Freddie Mac CFO Discusses Fourth Quarter and Full Year 2020 Financial and Business Results

Remarks of Christian Lown, Chief Financial Officer
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As Prepared for Delivery

Good morning and thank you for your interest in Freddie Mac. During this morning's call, I will discuss our financial and business results.

THE IMPORTANT ROLE WE PLAY

Let's start our 2020 review by noting that Freddie Mac continued to serve the important role for which it was founded. We delivered record liquidity of $1.2 trillion at a critical time, helping 4.6 million families purchase, refinance, or rent a home—a significant increase compared to the 2.6 million we supported in 2019. Key highlights in 2020 include:

- Our record refinancing activity helped reduce mortgage payments for 2.7 million families.
- First-time homebuyers represented 46 percent of the 1.1 million homebuyers we supported.
- And, of the over 800,000 multifamily units we helped finance, 96 percent were affordable to families making at or below 120 percent of the area median income.

In addition, our support to American families during the pandemic included:

- Implementing a single-family foreclosure and eviction moratorium covering more than 11 million families.
- As of December 31, more than 700,000 single-family borrowers had entered into forbearance agreements with our servicers, and nearly 61 percent—or 437,000—have already exited forbearance after regaining their footing; and
- Even before the Centers for Disease Control eviction ban went into place, we removed the threat of eviction for residents of the more than 4.6 million multifamily units we helped finance. That protection is ongoing for nearly 100,000 families covered by our Multifamily forbearance program.

Working closely with our conservator and industry partners, we are very proud of this support and these accomplishments.

FINANCIAL RESULTS

Turning to our financial results, Freddie Mac reported fourth quarter net income of $2.9 billion, up 18 percent from the prior quarter. Comprehensive income totaled $2.5 billion, up 3 percent from the prior quarter. This increase was driven by continued revenue growth and a release of loan loss reserves due primarily to realized house price appreciation in the fourth quarter.

Looking into more detail, there was a 6 percent increase in net interest income from the prior quarter, which was driven by 7 percent growth in our Single-Family guarantee book.

Our fourth quarter credit-related benefit totaled $0.1 billion, compared to an expense of $0.6 billion in the prior quarter. This was driven by realized house price appreciation in the fourth quarter, partially offset by a decrease in the expected credit enhancement recoveries in our risk transfer structures as a result of increased house prices.

Turning to full year 2020, Freddie Mac reported net income of $7.3 billion, an increase of 2 percent, or $0.1 billion from 2019, and comprehensive income of $7.5 billion, down 3 percent, or $0.3 billion dollars from 2019.

Year-over-year net revenues increased by 18 percent to $16.7 billion, driven by an increase in net interest income of 8 percent to $12.8 billion. This growth was primarily due to 17 percent growth in the Single-Family guarantee portfolio and higher deferred fee income recognition due to faster loan prepayments as a result of the record low mortgage rates in 2020.

Net investment gains increased 122 percent, or $1 billion, to $1.8 billion, primarily driven by higher margins on Multifamily loan commitments.

Full year credit-related expense increased by $2.1 billion to $2.3 billion dollars in 2020, which was mainly due to a provision for higher expected credit losses as a result of the COVID-19 pandemic and portfolio growth. Our full year provision was partially offset by house price appreciation in 2020 and a year-over-year increase in expected credit enhancement recoveries, primarily from our credit risk transfer transactions.

Turning to the individual business lines, the Single-Family business reported comprehensive income of $4.5 billion, up 4 percent year over year. This was mainly driven by a 32 percent increase in our guarantee fee income, which resulted from portfolio growth in 2020 and higher deferred fee income recognition driven by faster loan prepayments. In addition, we realized a higher average contractual guarantee fee rate, which increased to 49 basis points in 2020 from 40 basis points in 2019. Our Single-Family guarantee portfolio also grew by 17 percent year over year to $ 2.3 trillion.

New Single-Family business activity increased meaningfully by 141 percent to $1.1 trillion from the prior year, reflecting higher home purchase and refinance activity. The Single-Family serious delinquency rate increased to 2.64 percent from 0.63 percent in 2019 driven by loans in forbearance as a result of the COVID-19 pandemic. During the year, we completed nearly 426,000 Single-Family workouts, including forbearance agreements and payment deferrals, vs. 47,000 in 2019.

The Multifamily business reported comprehensive income of $3.2 billion dollars for 2020, up 67 percent year over year. This was mainly driven by higher investment gains of $1.5 billion, which were primarily due to higher margins on Multifamily loans and commitments. We also saw a 31 percent increase in guarantee fee income due primarily to continued growth in the multifamily guarantee portfolio. Our Multifamily guarantee portfolio grew 15 percent year over year to $312 billion in 2020 due to securitization activity of $78 billion.

We saw new business activity of $83 billion in 2020, up 6 percent from $78 billion in 2019. Nearly 40 percent of this activity was mission-driven affordable housing, including certain senior housing loans, small balance loans, manufactured housing loans, and targeted affordable housing loans.

The Multifamily delinquency rate increased to 16 basis points at the end of 2020 from 8 basis points at the end of 2019 due to the pandemic. At the end of 2020, we had 2.01 percent of our Multifamily mortgage portfolio in forbearance, based on unpaid principal balance. Approximately 82 percent of these loans in forbearance are included in securitizations with first-loss credit enhancement provided by subordination.

Our Capital Markets segment had a comprehensive loss of $0.2 billion dollars, compared to income of $1.5 billion in 2019, primarily due to lower net interest income. The decrease in net interest income was driven by an increase in amortization expense due to higher loan prepayments, coupled with additional expense due to payments to security holders on the full monthly coupon rate when loans pay off mid-month.

Finally, at year end our capital position, or net worth, stood at $16.4 billion vs. $9.1 billion in 2019.

CONCLUDING REMARKS

The events of the past year have demonstrated Freddie Mac's important role in continuously supporting the housing market. Our goal is to ensure that our mission extends well into the future for this company and those we serve. With that, thank you all for joining us today.