1.67 percent of loans in the Single-Family mortgage portfolio, based on loan count, were in forbearance as of June 30, 2021.

Multifamily Business Segment

Looking to Multifamily, the segment reported net income of nearly $824 million, an 18 percent decrease from $1 billion in the prior year quarter. Lower net investment gains drove the decrease, primarily due to less K Certificate spread tightening and impact of lower volume.

Multifamily saw new business activity of $27 billion year-to-date, a $3 billion decrease versus the prior year period, driven by increased competition and a reduced loan purchase cap. The Multifamily mortgage portfolio increased by 12 percent year-over-year to $398 billion.

The delinquency rate, which does not include Multifamily loans in forbearance, was 0.15 percent at June 30, 2021. This was an increase from the second quarter last year, but down from 0.17 percent at March 31, 2021. As of June 30, approximately 94 percent of the Multifamily mortgage portfolio was covered by credit enhancements.

Capital

On the capital front, our capital position, or net worth, increased to $22.4 billion dollars at the end of the second quarter. That represented a 96 percent increase compared with the prior year quarter and a 19 percent increase from 1Q 2021.

Ongoing Support for Borrowers, Renters and Markets

Of course, our strong financial performance is vitally important to helping us fulfill our mission of providing liquidity, stability, and affordability. Here are some mission-related highlights from the quarter:

- We supplied $306 billion of liquidity to the single-family and multifamily markets in the quarter.
- Our funding helped 1.2 million families purchase, refinance, or rent a home—a significant increase compared with the 1 million we supported in the second quarter of 2020.
- Strong refinance activity helped us to provide funding that reduced mortgage payments for 708,000 families.
- We provided support for 131,000 first-time homebuyers, representing 47 percent of home purchase loans.
- And, 77 percent of the 137,000 multifamily units we financed were affordable to families making at or below 80 percent of the area median income. 97 percent were within reach of moderate-income families making at or below 120 percent of AMI.

Focusing on our pandemic-related support, in the last year and a half we have helped hundreds of thousands of at-risk homeowners and renters remain in their homes, while helping maintain the stability of the U.S. housing finance system. Overall, during the pandemic:

- We extended up to 18 months of forbearance to more than 800,000 single-family borrowers. Approximately 209,000 remained in forbearance as of June 30.
- Similarly, we extended COVID-19 related forbearance to more than 1,400 qualifying multifamily properties, protecting tenants in 135,000 units from eviction for non-payment of rent.
- More recently, we expanded the use of interest rate reductions to help borrowers with a COVID-19 hardship reduce their monthly mortgage payment.

And now I'll turn the call back over to Michael.

REMARKS OF MR. DEVITO

Concluding Remarks

Thank you, Chris.

As Chris suggested, the strong financial performance and the support for our mission we described today are bound together.

- Our mission guides our work and provides *opportunities* to broadly serve the housing finance market and make it accessible for all.
- Our financial success *enables* us to advance our mission to provide liquidity, stability, and affordability in a safe and sound manner.

Thank you again for joining us and I look forward to speaking with you again next quarter.