

Freddie Mac ACIS® 2021 Recap and 2022 Outlook

Thursday | December 9 | 2021

Freddie Mac ACIS® 2021 Recap and 2022 Outlook

Host

Jeff Shue

Director, Single-Family Credit Risk Transfer



Freddie Mac ACIS® 2021 Recap and 2022 Outlook

Opening Remarks

Mike Reynolds

Vice President, Single-Family Credit Risk Transfer



Freddie Mac ACIS® 2021 Recap and 2022 Outlook

ACIS Recap and 2022 Strategy

Jeff Shue

Director, Single-Family Credit Risk Transfer



ACIS Program History

8

Years Since
First ACIS Transaction

77

ACIS Transactions Issued
Since Program Inception

50

Unique Investors in
ACIS Offerings

\$26+ Billion

ACIS Issuance Since Inception

\$362 Billion

Single-Family Mortgages
with Credit Risk Protection

\$1.9+ Billion

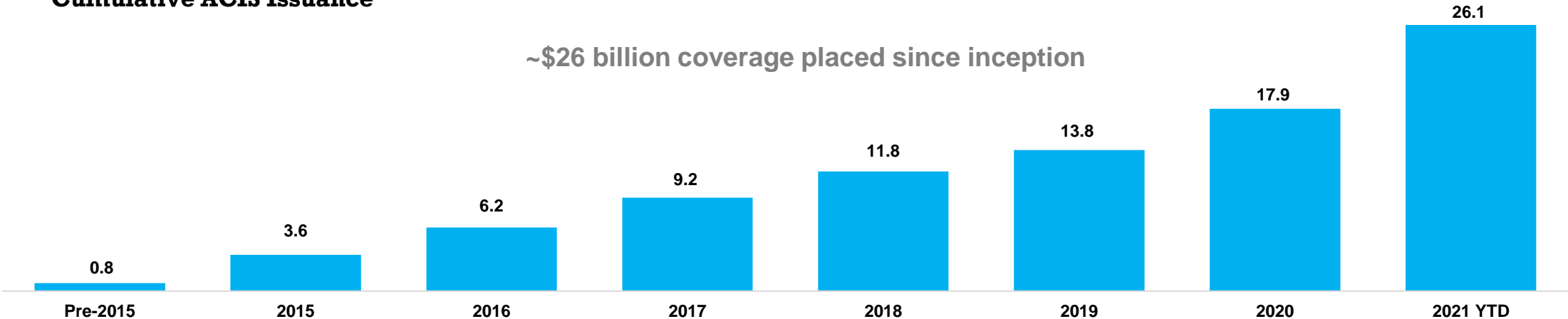
Premium Paid

Source: Freddie Mac, as of December 2021.

By the Numbers

“Credit risk transfer (CRT) has become, in relatively quick order, a core component of the business model of the two Government-Sponsored Enterprises (GSEs), Freddie Mac and Fannie Mae, and very substantially improves that business model.” - Don Layton

Cumulative ACIS Issuance



Pre 2016

- Pioneered first reinsurance transactions in GSE CRT market
- Developed key relationships with global reinsurers, brokers, and service providers
- Created an insurance Cell structure

2016-2019

- Diversified reinsurer panel
- Launched ACIS Standalone (SAP), ACIS Forward (AFRM), ARMR series (HARP), and sold seasoned B2 risk (FTR)
- Introduced 5-year call option

2020

- Priced ACIS 2020-AFRM1 in June 2020, restarting CRT issuances since the onset of COVID-19 pandemic
- 60+ Transactions in 8 years

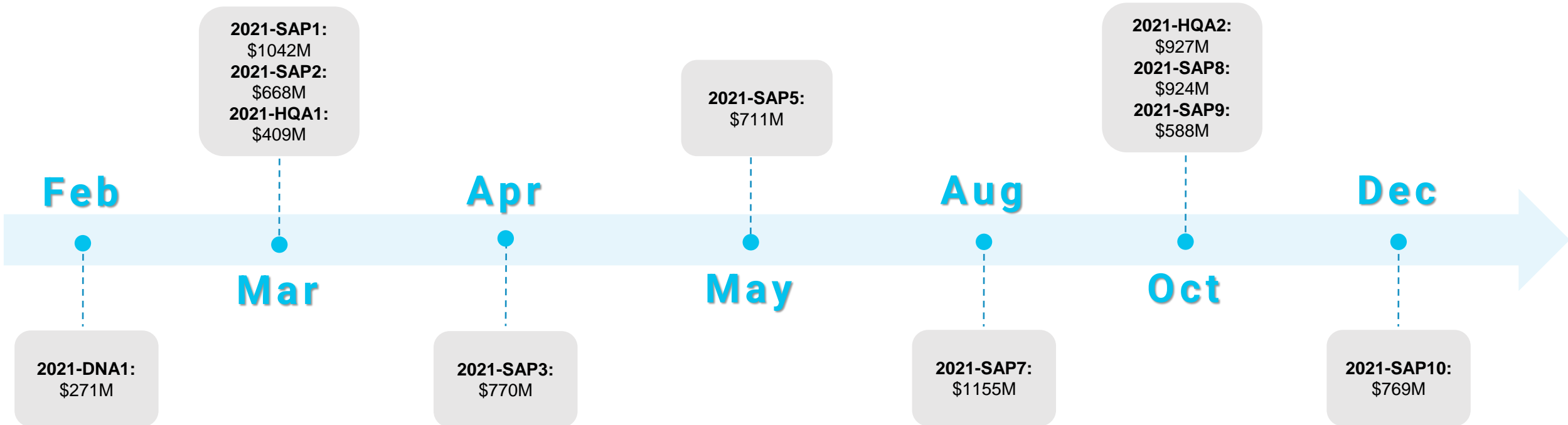
2021

- ACIS issued \$8.2B of limit, making it the highest issuance year since program inception
- 2021 SAP7 was the largest ACIS deal in program history at \$1.16B
- 30 reinsurers returned with 4 new accounts joining the program

Source: Freddie Mac, as of December 2021.

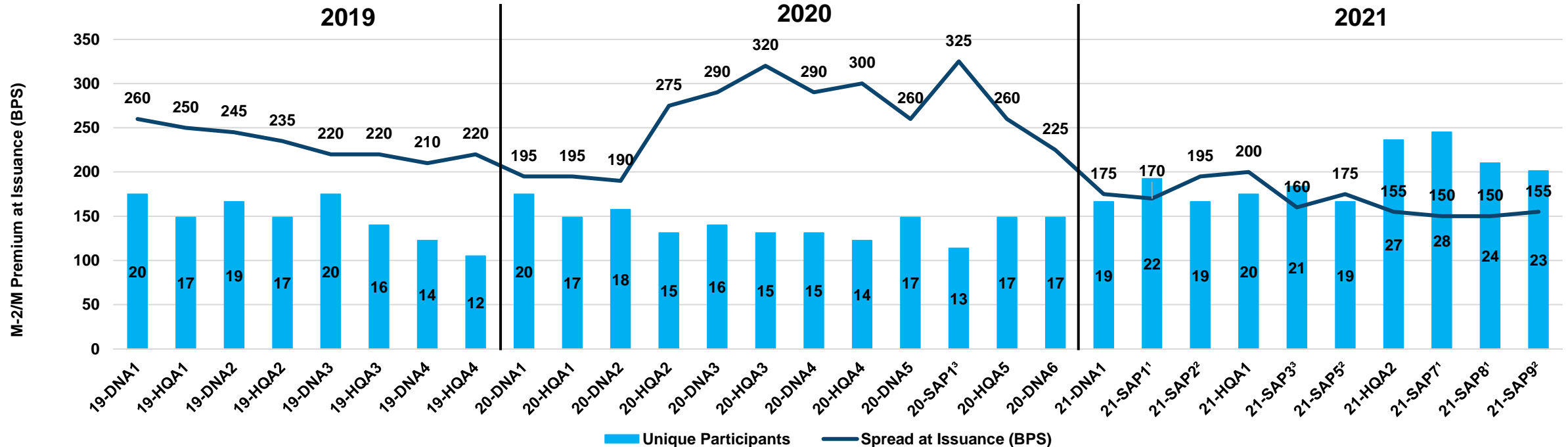


ACIS 2021 Timeline



ACIS and Reinsurer Resilience Through COVID-19

ACIS M-2/M Premium and Total Participants by Transaction



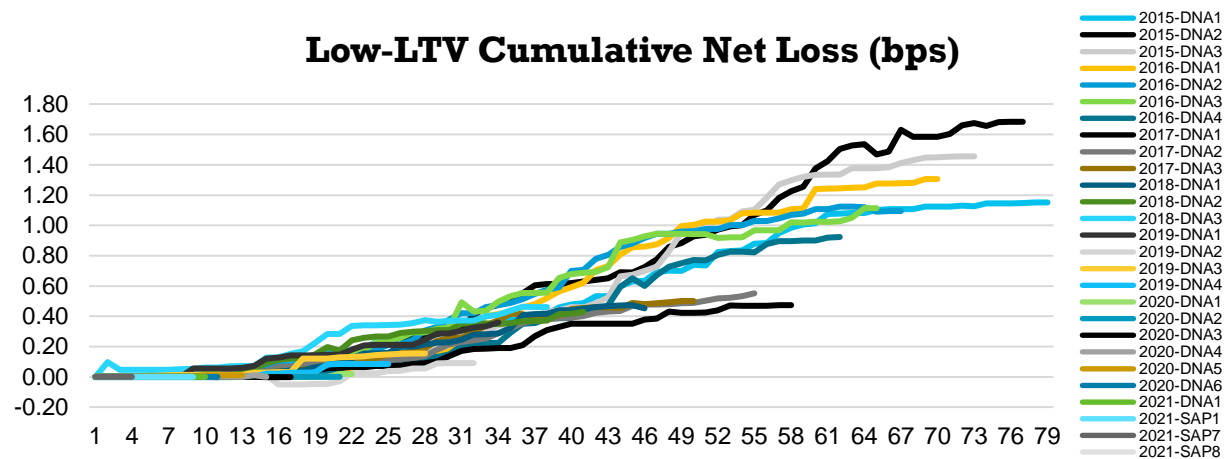
¹Low-LTV Transaction (Single M Placement) ²High-LTV Transaction ³15-Year Collateral

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> ■ Programmatic issuance linked to STACR transactions ■ Diversified reinsurer panel with consistent participants ■ Stable premiums | <ul style="list-style-type: none"> ■ Continued to execute through uncertainty ■ Elevated premiums | <ul style="list-style-type: none"> ■ Continued onboarding of new reinsurers ■ Stabilizing premiums |
|---|---|--|

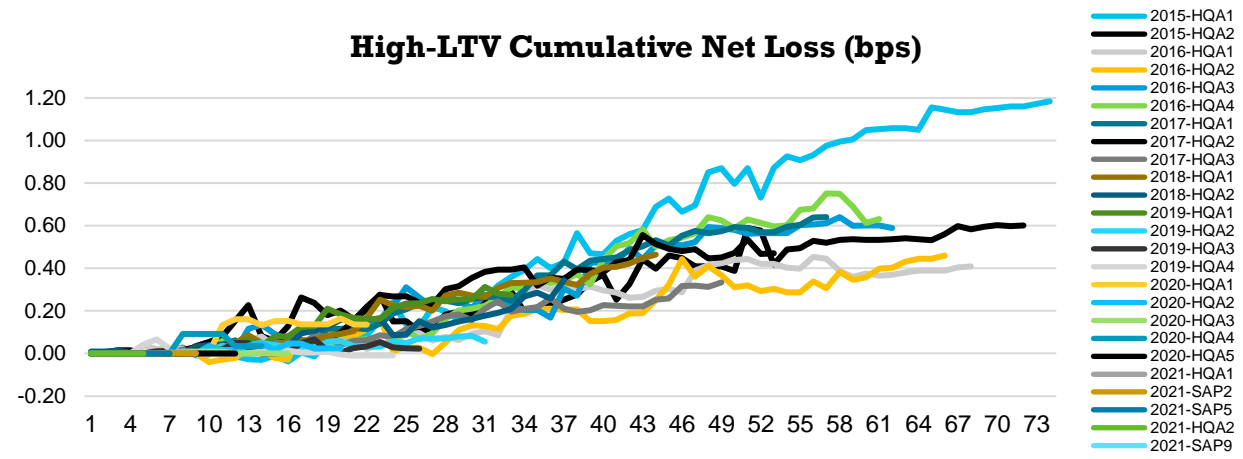
Source: Freddie Mac, as of November 2021.

Portfolio Performance

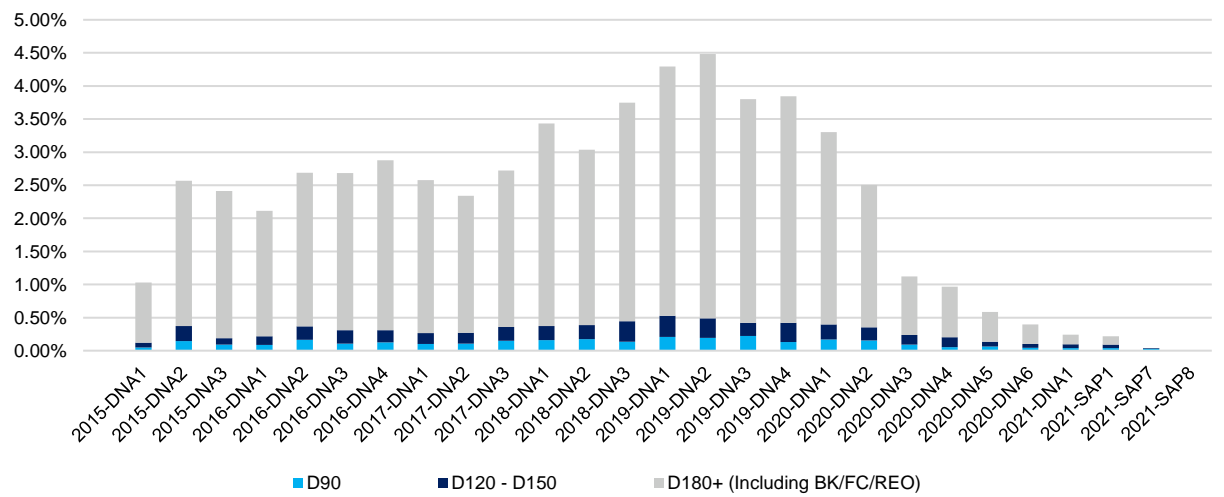
Low-LTV Cumulative Net Loss (bps)



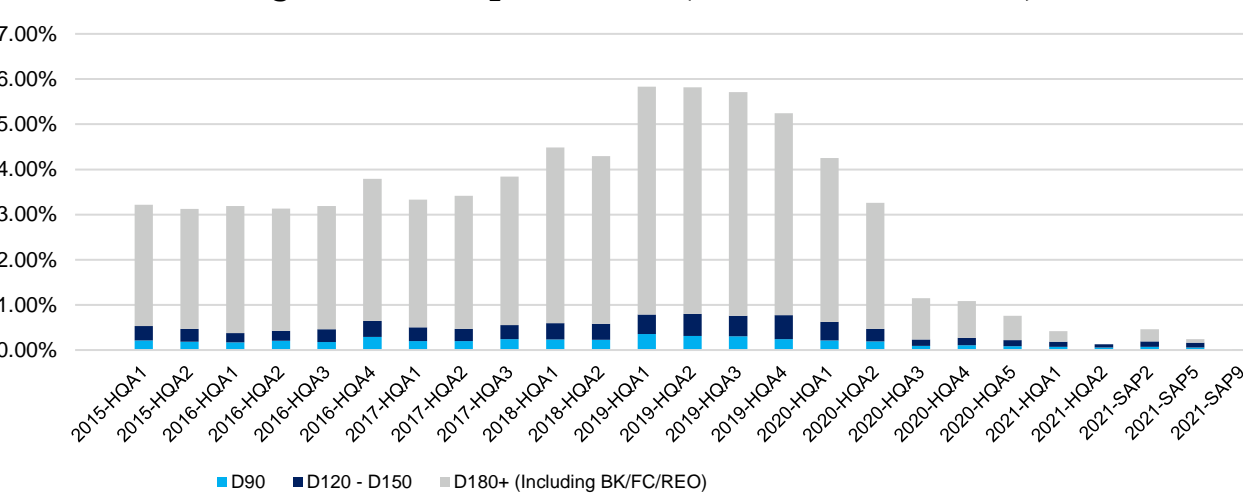
High-LTV Cumulative Net Loss (bps)



Low-LTV Delinquent Status (% of Current Balance)

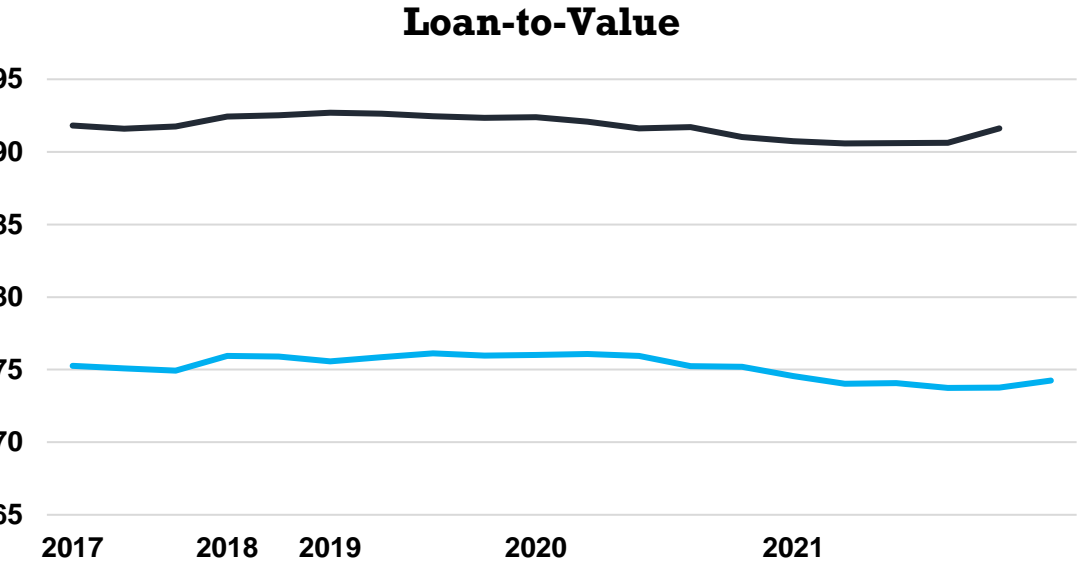
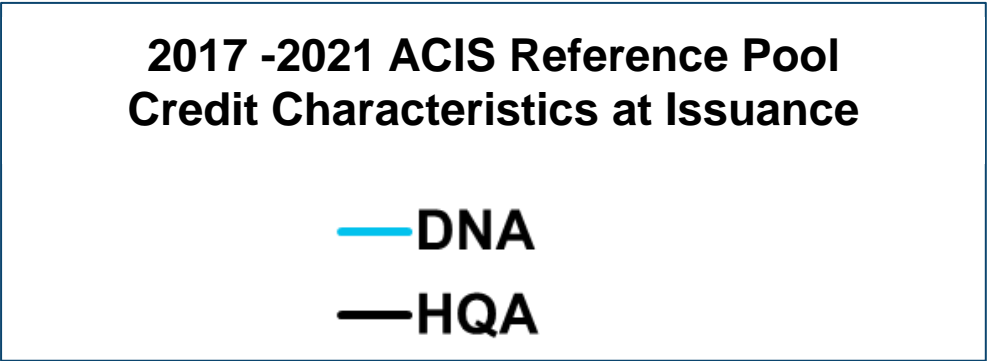


High-LTV Delinquent Status (% of Current Balance)

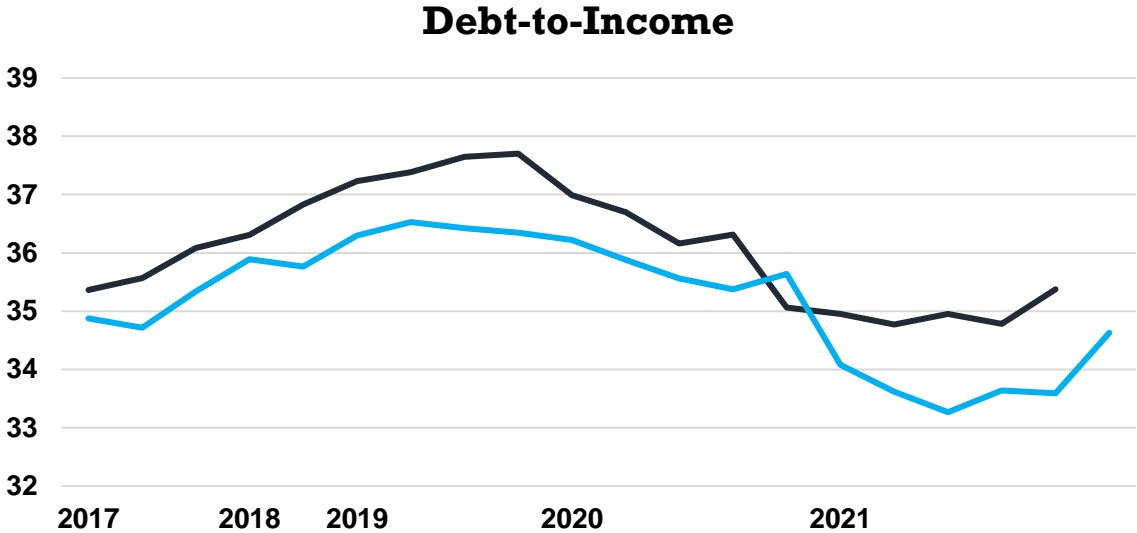
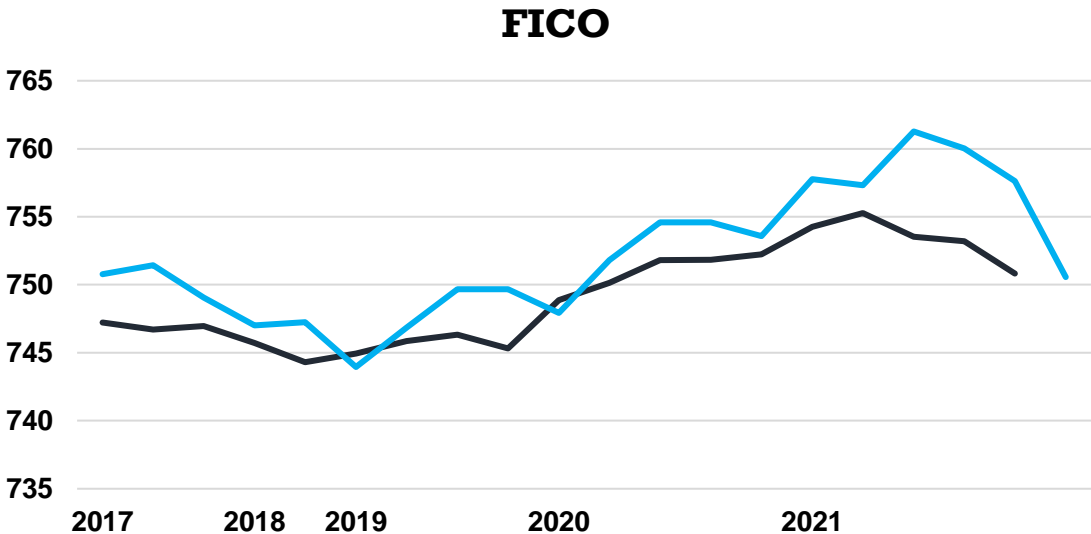


Source: Freddie Mac, as of November 2021.

Strong Credit Profile



Source: Freddie Mac, as of November 2021.



ACIS Standalone Transactions

Transition from STACR-linked Transactions to Standalone (SAP) Transactions

- 2021 SAP deals began in March 2021
- Provides flexibility in execution
 - Structure
 - Pricing
 - Collateral profile
 - Timing
- Supports updated risk retention metric from FHFA

Looking Ahead: 2022 ACIS Standalone Transactions

SPH – High-LTV Standalone Series

SPL – Low-LTV Standalone Series

Freddie Mac ACIS® 2021 Recap and 2022 Outlook

Economic and Housing Market Updates

Sam Khater

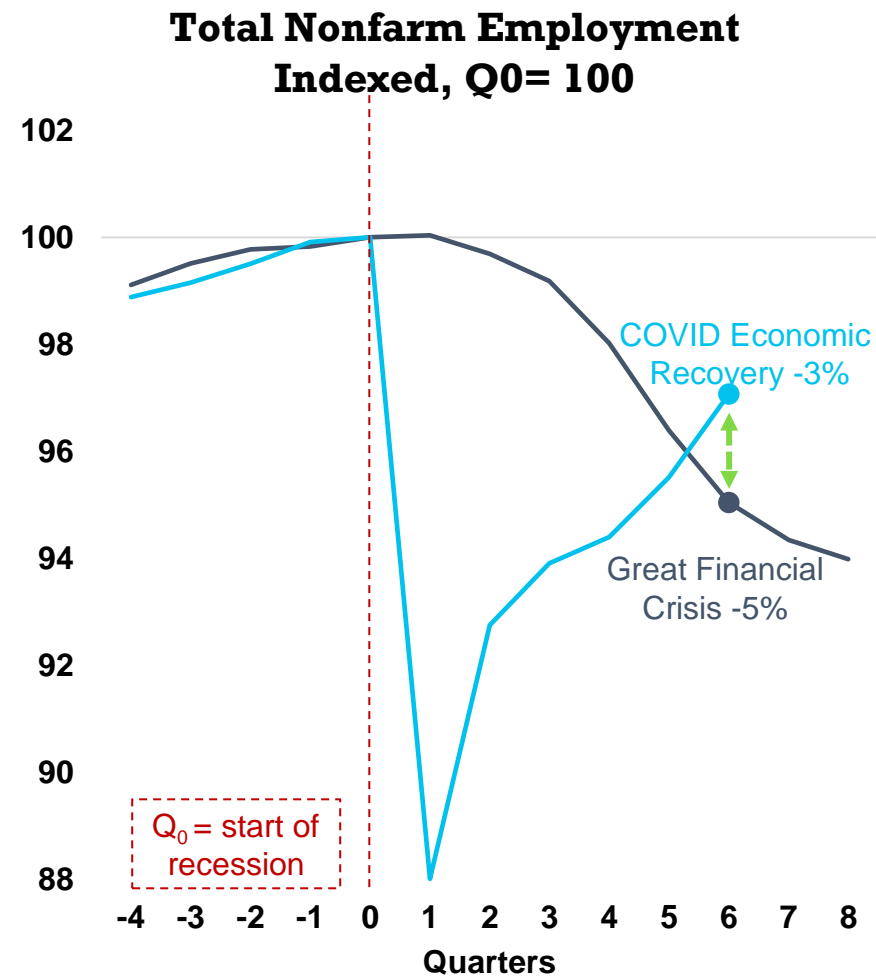
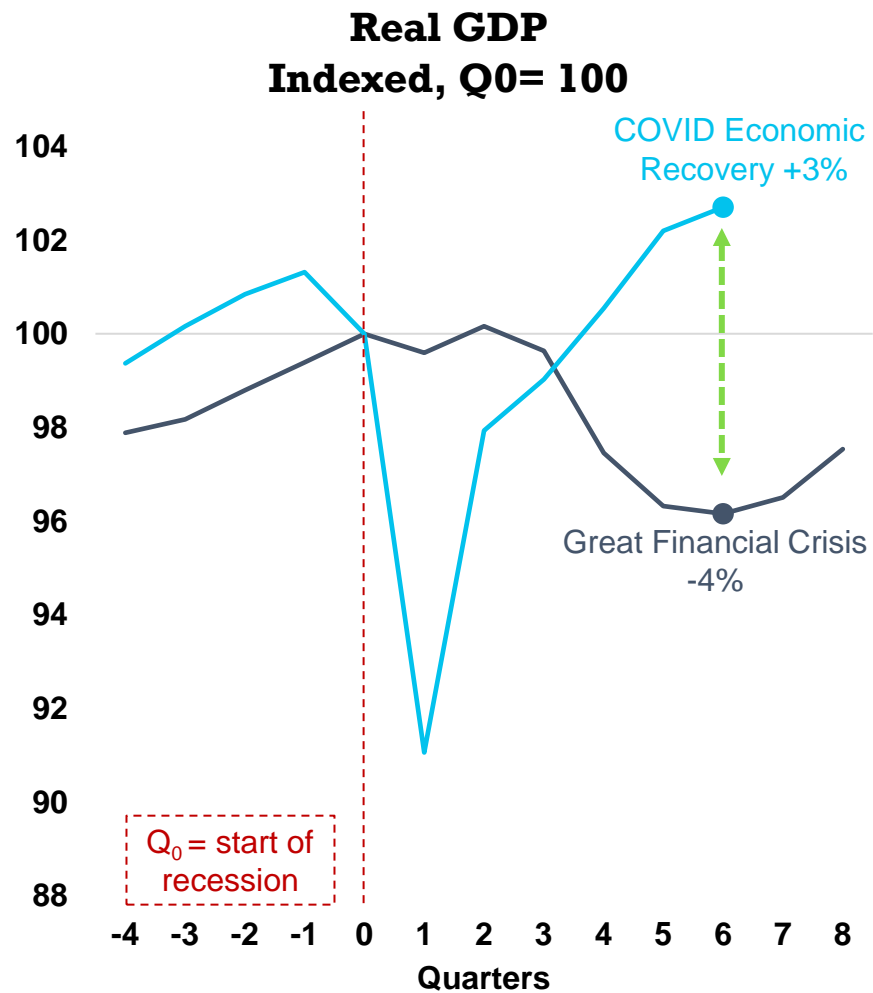
Vice President and Chief Economist,
Economic and Housing Research



Overview

- Economic growth slowed due to mid-year spread of COVID variant but was reaccelerating as of mid November
- Cumulative trajectory of economic expansion is much higher than after the last recession, but growth has been lopsided and heavily tilted towards goods vs services
- Strong consumer demand combined with weak supply has caused inflation to surge and inflation is broadening across more categories
- After a large boom in 2020, housing demand slowed in 2021 but demand remains elevated and home price growth at record highs with supply shortage being a large obstacle
- All signs continue to point to a strong housing market in 2022 with modestly higher mortgage rates, strong home sales activity and slower but elevated home price growth
- Migration out of large coastal expensive areas remains high and is driving growth into the CA central valley, 'open west' states, interior southern states and higher drought/wildfire areas

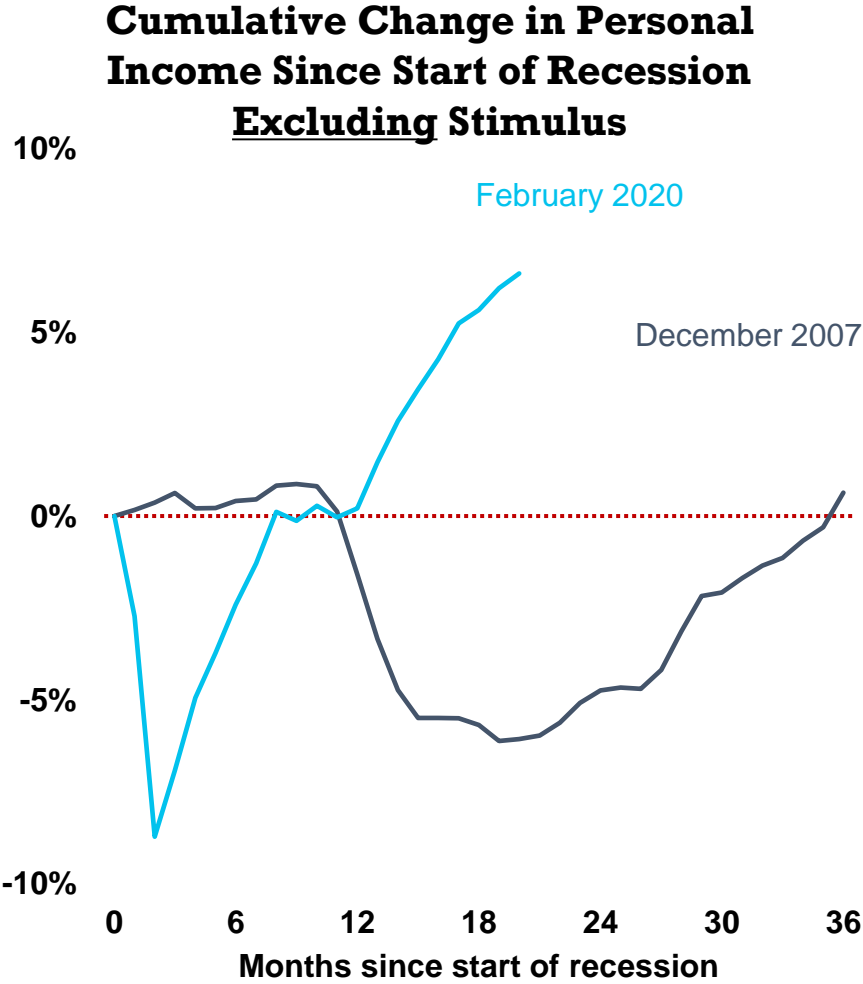
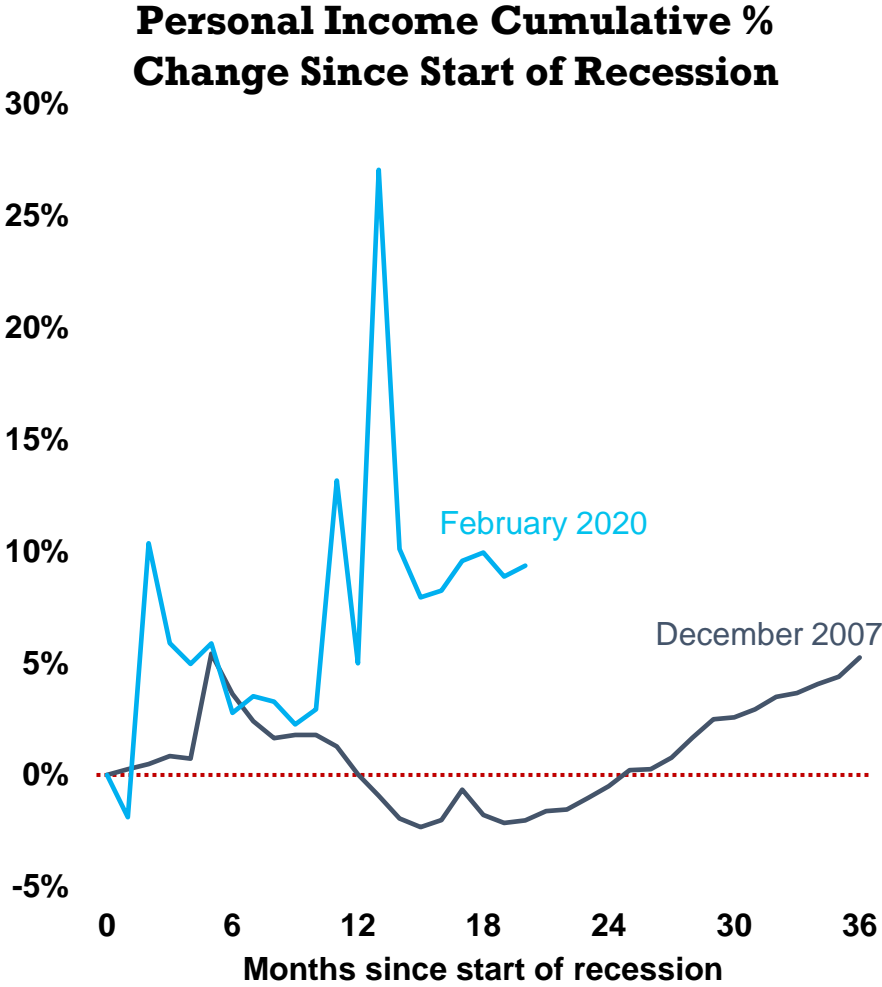
Economy and Employment on a Much Better Post Recession Trajectory, but Gap Between Economic Output and Employment is Concerning



Source: BLS and BEA



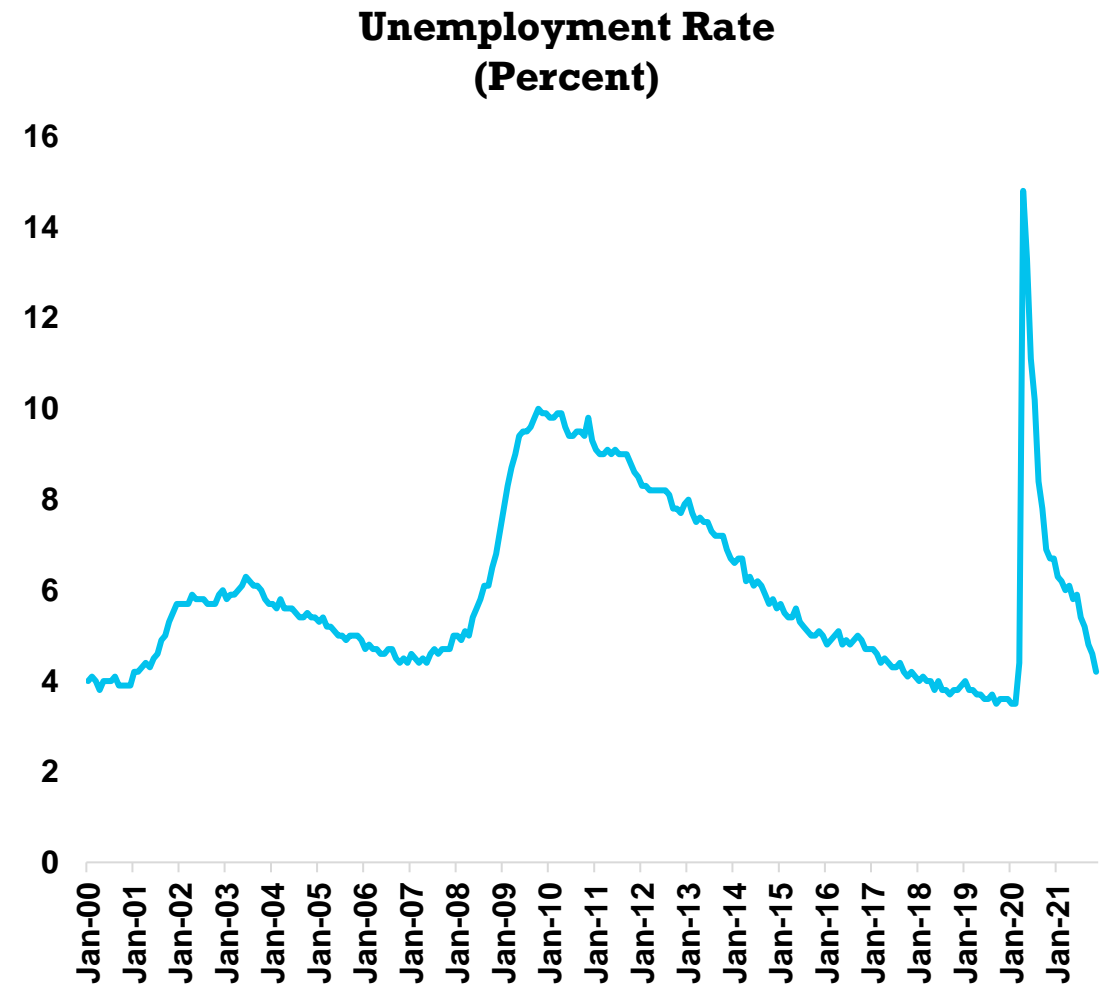
Economic Stimulus Led to Incomes that are 10 Percentage Points Higher than Same Point in Great Financial Recession



Source: BEA

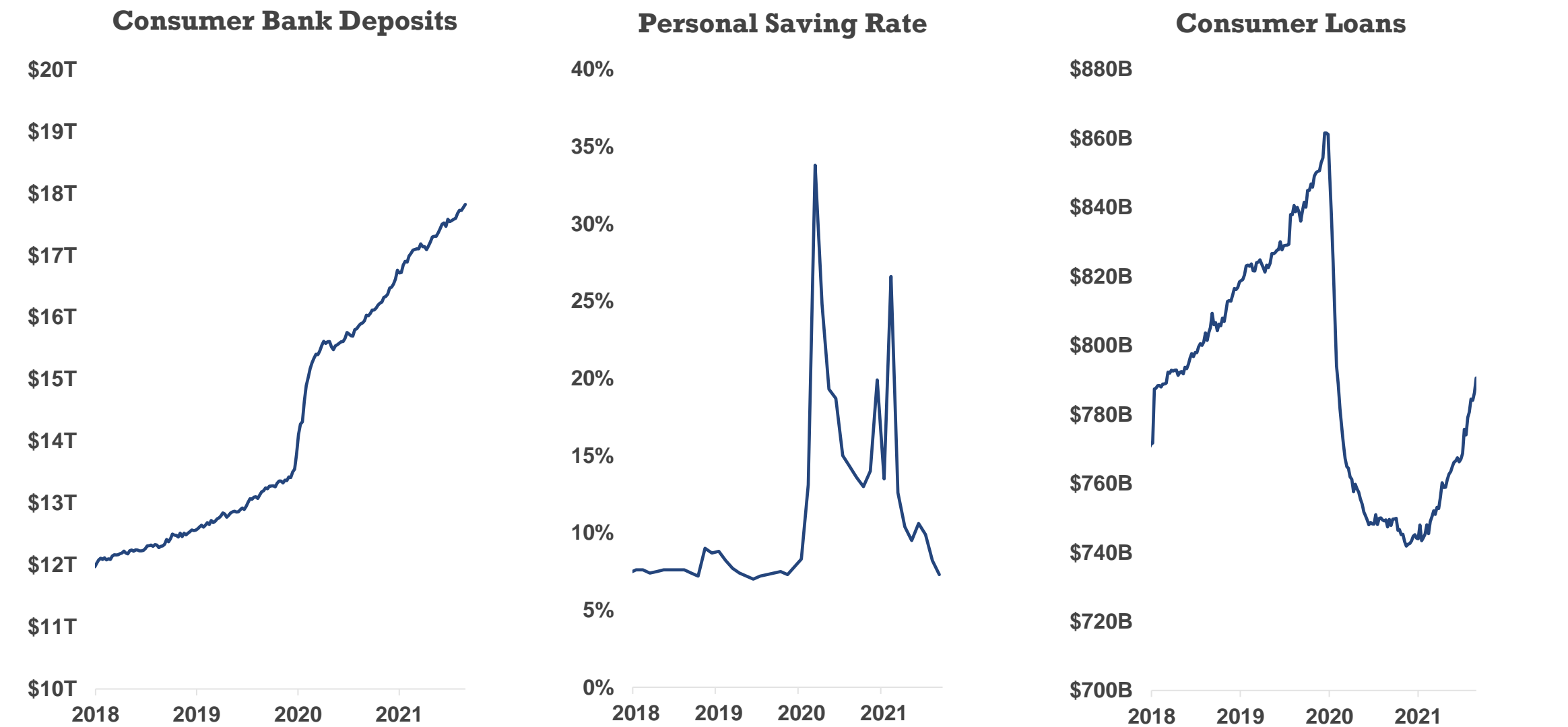


High Frequency Economic Data Shows Economy Still Growing Rapidly as of November and Unemployment Rate Reflects the Strong Growth



Source: Federal Reserve and BLS

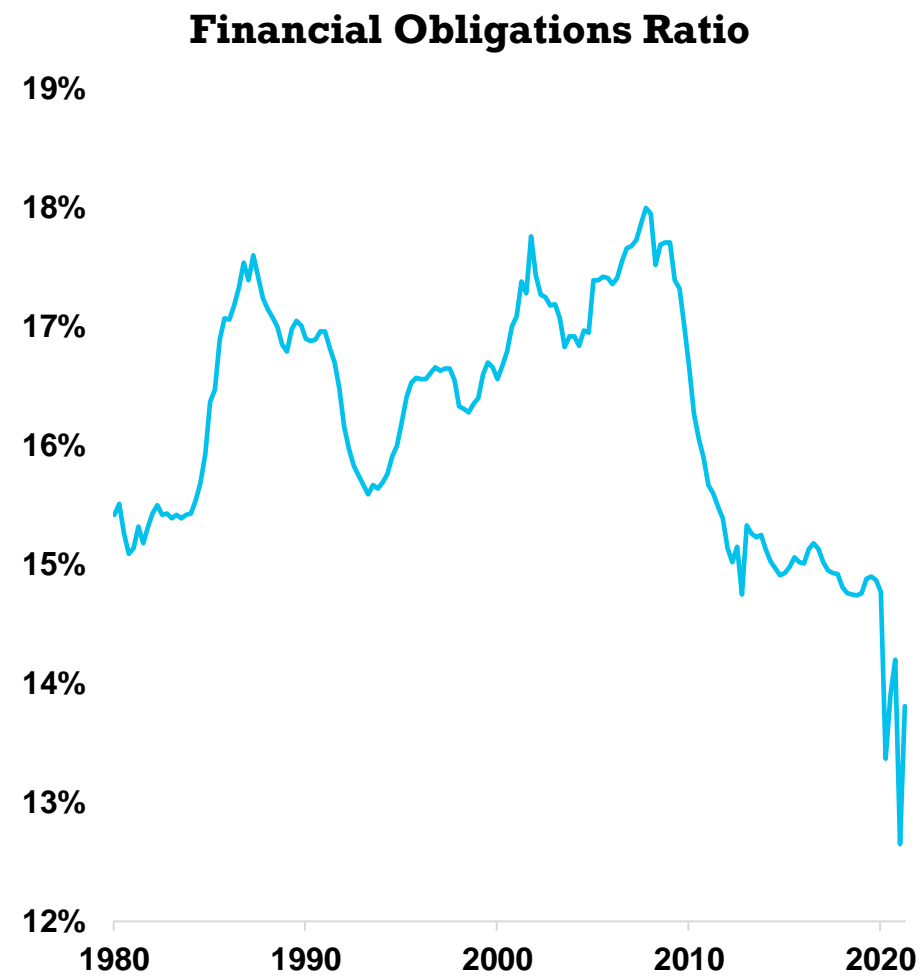
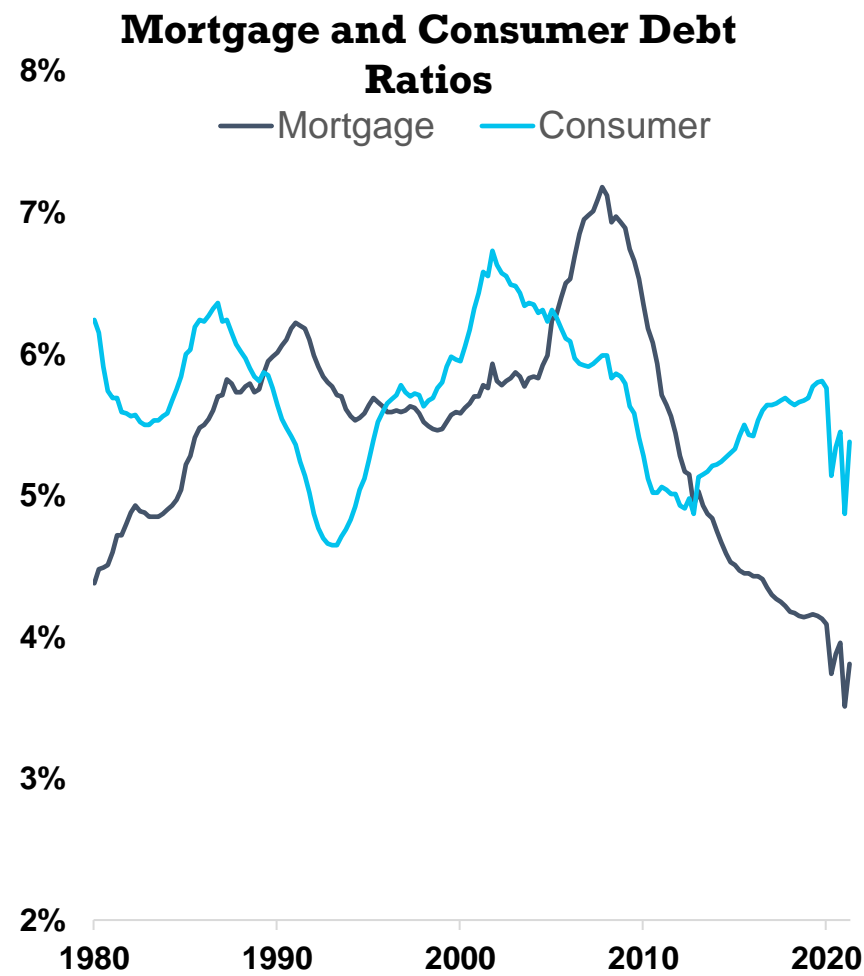
Consumer Balance Sheets Flush With Cash from Stimulus



Source: FRB and BEA



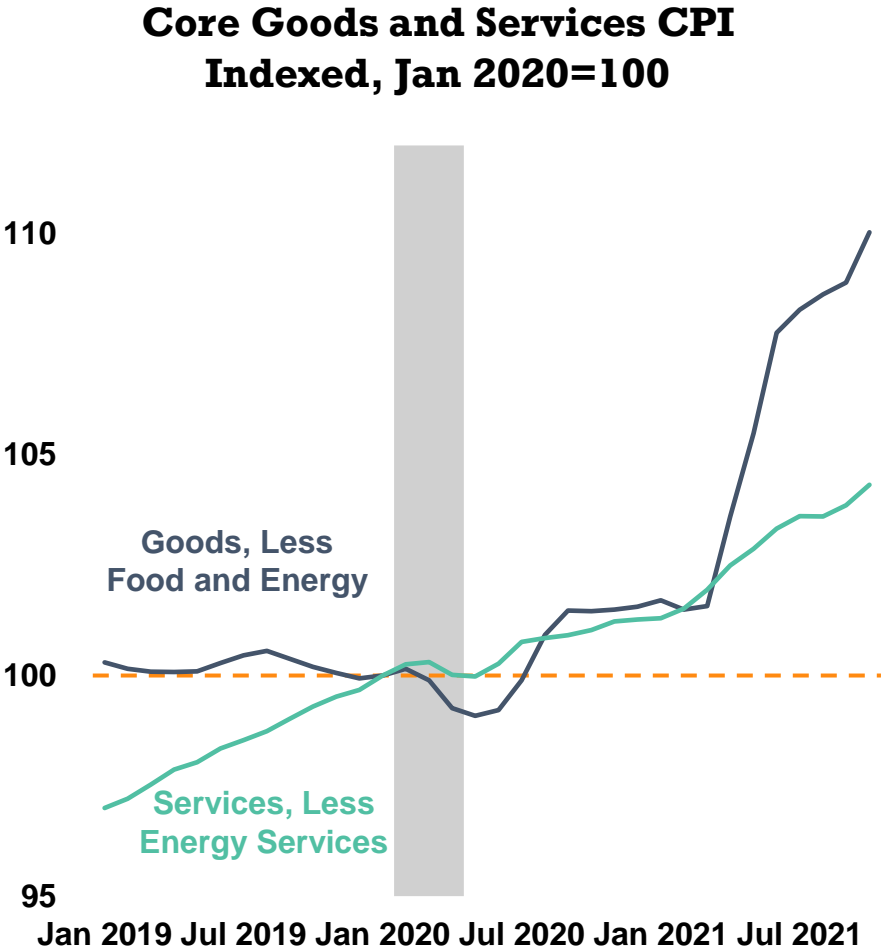
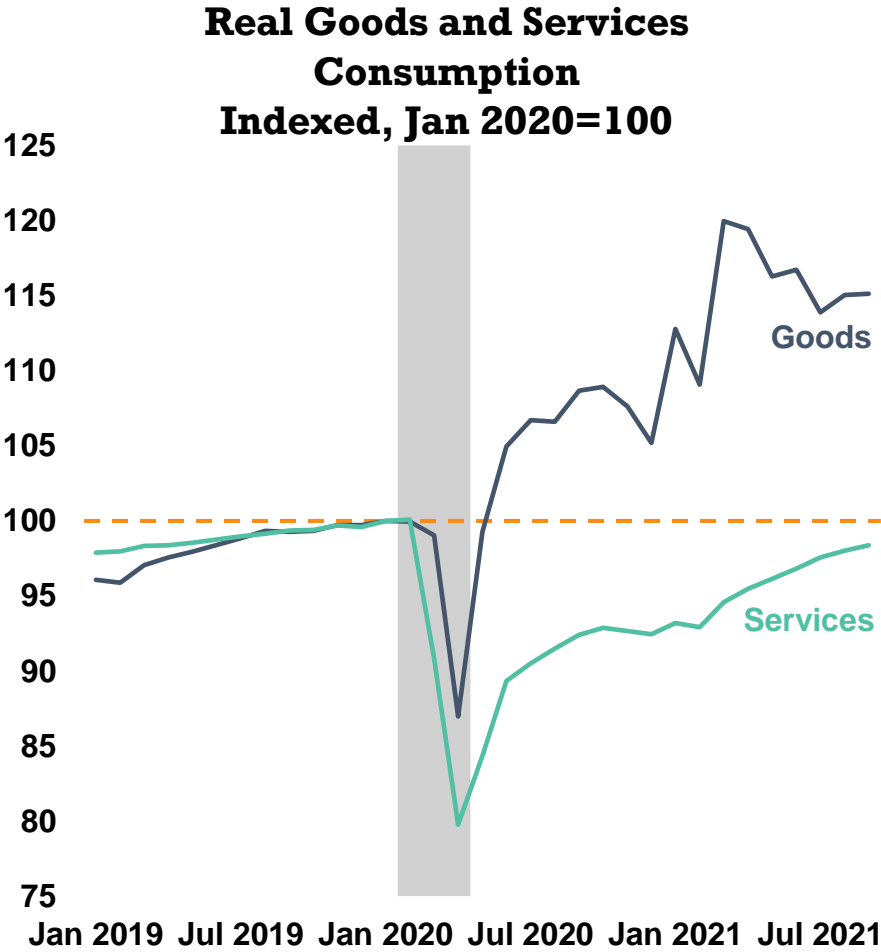
Financial Obligations Were Low Coming into the Recession, Especially for Mortgage Borrowers



Source: FRB

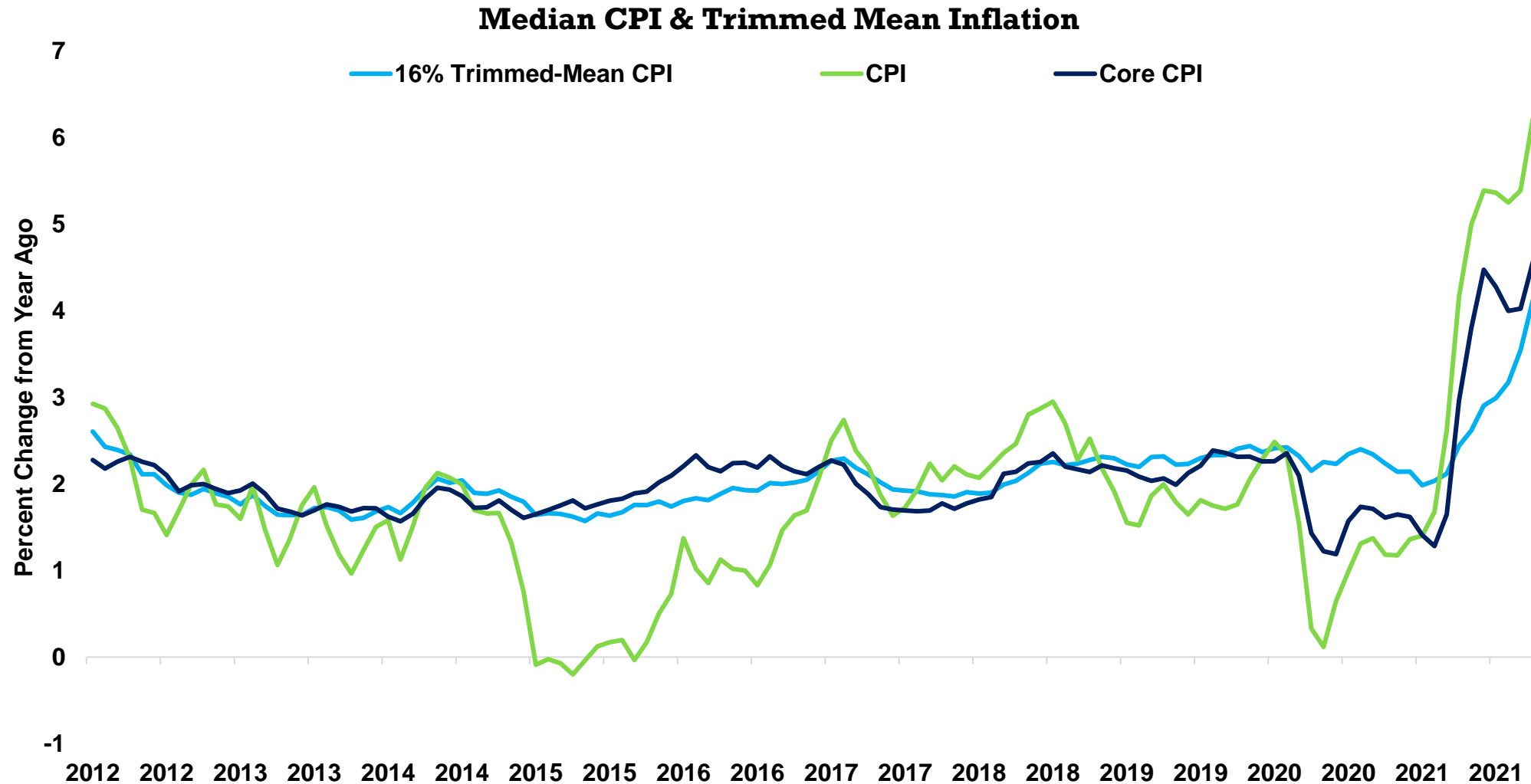


Consumption of Goods Recovered Strongly After Start of Recession; Services Have Yet to Reach Pre-Recession Levels



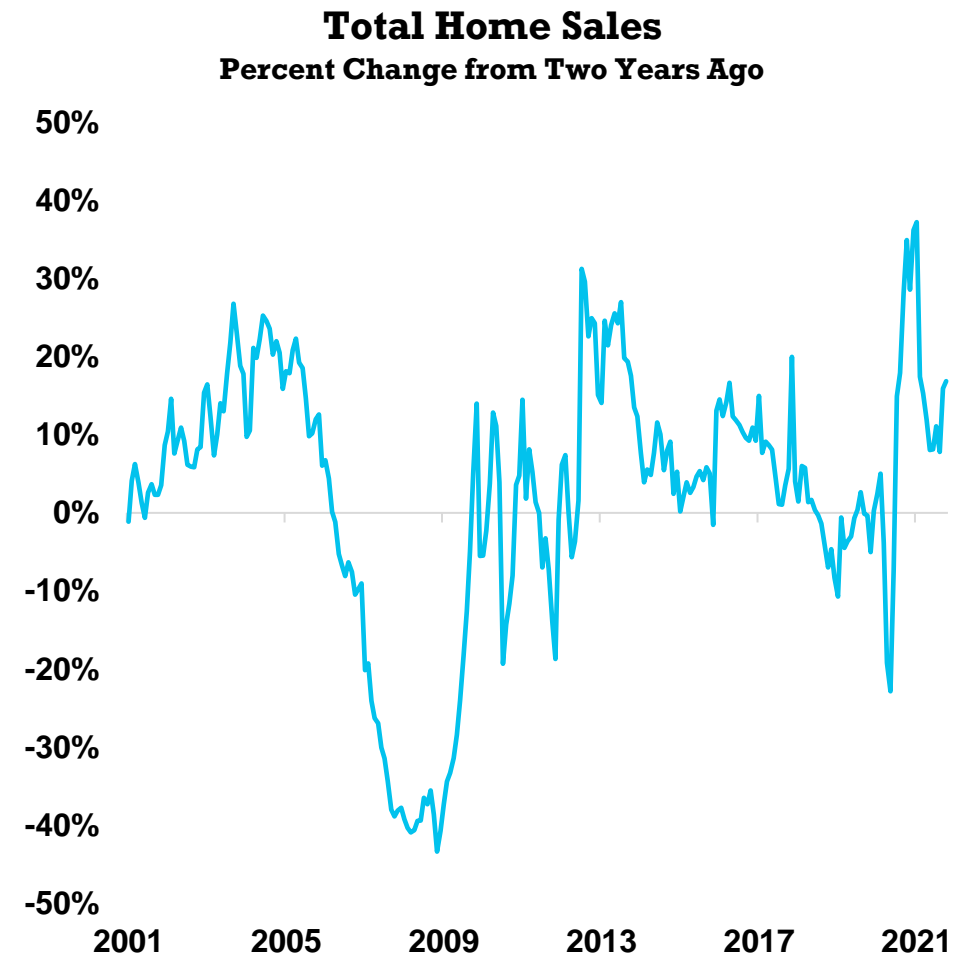
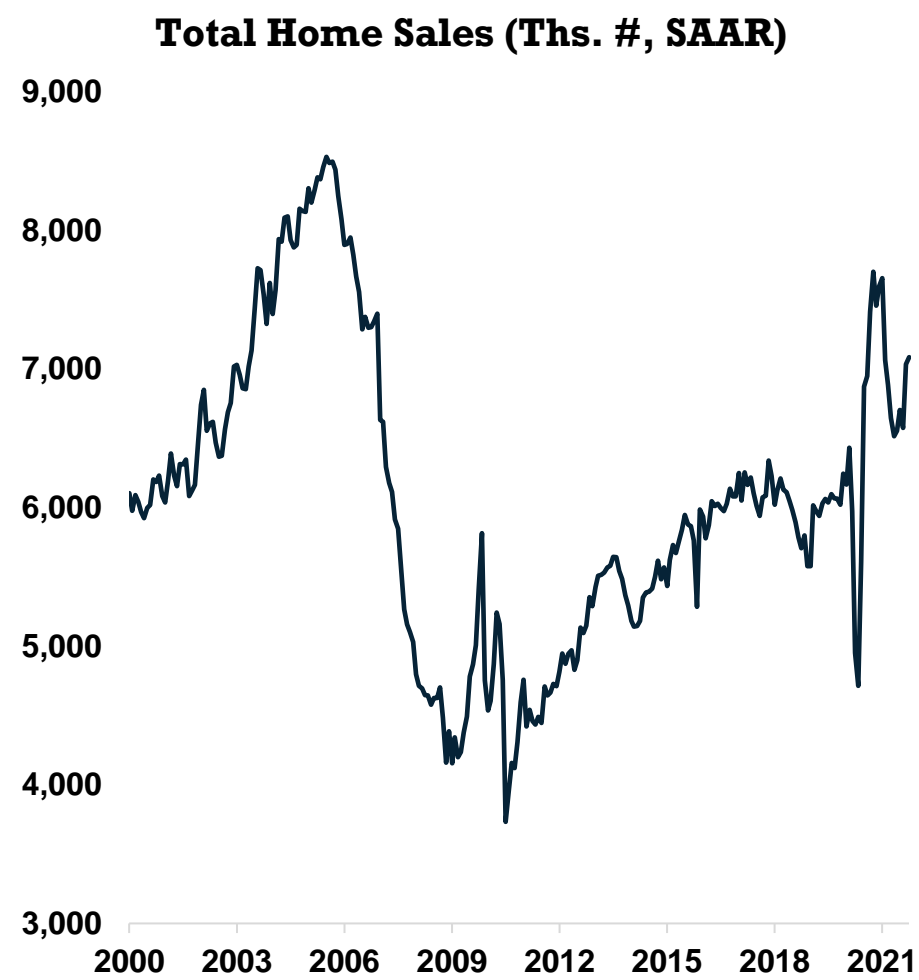
Source: BEA

Inflation Surging Due to Strong Goods Consumption and More Importantly it is Broadening Across More Consumer Segments



Source: BLS and Cleveland FRB

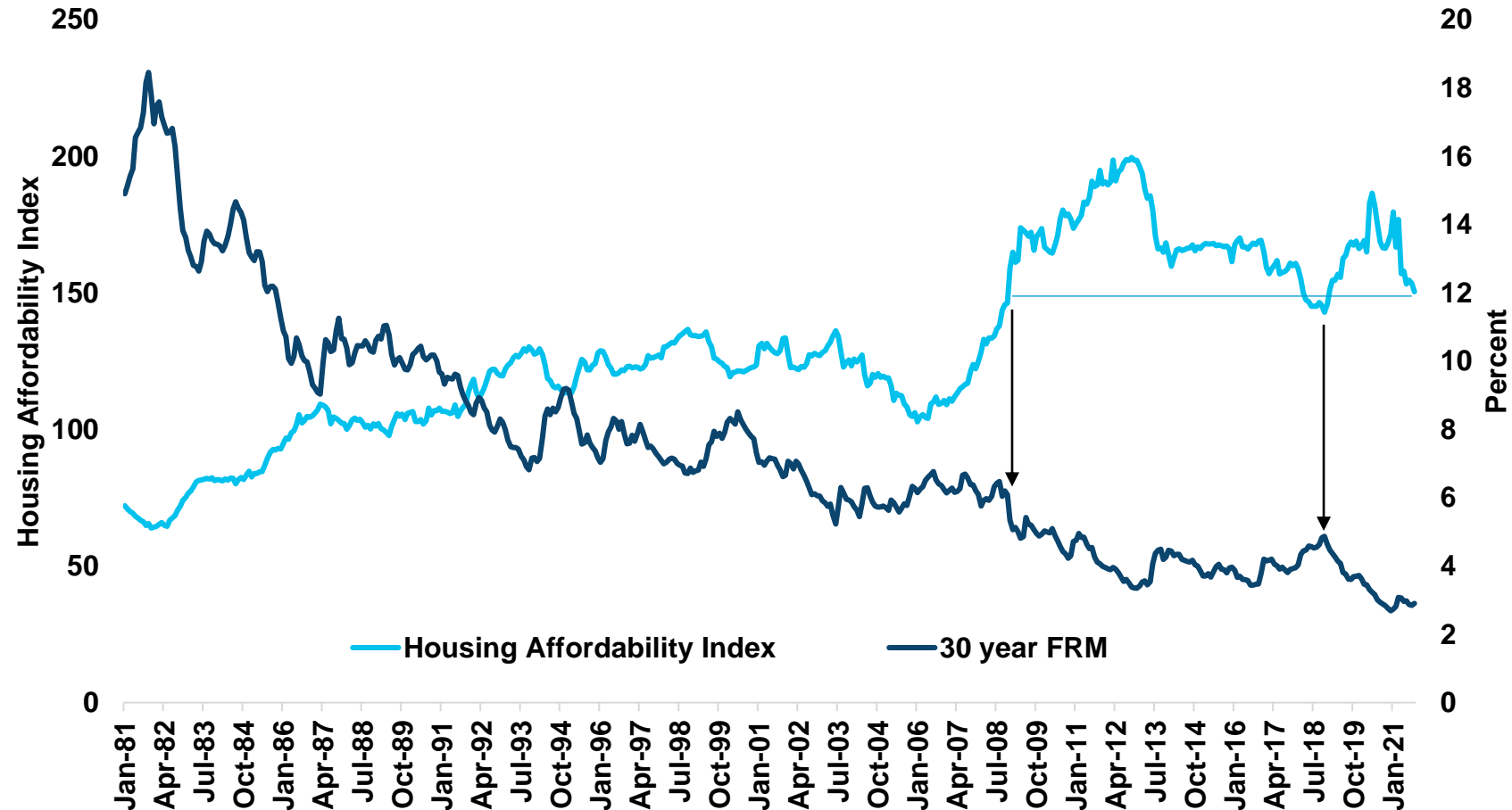
Home Sales Cooled Due to Rising Rates and Inventory Constraints in Early 2021, But Demand Began to Rise Again in Early Fall



Sources : National Association of Realtors (NAR); U.S. Census Bureau

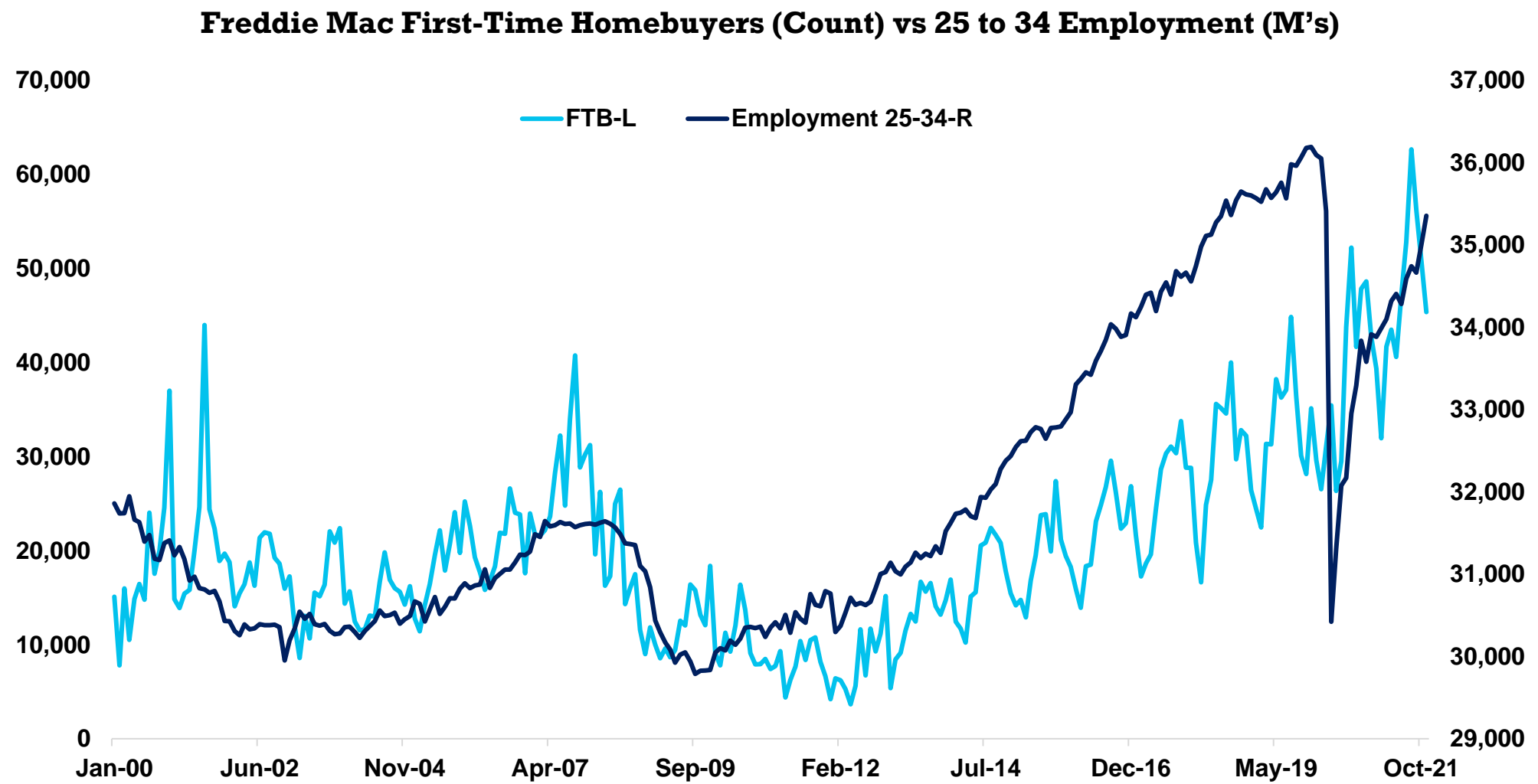
Housing Remains Affordable, but Affordability is Declining Rapidly and is Approaching the Lowest Level Since Financial Crisis

Housing Affordability and Mortgage Rates



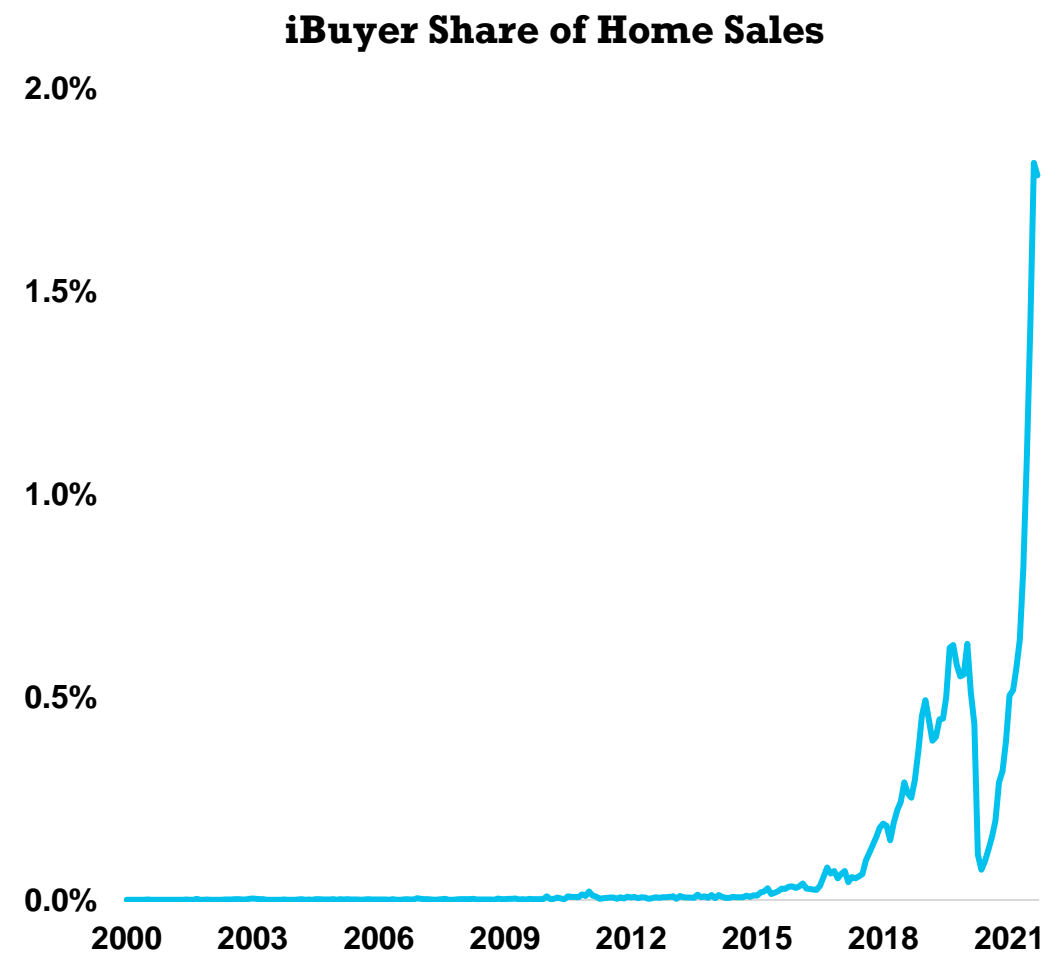
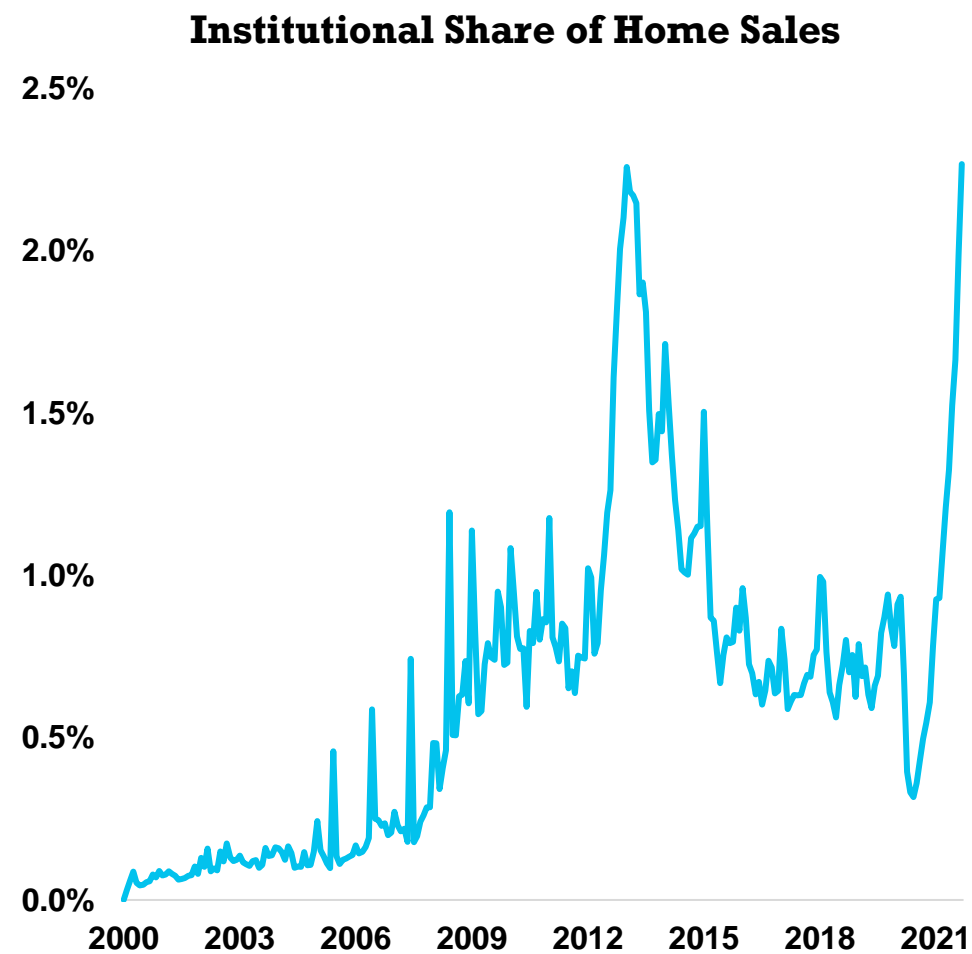
Source: NAR and Freddie Mac

Home Sales Have Been Heavily Driven by Millennial Employment Growth



Source: Freddie Mac; BLS

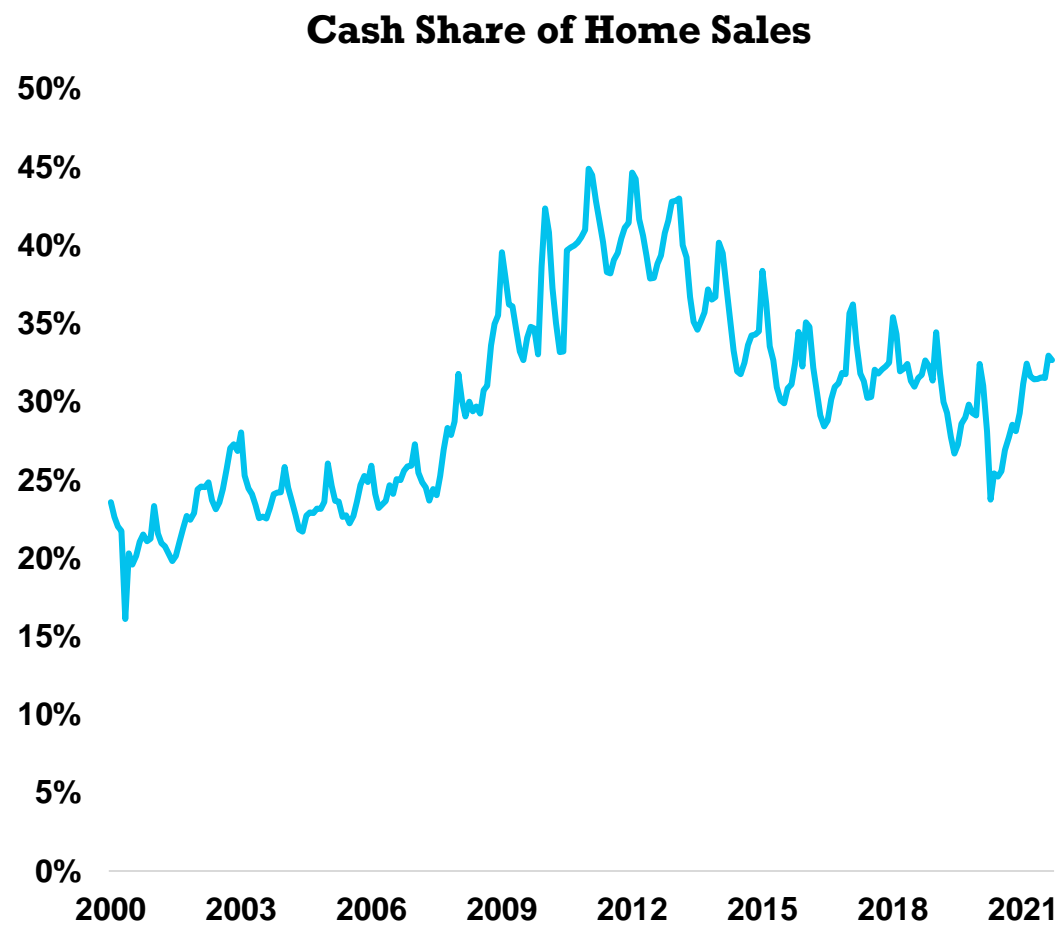
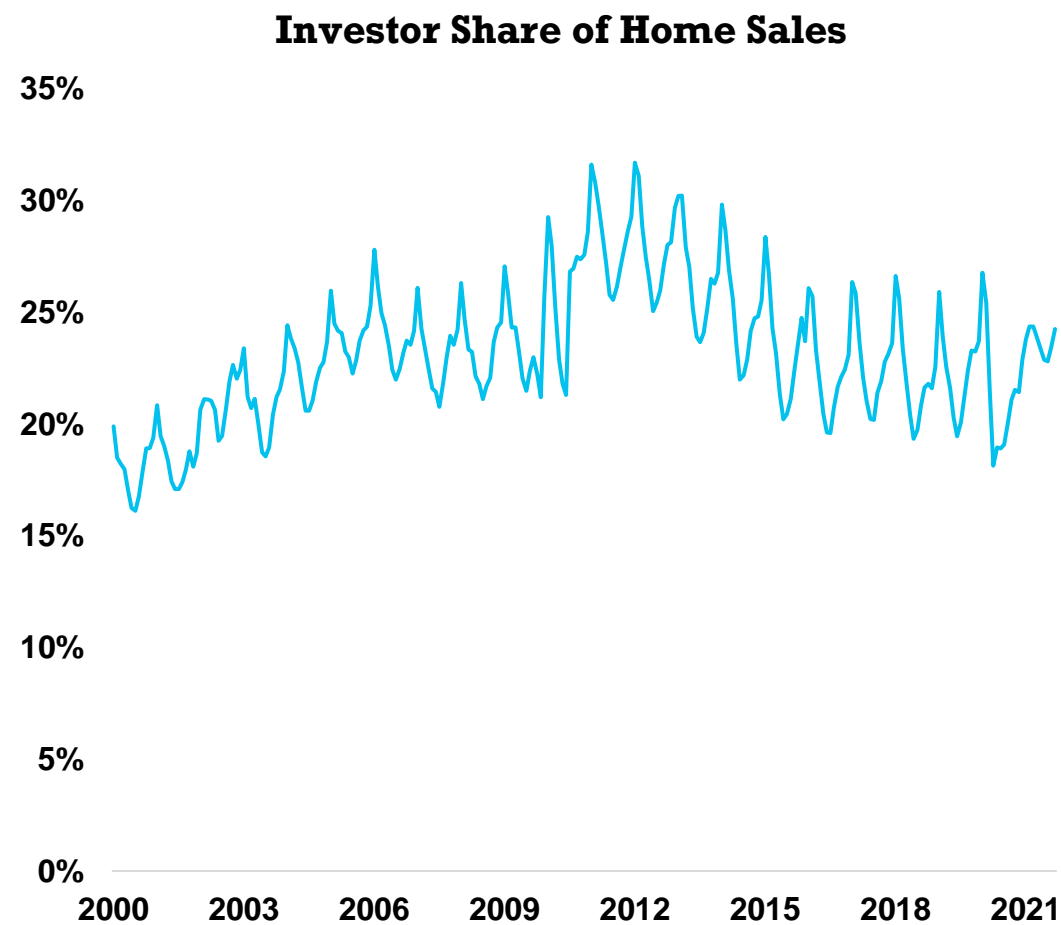
Institutional and iBuyer Demand is Rising



Source: CoreLogic



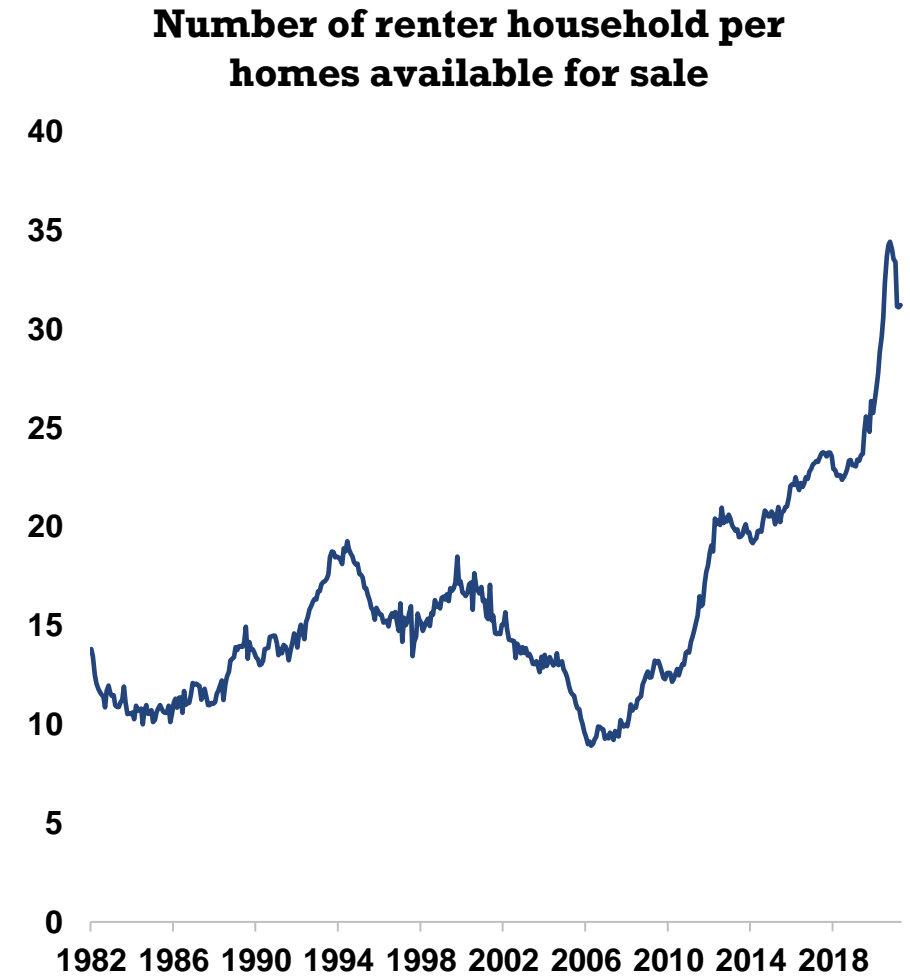
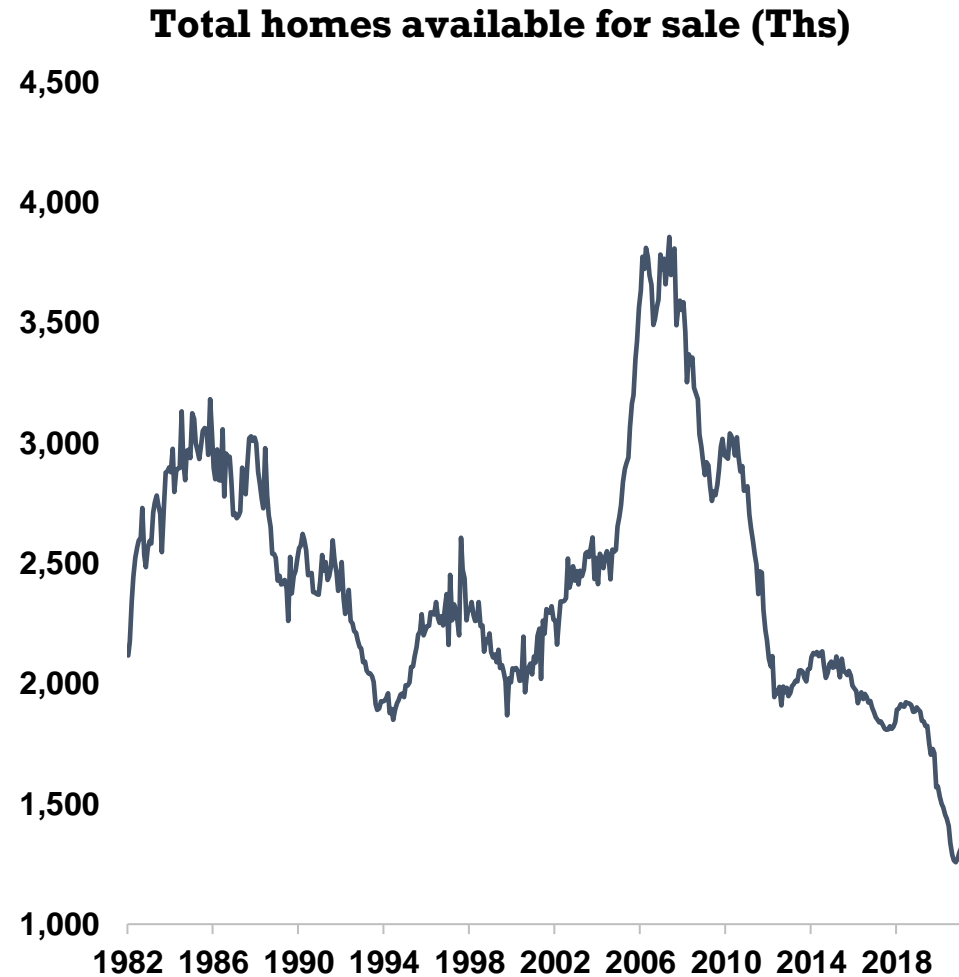
Overall Investor and Cash Share of Home Sales Has Modestly Increased Since COVID Emerged



Source: CoreLogic

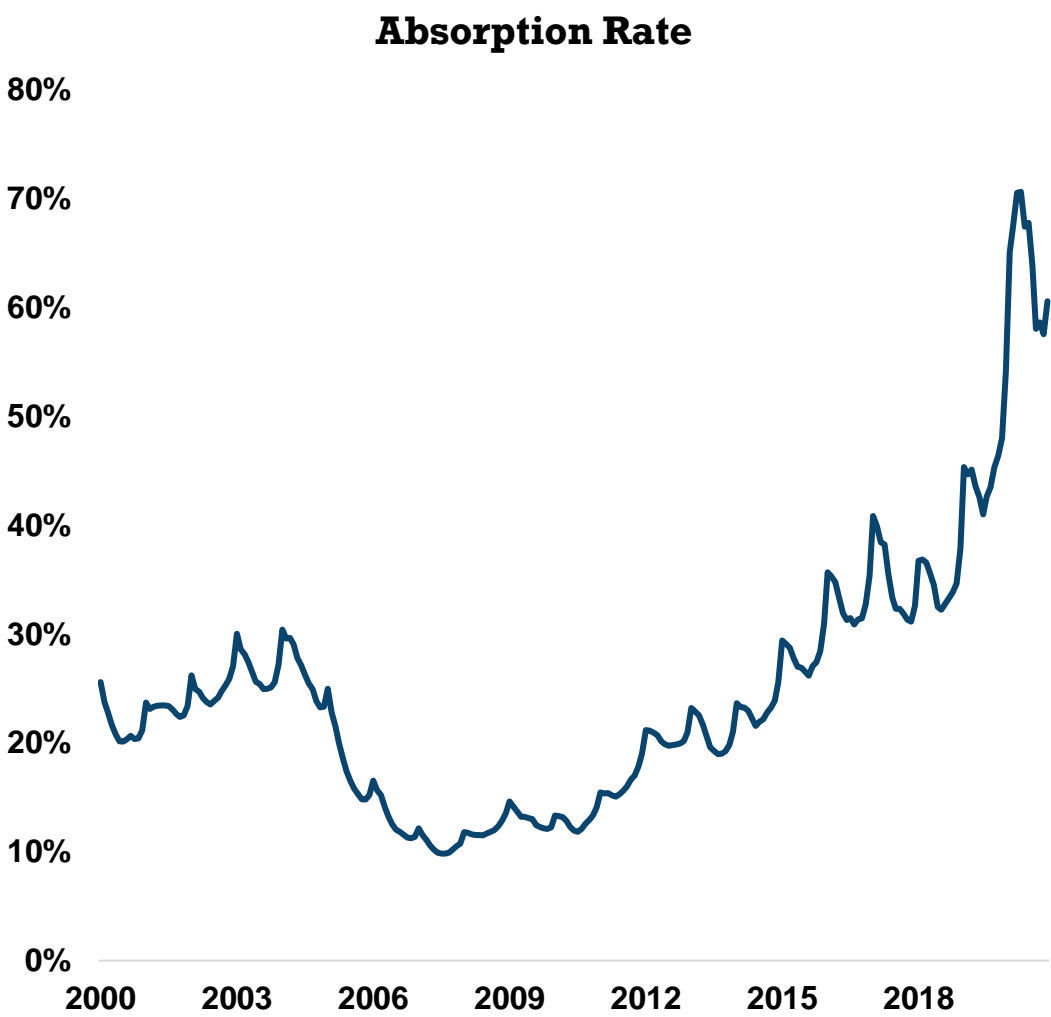
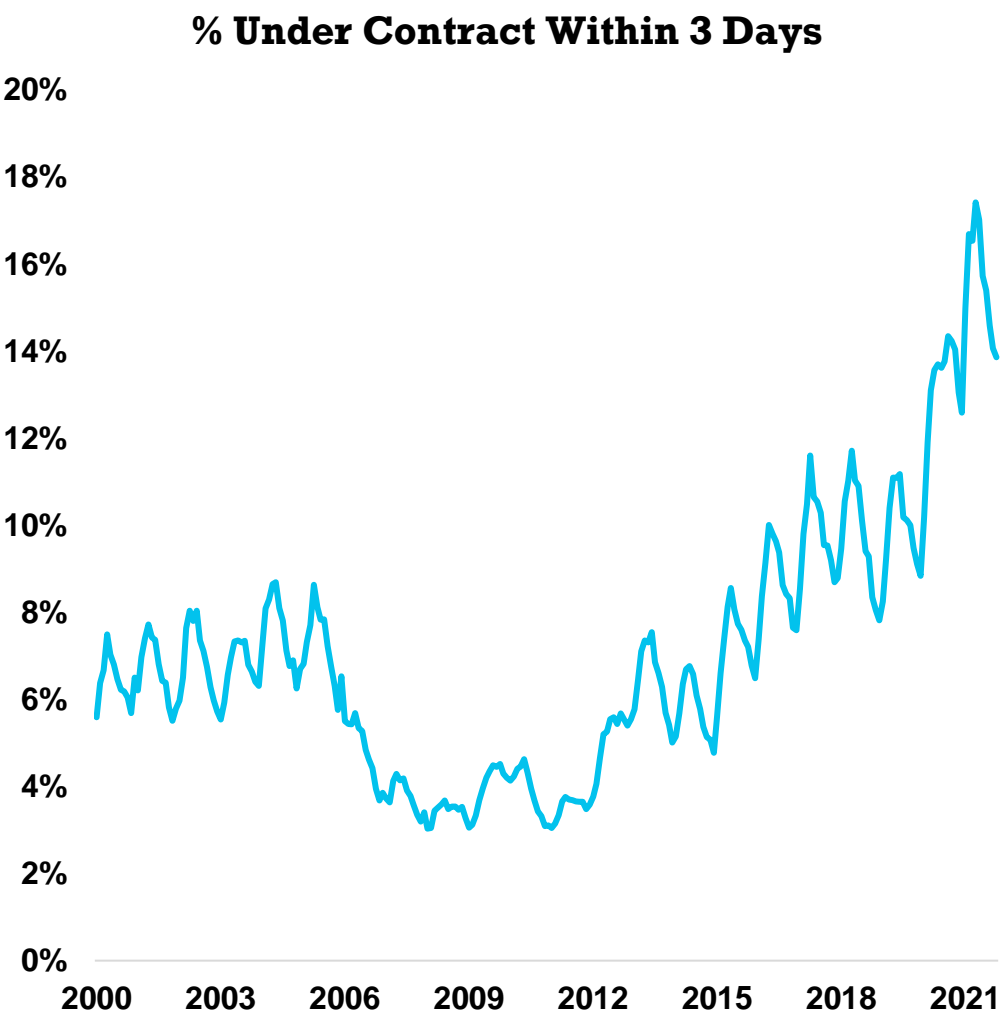


Inventory Improves Very Modestly But Still Very Low and Not Enough for Renters Looking to Buy



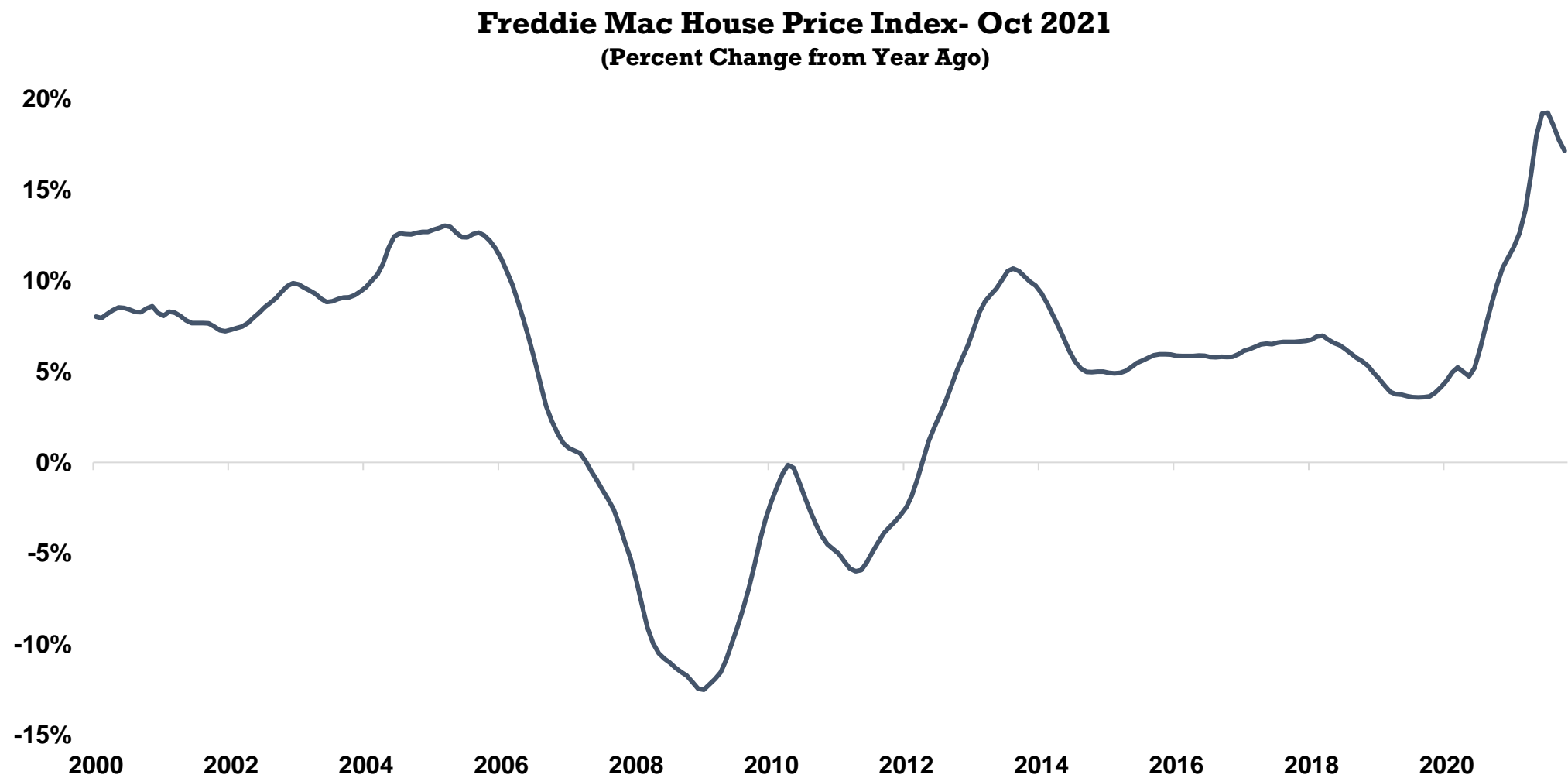
Source: US Census Bureau, NAR; HVS

Velocity of Home Sales and Absorption Remain High



Source: CoreLogic

Home Price Growth at Record High, but Starting to Slow Down



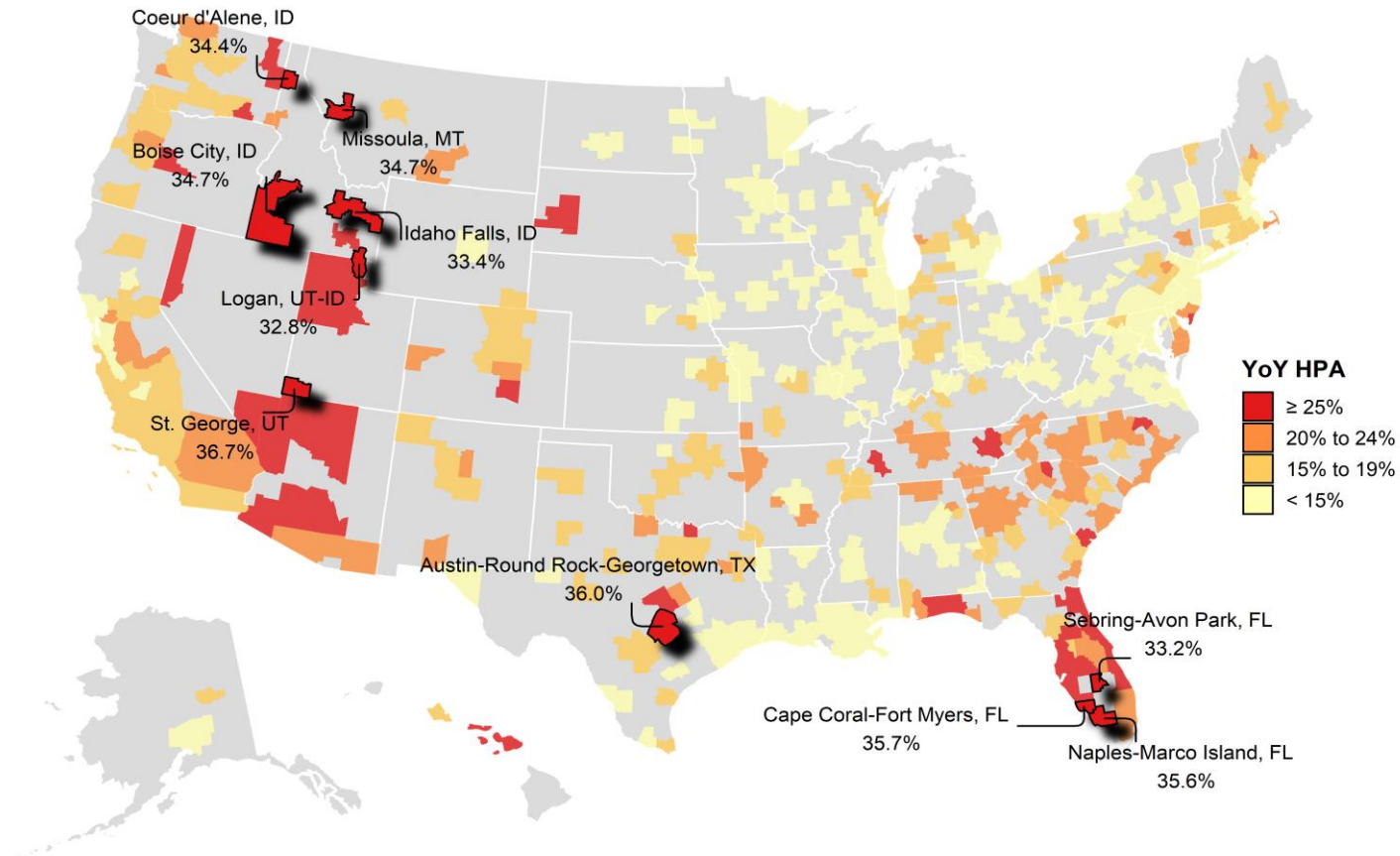
Source: Freddie Mac



Four of the Top Ten Markets Are In Idaho but Many Smaller Southern Interior Markets are Experiencing Rapid Growth

MSA YoY House Price Growth for October 2021

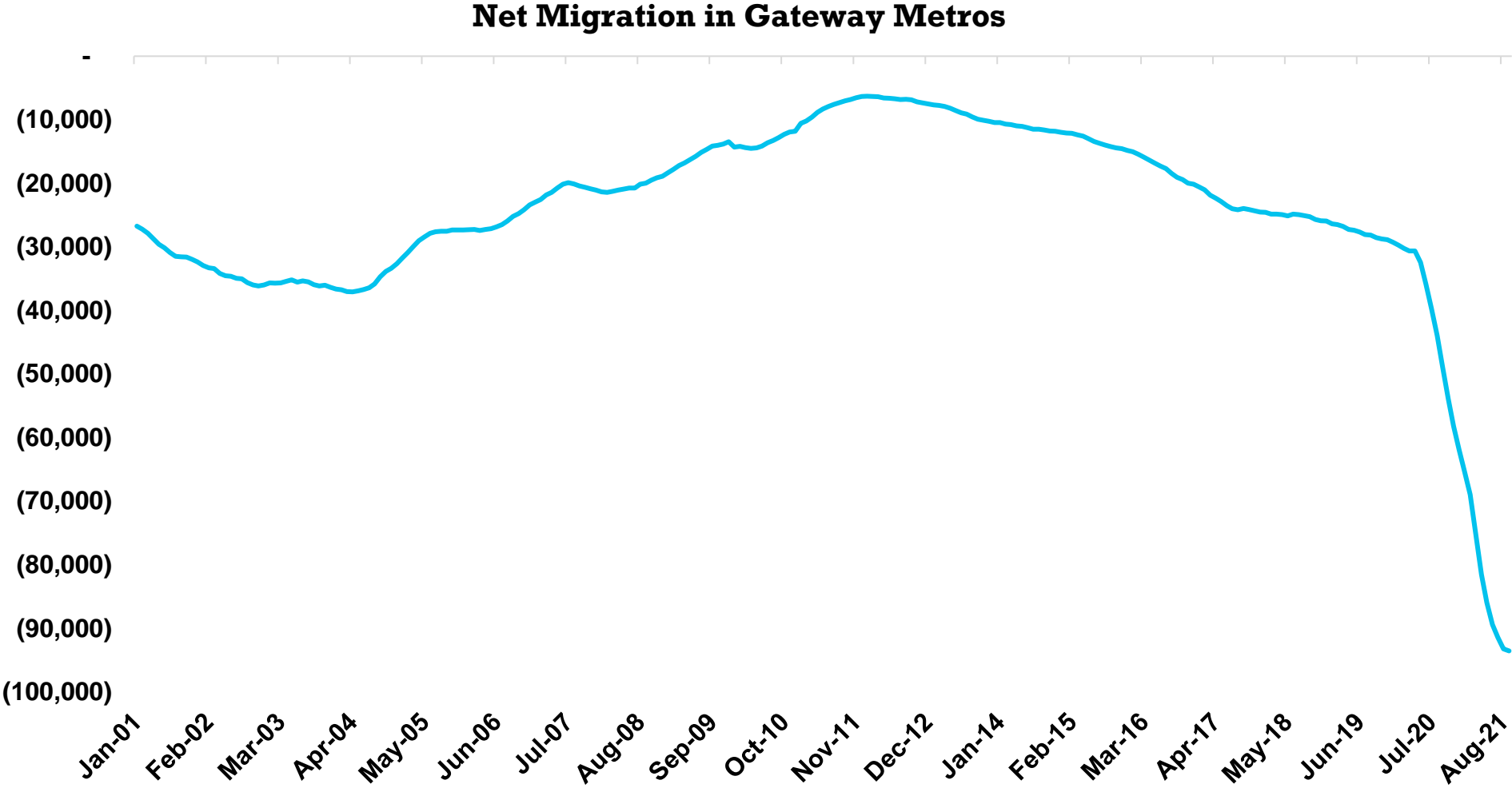
Top 10 Fastest Growing MSAs Labeled



Source: Freddie Mac House Price Index, SA

Migration Out of Large Expensive Gateway Markets Surged

Gateway Markets Include NY, LA, SF, DC Bos, MIA

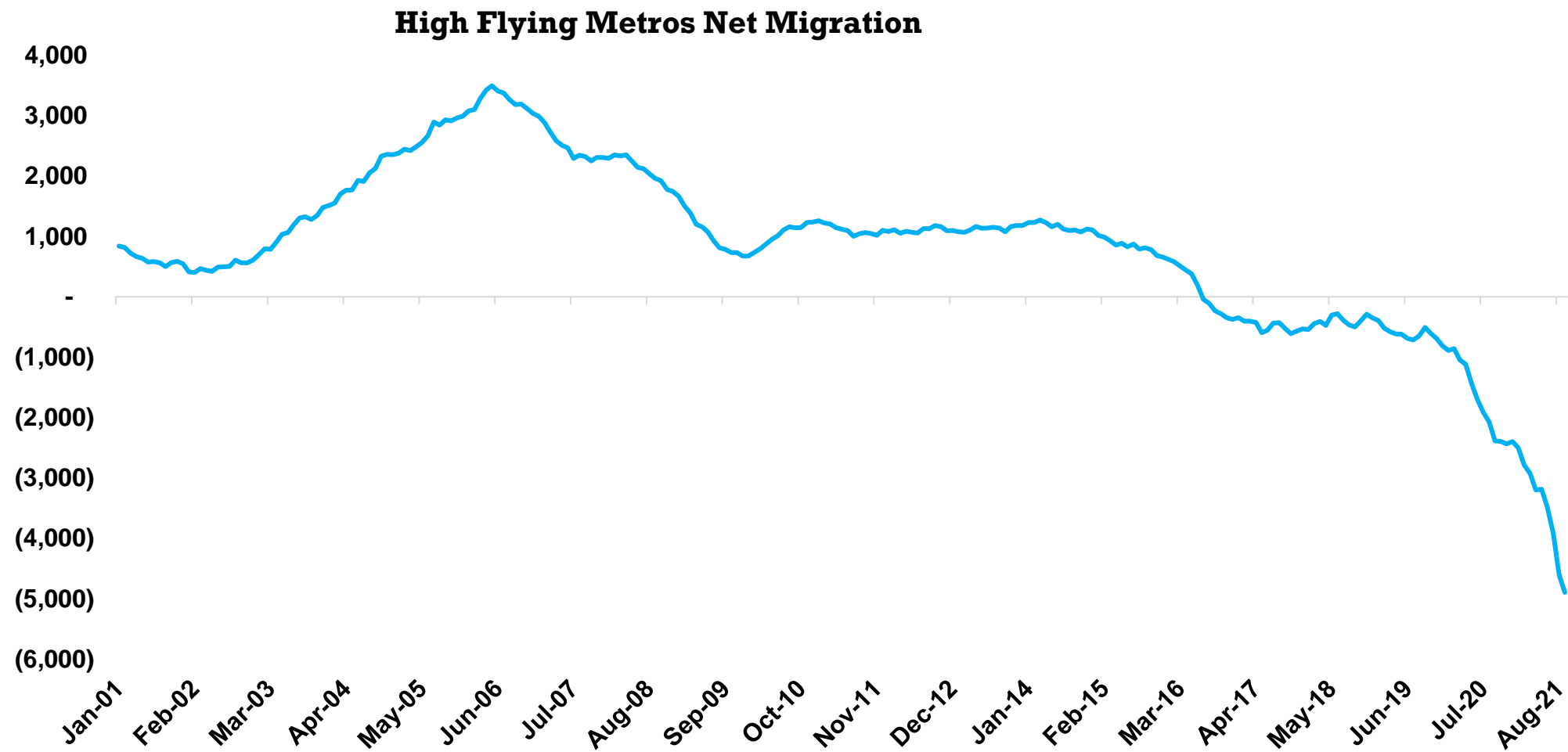


Note: Gateway markets include NY, LA, Sf, DC, Bos, Mia.



Out-Migration From High Flying Metros Also Surged

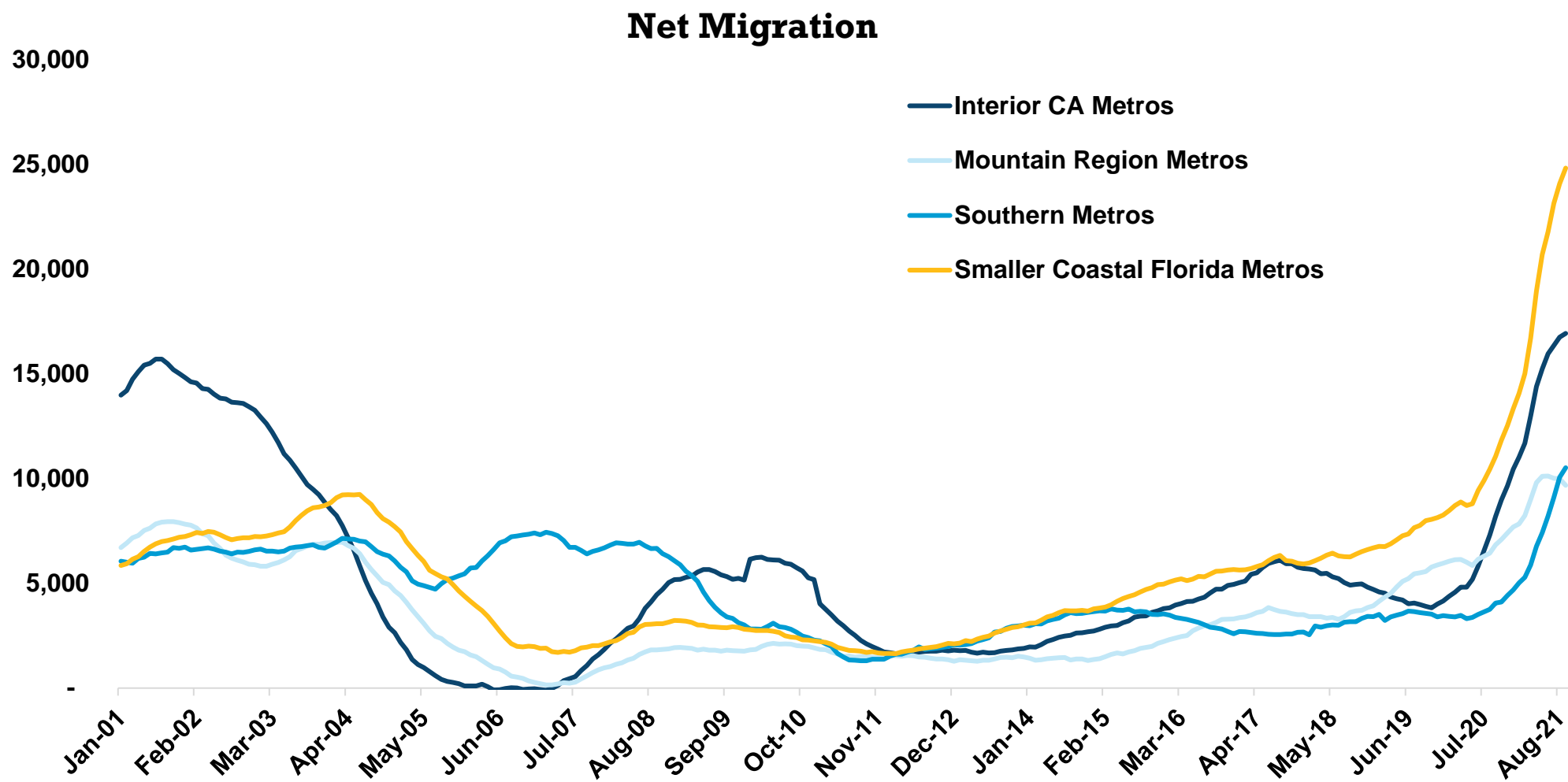
Markets Include Denver, Salt Lake City, Austin, Nashville, and Raleigh



Source: Freddie Mac



Migration Boomed in Inland, Interior West and Southeastern Markets

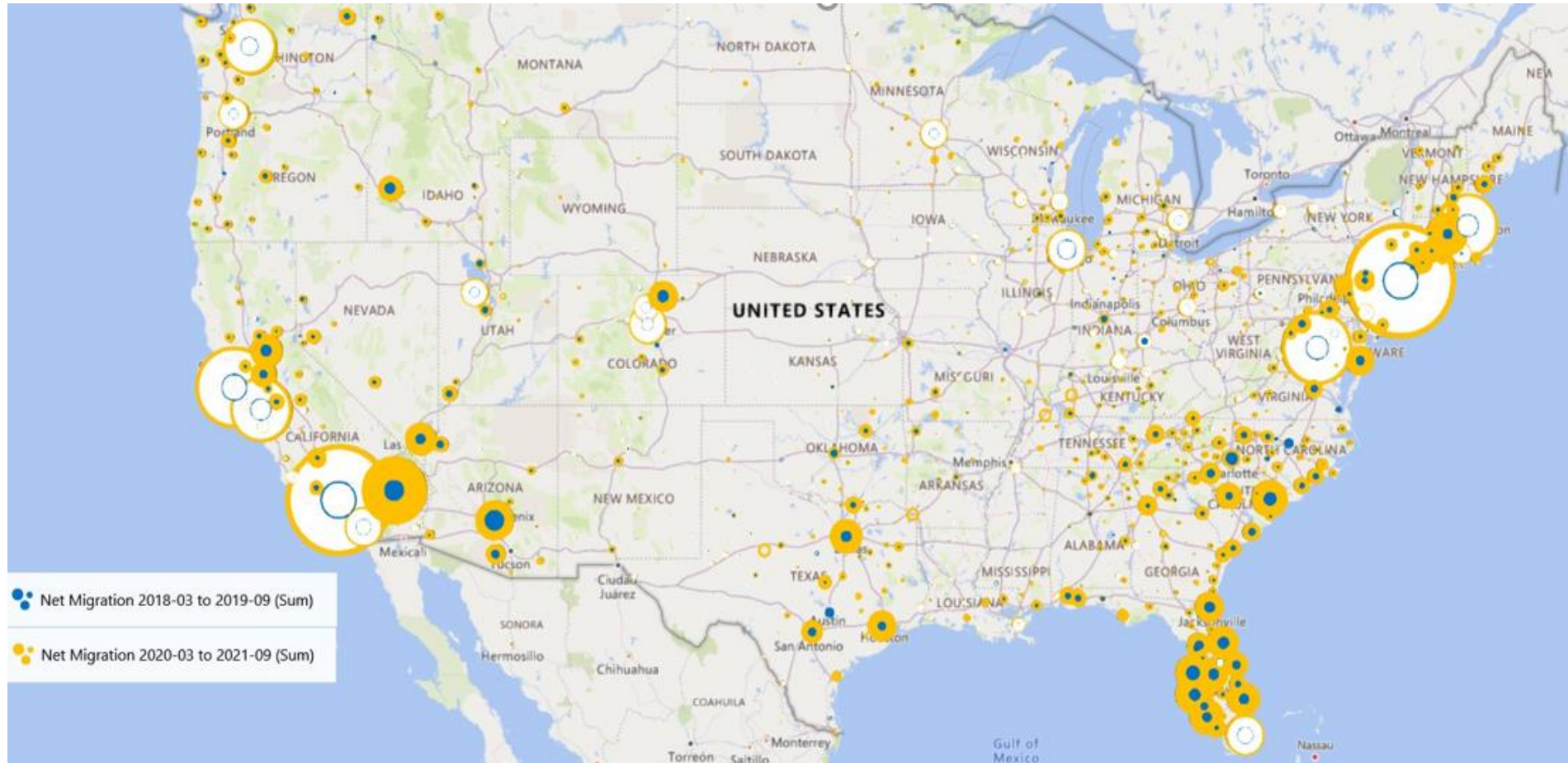


Source: Freddie Mac



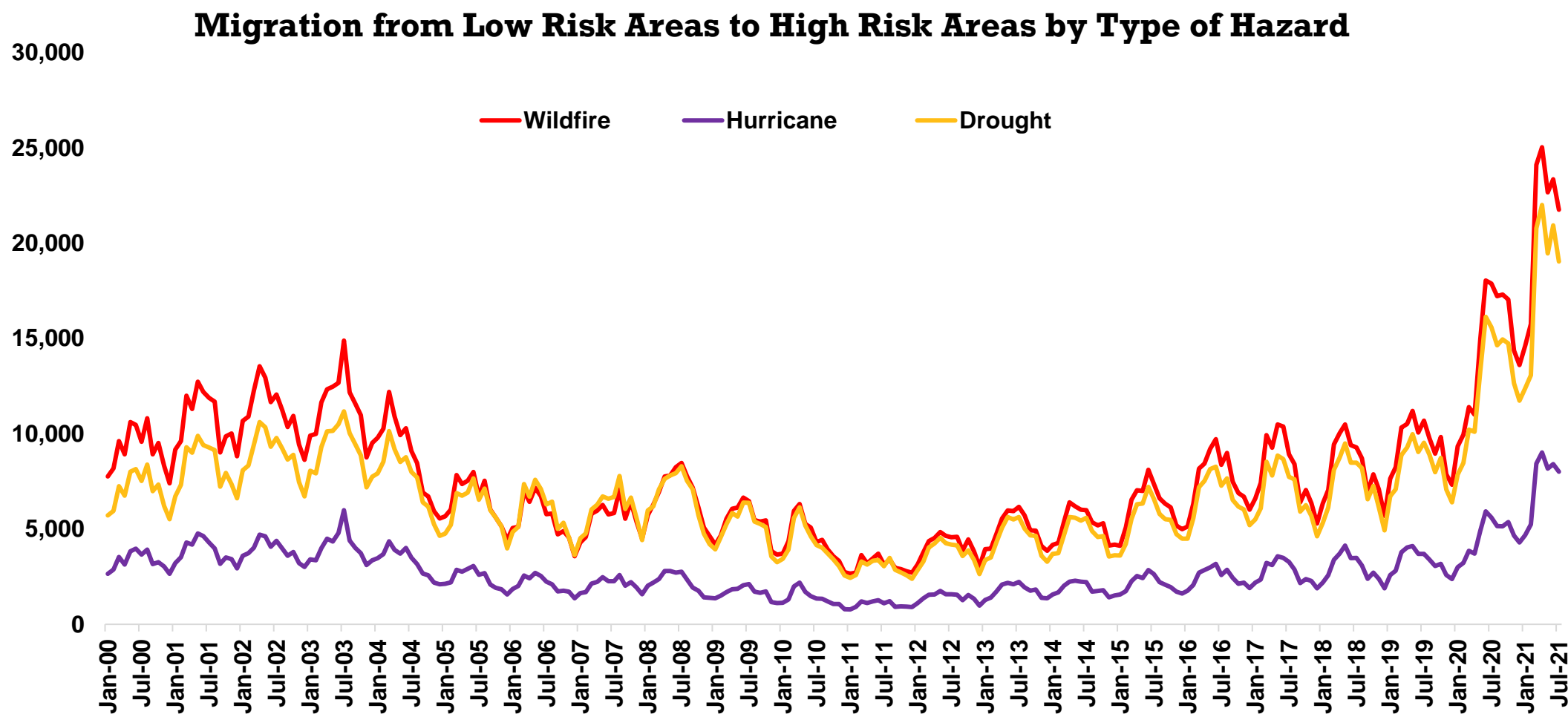
Pandemic Led to Large Migration into Smaller Interior and Coastal Affordable Markets Boomed in Inland, Interior West and Southeastern Markets

Cumulative Net Migration 2018 to 2021



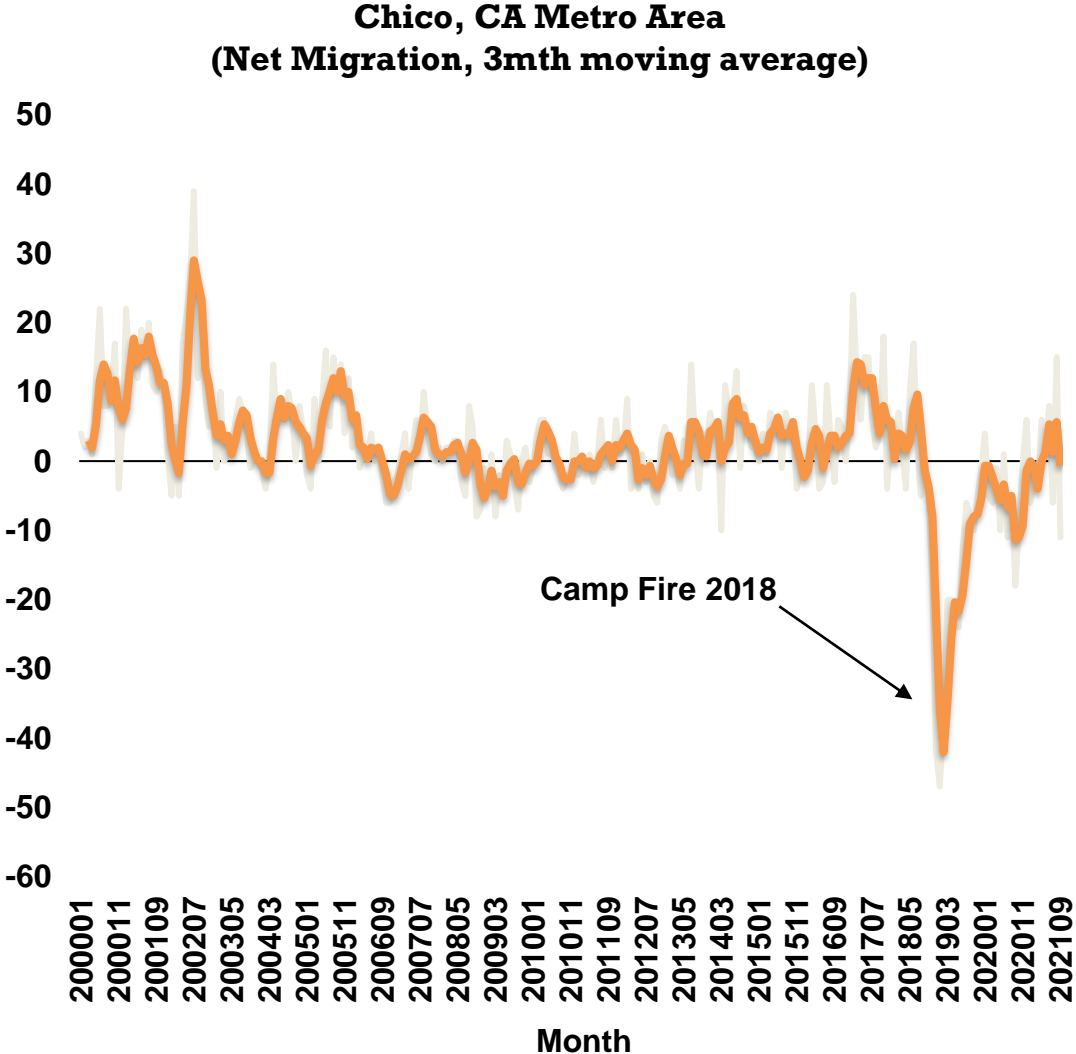
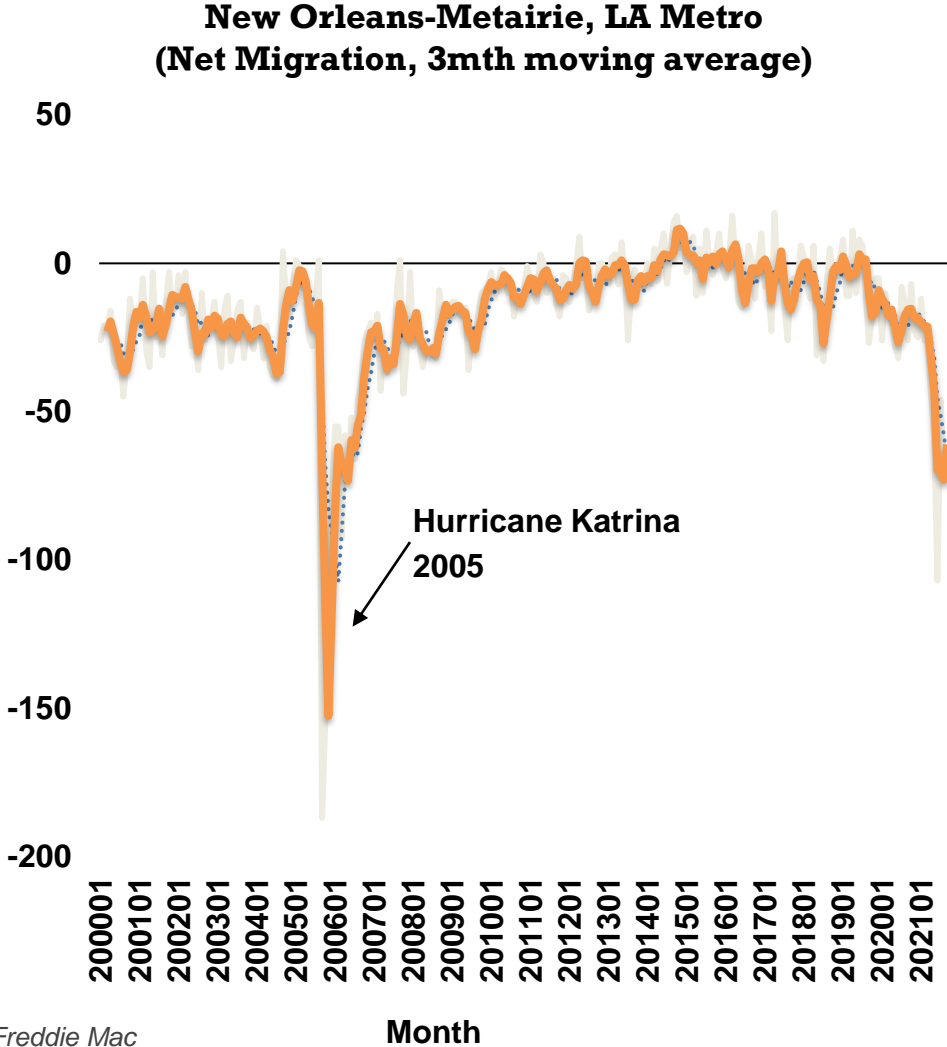
Source: Freddie Mac

Pandemic Has Led to Much Higher Migration to High-Risk Natural Hazard Areas, Especially for Wildfire and Drought



Source: Freddie Mac and FEMA

Metros Severely Impacted by Natural Disasters Have Strong But Temporary Outflows But No Permanent Shift in Migration Due to Disaster



Source: Freddie Mac

Summary

- Economic growth, employment and inflation will remain volatile with lopsided impacts until COVID recedes
- Strong purchase demand and record low supply has driven home prices to record highs
- All signs continue to point to a strong housing market in 2022 with modestly higher mortgage rates, elevated home sales and slower but historically strong home price growth due to tight supply
- Migration out of large coastal expensive areas remains high and is driving growth in other markets.
- Lack of housing supply is a long-term threat to the health of the US economy and is driving migration to affordable and less productive locations

Panel Discussion: Analytics



**JEFFREY
SHUE**

Director
Single-Family Credit Risk Transfer
Freddie Mac



**CHARLOTTE
GLADWIN**

Director
Single-Family Credit Risk Transfer
Freddie Mac



**BEN
WALKER**

Senior Managing Director
Reinsurance Solutions
Aon



**ANDERS
KLINTOE**

Vice President
Head of U.S. Mortgage
PartnerRe

Questions?



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Freddie Mac ACIS® 2021 Recap and 2022 Outlook

Closing Remarks

Jeff Shue

Director, Single-Family Credit Risk Transfer



Looking Ahead - CRT in 2022

January 5, 2022

Learn about the year ahead for the credit risk transfer (CRT) market in this virtual event. Mike Reynolds, Christian Valencia and Jeffrey Shue will discuss:

- Overview of FHFA Capital Framework
- CRT Structure Changes
- 2022 Calendar/Issuance Volumes

[Register for the Webcast](#)

Thank you!



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Speaker Biographies



Credit Risk
Transfer

ACIS Recap and 2022 Strategy/Closing Remarks



JEFFREY SHUE

Director, Single-Family Credit Risk Transfer

Jeffrey Shue is a director in the Credit Risk Transfer division within the Single-Family business. His work includes leading the product development and management efforts for Agency Credit Insurance Structure (ACIS), Freddie Mac's reinsurance credit risk transfer vehicle. The program has transferred risk on \$2.2 trillion of Single-Family loans across 76 transactions since inception in 2013.

Mr. Shue has 19 years of experience in mortgage finance and credit risk management. Since 2002, he has held several positions at Freddie Mac in the pricing, costing, capital and credit modeling groups, and led the development of the ACIS program from 2012 to 2016. Between 2016 and prior to returning to Freddie Mac in 2019, Mr. Shue worked as a managing director in Aon Plc's Credit Guaranty and Government group, focused on building new reinsurance-based CRT solutions for commercial and public entity clients.

Mr. Shue holds degrees from Cornell University and American University.

Business Overview



MIKE REYNOLDS

Vice President, Single-Family Credit Risk Transfer

Mike Reynolds is the vice president of Freddie Mac's Single-Family Credit Risk Transfer (CRT) program. CRT comprises capital markets, reinsurance, and mortgage insurance, including the Structured Agency Credit Risk (STACR®) and Agency Credit Insurance Structure (ACIS®) family of credit securities – multi-billion dollar programs that transfer mortgage credit risk to private investors.

Mr. Reynolds has over 20 years of GSE experience and joined Freddie Mac in 2012 to help launch the Single-Family CRT program. Prior to Freddie Mac, he was vice president of strategic initiatives at Fannie Mae. Earlier in his career, he worked on automated underwriting.

Mr. Reynolds holds a Bachelor of Science in business administration from Northeastern University and a Master of Science in finance from George Washington University.

Economic and Housing Market Update



SAM KHATER

Vice President and Chief Economist, Economic and Housing Research

Sam Khater is vice president, chief economist and head of Freddie Mac's Economic and Housing Research division. He is responsible for research, analysis and forecasts of the macroeconomy, with a special focus on housing and mortgage markets.

Mr. Khater came to Freddie Mac from CoreLogic, where he served as vice president of research and deputy chief economist. His responsibilities included producing original research and advising clients, regulators, policymakers and investors on real estate and mortgage market trends. As a compelling spokesperson with a unique ability to translate complicated subjects, he is regularly quoted in national, local and real estate trade media outlets.

Prior to joining CoreLogic, Mr. Khater was a senior economist at Fannie Mae and an economist at the National Association of Realtors®.

Panel Discussion



CHARLOTTE GLADWIN

Director, Single-Family Credit Risk Transfer

Charlotte Gladwin is a director of Credit Risk Transfer in Freddie Mac's Single-Family division, specifically a champion for and curator of data transparency. Ms. Gladwin and her team built Clarity, the Freddie Mac Data Intelligence Portal for the CRT community. She has also been an integral contributor to evolving Freddie Mac's flagship STACR® (Structured Agency Credit Risk) program through its seven-year history, including moving issuances from fixed severity to actual loss.

An industry veteran with 17 years of experience in capital markets, Ms. Gladwin began her career at Freddie Mac as a senior operations analyst before becoming a senior vice president of Brokerage Operations at FBR Capital Markets. She returned to Freddie Mac in her current position in 2013.

Ms. Gladwin holds an MBA in Investment and Financial Services Management and a B.S. in Biochemistry from Virginia Polytechnic and State University.

Panel Discussion



BEN WALKER

Senior Managing Director, Aon

Ben Walker is a Senior Managing Director at Aon. Ben has over 15 years of experience in the insurance and reinsurance industry and has helped develop and support Freddie Mac's ACIS program since its inception. As a member of Aon Reinsurance's Global Credit Team, he leads a team of analytical professionals that help clients manage their capital and risk management strategy as well as structure and place mortgage and credit reinsurance transactions.

Panel Discussion



ANDERS KLINTOE

Vice President and Head of U.S. Mortgage, PartnerRe

Anders Klintoe is Vice President, Head of U.S. Mortgage, responsible for managing PartnerRe's market leading portfolio of GSE CRT and PMI reinsurance businesses. He is also involved in managing PartnerRe's Global Mortgage portfolio for transactions based outside of the United States. Anders' role includes oversight of all aspects of underwriting, pricing, risk monitoring and modeling.

Anders has an extensive background in the mortgage CRT space. Prior to joining PartnerRe in 2020, he was the lead underwriter and analytics manager for another leading reinsurer in the CRT and MI markets. He has over 10 years of experience working in the mortgage business, starting as a member of Freddie Mac's team, that developed and implemented the CRT and capital markets risk transfer programs.

Anders holds a B.Sc. in Economics and an MBA from the University of Indianapolis, and a M.Sc. in Finance from Johns Hopkins University, and is a Chartered Financial Analyst.

Anders' comments on the webcast do not constitute legal or professional advice; and do not necessarily reflect, in whole or in part, any corporate position, opinion or view of PartnerRe or its affiliates, or a corporate endorsement, position or preference with respect to any issue or area.

Disclaimers



Credit Risk
Transfer

Safe Harbor Statements

- **Forward-looking statements**

Freddie Mac's presentations may contain forward-looking statements, which may include statements pertaining to the conservatorship, the company's current expectations and objectives for its Single-family Guarantee, Multifamily and Capital Markets segments, its efforts to assist the housing market, liquidity and capital management, economic and market conditions and trends, market share, the effect of legislative and regulatory developments and new accounting guidance, credit quality of loans the company owns or guarantees, the costs and benefits of the company's credit risk transfer transactions, and results of operations and financial condition on a GAAP, Segment Earnings, non-GAAP and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond the company's control. Management's expectations for the company's future necessarily involve a number of assumptions, judgments and estimates, and various factors, including changes in market conditions, liquidity, mortgage spreads, credit outlook, actions by the U.S. government (including FHFA, Treasury and Congress), and the impacts of legislation or regulations and new or amended accounting guidance, could cause actual results to differ materially from these expectations. These assumptions, judgments, estimates and factors are discussed in the company's Annual Report on Form 10-K for the year ended December 31, 2018, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, which are available on the Investor Relations page of the company's website at www.freddiemac.com/investors and the SEC's website at www.sec.gov. The company undertakes no obligation to update forward-looking statements it makes to reflect events or circumstances occurring after the date of this presentation.

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