Freddie Mac CEO and CFO Discuss Third Quarter 2021 Financial and Business Results

Remarks of Michael DeVito, CEO, and Christian Lown, EVP and Chief Financial Officer

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As Prepared for Delivery

Remarks of Mr. DeVito

Good morning and thank you for joining us to review another strong quarter for Freddie Mac.

Last quarter was my first time speaking with you as CEO, and at that time I shared our priorities for the company. Today I would like to briefly revisit those priorities and highlight some of the progress we have made in moving our company forward to deliver real results for homeowners and renters across the country.

Then, our CFO, Chris Lown, will walk you through our financials.

Our Mission is Our Purpose

Let’s start with our top priority—serving our mission of providing liquidity, stability, and affordability to the housing market. This is Freddie Mac’s primary purpose, and we are here to serve that mission expansively—including helping lenders of all sizes serve their communities, addressing issues of housing inequity, and providing access to sustainable and affordable home financing that makes home possible for owners and renters throughout the economic cycle and across the country.

For Single-Family Borrowers

Our impact for single-family borrowers in the third quarter was clear. We enabled 415,000 families to purchase a home and provided $299 billion of liquidity to the single-family market. It was the company’s best quarter for home loan purchases since at least 2010.

More notable given the ongoing, significant deficit of affordable starter homes in the country, we supported 171,000 first-time homebuyers in the third quarter, or 46 percent of our purchase loans.

Freddie Mac also helped approximately 612,000 families refinance into more affordable terms. That was down from the previous two quarters, where record-low interest rates generated a significant amount of activity. But it is still one of the best quarters for refinance loans we’ve had in our history. And despite the declining pace of refinances, both purchase loans and refinance loans remain at roughly double the volume prior to the pandemic

Low rates continued to drive much of the company's refinancing activity. That was a benefit to existing homeowners, but unfortunately not everyone has taken advantage of the strong housing market.

For example, many Black borrowers may be less likely to meet the traditional credit standards necessary to qualify for a mortgage. This is often a result of past patterns of inequality. And recent Freddie Mac research has documented ongoing house price appraisal gaps that make it more difficult to buy or sell a home in diverse communities.

Meeting these challenges and others like them is an essential part of our mission, and Freddie Mac is uniquely positioned to do this work.

For example, we are helping individuals improve their understanding of credit through consumer education. We recently celebrated 20 years of our Credit Smart program by launching a new, comprehensive curriculum aimed at helping consumers learn about the importance of building, maintaining, and using credit so they can take the reins on their financial futures.

We are also actively exploring and evaluating alternative credit score models, as well as technology that can help expand homeownership opportunities responsibly.

And we are working with stakeholders to identify root causes of housing disparities in minority communities, and to create and test viable solutions to promote equity.

Freddie Mac also recently launched Refi Possible, a product with expanded eligibility requirements so low-income families can now qualify for refinancing and save on monthly mortgage payments. Recently, we announced we will be further expanding that product so borrowers making at or below 100 percent of area median income will be eligible.

Just this month, we announced plans to offer at least $3 billion in Single-Family affordable housing bonds. This new bond program will support affordable homeownership and serve historically underserved markets.

This effort is well under way with the October offering of $285 million in Uniform Mortgage-Backed Securities™ backed by loans purchased through our Home Possible® program. Since its inception, Home Possible has helped more than a half million low- and very-low income families finance homeownership.

For Multifamily Borrowers and Renters

Let me now turn to our Multifamily segment. We injected $18 billion of liquidity into the market to help fund 161,000 rental units in the third quarter.

As with homeownership, we have committed to helping improve housing equity and affordability for renters, and we believe we have an important role to play in the affordable rental space as well.

To that end, I'm pleased to report that better than 94 percent of the rental units we financed are affordable to families earning at or below 120 percent of area median income (AMI), and 68 percent were affordable to families earning at or below 80 percent AMI.

Further, Freddie Mac has provided approximately $500 million in low-income housing tax credit (LIHTC) equity investments each year since reentering the market in 2018. In that time, the program has topped 120 investments spanning underserved communities in 26 states, Puerto Rico and Guam and provided more than 13,000 homes for households that struggle to find safe and affordable rental housing.
In September, FHFA increased our LIHTC equity cap to $850 million. Our Multifamily business is now ramping up these investments to support the creation and preservation of affordable housing that targets the most underserved communities throughout the United States.

We're also positioning ourselves to do more business under the recently increased volume cap for our Multifamily business, which was increased from $70 billion for 2021 to $78 billion for 2022. Further, we have committed to a Multifamily target of at least 50 percent mission-driven affordable housing, and we are increasing the target for housing affordable to families making at or below 60 percent of AMI from 20 percent to 25 percent.

Additionally, Freddie Mac Multifamily has a Social Bonds program that is providing liquidity to financial institutions with a distinct mission of addressing affordability challenges, or for financing housing targeted to underserved populations considered to be among the most vulnerable.

You can expect that these equity- and affordable-focused activities will be critical components of the inaugural Freddie Mac Equitable Housing Finance Plan we will submit to FHFA at the end of 2021. We believe this plan will be a roadmap to achieving vitally important components of our mission.

Our Priorities Support Our Mission

Last quarter I also spoke briefly about three areas that support Freddie Mac's mission.
First, we must remain an outstanding risk manager. You see that in our emphasis on credit risk management, both in our Single-Family and Multifamily businesses.

In the third quarter, we built upon our role as the largest cumulative issuer of Single-Family credit risk transfer, or CRT, by keeping up a steady flow of issuances.

We are managing our CRT program very deliberately. In September, we conducted our first-ever tender offer for certain STACR notes. This action effectively reduces costs related to credit risk transfer by repurchasing STACR tranches that no longer offer an economic benefit.

Second, we're growing talent for today and tomorrow. For example, we recently introduced a technology recruiting program to further increase diversity by creating a path into information technology for mid-career professionals.

We've also built on our longstanding commitment to diversity, equity, and inclusion with the addition of diverse new leaders to our Senior Operating Committee, including Dionne Wallace Oakley, chief human resources officer, and Jerry Mauricio, chief compliance officer.

And finally, we must consistently deliver strong results. Chris Lown will run through the details, and we are pleased that the earnings we announced today showed approximately 19 percent year-over-year growth in net and comprehensive income, which enabled us to add $2.9 billion dollars to our net worth. These strong results fuel our support to borrowers, renters, and the market.

Now, to run you through the details of our financial performance, I'll hand it over to Chris Lown.

Remarks of Mr. Lown

Financial Results

Thank you, Michael, and good morning.

As Michael mentioned, I'm happy to report that Freddie Mac had another strong quarter. We earned net income and comprehensive income of $2.9 billion, a half billion dollar increase from the third quarter last year. This increase was primarily driven by continued growth in our Single-Family Portfolio and a decline in credit related expenses.

Third quarter net revenues totaled $5.2 billion, an increase of 4 percent compared to $5.1 billion in the prior year quarter, as a result of higher net interest income, partially offset by lower non-interest income. Net Interest Income increased by 28 percent year-over-year to $4.4 billion, mainly driven by higher net interest income in the Single-Family segment. Non-interest income was down from the prior year quarter due to lower investment gains, mostly in the Multifamily segment. Investment gains fell 66 percent due to lower gains from mortgage loan purchase and securitization activities in Multifamily, impacted by less favorable market spreads.

Realized house price appreciation and improving economic conditions drove the credit reserve release of $243 million in the quarter, resulting in a lower credit-related expense of $194 million. That was down from $614 million for the third quarter of 2020, which was driven by the negative impact of the COVID-19 pandemic.

Business Segments

Single-Family Business Segment

Turning to our individual business segments, in Single-Family, net income increased by $746 million from the prior year quarter to $2.0 billion.

This increase was driven by higher net interest income of $912 million, as a result of 23 percent year over year growth in the Single-Family mortgage portfolio and a higher average guarantee fee rate of 3 basis points.

In addition, credit-related items declined by $417 million from the prior year as we released reserves due to realized house price appreciation and improving economic conditions, partially offset by higher credit enhancement expense. At the end of third quarter, 50 percent of our single-family portfolio had credit enhancement coverage.

New business activity of $299 billion increased from $288 billion in the second quarter of 2021, but decreased from $337 billion in the third quarter of 2020, as we saw lower refinance activity. Year to date our new business activity is $949 billion, a 34 percent increase year over year. We have provided funding for approximately 3.3 million single family homes year to date.

On the credit side, the serious delinquency rate continued to decline from the pandemic peak of 3.04 percent in the third quarter of 2020, ending the current quarter at 1.46 percent. As for forbearance, approximately 1.15 percent of loans in the Single-Family mortgage portfolio, based on loan count, were in forbearance as of September 30, 2021, down from 2.95 percent in the prior year quarter. During this quarter, we helped approximately 73,000 families remain in their homes through loan workouts.

Multifamily Business Segment

Looking to Multifamily, the segment reported net income of $891 million, a 25 percent decrease from $1.2 billion in the prior year quarter. Lower net investment gains drove the decrease, due to less gains from market spreads and lower initial pricing margin gains on new loan commitments.

Multifamily saw new business activity of $45 billion year to date, a $3 billion decrease versus the prior year period, driven by a reduced loan purchase cap. The Multifamily mortgage portfolio increased by 10 percent year-over-year to $404 billion.

The delinquency rate, which does not include Multifamily loans in forbearance, was 12 basis points as of September 30, 2021, down from 15 basis points at the end of June. As of September 30, approximately 94 percent of the Multifamily mortgage portfolio was covered by credit enhancements, up from 91 percent in the third quarter of 2020.

Capital

On the capital front, our capital position, or net worth, increased to $25.3 billion dollars at the end of the third quarter. That represented an 82 percent increase compared with the prior year quarter and a 13 percent increase from 2Q 2021.

Let me close this section by mentioning some of the real-world impact behind some of these numbers. Since the start of the pandemic, we have helped hundreds of thousands of at-risk homeowners and renters remain in their homes, while maintaining the stability of the U.S. housing finance system during the COVID-19 pandemic. Overall, during the pandemic:

- We extended forbearance to more than 830,000 single-family borrowers. Approximately 129,000 remained in forbearance as of September 30.
- We helped over 670,000 families stay in their homes thanks to loan workouts.
- Similarly, we extended COVID-19 related forbearance to approximately 1,450 qualifying multifamily properties, protecting tenants in about 135,000 units from eviction for non-payment of rent.

And with that, I'll turn the call back over to Michael.

Conclusion

Thank you, Chris.
It is good to see such solid financial results, combined with outstanding risk management and a commitment to developing and recruiting outstanding talent.

But let me say again that all of this work is in support of mission. Freddie Mac is at its best when it delivers strong financial returns and serves its mission to the nation by helping lenders of all sizes, addressing issues of housing inequity, and providing access to sustainable and affordable home financing.

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