Freddie Mac Interim CFO Discusses Second Quarter 2024 Financial and Business Results

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 second quarter performance.

In the second quarter, the company continued to deliver steady results despite relatively high mortgage rates and muted housing sales. We earned $2.8 billion in the quarter and our net worth increased to $53 billion.

We financed 212,000 home purchases. Fifty-three percent of the primary home purchases were to first-time home buyers and 53 percent were affordable to low- and moderate-income families. On the Multifamily side, approximately 93 percent of 92,000 eligible rental units we financed were similarly affordable.

One historical note before we move on: The second quarter marked five years since the introduction of the Uniform Mortgage-Backed Security, or UMBS. Together with our partners, we designed the UMBS to foster greater liquidity and standardization in the U.S. housing finance system. And it is working.

Today, the UMBS represents most of the liquidity in the agency MBS market, which is second in size only to the market for U.S. Treasuries. Since inception, nearly $360 trillion of UMBS has been traded, and half of GSE issuance in the second quarter came from Freddie Mac.

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

Financials

As noted, we earned net income of $2.8 billion this quarter, a decrease of $179 million, or 6 percent, year-over-year. This decrease was primarily driven by a credit reserve build in this quarter compared to the credit reserve release we had in the prior year quarter.

Second quarter net interest income was $4.9 billion, up 9 percent year-over-year. This increase was driven by continued growth in the Single-Family mortgage portfolio, which grew 2 percent year-over-year and lower expense related to debt in hedge accounting relationships.

Non-interest income for the second quarter was $1.1 billion, an increase of $244 million, or 30 percent, from the prior year quarter, primarily due to higher guarantee income and higher net investment gains.

Our provision for credit losses was $394 million for this quarter, driven by modest credit reserve builds in both business segments, compared to a credit reserve release in our Single-Family business in the prior year, which was primarily attributable to improvement in home prices.

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 business reported net income of $2.3 billion for the quarter, down $97 million, or 4 percent, year-over-year.

Single-Family net revenues of $5.1 billion increased $734 million, or 17 percent, from the prior year quarter. This increase was primarily driven by a $340 million, or 8 percent, increase in net interest income, which benefited from continued growth in our Single-Family mortgage portfolio and lower expense related to debt in hedge accounting relationships.

Higher Single-Family non-interest income also contributed to the increase in Single-Family net revenues. Non-interest income was up $394 million from the prior year quarter to $459 million, due to impacts from interest-rate risk management activities.

Our provision for Single-Family credit losses was an expense of $315 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 a benefit of $638 million, which was primarily driven by a credit reserve release due to improvement in house prices during that period.

Our current house price forecast assumes an increase of 0.6 percent over the next 12 months and 0.5 percent over the subsequent 12 months. This is a change from our forecast at the end of last quarter which assumed 0.2 percent and 0.6 percent growth over the next 12 and subsequent 12 months, respectively.

The Single-Family allowance for credit losses coverage ratio at the end of this quarter was 21 basis points, up 1 basis point from the prior quarter and down 3 basis points year-over-year.

The Single-Family serious delinquency rate continued to be historically low and declined to 50 basis points at the end of the second quarter, down 6 basis points from 2Q 2023 and down 2 basis points from 1Q 2024. In the second quarter, we helped approximately 18,000 families remain in their homes through loan workouts.

Our Single-Family mortgage portfolio at the end of the quarter was $3.1 trillion dollars, 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 755. At the end of the quarter, 62 percent of our Single-Family portfolio had some form of credit enhancement.

New business activity totaled $85 billion this quarter, up $23 billion from 1Q 2024. First-time homebuyers represented 53 percent of our new single-family home purchase loans. Higher mortgage rates continue to impact both purchase and refinance activity. Refinance activity accounted for 13 percent of our total new business activity this quarter.

The 30-year mortgage rate peaked at 7.22 percent during the quarter and ended the quarter at 6.86 percent, up from 6.79 percent at the end of 1Q 2024 and 6.71 percent at the end of 2Q 2023.

The weighted average original loan-to-value on new purchases was 78 percent and the weighted average original credit score was 754, while the average estimated guarantee fee charged on new business was 54 basis points.

Multifamily Business Segment

Moving on to Multifamily, the segment reported net income of $481 million, down $82 million, or 15 percent, from the prior year quarter. This decrease was primarily driven by lower non-interest income, which declined 20 percent, or $150 million, year-over-year, primarily driven by higher guarantee income offset by impacts from interest-rate risk management activities and less favorable fair value changes from spreads.

The decline in non-interest income was partially offset by net interest income of $293 million, which was up 29 percent year-over-year, primarily driven by higher yields on mortgage loans as a result of higher interest rates and continued portfolio growth.

The Multifamily provision for credit losses was an expense of $79 million this quarter versus $101 million in the prior year quarter.

Our Multifamily new business activity was $11 billion for the second quarter, up $2 billion from the prior quarter. The business provided financing for 92,000 multifamily rental units this quarter, of which 65 percent were for affordable to low-income families.

The Multifamily mortgage portfolio increased 5 percent year-over-year to $447 billion. Approximately 95 percent of the Multifamily mortgage portfolio was covered by credit enhancements at the end of the quarter.

The Multifamily delinquency rate at the end of the quarter was 38 basis points, up 17 basis points versus 21 basis points at the end of June 2023. This increase was primarily driven by delinquency in our floating rate loans and small balance loans portfolio. Ninety-five percent of these delinquent loans had credit enhancement coverage.

Capital

On the capital front, our net worth increased to $53.2 billion at the end of the quarter, representing a 27 percent increase year-over-year.

Conclusion

In conclusion, Freddie Mac continued to fulfill its vital mission: providing liquidity, stability and affordability in support of renters, homebuyers and lenders across the country. We increased our net worth, managed our risks and delivered the kind of steady financial performance that can carry our mission forward into the future.