

## Focus on: **Freddie Mac**

Freddie Mac is a shareholder-owned company created by Congress in 1970 to stabilize the nation's mortgage markets and expand opportunities for homeownership and affordable rental housing. At that time, interest rates varied widely from city to city across the country. The mortgage market was unpredictable and mortgages were sometimes hard to get. Neither the government nor private banking interests could address the nation's housing finance needs alone.

Today, Freddie Mac has addressed these needs and more. We have done so not by making individual mortgage loans to consumers, but rather by ensuring that there is a continuous flow of funds to mortgage lenders. The mortgage securities market is one of the largest financial markets in the world. Freddie Mac helps ensure that the U.S. housing finance system is liquid, efficient and reliable. Freddie Mac helps keep mortgage interest rates low, brings innovation and automation to the mortgage lending process, expands opportunities for more affordable mortgage financing, and continues to help one in six homebuyers realize their dream of owning a home.

### **About Freddie Mac's Business Lines**

Freddie Mac buys residential mortgages and funds them in the capital markets in one of two ways—using mortgage-backed securities or debt instruments. By bringing efficiency to the securities markets, we lower our funding costs, make housing more affordable for the nation's families, and increase shareholder value.

### **The Main Street Connection**

The mortgage lenders that we do business with are part of the primary mortgage market. In the primary mortgage market, lenders, such as mortgage companies, mortgage brokers, commercial banks, credit unions and community banks, originate mortgage loans directly to consumers.

Once a lender originates a mortgage, the lender has two choices. The lender can either hold the mortgage in its own portfolio or sell the mortgage to a secondary market investor like Freddie Mac. When lenders sell their mortgages to Freddie Mac, they replenish their funds so they can turn around and lend more money to consumers.

Lenders can sell Freddie Mac mortgages that meet our underwriting standards and specific program requirements

Since Freddie Mac's creation, we have pursued the goals our Congressional founders set out for us:

- *To provide stability in the secondary market for residential mortgages*
- *To respond appropriately to the private capital markets*
- *To provide ongoing assistance to the secondary market for residential mortgages*
- *To promote access to mortgage credit throughout the United States by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing*

and government-mandated loan limits. In response to changes in housing affordability, loan limits are adjusted every year.

Freddie Mac pools the mortgages it purchases from lenders across the country and packages them into securities that can be sold to investors. These investors include the lenders themselves, pension funds, insurance companies, securities dealers and other fixed-income investors. Freddie Mac's mortgage securities are among the most liquid and widely held in the world. Through this securitization process, we ultimately provide homeowners and renters with lower housing costs and better access to home financing.

### **Linking the Worldwide Capital Markets to the Nation's Communities**

In addition to financing housing through securitization, Freddie Mac invests in mortgages and mortgage-backed securities. This investment is made possible by our ability to raise money to purchase mortgage assets by selling debt securities to investors throughout the world. Our reference suite of products has attracted billions of dollars in low-cost capital from around the world. Our Internet auctions of debt securities provide investors with unparalleled pricing transparency. We even issue securities denominated in the Euro currency to attract additional investors. By offering investors high-quality securities backed by one of the safest assets—America's homes—we provide families with even more affordable mortgage financing.

### **»» What is the Secondary Mortgage Market?**

*If you think of America's mortgage lenders as retail stores where people go to get mortgages, the secondary mortgage market is their supplier. Freddie Mac, one of the biggest buyers of home mortgages in the United States, is considered a secondary market conduit between mortgage lenders and investors.*

*Lenders look to Freddie Mac and other secondary market conduits for the funds they need to meet consumer demand for home mortgages and multifamily housing. About half of all new single-family mortgages originated today are sold to secondary market conduits.*

We like to call it "linking Main Street with Wall Street." For the most part, what we do is invisible to consumers. But because Freddie Mac exists, millions of Americans benefit from lower monthly mortgage payments and better access to home financing.

### **Combining our Congressional Charter and Private-Market Discipline**

The combination of Freddie Mac's Congressional charter and private-market discipline has allowed us to bring increased efficiency, stability and affordability to the market in all economic conditions. Our charter forms the foundation of our business and ideals that power our mission. The charter lays the framework for our business lines, shapes the products we bring to market, and drives the services we provide to the nation's housing and mortgage industry.

Freddie Mac is owned by its shareholders and, like other corporations, is accountable to its shareholders and a board of directors. We are subject to continuous oversight by our regulators and Congress. Freddie Mac meets stringent capital requirements that apply to all of our financial instruments and obligations.

Our charter—and the mission set out for us by Congress—powers our drive to bring new mortgage products to the market and to use innovation and technology to continue simplifying the mortgage process.

### **Opening Doors for Children and Families**

By opening doors to homeownership and decent rental housing for millions of America's families, Freddie Mac plays a vital role in assuring that the nation has a healthy housing market and prospering neighborhoods. Through our philanthropy—the Freddie Mac Foundation, our Corporate Giving Program and our Employee Involvement Program—we build upon our housing mission by helping to make the homes we finance happy and healthy places for children in strong, thriving communities.

That was the goal we set when we established the Freddie Mac Foundation more than ten years ago and made our first grants. In a single decade, the Foundation's work has helped prevent child abuse and neglect, find permanent homes for foster children, strengthen communities and much more. What began in 1991 with a few grants totaling \$300,000 has grown to a total of more than \$217 million in philanthropy from the Foundation and Freddie Mac over ten years, bettering the lives of 1.6 million children and their families.<sup>1</sup>

## » How is Freddie Mac Regulated?

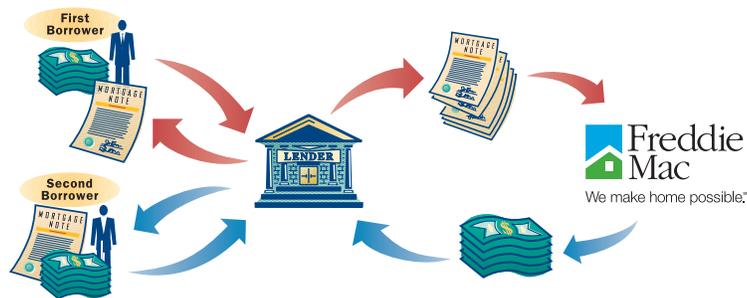
The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 created a regulatory oversight structure for Freddie Mac designed to address our housing mission and our safety and soundness. The U.S. Department of Housing and Urban Development (HUD) has oversight responsibilities for the housing mission of Freddie Mac. In addition, HUD has set permanent affordable housing goals for Freddie Mac based on income and population diversity. These goals, which went into effect January 1, 1996, require that a certain percentage of the mortgages we purchase support financing for housing low- and moderate-income families.

Safety and soundness regulation is vested in the Office of Federal Housing Enterprise Oversight (OFHEO).

Organizationally, OFHEO is located within HUD, but operates independently of the Secretary of HUD as it implements, monitors and enforces capital standards for Freddie Mac.

## How Does the Business Work?

**Step 1:** Prospective homebuyer applies for a mortgage loan through a mortgage lender, mortgage broker or credit union. Online automated underwriting systems like Loan Prospector® can evaluate a homebuyer's credit, collateral, and capacity to repay against the loan requirements and respond within minutes.



**Step 2:** Mortgage lender packages the loans it has made and sells those packages to the secondary market (Freddie Mac or Wall Street). The lender uses the proceeds of the sale to make new mortgage loans to other homebuyers.

**Step 3:** Freddie Mac sells notes backed by the mortgage loans it has purchased to securities investors. It uses the funds from the security sales to purchase more mortgage loans from lenders across the country.



**For additional information about Freddie Mac, visit [www.FreddieMac.com](http://www.FreddieMac.com).**

