Freddie Mac CFO Discusses First Quarter 2024 Financial and Business Results

Remarks by

Chris Lown
Executive Vice President and Chief Financial Officer

May 1, 2024

As Prepared for Delivery

Introduction

Good morning and thank you for joining our call to review Freddie Mac's first quarter 2024 financial results. Before I move on to our earnings, I'd like to offer some brief remarks about the mission our financial performance supports.

In the first quarter, Freddie Mac helped make it possible for hundreds of thousands of families to rent, buy or refinance a home. Ninety percent of the rental homes we helped finance were affordable to low- and moderate-income families. First-time homebuyers represented 52 percent of new single-family home purchase loans. That's a new high for us.

We are working to extend these opportunities to more borrowers and renters in a safe, sound and sustainable way. Here are three examples of how we moved toward that goal since the beginning of the year:

First, we added to our affordability toolkit for very low-income homebuyers. Through our Home Possible Very Low-Income Purchase Credit, eligible families earning 50 percent or less of area median income can now receive a $2,500 credit to help them with closing costs or a down payment.

Second, we made mission-focused investing easier for the firms that supply liquidity to the U.S. housing finance system. Updates to our Mission Index could help investors identify mortgage-backed securities meeting their social investment goals.

And third, we continue to update our risk-management practices. We recently announced Multifamily policy and process changes—including enhanced property inspection requirements and appraisal reviews—that further strengthen our underwriting due diligence and risk mitigation.

Through these actions and others, Freddie Mac is helping to make home possible for families across the country in a safe and sound manner.

Now let's take a look at our financial results.

Financials

We earned net income of $2.8 billion this quarter, an increase of $771 million, or 39 percent, year-over-year. This increase was primarily driven by higher net investment gains and higher net interest income which benefited from higher rates.

First quarter net interest income was $4.8 billion, up 6 percent year-over-year. The Single-Family mortgage portfolio grew 2 percent and saw a 1 basis point increase in the average estimated Single-Family guarantee fee rate. Higher investment income benefiting from higher short-term interest rates also contributed to the increase in net interest income. These positive drivers were partially offset by lower deferred fee income recognition resulting from slower prepayments due to higher mortgage rates.

Non-interest income for the first quarter was $1 billion, an increase of $672 million from the prior year quarter, primarily due to an increase in net investment gains in Multifamily.

Our provision for credit losses was $181 million for this quarter, driven by modest credit reserve builds in both business segments, compared to a higher provision expense of $395 million for the prior year quarter, which was primarily attributable to new acquisitions in that period.

Our total mortgage portfolio at the end of this quarter was $3.5 trillion, a 2 percent increase year-over-year.

Single-Family Business Segment

Turning to our individual business segments, the Single-Family segment reported net income of $1.9 billion for the quarter, up $268 million, or 16 percent year-over-year.

Single-Family net revenues of $4.5 billion increased 6 percent from the prior year quarter. This increase was primarily driven by a 4 percent increase in our net interest income, which benefited from continued growth in our Single-Family mortgage portfolio. Investment net interest income also increased due to higher short-term interest rates. These increases were partially offset by lower deferred fee income due to slower prepayments as a result of higher mortgage rates.

Our provision for single-family credit losses was an expense of $120 million this quarter, primarily due to a modest credit reserve build for new acquisitions and the impact of higher mortgage rates. The provision in the prior year quarter was $318 million, which was primarily attributable to new acquisitions.

Our current house price forecast assumes an increase of 0.2 percent over the next 12 months and 0.6 percent over the subsequent 12 months. This is down from our forecast at end of last quarter which assumed 2.8 percent and 2 percent growth over next 12 and subsequent 12 months, respectively.

The Single-Family allowance for credit losses coverage ratio at the end of this quarter was 20 basis points, unchanged from the last quarter and down 6 basis points year over year.

The Single-Family serious delinquency rate continued to be historically low and declined to 52 basis points at the end of the first quarter, down 10 basis points from 1Q 2023 and 3 basis points from 4Q 2023. In the first quarter, we helped approximately 21,000 families remain in their homes through loan workouts.

Our Single-Family mortgage portfolio at the end of the quarter was $3.0 trillion, up 2 percent year over year. Credit characteristics of our Single-Family portfolio remained strong, with the weighted average current loan-to-value ratio at 52 percent and the weighted average current credit score at 754. At the end of the quarter, 61 percent of our single-family portfolio had some form of credit enhancement.

New business activity totaled $62 billion this quarter, slightly up from $59 billion from 1Q 2023. First time home buyers represented 52 percent of our total new business activity.

Higher mortgage rates continue to impact both purchase and refinance activity. Refinance activity accounted for 15 percent of our total new business activity this quarter which was slightly up from 11 percent in 4Q 2023. Mortgage rates at the end of the quarter were 6.79 percent, up from 6.61 percent at end 4Q 2023 and 6.32 percent at end 1Q 2023.

The weighted average original loan-to-value on new purchases was 78 percent and weighted average original credit score was 753, while the average estimated guarantee fee charged on the new business was 55 basis points.

Multifamily Business Segment

Moving on to Multifamily, the segment reported net income of $821 million, up $503 million from the prior year quarter. This increase was primarily driven by higher non-interest income of $1 billion, which increased $593 million from the prior year quarter. This increase in non-interest income was primarily driven by net gains from interest-rate risk management activities, higher revenues from held-for-sale loan purchase and securitization activities, and favorable fair value changes from spreads.

Net interest income of $271 million was up 32 percent year-over-year, primarily driven by higher yields on mortgage loans as a result of higher interest rates and the larger average PC portfolio.

The Multifamily provision for credit losses was an expense of $61 million this quarter versus $77 million in the prior year quarter.

Our Multifamily new business activity was $9 billion for the first quarter, up $3 billion or 50 percent from a year ago. Our Multifamily business provided financing for 85,000 multifamily rental units this quarter, of which 61 percent were affordable to low-income families.

The Multifamily mortgage portfolio increased 4 percent year-over-year to $443 billion. Approximately 94 percent of the Multifamily mortgage portfolio was covered by credit enhancements at the end of this quarter.

The Multifamily delinquency rate at end of the quarter was 34 basis points, up 21 basis points versus 13 basis points at the end of March 2023. This increase was primarily driven by delinquency in our floating rate loans and small business loans portfolio. Ninety-four percent of these delinquent loans had credit enhancement coverage.

Capital

On the capital front, our net worth increased to $50.5 billion at the end of the quarter, representing a 29 percent increase year-over-year.

Conclusion

In conclusion, Freddie Mac helped 279,000 families purchase, refinance, or rent a home while delivering solid financial results this quarter. Importantly, most of the liquidity we provided supported low- and moderate-income households, as well as first-time homebuyers. As affordability challenges are expected to persist, efforts to expand affordability for homeowners and renters will remain a key focus of Freddie Mac.