

Freddie Mac CRT Quarterly Webinar

July 2023



Credit Risk
Transfer

Today's Speakers



Mike Reynolds

Vice President

Single-Family Credit Risk Transfer in
I&CM



Ryan McGuinness

Director

Single-Family Mortgage Servicing Policy

First Half 2023 Recap



Market Engagement

- Investor Day
- Rating Agency Day
- Reinsurance Conference in DC
- SFVegas 2023
- IMN CRT Conference New York
- Reinsurance Meetings in Bermuda
- STACR Roadshows
- Webinar and Podcast

Clarity Data Intelligence[®] Update

- MBS Data Intelligence went live in April 2023
- EU Annex 2 (loan level) made available beginning in the February 2023 payment date
- EU Annex 12 (deal level) work is in progress and should be available in the next month



Economic & Housing Update

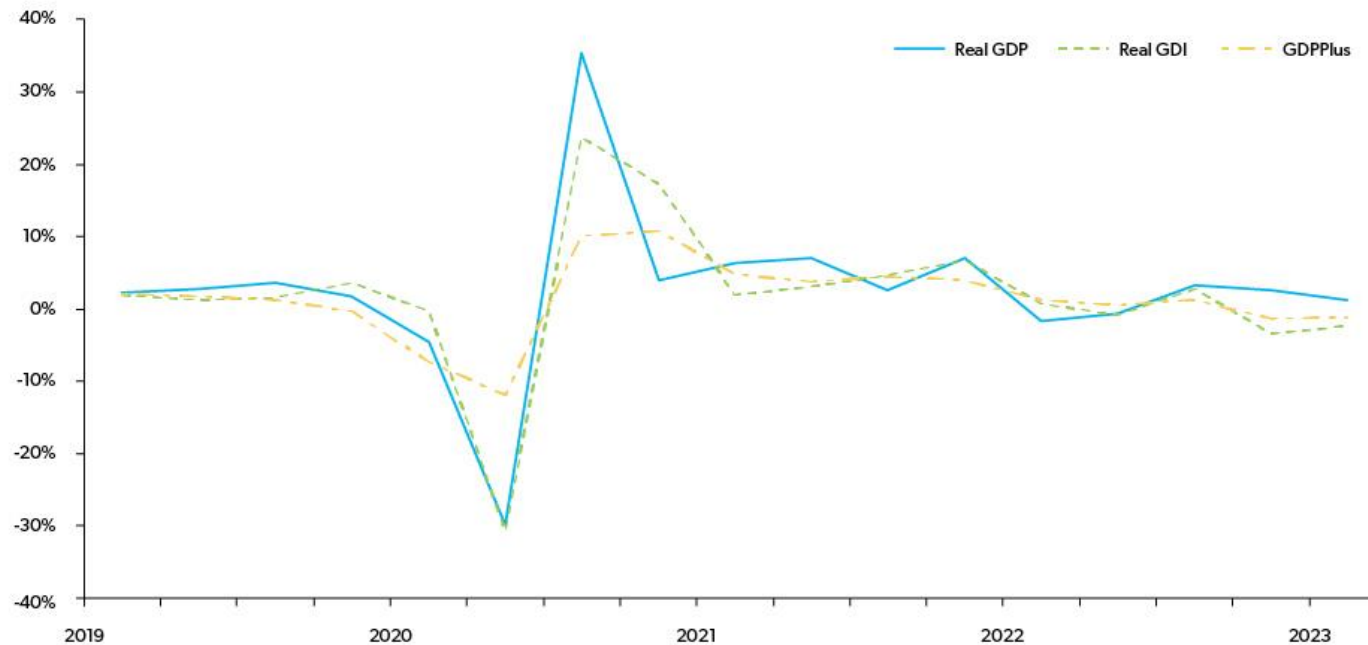
Economic Growth Upward 0.2% from Q1 2023; Annualized Rate of 1.3%



- Though this is the third consecutive quarter of positive GDP growth, the pace is slowing due to a continued drag in residential fixed investment.

EXHIBIT 1

Quarter-over-quarter annualized % growth



Sources: Bureau of Economic Analysis (BEA) and Federal Reserve Bank of Philadelphia

Our Baseline Doesn't Include a Recession; but Still a Possibility



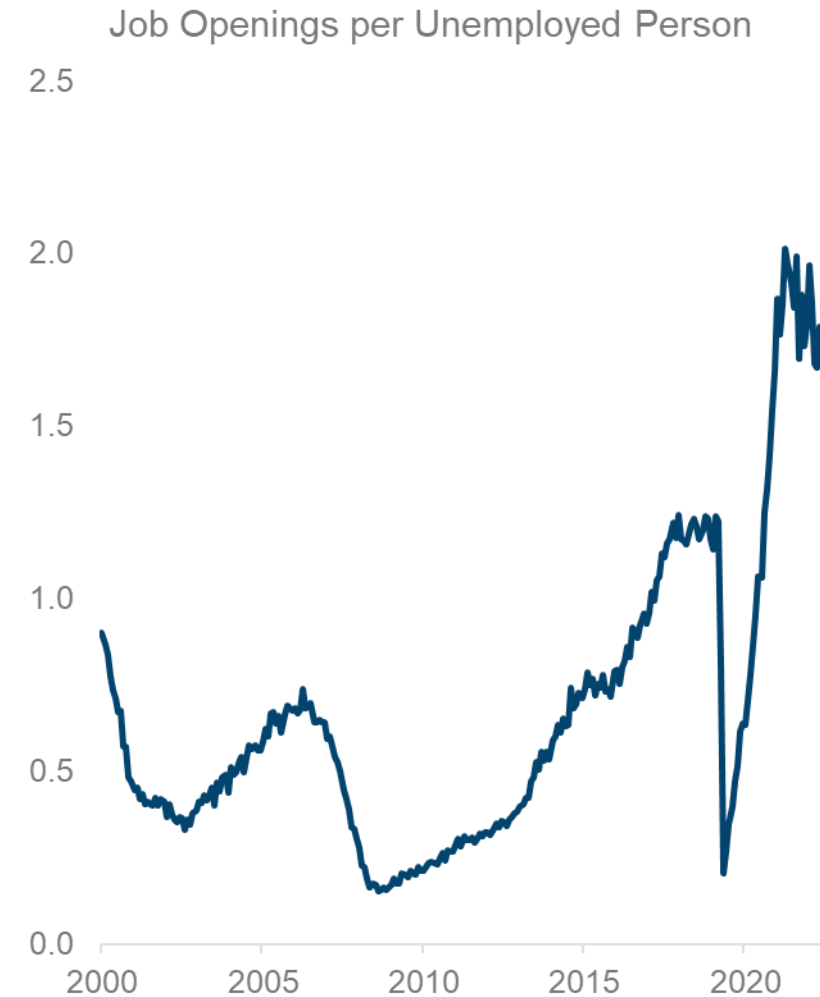
- Macroeconomic indicators point to a slowing economy that could tip into recession if hit with a significant adverse shock. However, our baseline view predicts only a slowdown in growth and a modest uptick in unemployment.
- In the past year and a half, the economy has weathered adverse shocks (war, banking failures) and avoided slipping into recession.
- Part of the reason for the resilience of the economy is the resilience of the U.S. consumers, who still have substantial savings to draw on and can bolster the economy despite a decline in employment.





Labor Market Remains Resilient; Unemployment Rate at 3.7%

- The unemployment rate did increase in May by 0.3 percentage points to 3.7%; the largest month-over-month increase since the onset of the COVID-19 pandemic.
- However, an increase in job openings caused the ratio of job openings to unemployed persons to jump up to 1.79 in April 2023 from 1.67 the month before.
- Despite the rise in the unemployment rate reported in the household survey, the establishment survey reported that nonfarm payrolls increased by 339,000 in May. In addition, average hourly wages increased 0.3% over-the-month, and 4.3% year-over-year to \$33.44/hr.





Inflation Continues to Slow from Peak; but Still High in Q2 2023

- Inflation continues to slow from its peak in September 2022 but remained high in April at 4.7% year-over-year according to the U.S. Bureau of Economic Analysis' "core" price index for personal consumption expenditures excluding food and energy.
- The annual growth rate in the price index for services less housing has continued to hover between 4.3% and 5.2% since April 2021 and currently sits at 4.8% year over year.
- If unemployment rate gradually moves modestly higher, we expect inflation to cool but remain above the Federal Reserve's target of 2%.





Housing & Mortgage Market Trends

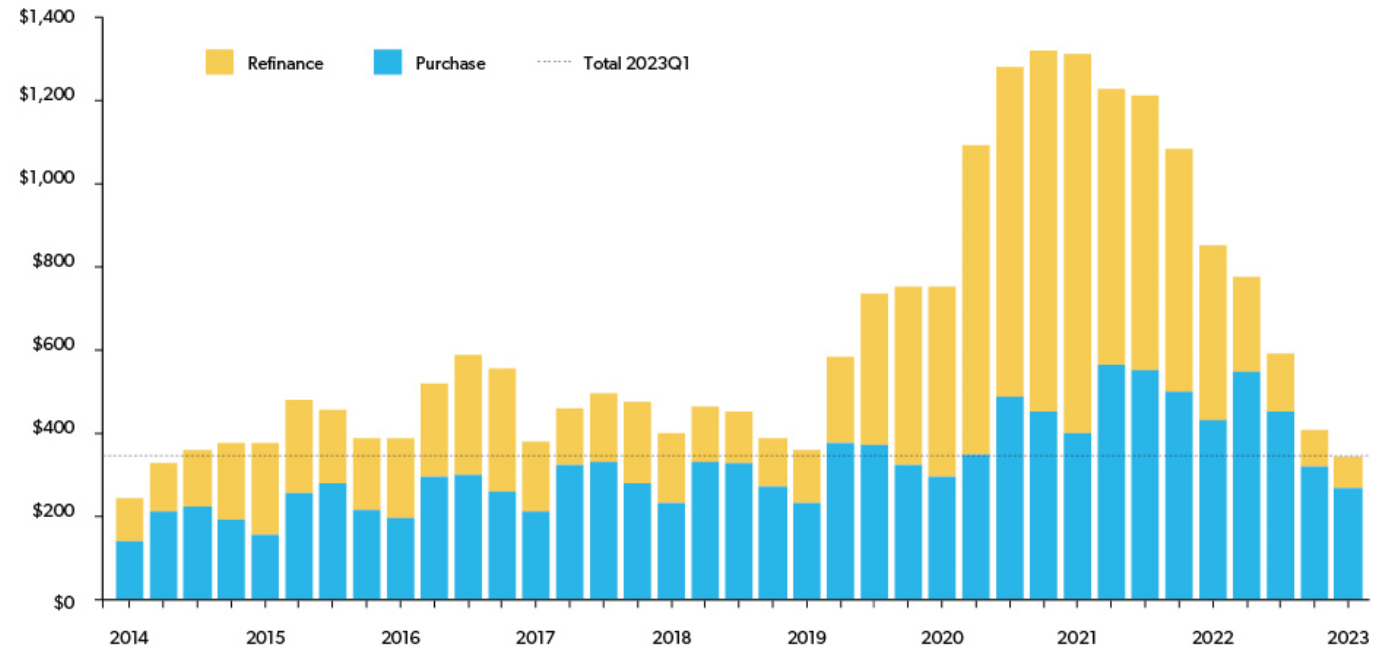
Mortgage Rates Rising; Reaching 6.79% in Beginning of June Q2 2023



- After two months in a narrow range between 6.28% and 6.43% from mid-March through mid-May, mortgage rates measured by the U.S. weekly average 30-year fixed mortgage rate in our Primary Mortgage Market Survey[®] have resumed their ascent in recent weeks.
- In the week of June 1, rates reached 6.79%, the highest reading since November of last year.
- According to our estimates, mortgage originations in Q1 2023 were just \$344 billion, the lowest quarterly total since the second quarter of 2014.
- Higher mortgage rates are dampening mortgage application activity and purchase applications were down 6.9% during the last week of May, while refinance applications dropped 11% after seasonal adjustment.

EXHIBIT 4

Quarterly U.S. single-family mortgage originations (\$ billion)



Source: Freddie Mac Economic & Housing Research group

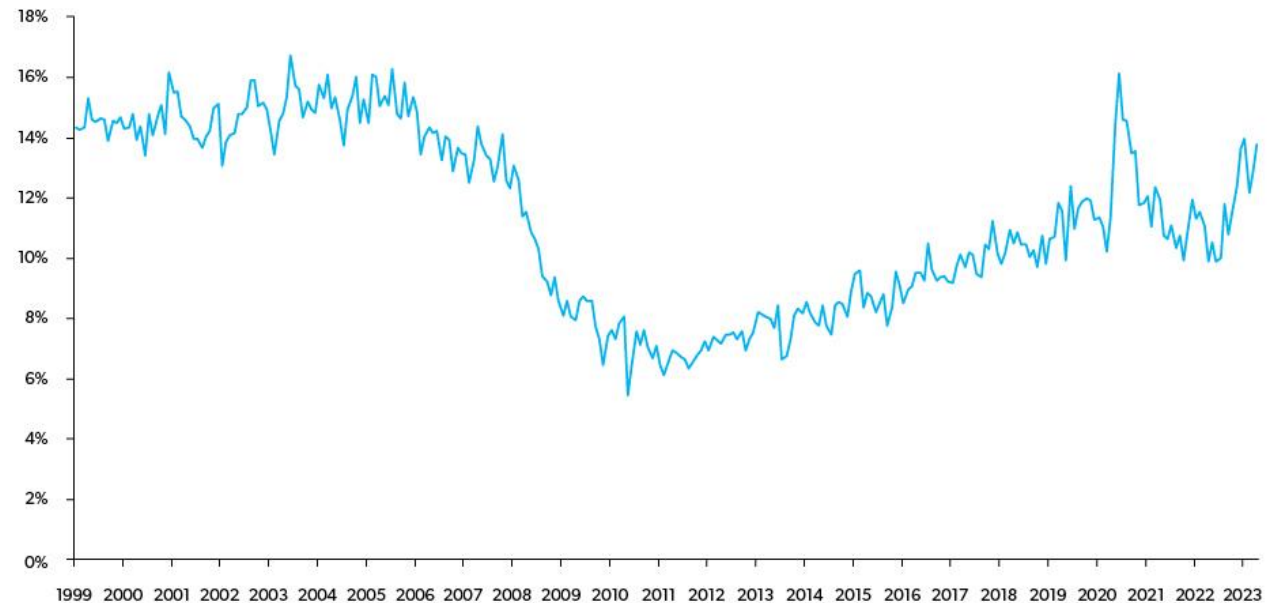
Home Sales Muted Due to Challenges of Higher Mortgage Rates & Slowing Economy



- The U.S. Census Bureau and U.S. Department of Housing and Urban Development reported that new home sales increased 4.1% in April.
- Through the first four months of 2023, existing home sales have averaged a 4.3 million seasonally adjusted annual rate, representing a 14% decline from last year's 5 million sales. Meanwhile, new homes have averaged a seasonally adjusted annual rate of 655,000 sales, representing a 2% increase from last year.
- The simultaneous decline of existing home sales and increase of new home sales has shifted the composition of the home sales market toward new home sales.
- Excluding the temporary spike due to the onset of the COVID-19 pandemic, of new home sales as of April 2023 comprise the largest percentage of total home sales since 2008.

EXHIBIT 2

New home sales as a % of total home sales



Source: National Association of Realtors, U.S. Census Bureau and U.S. Department of Housing and Urban Development

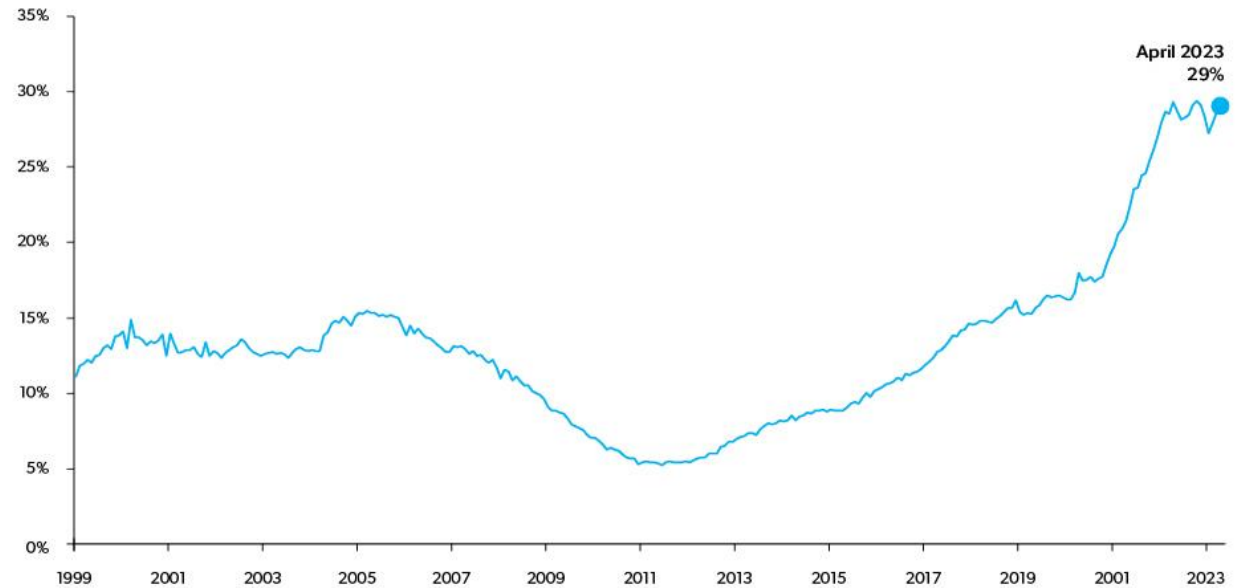
Inventory for Existing Homes Dwindling, but New Homes Increase



- There is 2.9 months' supply of existing homes at the current sales rate, and existing homes remained on the market for only 22 days in April according to NAR.
- New homes, have 7.6 months' supply, according to the U.S. Census Bureau.
- Overall, the total number of single-family homes available for sale remains low at 1.3 million units, only 8.1% above its all-time low in February 2022. Furthermore, as the number of existing homes available for sale has dwindled while available new homes are relatively higher, the share of active for-sale inventory of new homes has reached near 30%.

EXHIBIT 3

New home inventory as % of total for-sale inventory



Source: National Association of Realtors, U.S. Census Bureau and U.S. Department of Housing and Urban Development

House Prices Continue to Firm Up in the Short Run

- Per the FHFA's purchase-only house price index, house prices increased 0.6% from February to March 2023.
- While home prices have been positive in most markets, it is still too early to separate the signal from the noise fully, and employment is likely to weaken, so we maintain a cautious outlook for prices.
- Our official corporate forecast calls for house prices to fall 2.9% over twelve months through Q1 of next year and an additional 1.3% over the subsequent twelve months.





Mortgage Delinquencies Remain Low

- With a strong labor market and house prices resuming modest increases, overall mortgage performance is strong, especially when compared to other types of credit.
- According to data from Transunion, the share of loans 60 days or more past due fell 0.01% from Q1 2021 to Q1 2023 for mortgages.
- Overall credit performance remains solid for higher credit quality borrowers, but that is in an economy with unemployment rates below 4%. If the labor market outlook darkens, mortgage performance could weaken, and rising delinquency rates spread to higher credit quality borrowers.



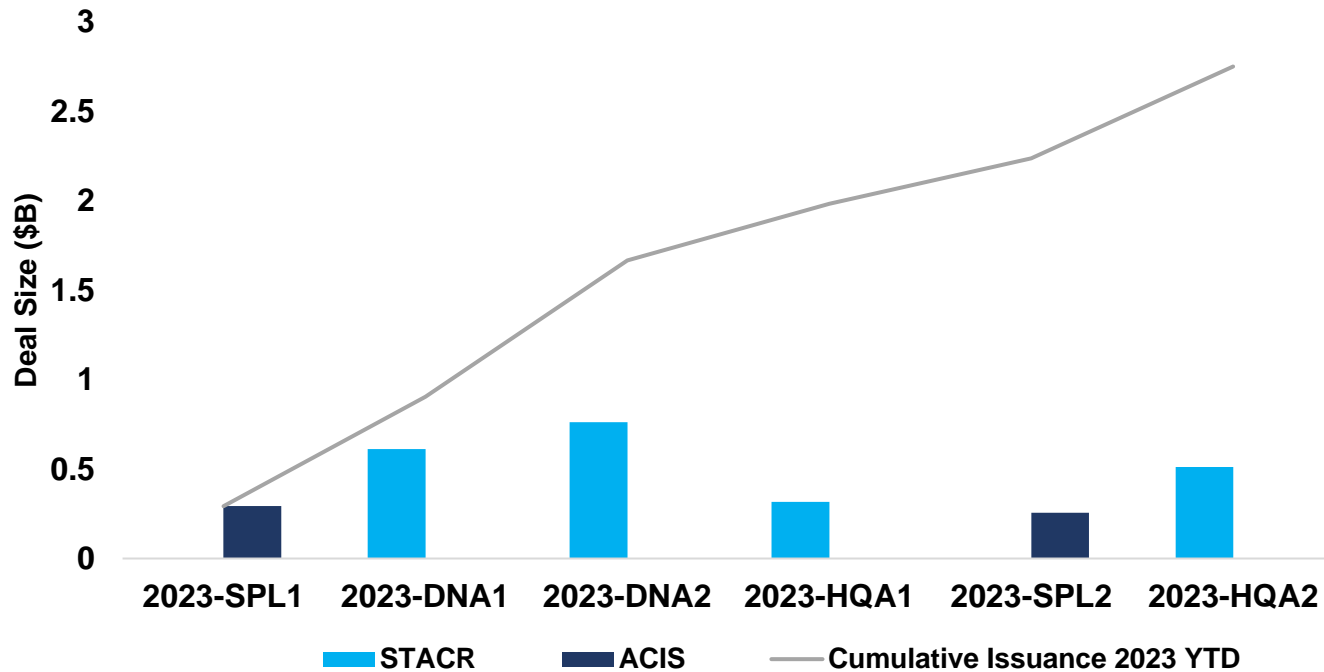
CRT Update

CRT Issuance Volume

Expected lower issuance for the remainder of the year



2023 YTD Cumulative Issuance



\$2.75 Billion YTD Issuance Volume

Six Transactions Issued 2023 YTD

11 New Participants YTD

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

First and Second Tender Offers of 2023 Executed

\$1.6B Tendered in Two Transactions

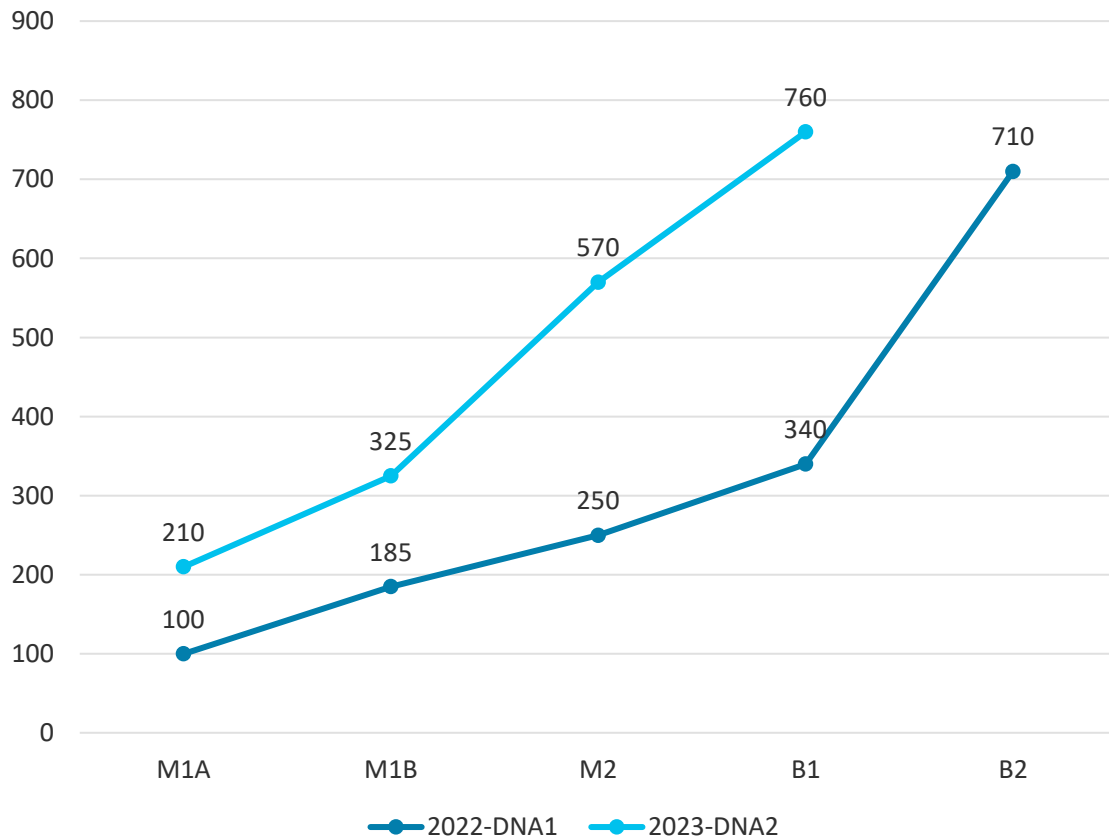
Source: Freddie Mac, as of June 2023. Note: Amounts may not add up due to rounding.

STACR & ACIS Spreads

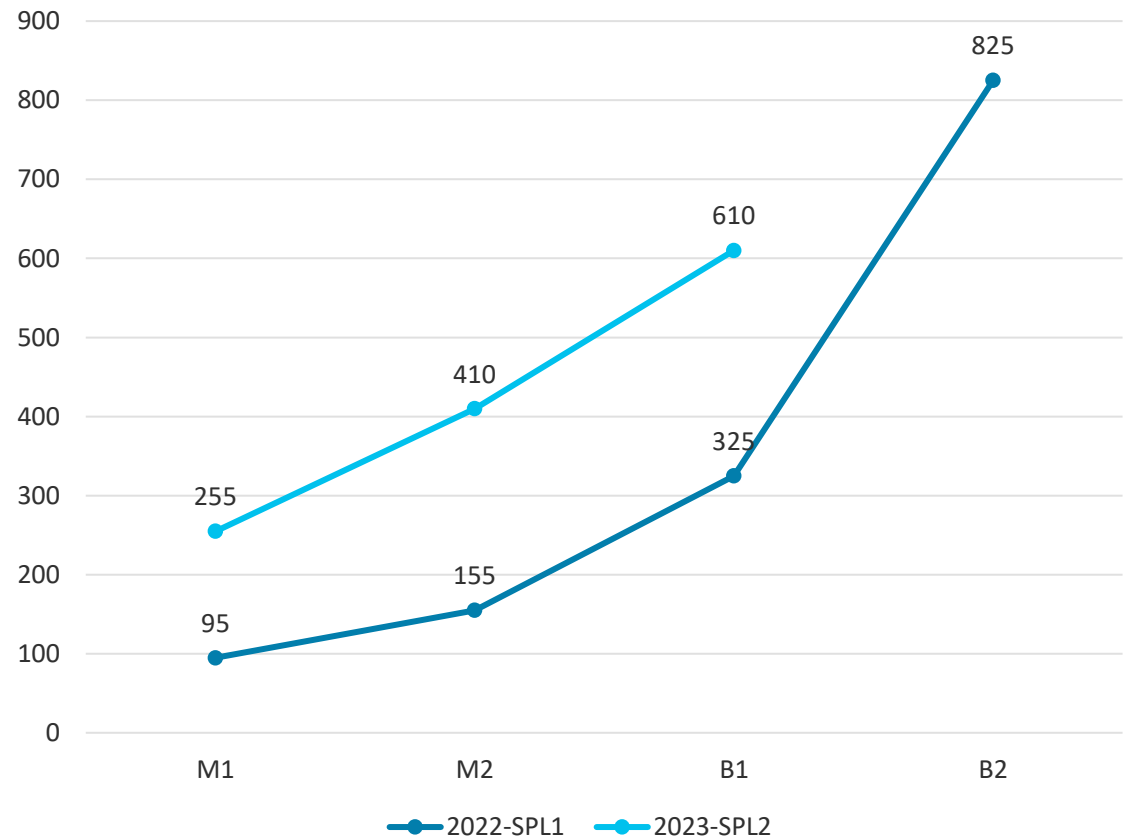
Low LTV Issuance Spreads Remain Wide of Q1 2022



STACR Spreads



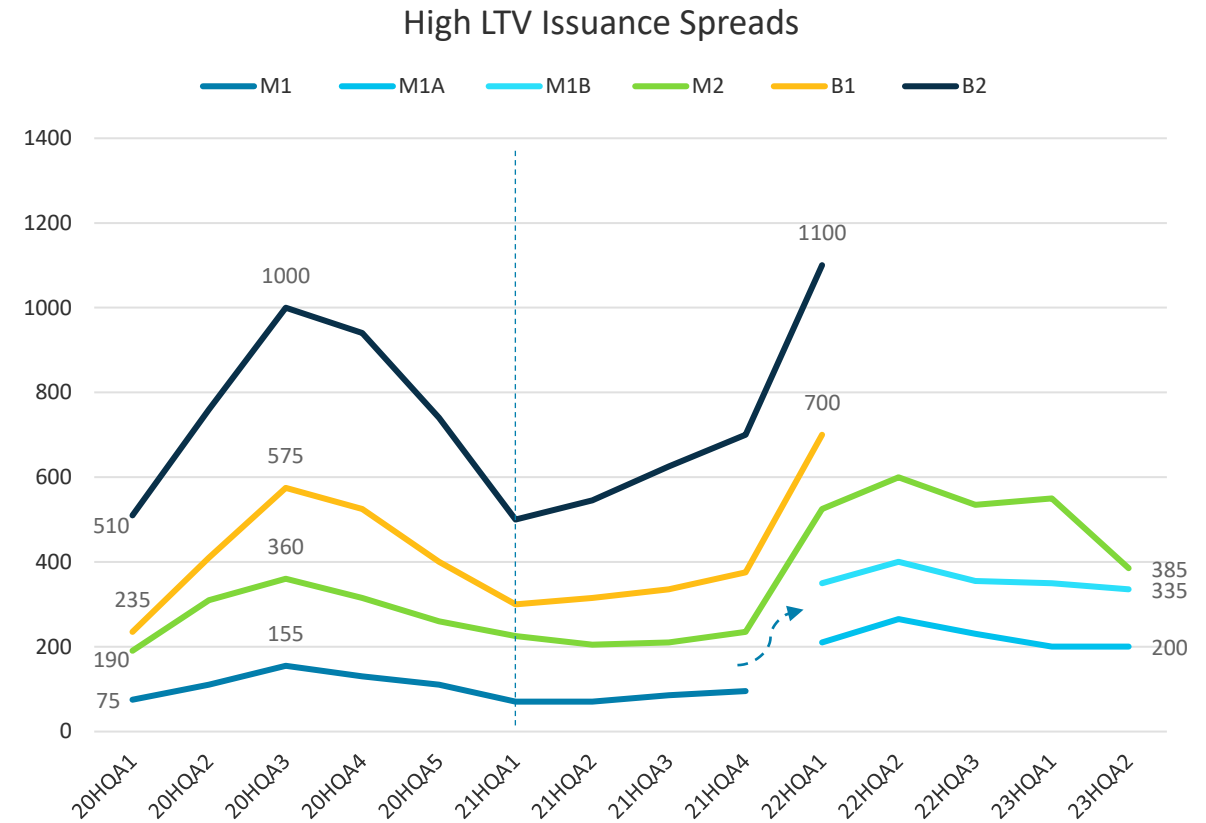
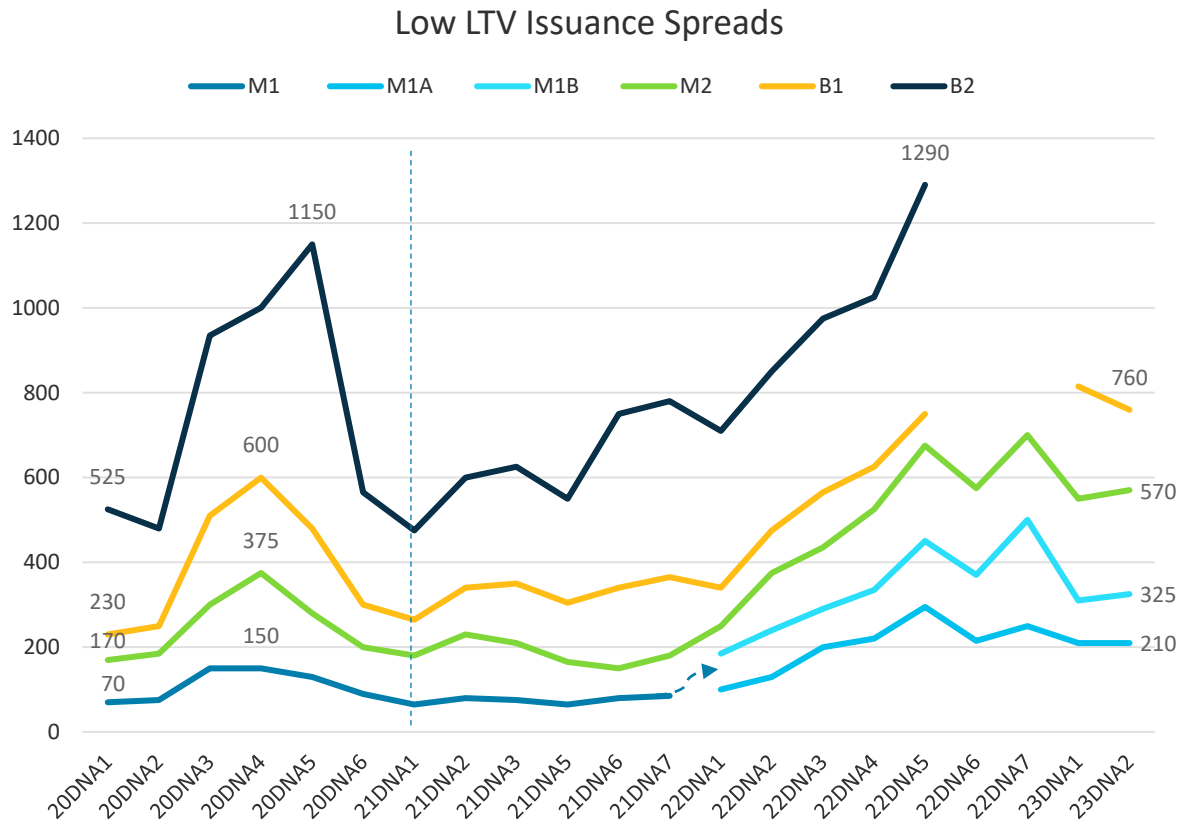
ACIS Premiums



Source: Freddie Mac, as of June 2023.

STACR Spreads

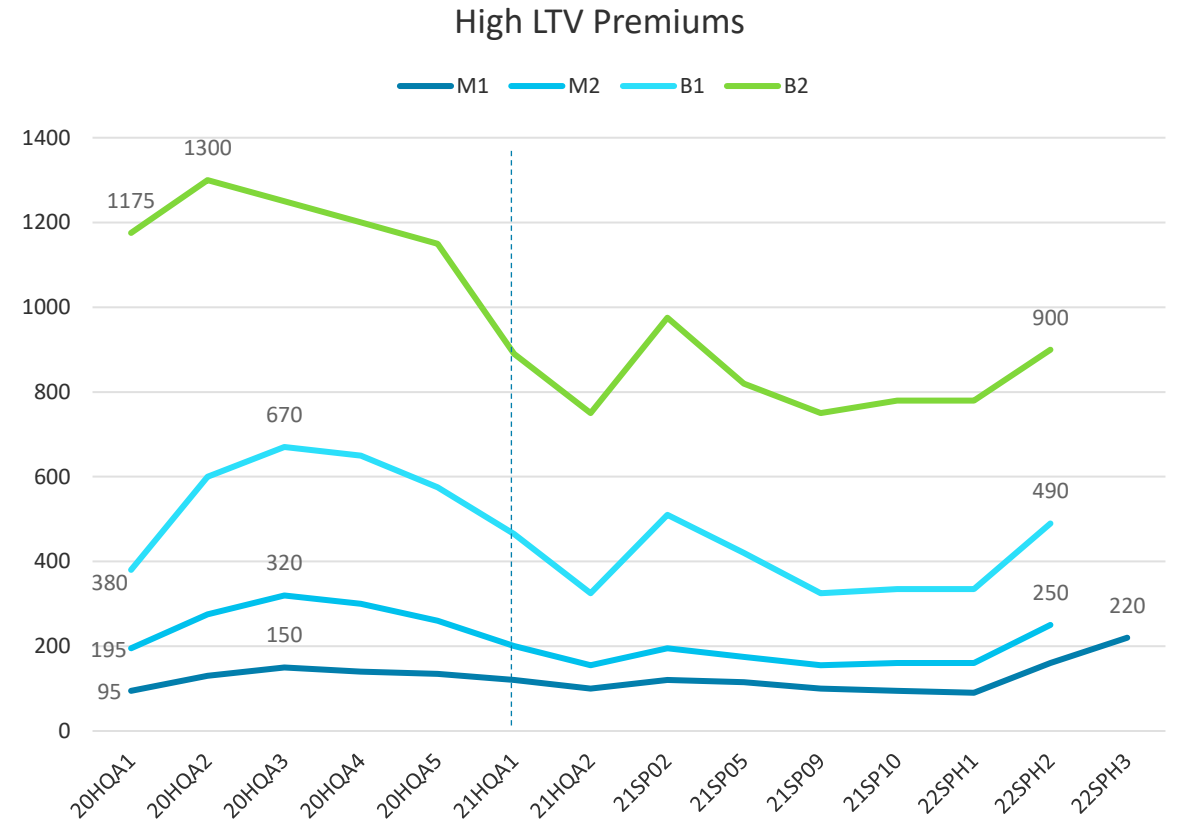
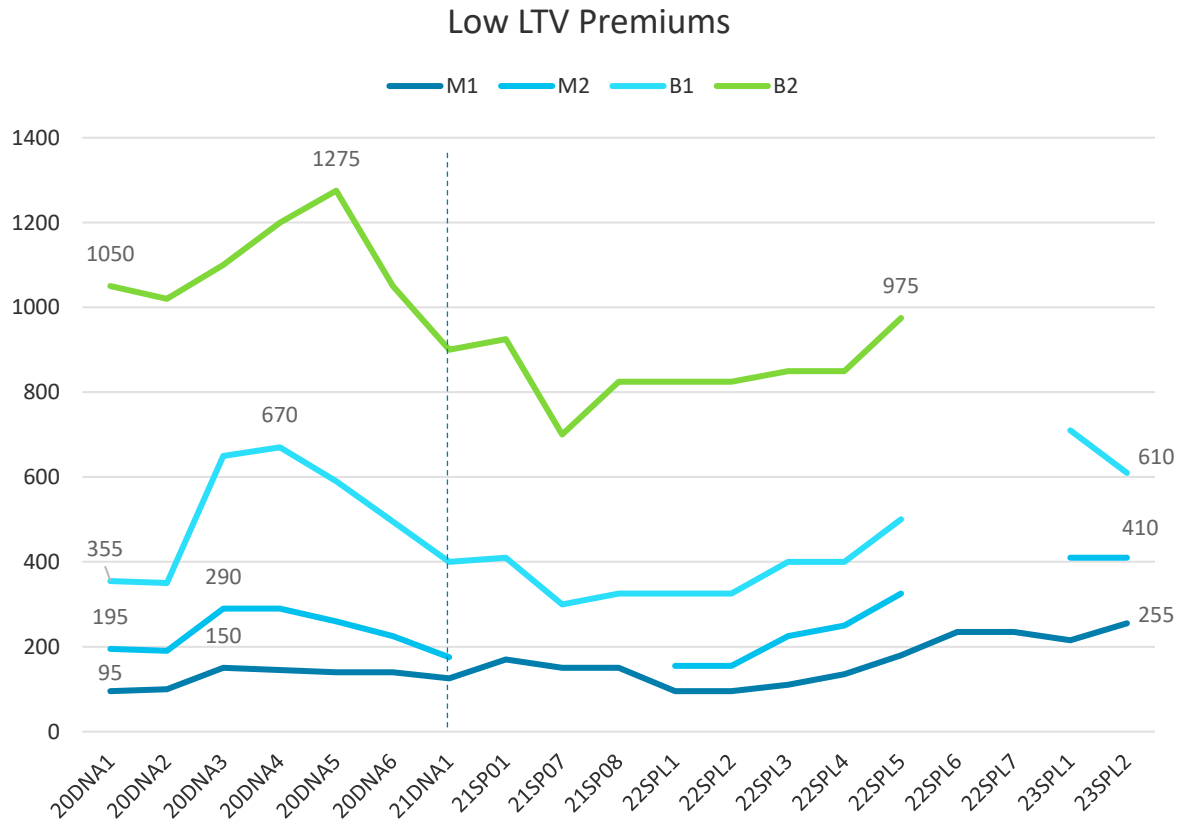
Spreads have continued to increase since 2021



Source: Freddie Mac, as of June 2023.

ACIS Premiums

Premiums have continued to increase since 2021



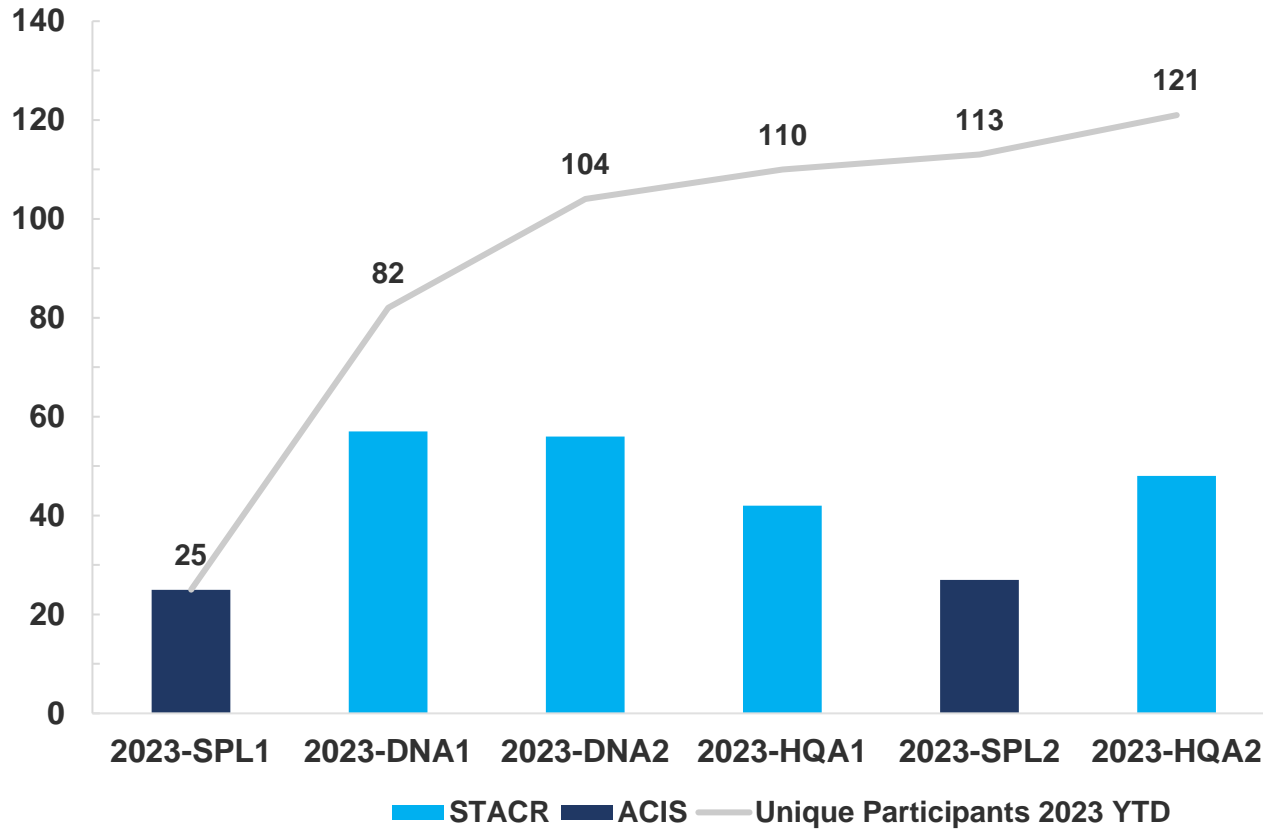
Source: Freddie Mac, as of June 2023.

Investor Participation

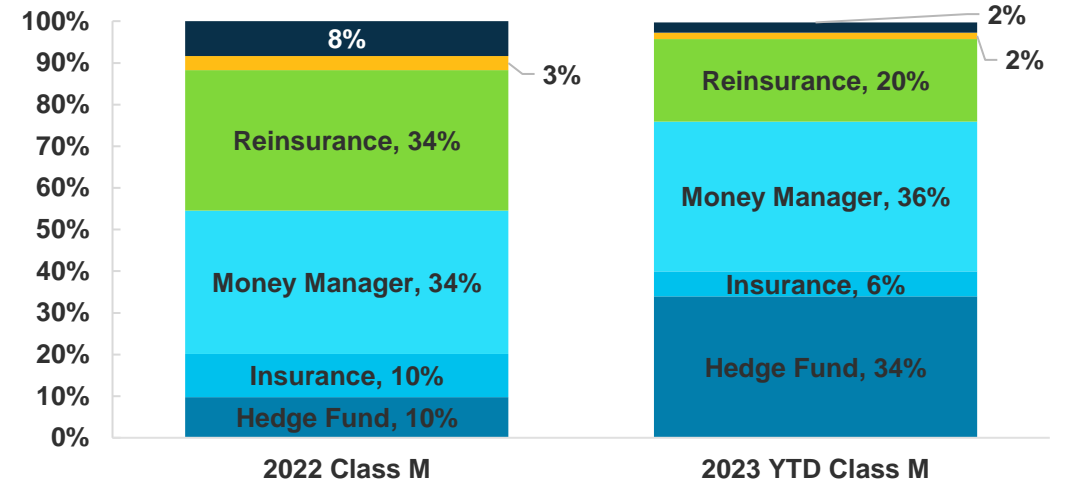
Increasing Participation from Hedge Funds



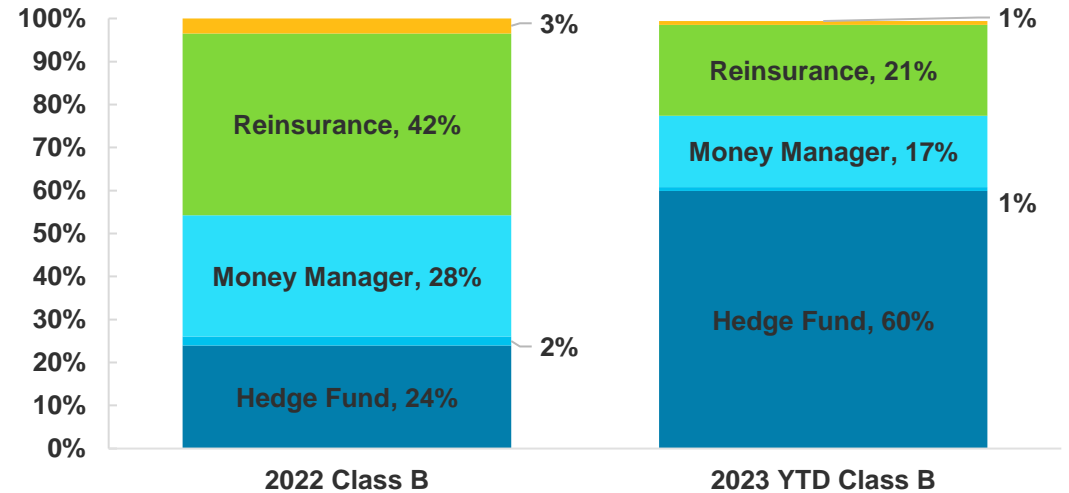
2023 YTD Deal Participation



Class M Investor Participation



Class B Investor Participation



- Hedge Fund
- Insurance
- Money Manager
- Reinsurance
- REIT
- Sovereign Fund

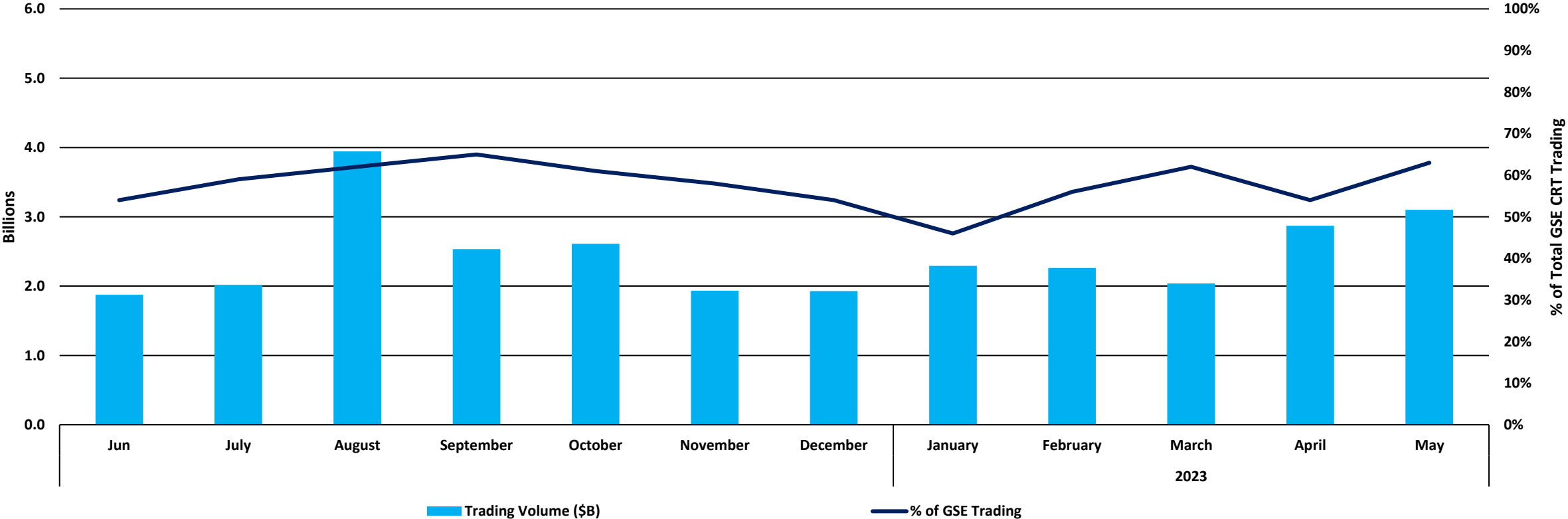
Source: Freddie Mac, all data as of June 2023. Note: Amounts may not add up due to rounding.

STACR Secondary Trading Volumes



Market leader in GSE CRT secondary trading

Monthly Trading Volume Over Trailing 12 Months⁽¹⁾



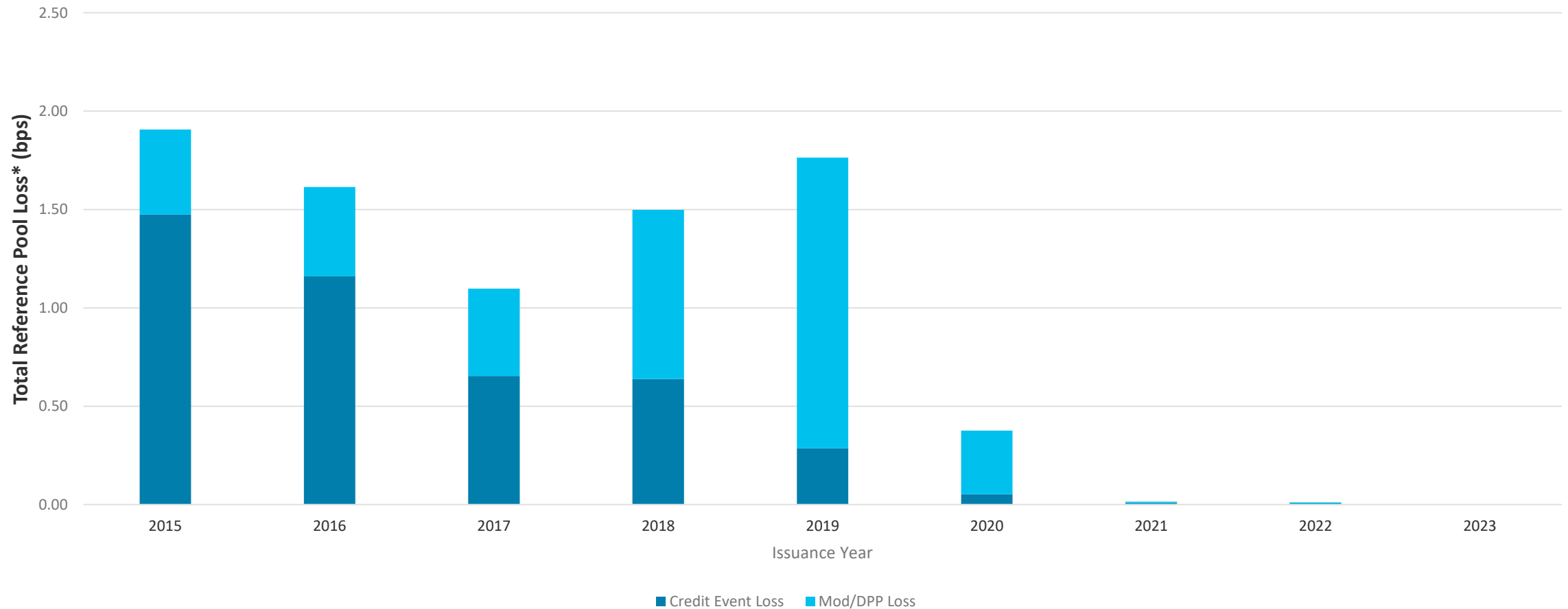
Source: Bloomberg; FINRA
(1) Trading volumes reflect the sum of all buy and sell trades as of May 2023

CRT Performance: On-the-Run Actual Loss Transactions

Strong portfolio performance across vintages



Weighted Average Total Reference Pool Loss* by Issuance Year (bps)



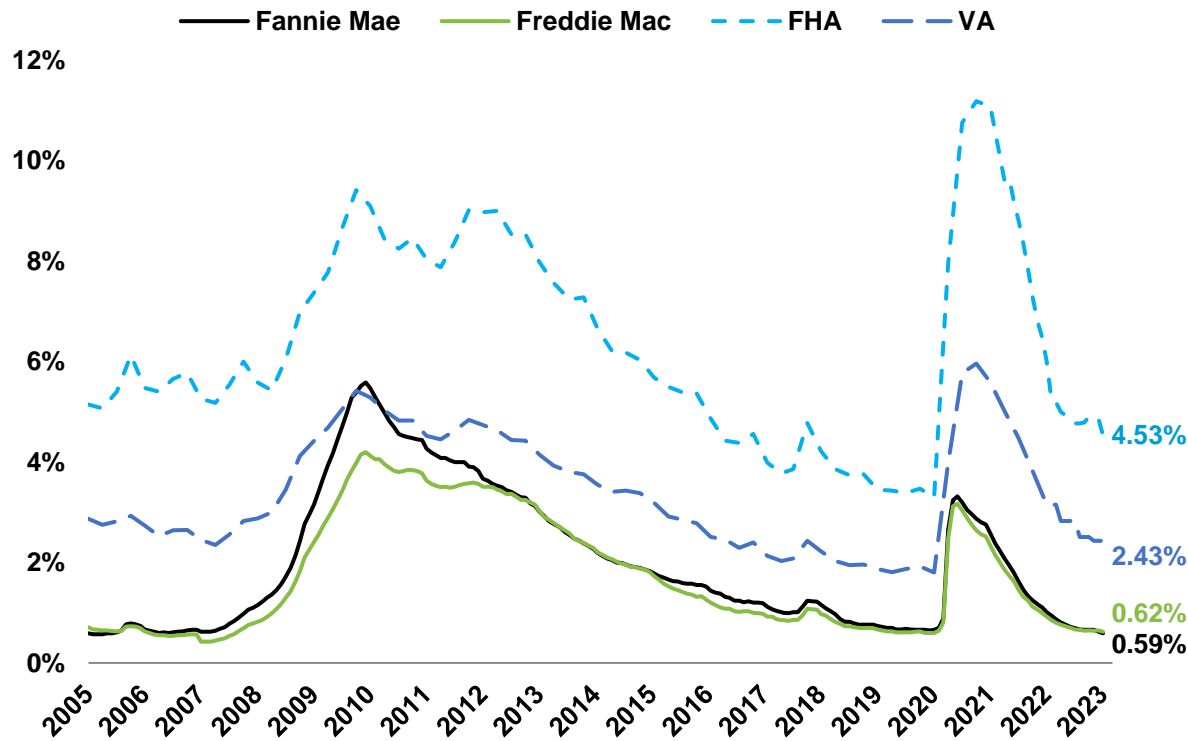
Source: Freddie Mac monthly remittance data for STACR and ACIS 30 year low and high LTV transactions as of May 2023. Retired transactions included in transaction and reference pool loss counts.

*Losses include credit and modification events based on CRT deal definitions regardless of whether losses result in a write-down on the structure.

Serious Delinquency (D90+ Performance) Lookback

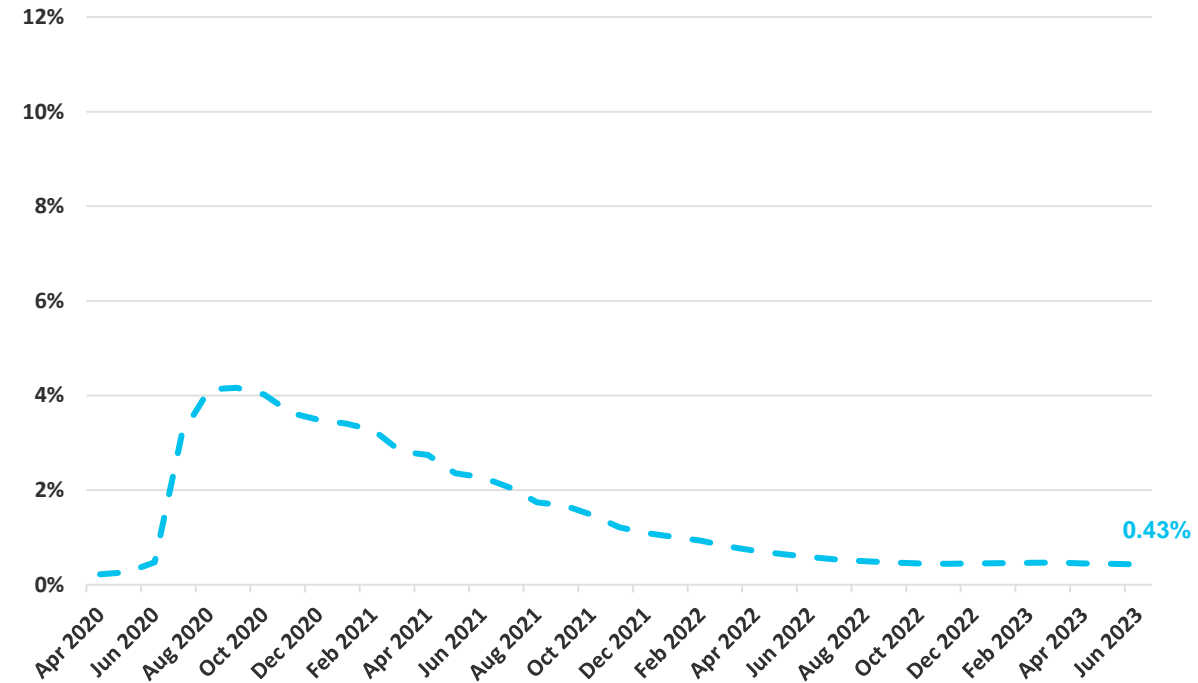


Overall Serious Delinquency Performance



Source: "Housing Finance At a Glance: A Monthly Chartbook," Housing Finance Policy Center, May 2023; 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 Q4 2022. GSE and FHA delinquencies are reported monthly, last updated for March 2023.

Freddie Mac CRT Portfolio Serious Delinquency



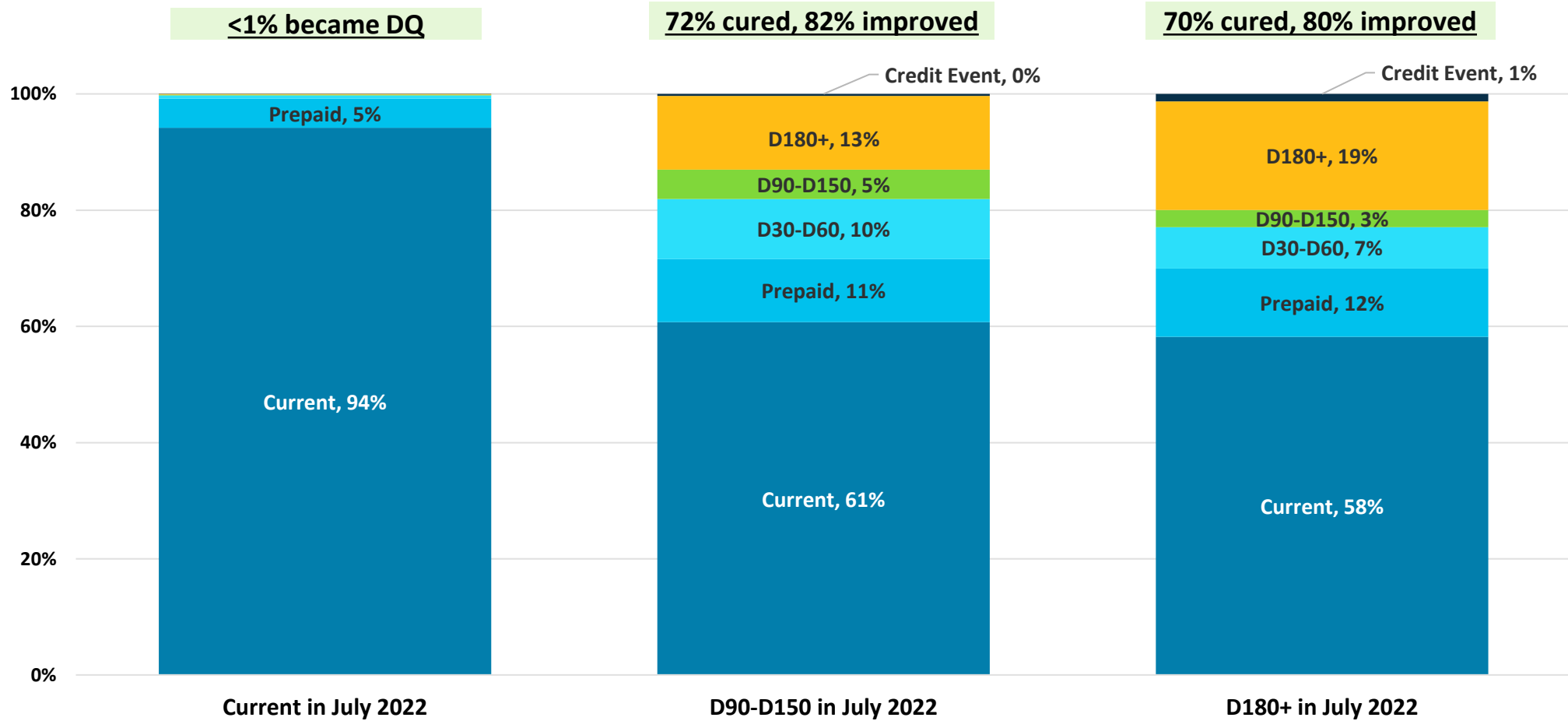
Source: Freddie Mac, as of June 2023
 Note: Serious delinquency is defined as 90 days or more past due or in the foreclosure process.

Delinquency Transition

Robust performance despite macroeconomic challenges



12 Month Performance Transition



Source: Freddie Mac monthly loan level data for STACR and ACIS, 30 year low and high LTV actual loss transactions as of June 2023.



Single-Family Servicing & Loss Mitigation

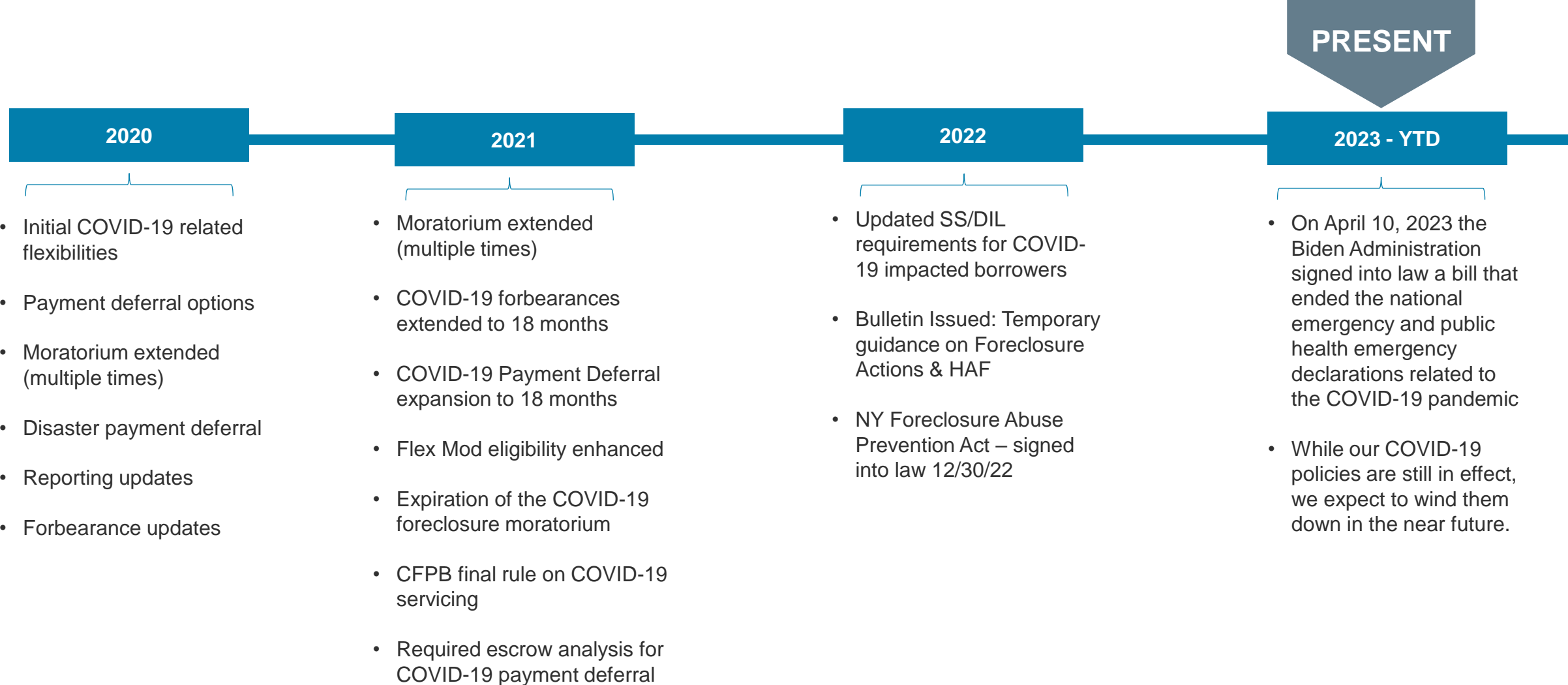


COVID-19 Response & Servicing Performance

Responsive Policies to Support the Industry



Since the start of the pandemic, Freddie Mac has made ongoing changes to support COVID-19 impacted borrowers. With the CARES Act end nearing, we're reviewing policies to determine applicability.



Servicing Policy Updates 2022 to Date



Due to the dynamic servicing environment impacted by COVID-19, we worked with Fannie Mae, FHFA and our Servicers and developed and rolled out 9 new policies in 2022

2022

2022-4

- This Bulletin announces updates to Total MI Reconciliations, Acknowledgement Agreement Inc. Provisions, Streamlined Short Sale and DIL, and more.

03/17/2022 - Industry Letter

- Reporting Security Incidents and Business Continuity

2022-8

- Temporary Guidance on Foreclosure Actions and Homeowner Assistance Fund (HAF)

2022-9

- This Bulletin announces updates to submitting short sale through Resolve, reimbursement of attorney fees, increased appraisal fees, alternative signatures on tax returns and more.

2022-12

- This Bulletin announces updates to Resolve, LIBOR note review, temporary adjustment to property preservation costs, reimbursement of attorney fees, BPO clarification and more.

2022-17

- This Bulletin announces updates to fair lending elements, requirements for approving a partial release or granting easement and more.

2022-19 – Seller/Servicer Financial Eligibility Requirements

- This Bulletin announces updates to Seller/Servicer financial eligibility requirements.

2022-21

- This Bulletin announces updates to Resolve, custodial account reconciliation requirements, Acknowledgement Agreement Inc. Provision and more.

2022-26

- This Bulletin announces updates to Resolve, HAMP termination, new letter agreements for custodial accounts, mortgage insurance on unseasoned loans and more.

2023

2023-2 – LIBOR Transition

- This bulletin announces the replacement index that Servicers must use after June 30, 2023, for Freddie Mac owned loans indexed to LIBOR.

2023-4

- This bulletin announces a reminder for Resolve and updates related to property insurance, Seller/Servicer confidentiality, eMortgages and Loan Coverage Advisor.

2023- March 29

- Updated terms for Standard Payment Deferral.

2023- April 12

- Resolve new functionality
- DIL
- Charge Offs
- Court mandated modifications

2023 – June 14

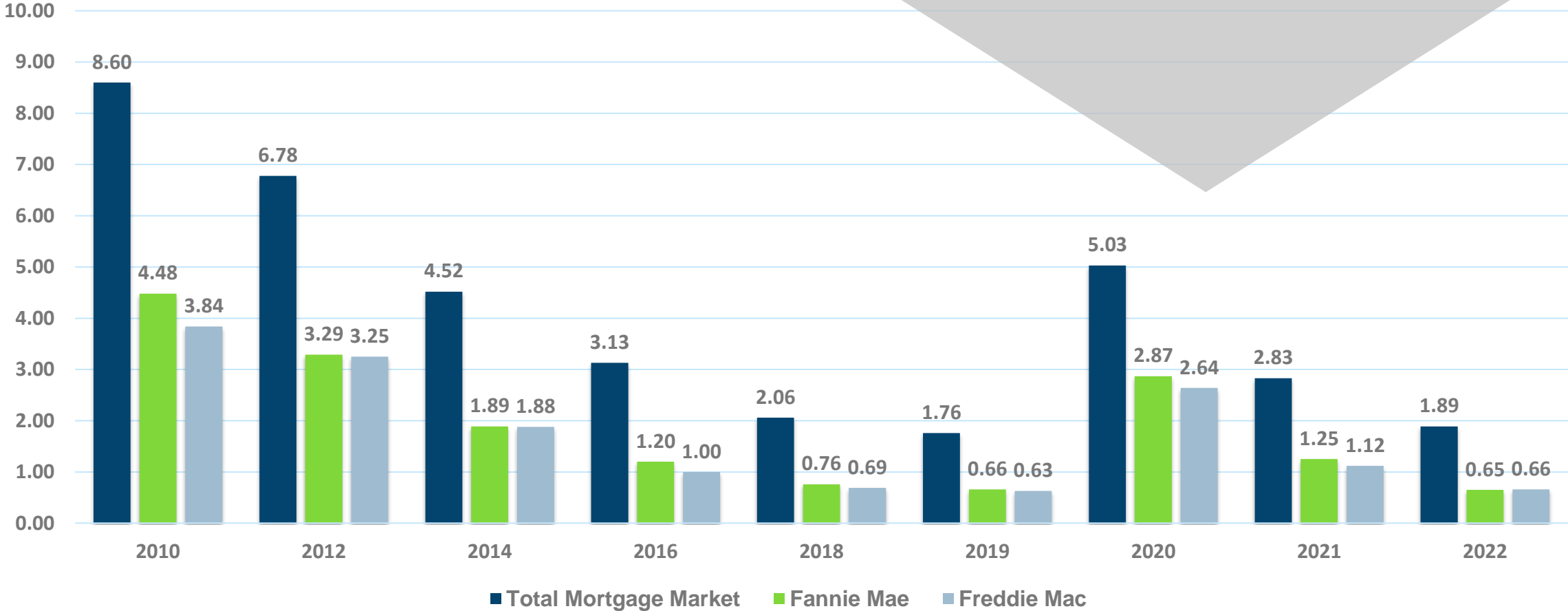
- HAMP cleanup
- Loss Mitigation Hierarchy cleanup
- Acceptable income sources clarification

SDQ Rate Resting Below Pre-Pandemic Levels...



In 2022, the overall market is still recovering from its peak in 2020, due to the continued loss mitigation efforts.

Throughout time, our SDQ has remained lower compared to the market.





2022
SDQ rate
1.12%



0.66% (EOY)

Initiatives to reduce the SDQ rate:

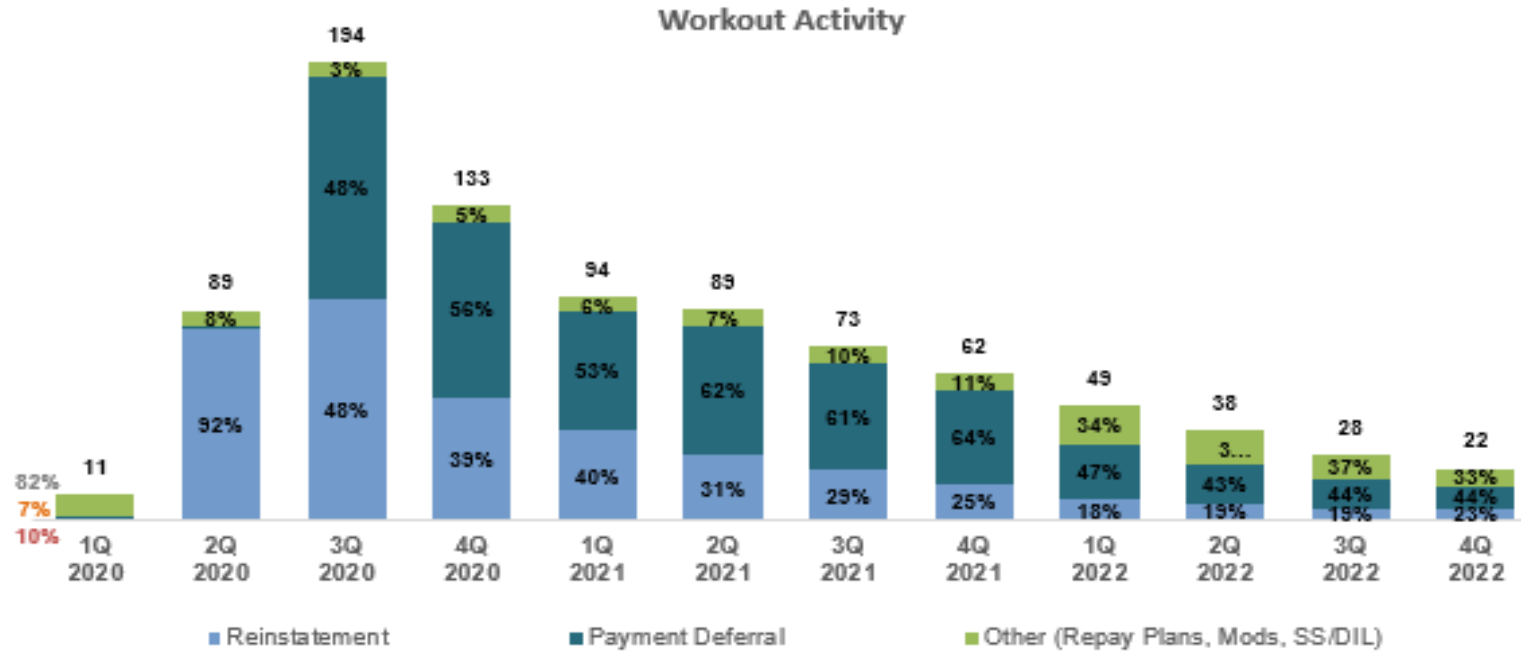
Issued **8** Servicing Bulletins & **1** Industry letter

Hosted Servicer **9** webinars totaling **2,700+ attendees**

Held several advisory board meetings with **Top 15** Servicers

Helped homeowners with **77K** forbearances, **61K** Payment Deferrals, and **44K** Flex modifications.

Resulting in Workouts for Homeowners



- Freddie Mac’s response (in alignment with Fannie Mae) to the crisis has remained swift and included the implementation of loss mitigation and servicing products designed to assist homeowners.
- Recent months have seen the volume of Flex Mod Trial Period Plans increase, while Payment Deferrals have begun to decrease.
- Workout activity has decreased by 50% since January 2022, bringing us back to pre-pandemic levels.

COVID-19 Policy Retirement



- The COVID-19 national emergency ended on April 10, 2023
- Freddie Mac is working with FHFA and Fannie Mae to develop a plan for the retirement of COVID-19 policies, including:
 - COVID-19 forbearance
 - COVID-19 hardship reporting
 - COVID-19 Payment Deferral
 - COVID-19 Flex Modification
 - Other (MI termination, Insurance Loss Proceed Disbursement, HAF/FCL)



Other Servicing Policy Updates



Servicing Policy – March Update

Upcoming Servicing Bulletins

- **March 29**

- Updated terms for the Standard Payment Deferral:

Delinquency: 2-6 months (no rolling delinquency requirement)	Lifetime Cap: Maximum of 12 monthly P&I payments may be deferred	Proximity to Maturity/Payoff: \geq 36 months of evaluation date
Principal Curtailments: <u>No changes at the time.</u>	Effective Date: October 1, 2023 (can implement as early as July 1 st)	Systems: Only Resolve will be updated

Other Servicing Policy Work



- Resolve[®] Rollout
- Equitable housing tactics
 - Fair Servicing Analysis
 - Special Servicing & Oversight Framework
 - Loss Mitigation – Borrower outreach, education & counseling
 - Access to liquidity
- Low UPB mortgages with deferred balances
- Automating mortgage assumptions through Loan Product Advisor[®] (LPASM) and Resolve
- HeritageOneSM Servicing requirements
- Loan Modification challenges



Questions



Thank You

(Be on the lookout for presentation slides
and recording week of 7/24 on CRT website)

Disclaimer



This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act. These statements involve known and unknown risks and uncertainties, some of which are beyond our control. These statements are not historical facts but rather represent our expectations based on current information, plans, judgments, assumptions, estimates and projections. Actual results or performance may differ from those described in or implied by such forward-looking statements due to various risks, uncertainties and other factors including the following: general economic and business conditions, competition, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, customer preference and various other matters. Forward-looking statements are made only as of July 18, 2023. We undertake no obligation to update any forward-looking statements we make to reflect events or circumstances occurring after July 18, 2023.