

# Freddie Mac CRT Quarterly Webcast

November 2022



**Credit Risk  
Transfer**

# Today's Speakers



**Mike Reynolds**

Vice President

Single-Family Credit Risk Transfer in  
I&CM



**Keith Jones**

Vice President

Single-Family Credit Policy



# Economic and Housing Update



## Macroeconomic Outlook

- Economic growth was rapid in 2021 but growth is rapidly slowing due to fiscal, monetary and inflationary drags and the rising prospect of a recession in 2023.
- Labor market is starting to moderate even as unemployment rate close to 50-year lows.
- Inflation continues to surge and with the rotation of consumer spending into services, inflation is broadening and becoming more persistent.

## Housing & Mortgage Market Outlook

- Housing demand is being hit hard by a worsening of affordability. Risks remains to the downside as more buyers may choose to wait and see.
- Mortgage rates increase at the fastest pace in 40 years.
- Sales of existing homes continue to plunge and are now down 24% from a year ago and down 14% compared to pre-pandemic in August 2019.
- Mortgage applications are down around 50% from their peak, and 33% compared to 2019's average, suggesting further softening in sales is coming.
- While inventory has increased, it remains low by historical standards.
- Month-over-month home price growth appears to be slightly negative overall, with pronounced weakness out West.

## Distress Supply, Delinquencies & Foreclosures

- Mortgage delinquencies and foreclosures ticking up slightly.

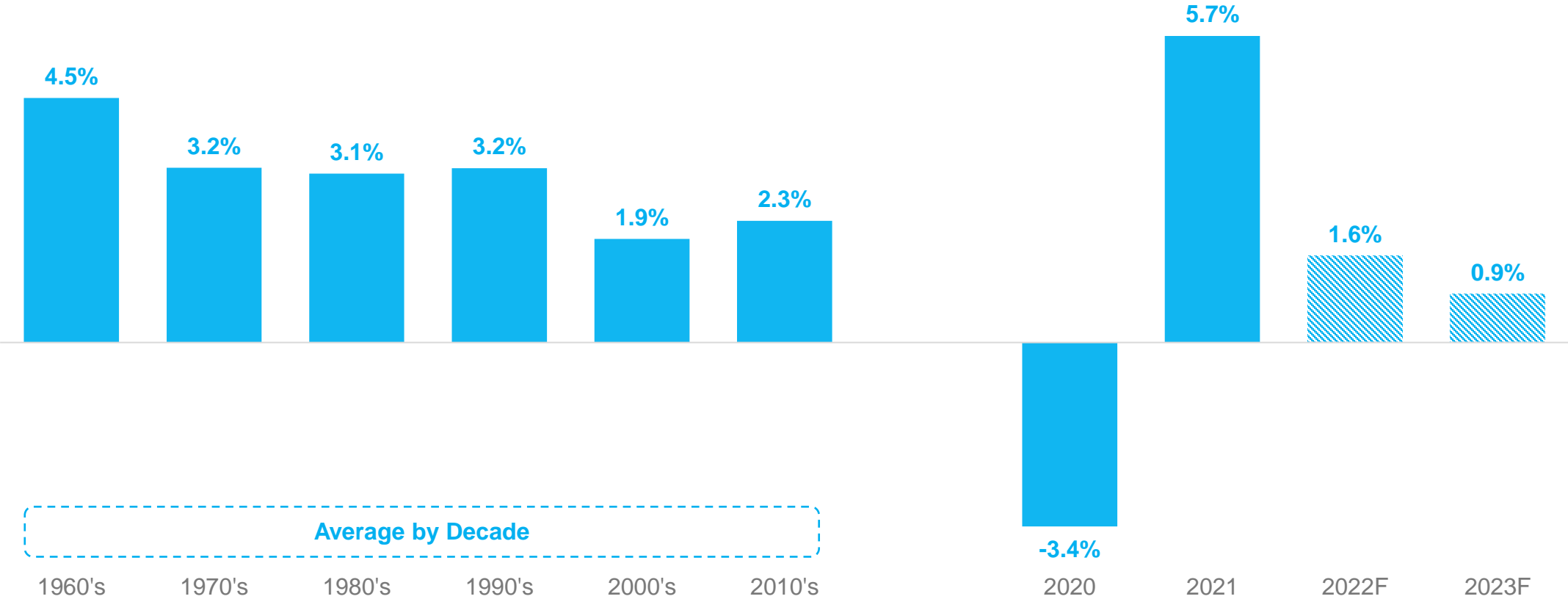
## Credit Policy

- Portfolio trends show rising rates and volume decline.
- Notable policy actions occurred throughout 2022, including COVID-19 policies.
- There are notable policy actions that are supporting the mission and affordable housing.

# Economic Growth for 2021 Highest Since 1984; Expected to Moderate in 2022 and 2023



GDP (Annualized Growth)



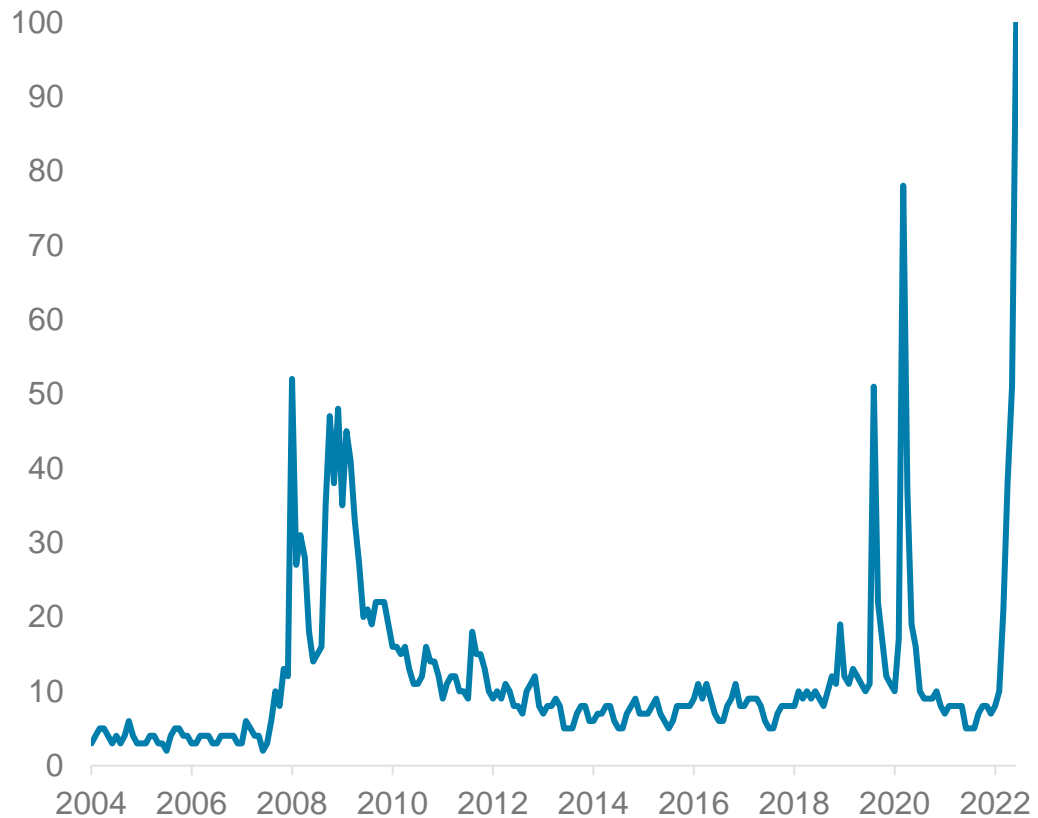
Average by Decade

Note: Shaded areas are forecast  
Source: BEA, Bloomberg Survey Median Forecast

# Recession Probability Next 12 Months



### Google Trends - Recession



### Wall Street Journal Recession Probability

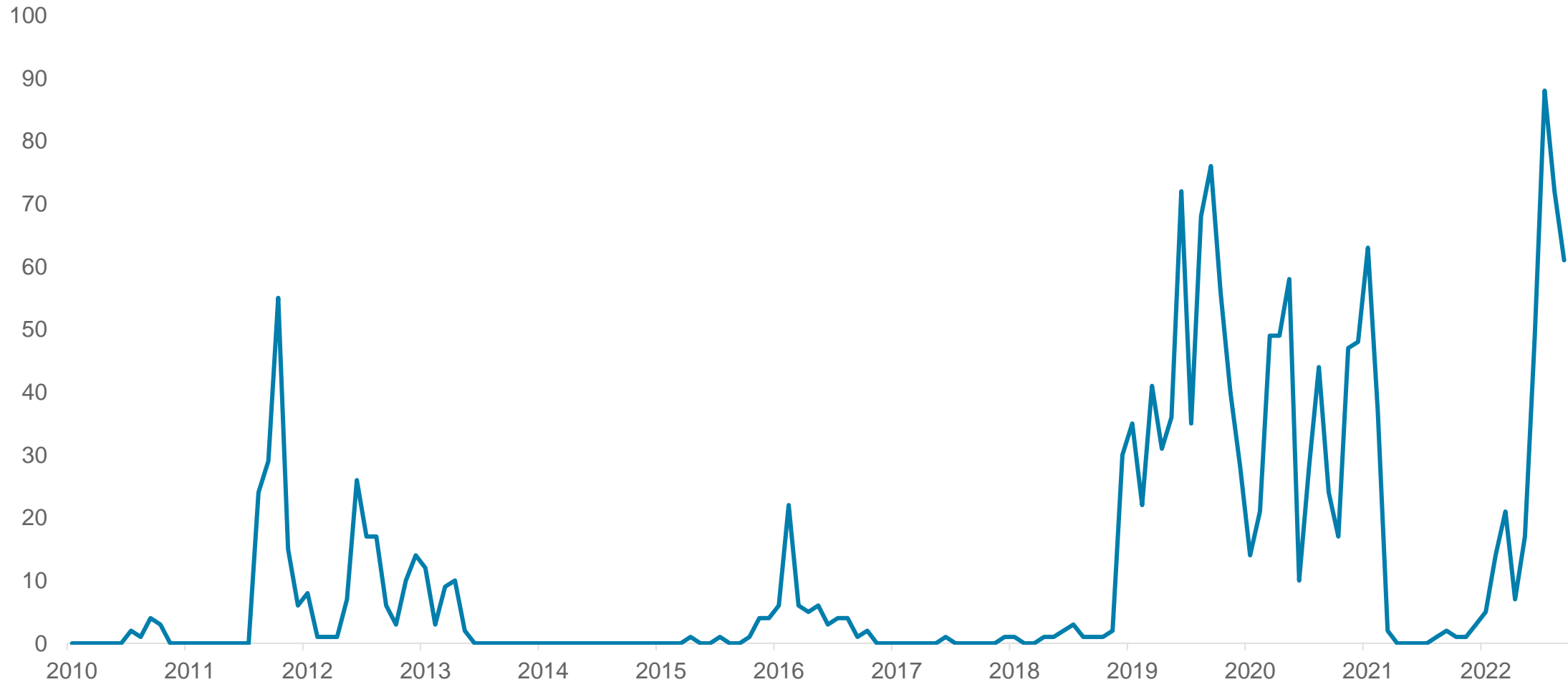


Source: Google Trends, WSJ Economic Survey

# Probability of Recession Based on Economic and Financial Variables



Recession Probability (Based on Economic and Financial Data)

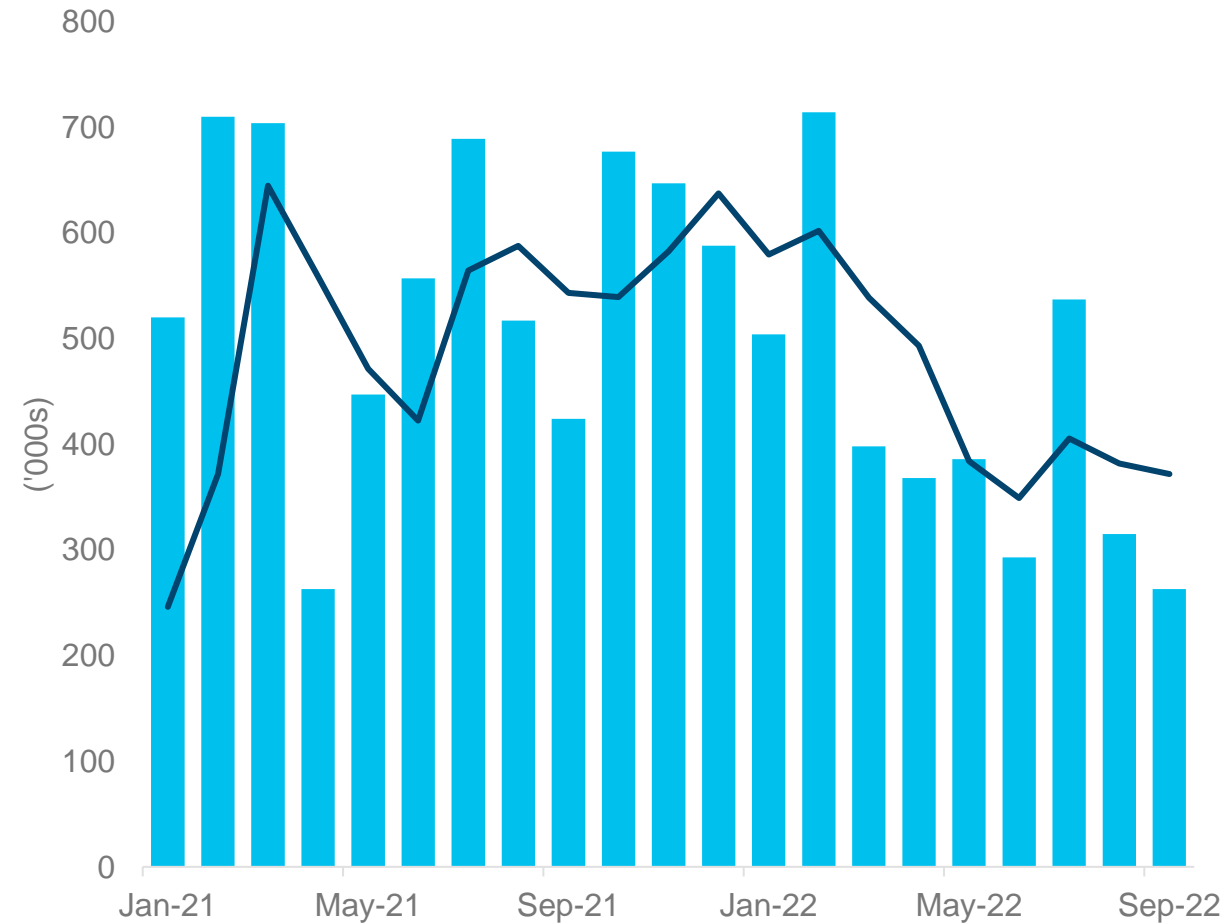


Source: Moodys Analytics

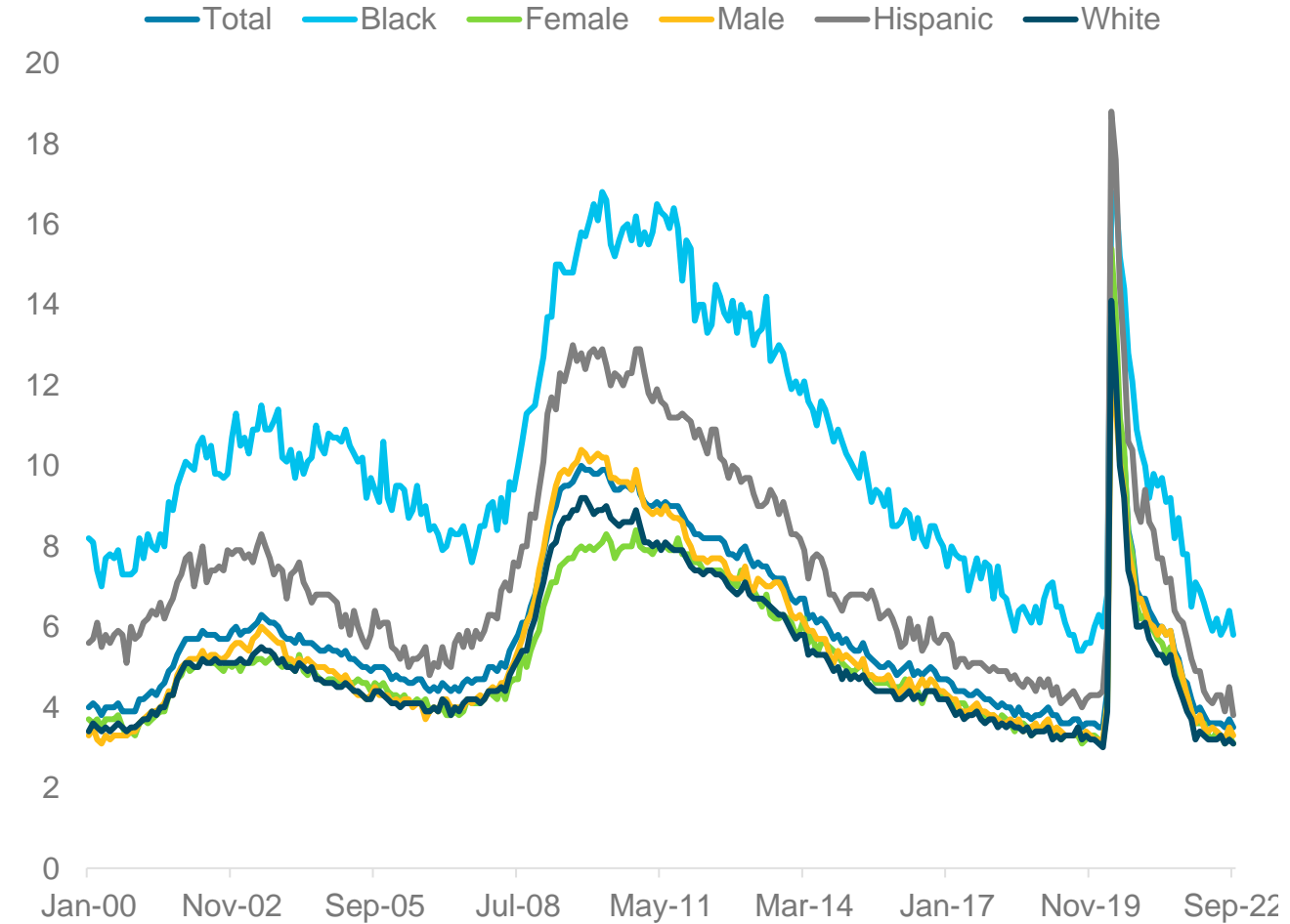
# Labor Market Recovery Strong But Moderating; Unemployment Rate at 3.5%



NonFarm Payroll Jobs (Monthly Change '000s)



Unemployment Rate (%)



Source: BLS



# The Labor Market Remains Very Active But Has Begun to Weaken



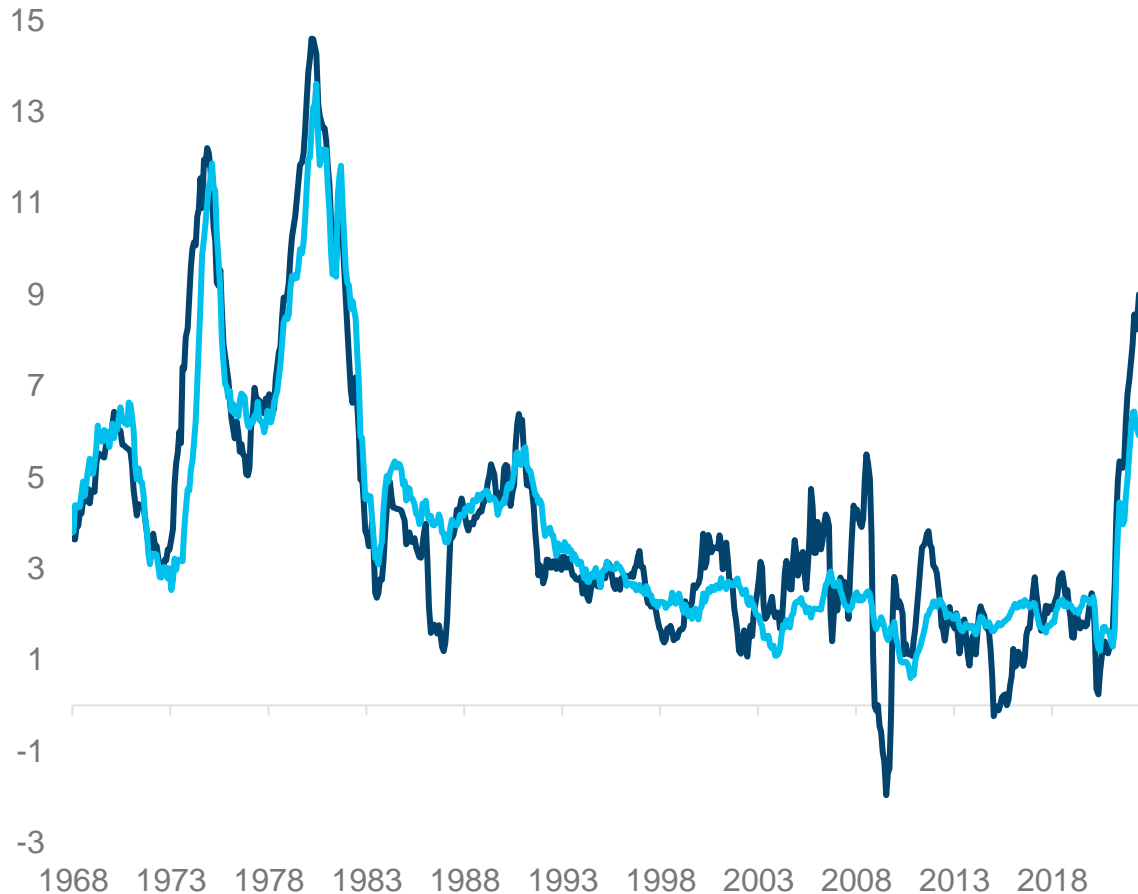
Source: BLS

# Inflation Remains at a 40-year High and is Broadening



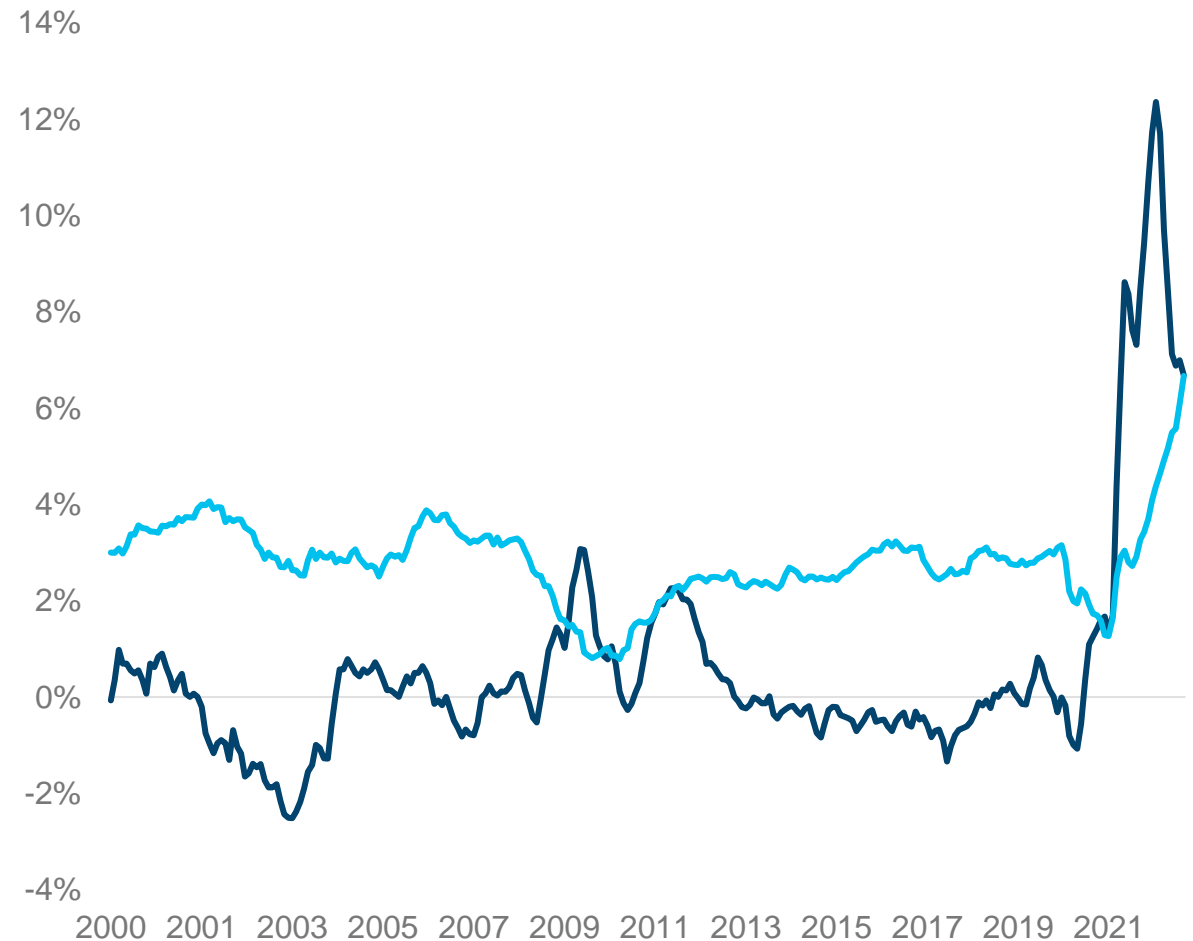
Inflation Measures  
(YoY % Change)

— CPI — Core CPI



Goods vs Services Inflation (Core CPI yoy%)

— Goods — Services



Source: BLS: Consumer Price Index for All Urban Consumers



# Housing & Mortgage Market Trends

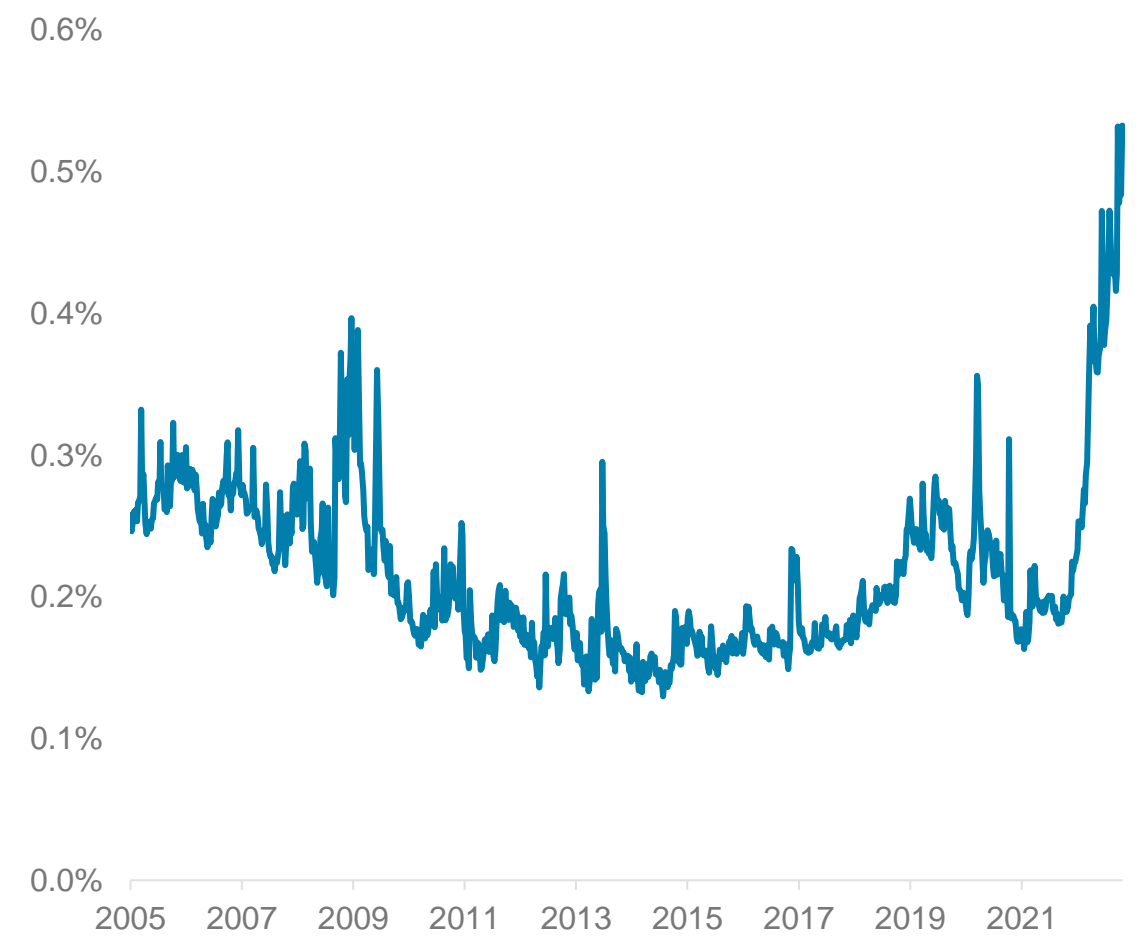
# Mortgage Rate Rising at Fastest Rate in 40 Years and the Dispersion is Very High



### Mortgage Rate- 30-Year FRM



### 30-Year Fixed Rate Mortgage Dispersion



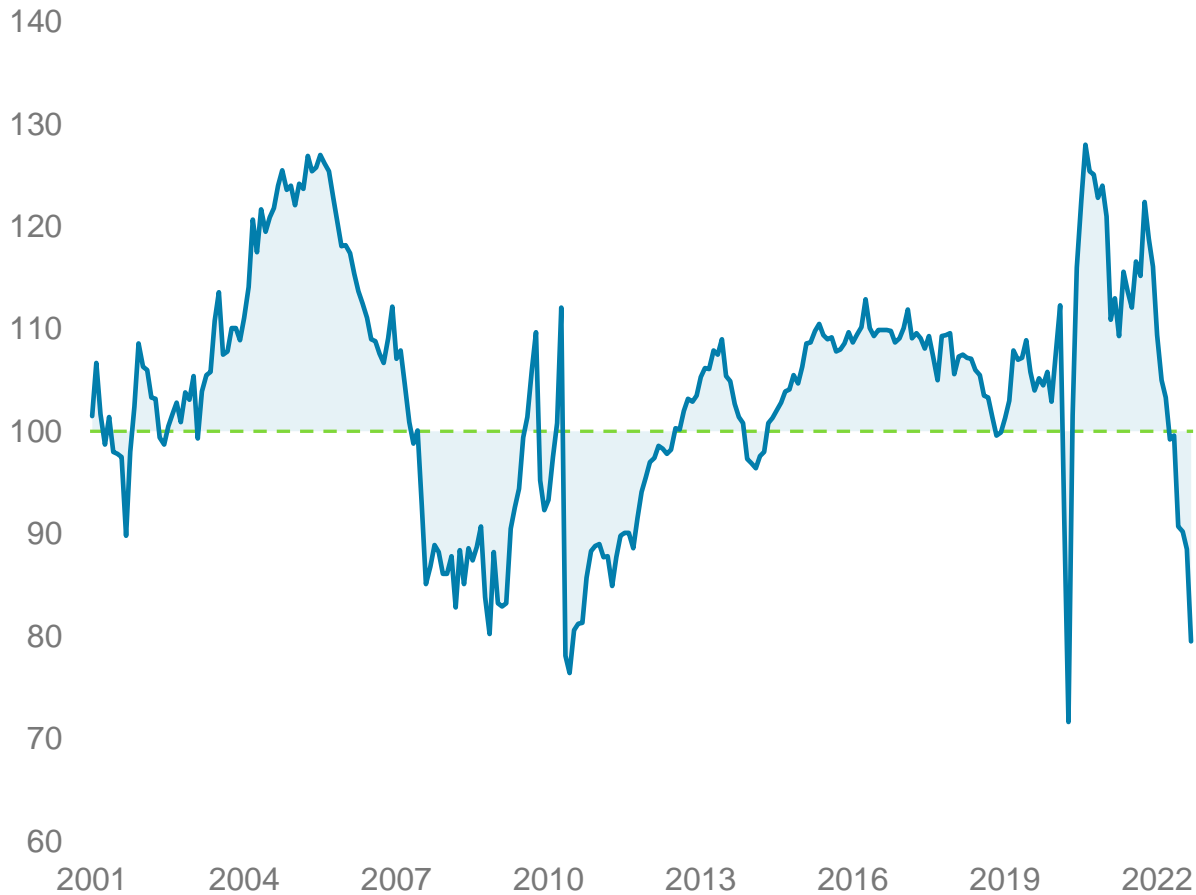
Source: Freddie Mac

Note: Dispersion is defined as the standard deviation in weekly mortgage rates, in basis points

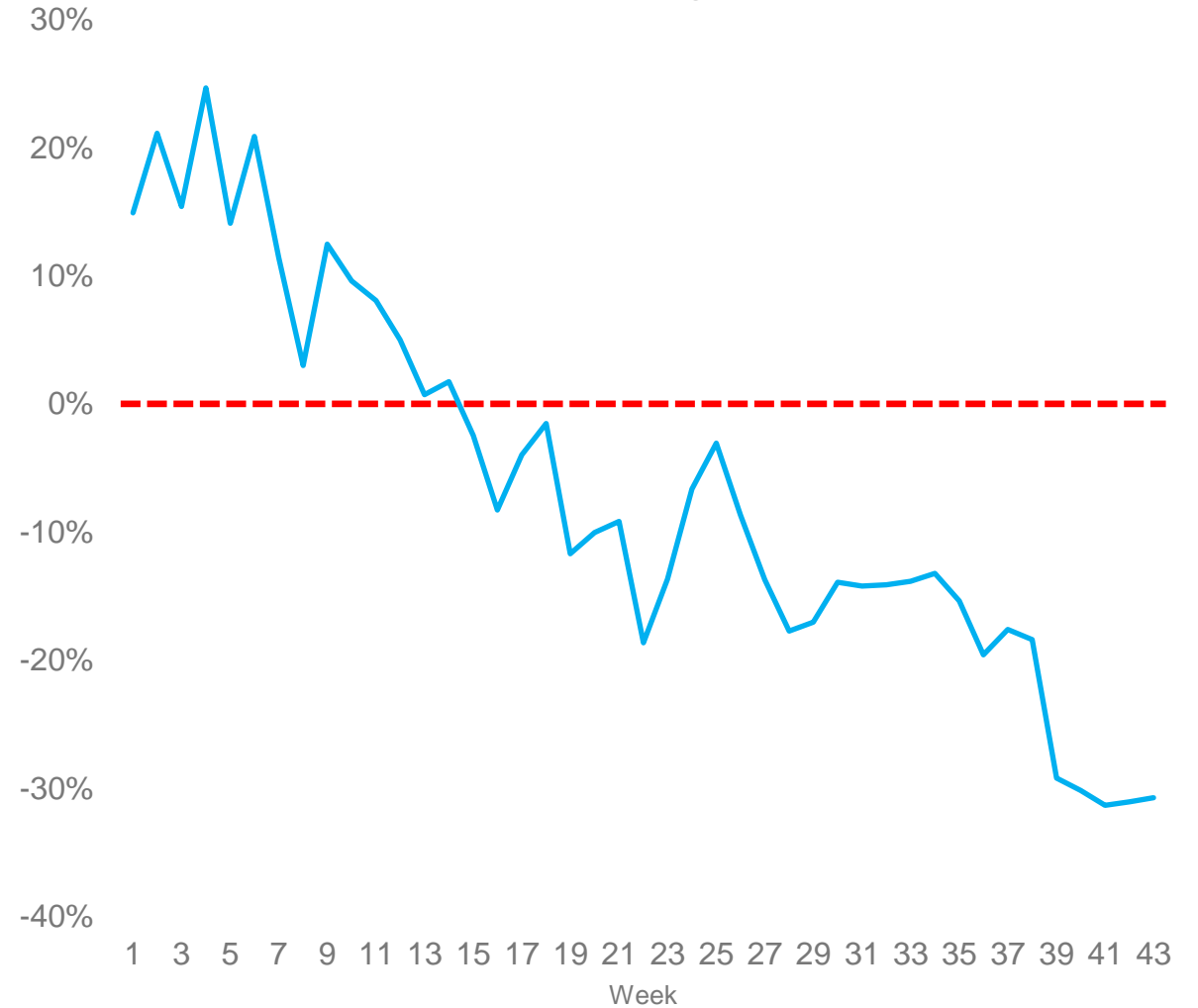
# Rapid Decline in Affordability Has Led to a Contraction in the Purchase Market



### Pending Home Sales Index (SA)



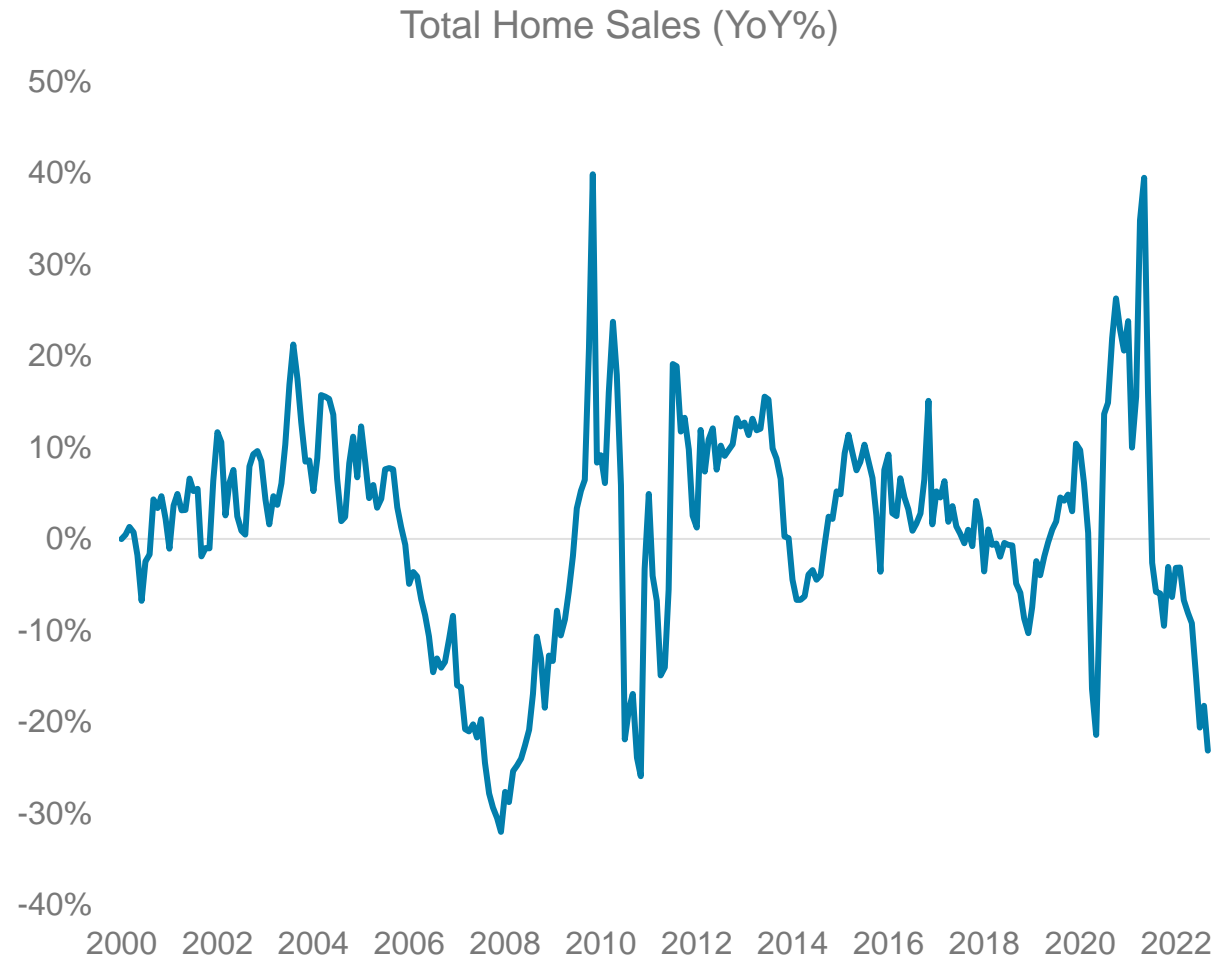
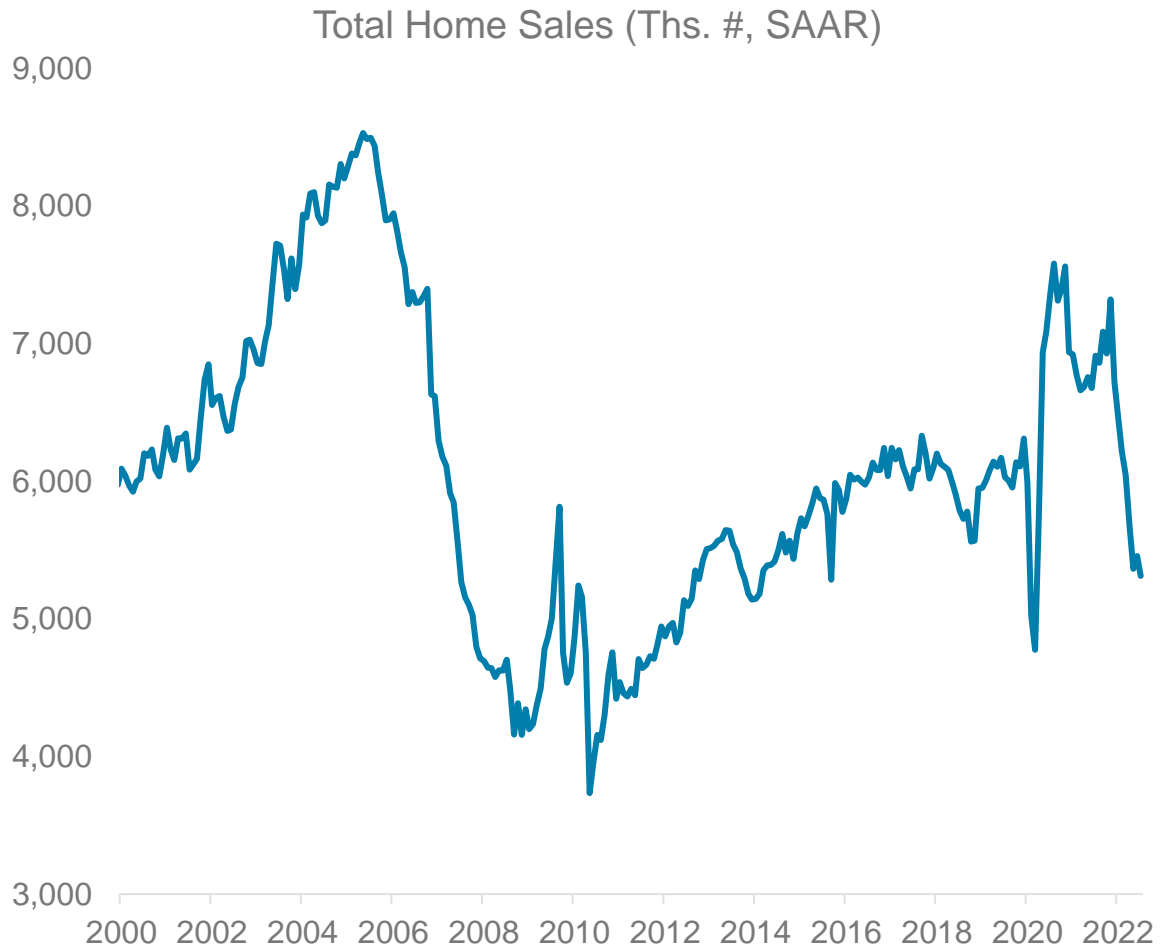
### Percent Change in 2022 Purchase Applications from Pre-Pandemic 3-Year Avg (2017-2019)



Source: MBA;NAR

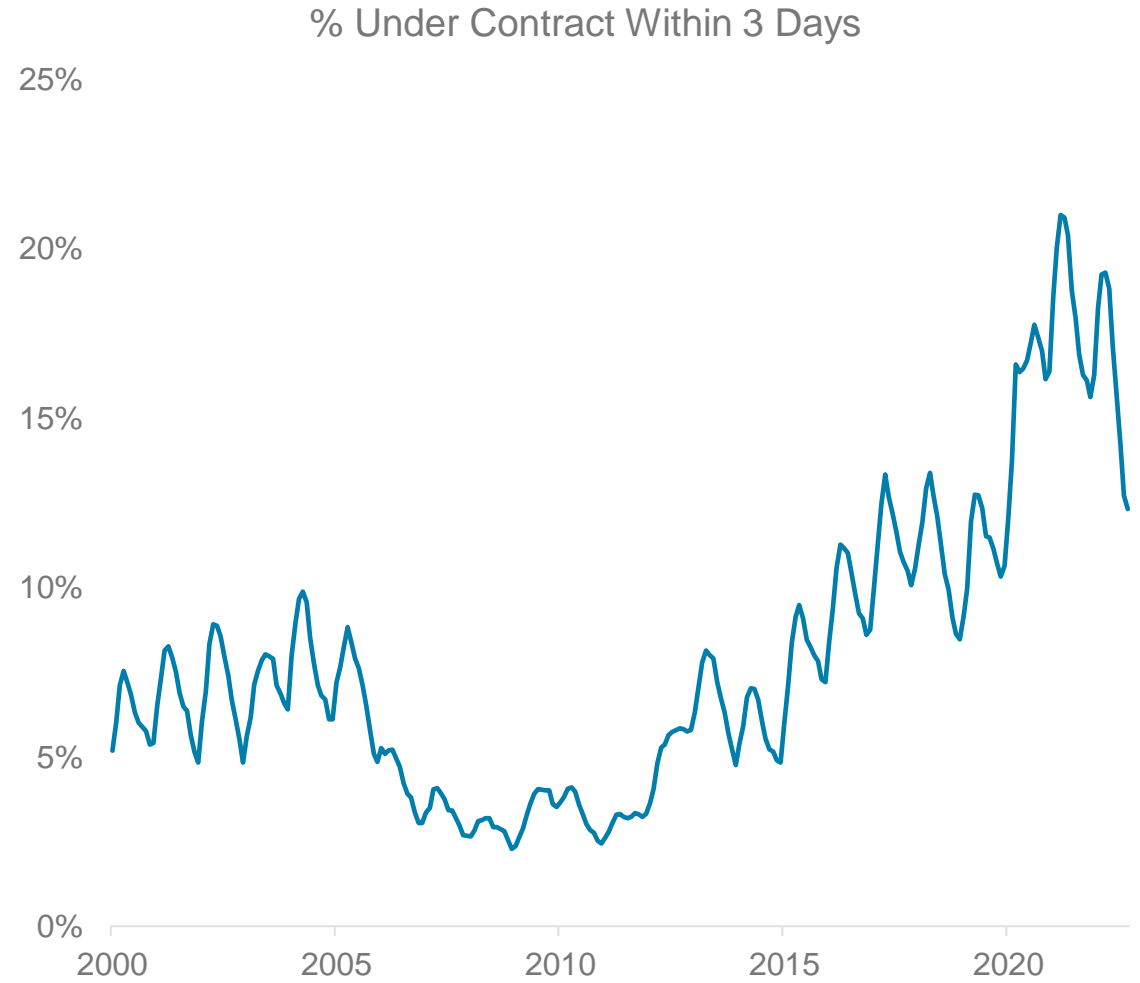
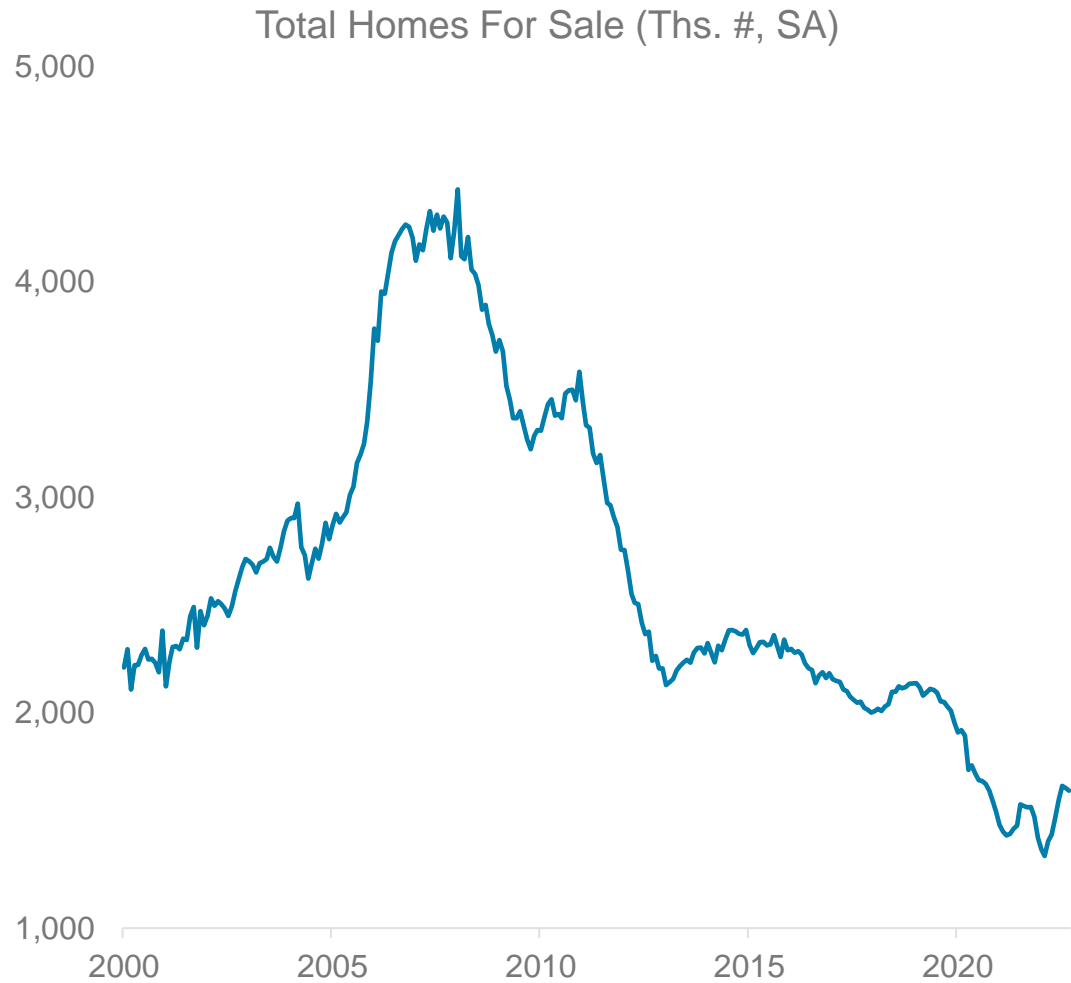


# Home Sales Cooled Due to Rapidly Rising Rates and Deteriorating Affordability



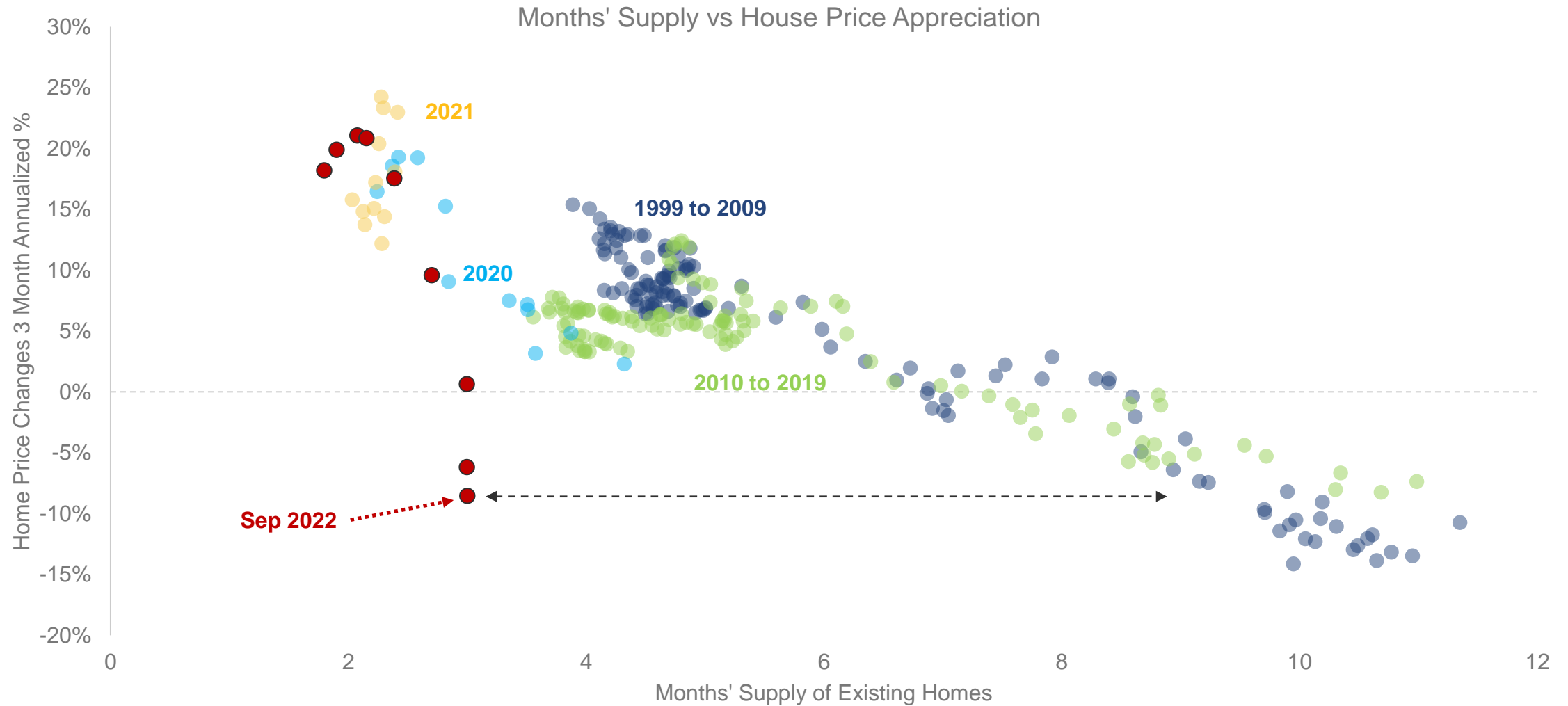
Source: NAR, US Census Bureau

# Despite Recent Increases, Inventory Remains Low Relative to Last Two Decades



Source: NAR, U.S. Census Bureau, Corelogic

# Despite Still Low Supply, Large Drop in Demand has led to a Decline in Home Prices



Source: NAR, U.S. Census Bureau, Freddie Mac

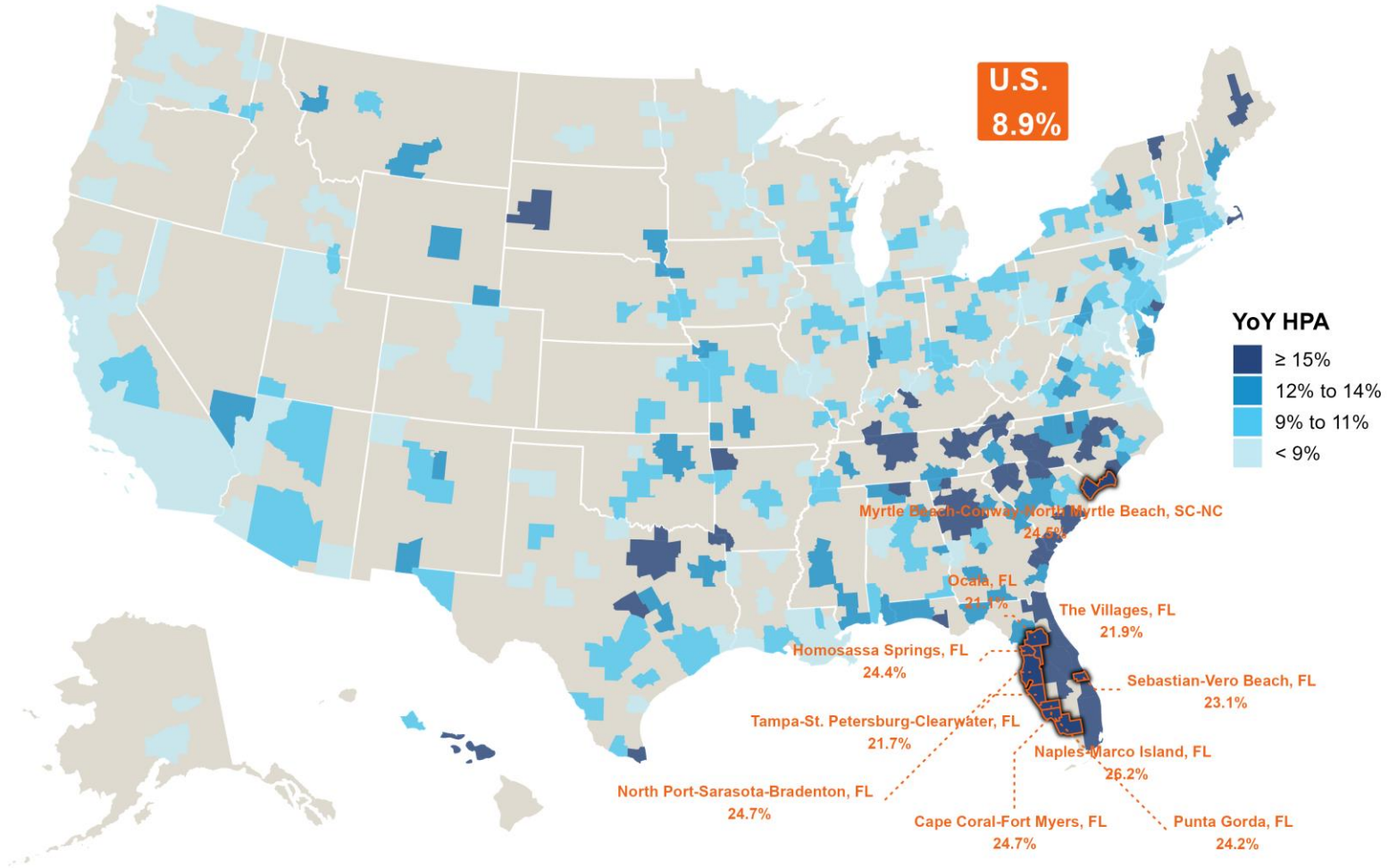


# Markets in Florida and Southeast Continue to Appreciate at a Rapid Pace...



## MSA YoY House Price Growth for September 2022

Top 10 Fastest Growing MSAs Labeled

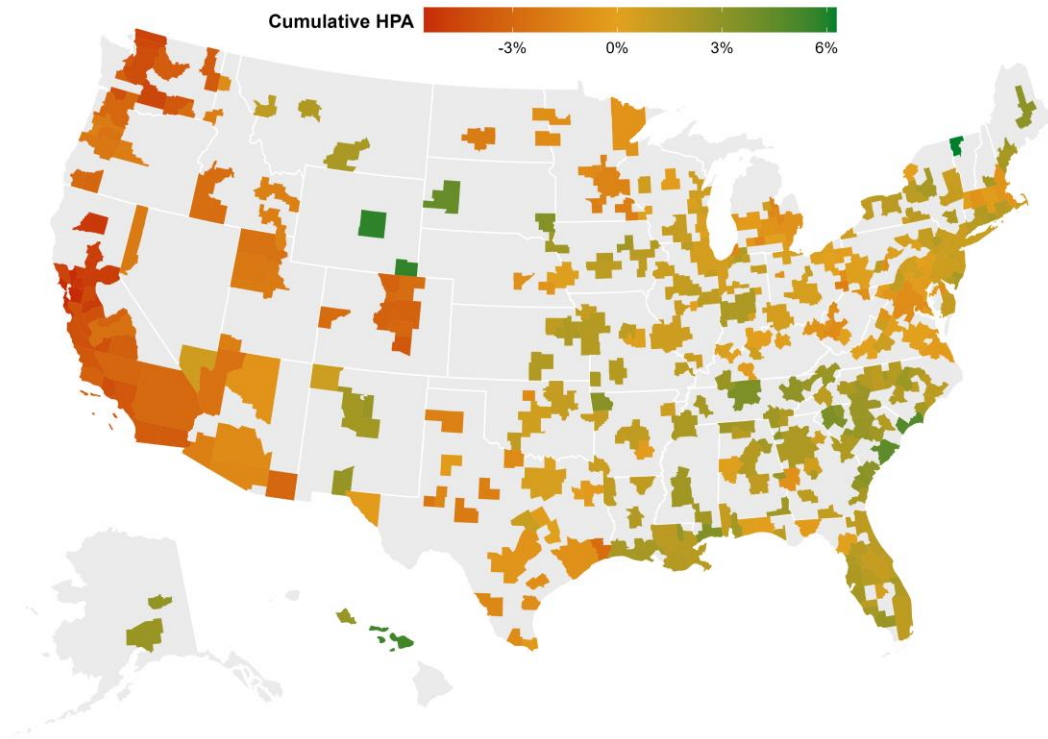


Source: Freddie Mac House Price Index, SA

# ...Even as Prices in Western Markets are Rapidly Declining

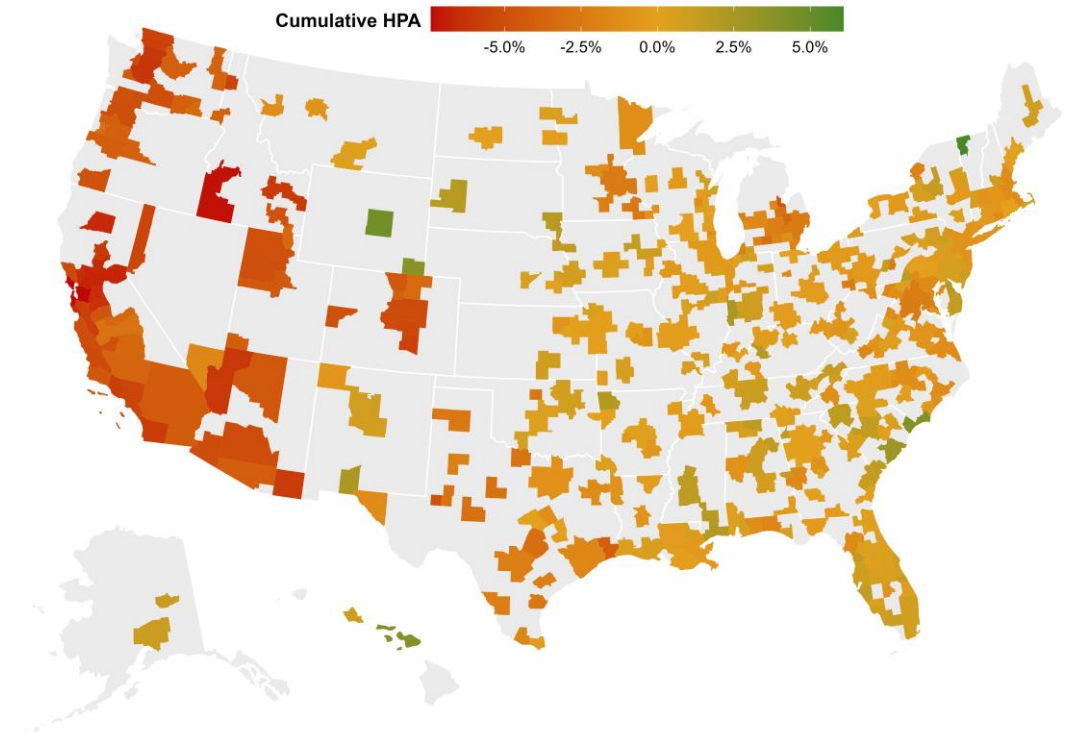


Cumulative MSA House Price Appreciation from May 2022 to August 2022



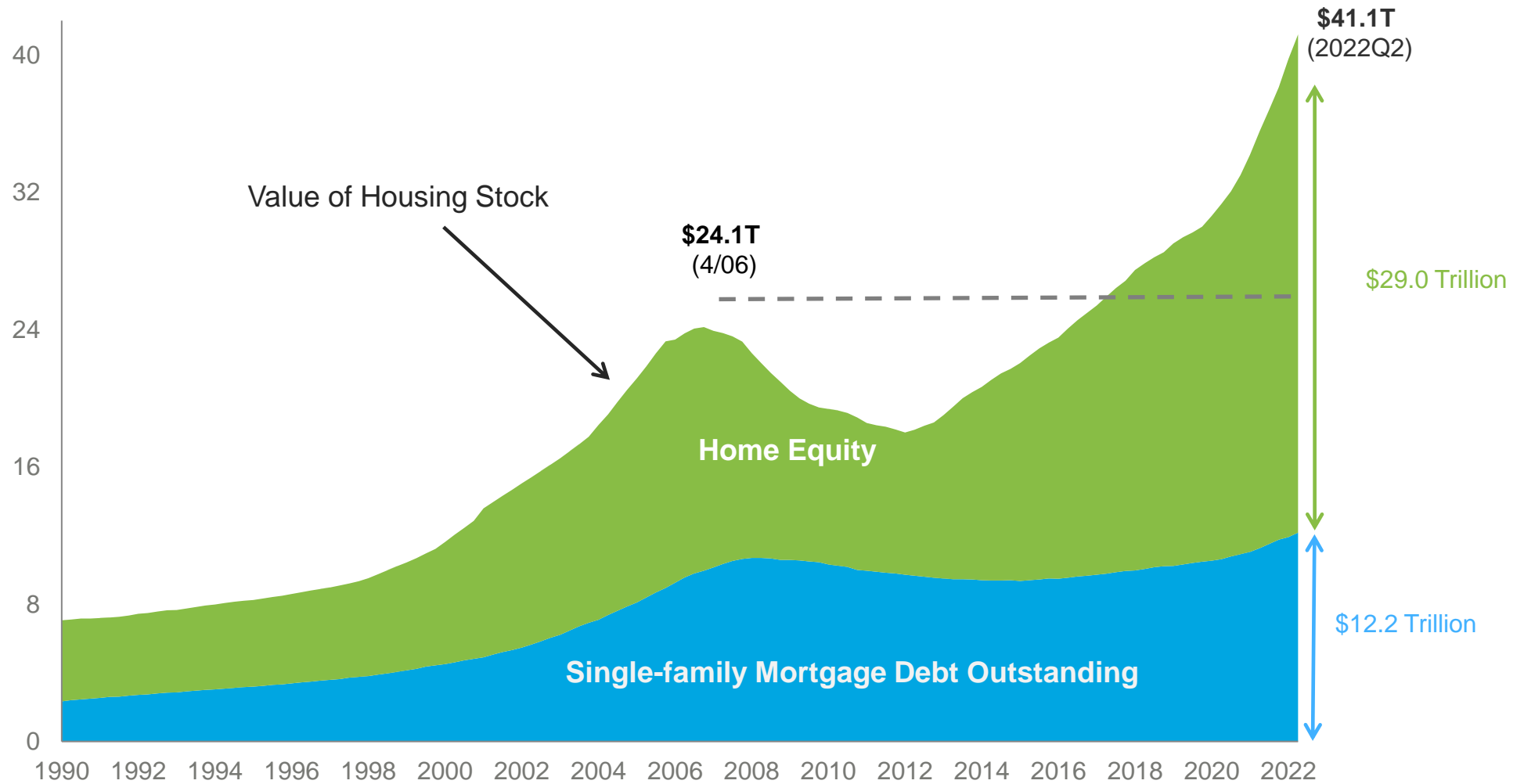
Source: Freddie Mac House Price Index, SA

Cumulative MSA House Price Appreciation from May 2022 to September 2022



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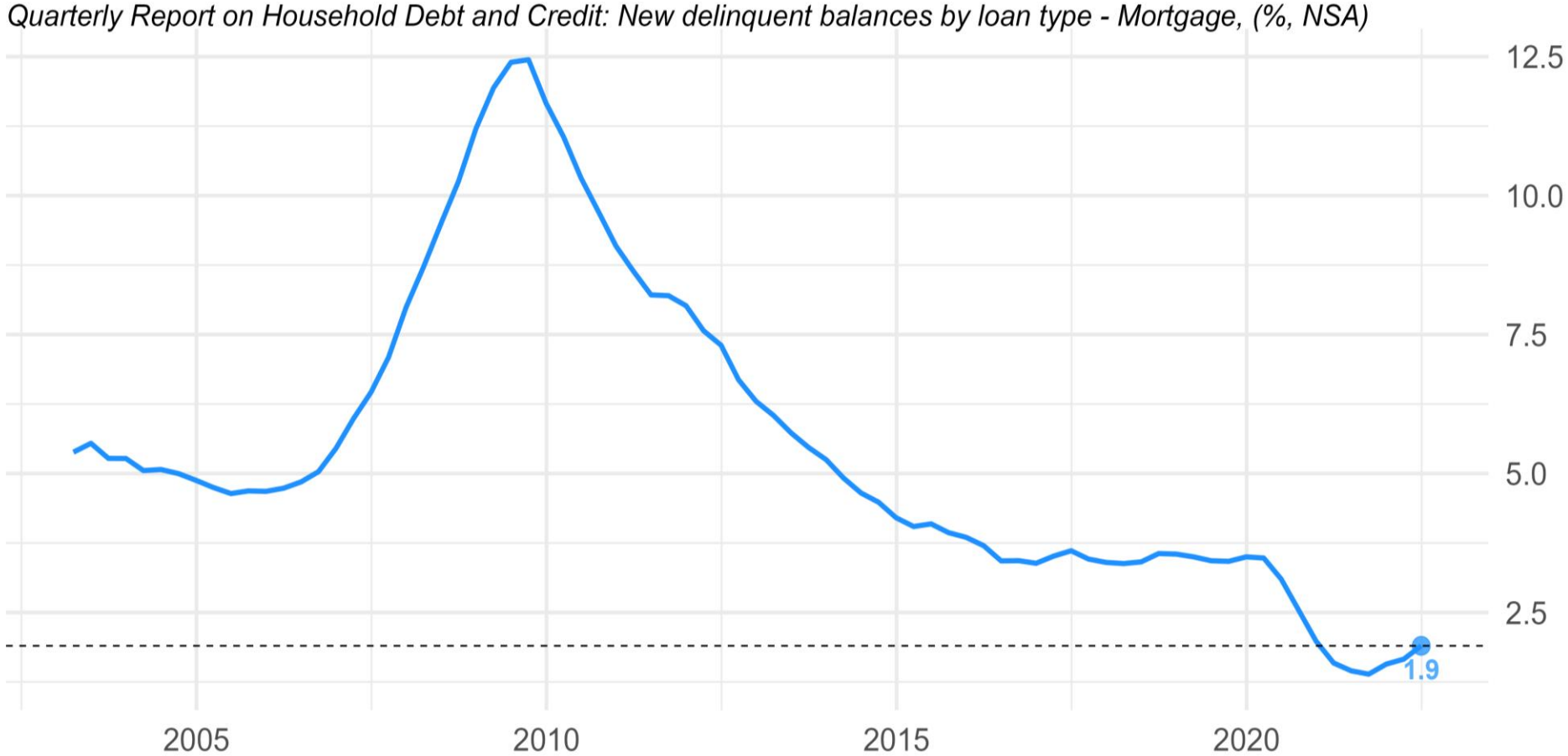
# Home Equity Remains High for Existing Homeowners



Note: Value of U.S. housing stock includes homes with and without underlying mortgages. U.S. home equity is the difference between the value of the U.S. housing stock and the amount of U.S. single-family mortgage debt outstanding.

Source: Federal Reserve Board's Financial Accounts of the United States, Table B. 101. Data as of Sep 9, 2022

# Mortgage Delinquencies Ticking Up Slightly

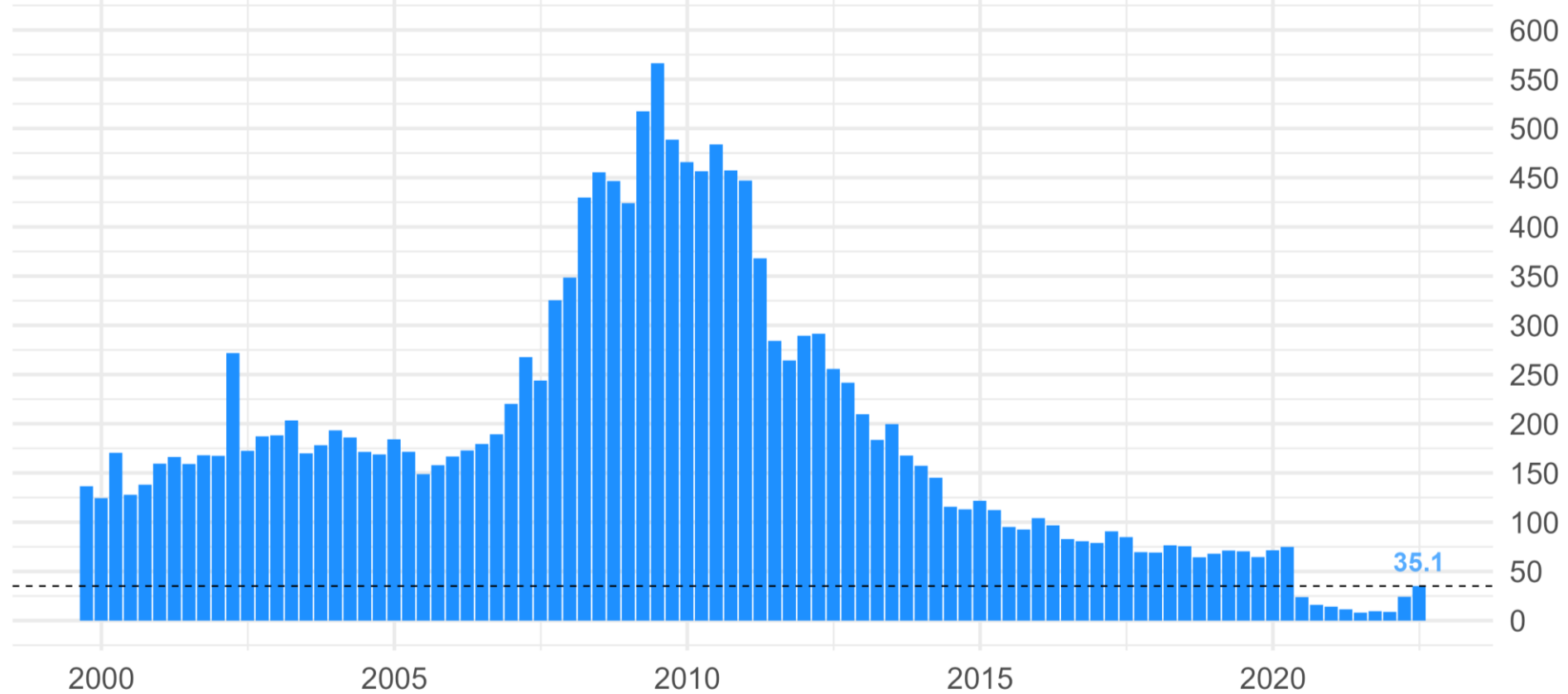


Federal Reserve Bank of New York (FRBNY): Quarterly Report on Household Debt and Credit [HHDC] - New Delinquent Balances by Loan Type

# Foreclosures on the Rise After Remaining at Historic Lows



Quarterly Report on Household Debt and Credit: Consumers with new foreclosures and bankruptcies - Foreclosure, (Ths. #, NSA)



Federal Reserve Bank of New York (FRBNY): Quarterly Report on Household Debt and Credit [HHDC] - Number of Consumers with New Foreclosures and Bankruptcies



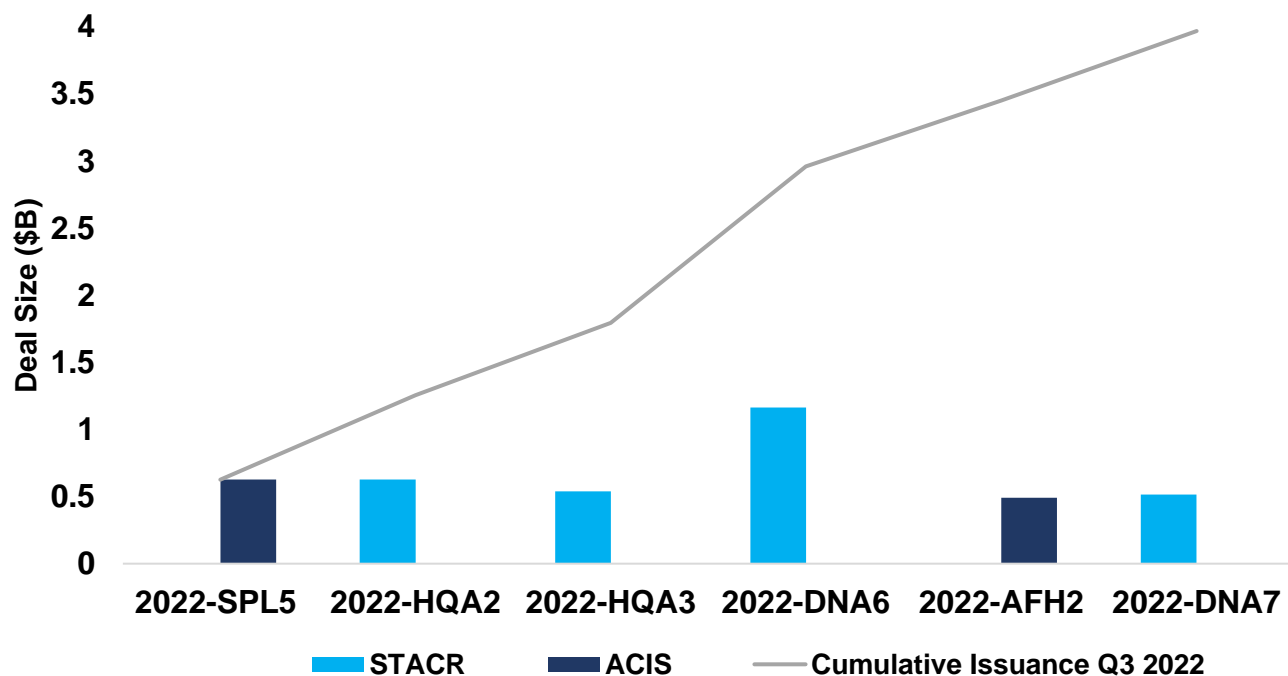
# CRT Update

# Programmatic Issuance

Commitment to the CRT market and broad participation



## Q3 2022 Cumulative Issuance



## \$4.0 Billion Q3 Issuance Volume

Another Large Issuance Quarter for CRT

## 11 New Participants in Q3

113 Unique Investors/(Re)insurers Across STACR/ACIS

## Third and Fourth Tender Offers of 2022 Executed

\$2.5B+ Tendered in STACR 2022-TO3

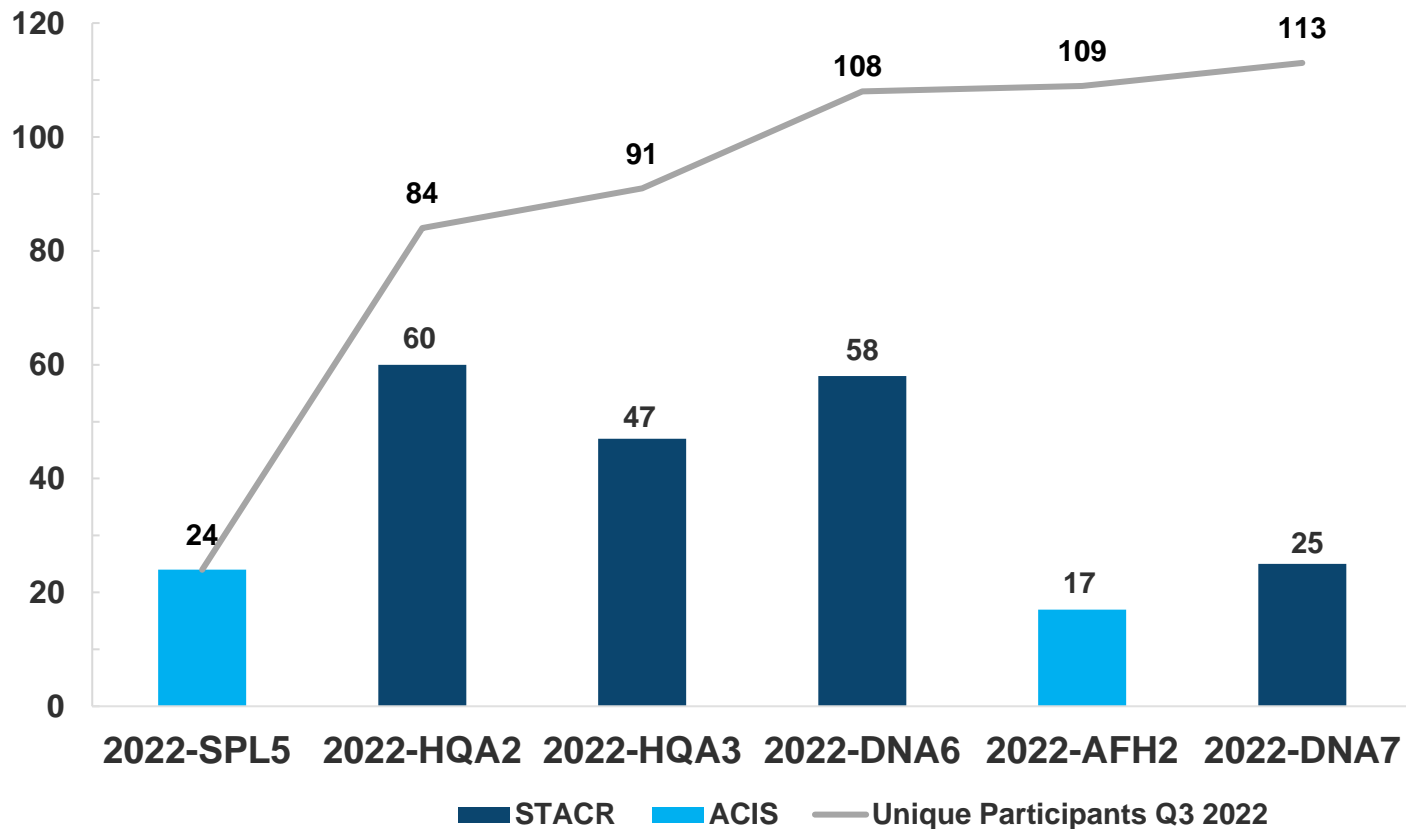
Source: Freddie Mac, as of September 2022. Note: Amounts may not add up due to rounding.

# Investor Participation

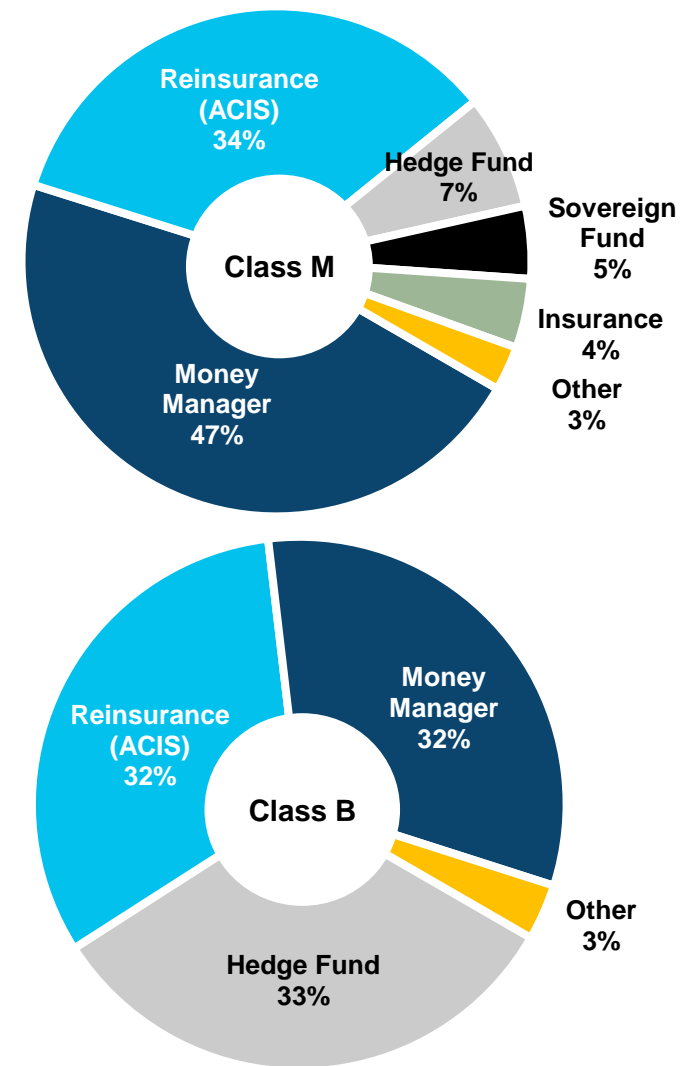
## Commitment to the CRT market



### Q3 2022 Deal Participation



### Participant Profile Since 2019



Source: Freddie Mac, all data as of October 2022. Note: Amounts may not add up due to rounding.

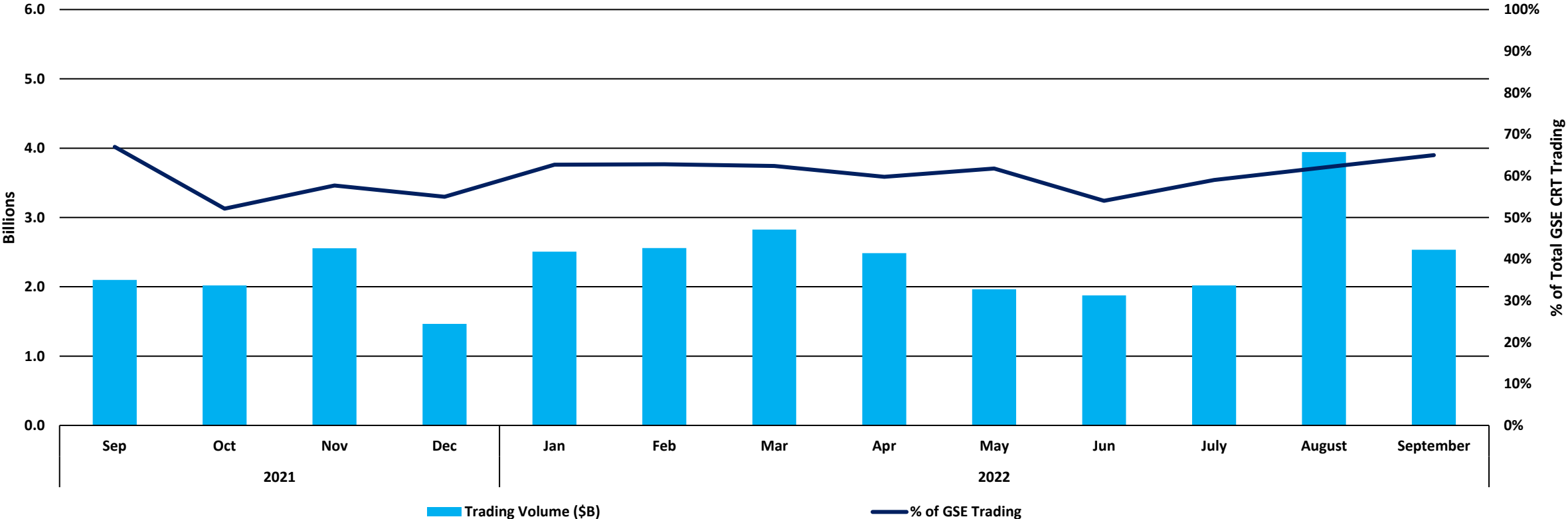


# STACR Secondary Trading Volumes

Market leader in GSE CRT secondary trading



Monthly Trading Volume Over Trailing 12 Months<sup>(1)</sup>



Source: Bloomberg; FINRA  
 (1) Trading volumes reflect the sum of all buy and sell trades as of September 2022

# CRT Performance: On-the-Run Actual Loss Transactions



Strong portfolio performance across vintages

**125**

Transactions Issued

**0.3**

Average bps of Loss  
Per Transaction

**6**

Retired Transactions

**34**

Transactions with  
No Losses

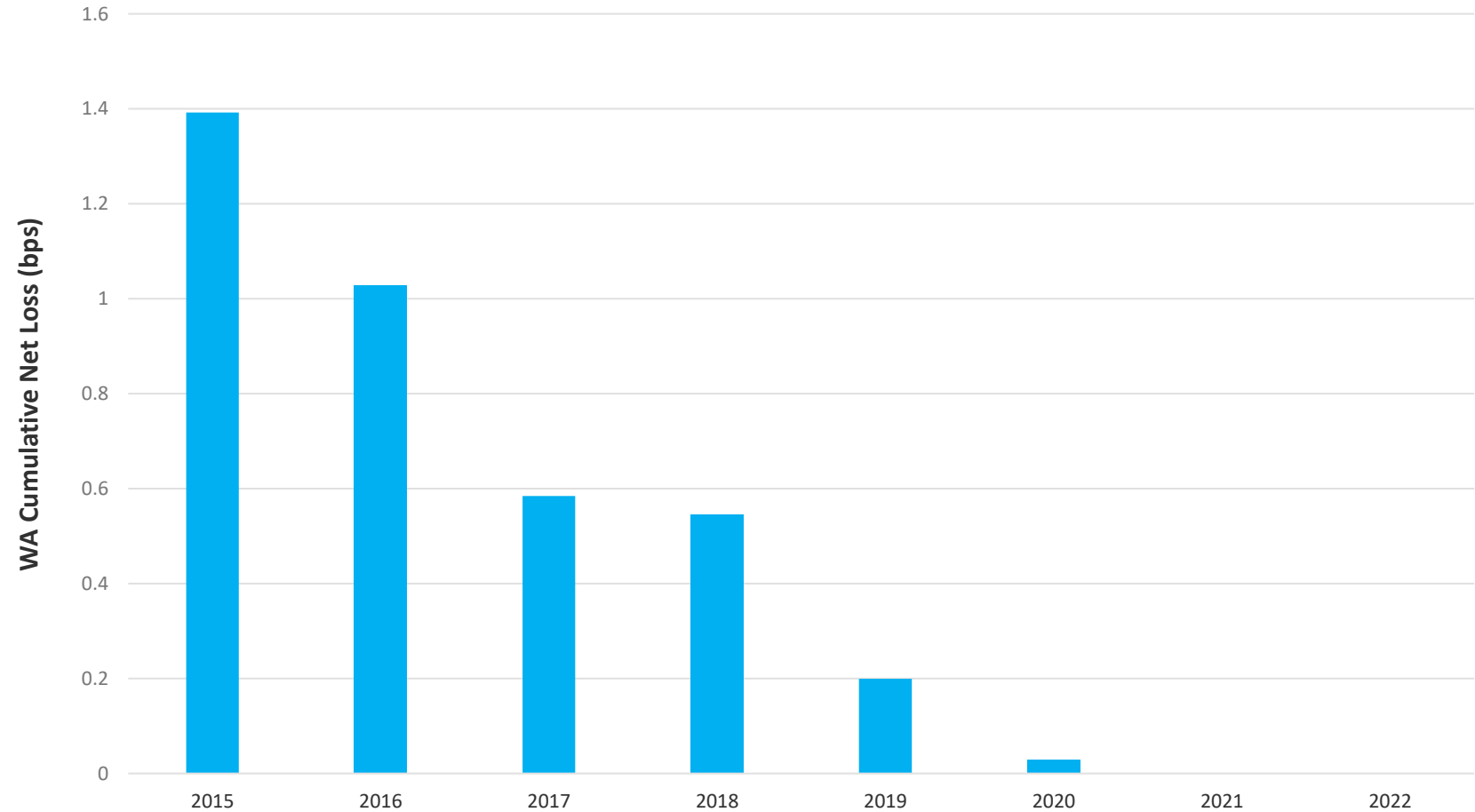
**109**

Transactions with  
<1bp of Loss

**0**

Transactions with  
>2 bps of Loss

Weighted Average Cumulative Net Losses by Issuance Year (bps)



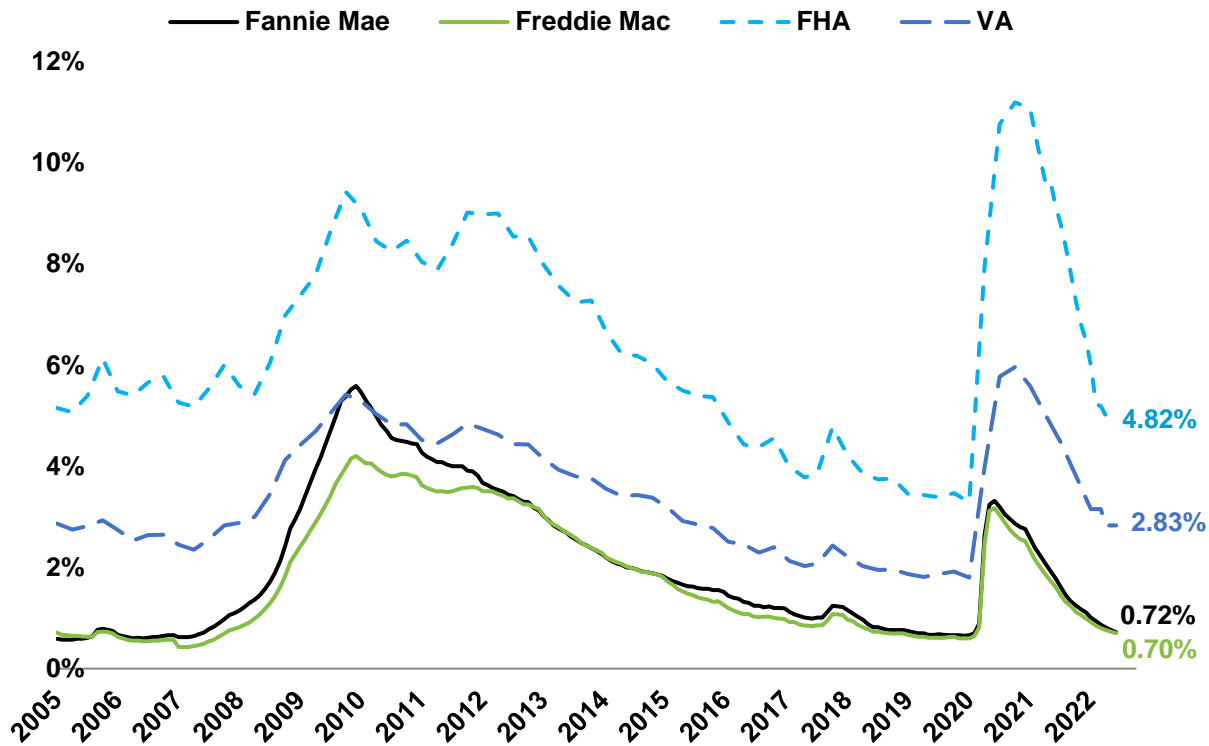
Source: Freddie Mac monthly remittance data for STACR and ACIS 30 year low and high LTV transactions, as of October 2022. Retired transactions included in transaction loss counts.

# COVID-19 Performance Recovery

Delinquency and forbearance trends continue to improve for Freddie Mac

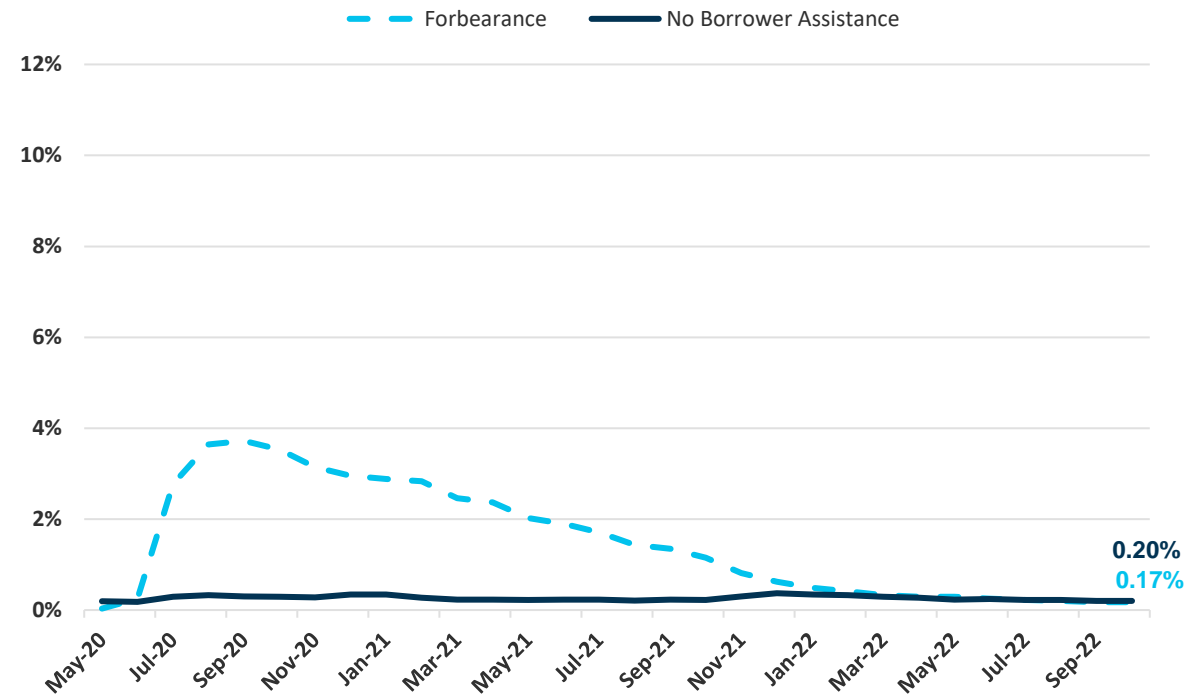


### Freddie Mac Maintains Low Serious Delinquency Through COVID-19 Impact



Source: "Housing Finance At a Glance: A Monthly Chartbook," Housing Finance Policy Center, October 2022; Fannie Mae, Freddie Mac, MBA Delinquency Survey and Urban Institute.  
 Note: Serious delinquency is defined as 90 days or more past due or in the foreclosure process. Not seasonally adjusted. VA delinquencies are reported on a quarterly basis, last updated for Q1 2022. GSE and FHA delinquencies are reported monthly, last updated for August 2022.

### Freddie Mac CRT Portfolio Serious Delinquency Forbearance vs. Non-Forbearance



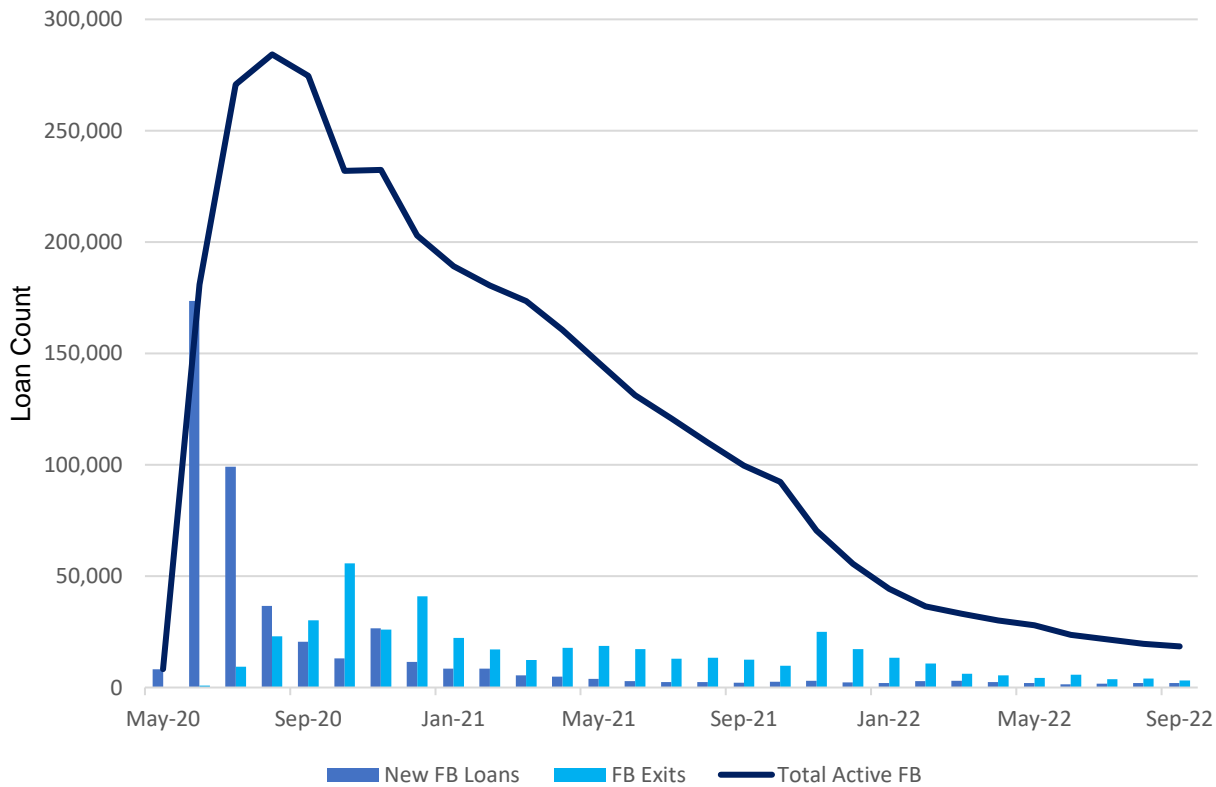
Source: Freddie Mac Clarity Data Intelligence, as of October 2022  
 Note: Serious delinquency is defined as 90 days or more past due or in the foreclosure process.

# Forbearance Resolution

Pace of modifications and payment deferrals slowing. Total active FB now below 20k

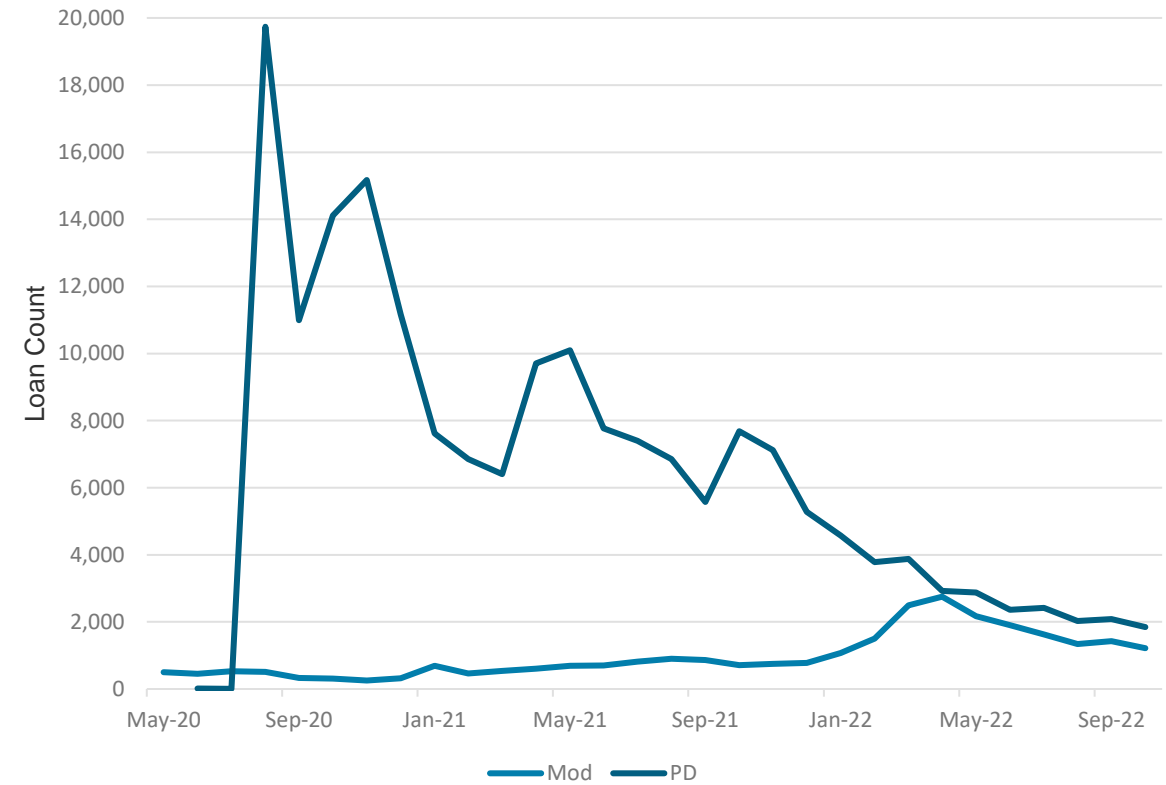


### Forbearance by Period



Source: Freddie Mac CRT Disclosure Data.

### Modification and Payment Deferral Volume



Source: Freddie Mac CRT Disclosure Data.



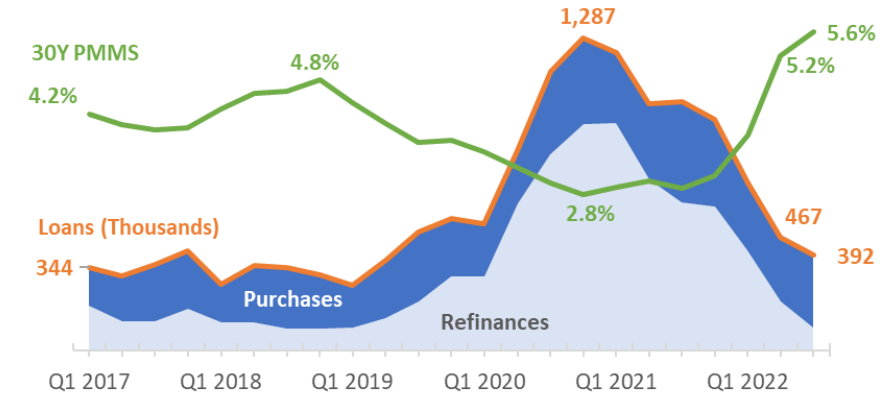
# Credit Policy

# Portfolio Trends – Rising Rates and Volume Decline



- Following several rate increases in quick succession, refi volumes have dropped off rapidly while purchase volumes remain above the 2017-2022 quarterly average. Purchases made up 76% of Q3 2022 funding.
- Cash-out refi concentration peaked at 36% in Q1 2022 and remains significant at 20% as of Q3. Refi risk has risen in 2022, returning to 2019 levels. Refi FICO scores have decreased 40 points since their COVID peak and 17 points since Q1. While refi DTIs have risen, refi TLTVs (average 61 in Q3) are the lowest since 1992. Softening house prices could add pressure to the low TLTV benefit and push refi risk further upward. We will continue to monitor refi credit quality and performance.
- Loan limit increases of 18% went into effect in January 2022, reflecting a period of extraordinary house price appreciation. While this shift initially posed challenges to affordable goals, super-conforming concentration has since settled under 2%. The stronger headwinds for affordability and origination volumes in general have resulted from rapidly rising interest rates.
- Changing market environment pressure on Seller/Serviceers remains a significant focus.

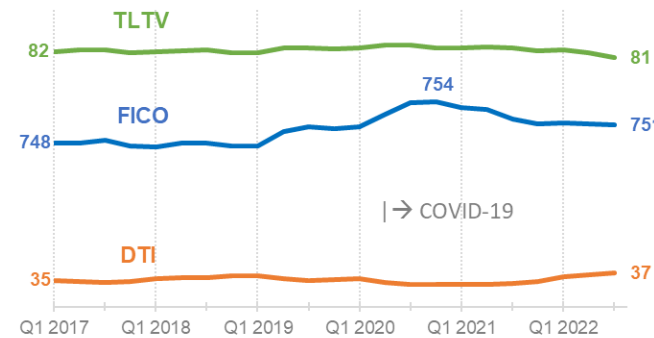
With Rates Rising Fast,  
See Lower Volumes and End of Refi Wave



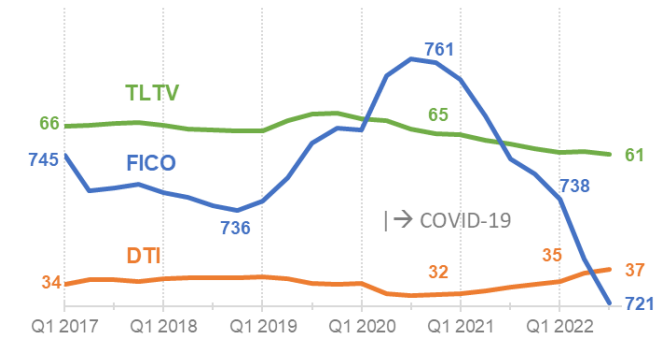
Funded Flow Loans	2017	2018	2019	2020	2021	2022
Millions of Loans	1.4	1.3	1.7	3.8	4.2	1.5
Funded \$ Billions	332	299	427	1,085	1,215	466
FICO <680 Loan Share	9%	10%	8%	5%	8%	11%
TLTV >90 Loan Share	18%	22%	20%	12%	11%	17%
DTI >45 Loan Share	11%	16%	13%	10%	11%	15%

(Data through 3Q 2022 – Standard Flow Loans)

New Purchase Credit Quality



New Refinance Credit Quality



Source: Freddie Mac

# Notable Policy Actions



## Remaining COVID-Policies remain unchanged but continue to be evaluated

- **Eligibility requirements for borrowers with existing mortgages** - verification is required to confirm the borrower is current on their existing mortgage(s) up to the note date of the new mortgage
- **Self-employed borrowers** - Seller must confirm the borrower's business is open and operating within 20 days of the Note Date.

## Other notable policy actions (non COVID-related) this year include, but are not limited to:

- **Income reported on IRS Form 1099 for Services Performed**
  - Added guidance for treatment of income received on IRS Form 1099 and reported on IRS Schedule C as non-self-employed income. Often referred to as “contractor” or “contingent worker”.
- **Borrowers with business ownership interest(s) less than 25%**
  - Added requirements for borrowers who hold a business ownership interest(s) of less than 25% and receive ordinary income or guaranteed payments reported on IRS Schedule K-1 for partnerships and S-corporations.
- **Condominium and Cooperative Project Updates**
  - An increase to the maximum single investor concentration for condominium and cooperative projects (49% with requirements)
  - Introduction of Condo Project Advisor® Project Assessment Request (PAR)
    - Allows authorized Sellers to submit the name of a condominium project in Condo Project Advisor and obtain feedback regarding the project's compliance with the project review requirements assessed by Condo Product Advisor.
- **ACE + PDR**
  - Cash-out refinance transactions and certain “no cash-out” refinance transactions will no longer be eligible for ACE appraisal waivers.
  - Announced new offering, ACE+ PDR for cash-out refinance and certain “no cash-out” refinance mortgages without an appraisal.
    - With ACE+ PDR, additional property information is collected on-site by trained data collectors using the proprietary Freddie Mac PDR dataset, in lieu of a traditional appraisal.

# Mission Through Affordable Housing



Freddie Mac continues our focus and commitment to work across the industry and with FHFA to create opportunities for all families to access quality and affordable housing and to set new standards that bring more individuals closer to their American dream.

## Notable Policies Supporting Mission and Affordable:

- **Accessory Dwelling Units (ADUs) - we have updated our requirements to provide more flexibility for mortgages secured by properties with ADUs which offer many benefits, particularly in areas experiencing housing shortages.**
  - In response to recent zoning and ordinance changes in many geographic areas, we have expanded our ADU eligibility requirements to allow one ADU on 2- and 3-unit properties.
  - Updated our requirements to allow rental income generated from an ADU on a subject 1-unit Primary Residence to be considered when qualifying.
- **Rent Payment History in LPA Credit Assessment - Include a first-time homebuyer's rent payment history in its credit assessment, providing expanded opportunities for these borrowers to become homeowners. At least one borrower must:**
  - Have a usable credit score, as determined by Loan Product Advisor.
  - Be a first-time homebuyer who intends to occupy the subject property as their primary residence, and
  - Have been renting for min 12-months with rent payment of \$300 or more and paid from depository account
- **Borrower Cash Flow in LPA Credit Assessment - This enhancement assesses the transaction patterns and changes in account balances reflected in the borrower's checking, savings and investment accounts using data obtained from the borrower's financial institution.**
  - Cash-flow will not affect the debt-to-income ratio or documentation requirements.
  - At least one borrower must have a usable credit score as determined by Loan Product Advisor.
  - At least 12-months of account data must be transmitted to Loan Product Advisor.
- **Manufactured Housing – Updates to guide reflecting changes associated with Affordable Seconds® and manufactured homes on leasehold.**
  - Policy updated to clearly identify allowance of Affordable Seconds with manufactured homes for Home Possible® only.
  - Update guide to permit the sale of manufactured homes on leasehold estates when there is demonstrated market acceptance and written approval is obtained.

Source: Freddie Mac





# Questions

# Disclaimer



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