INVESTOR DAY 2023

Single-Family Credit Risk Management Overview

Freddie Mac SINGLE-FAMILY | Credit Risk Transfer

Today's Speaker

Terri Merlino

Senior Vice President & Chief Credit Officer,
Single-Family Business

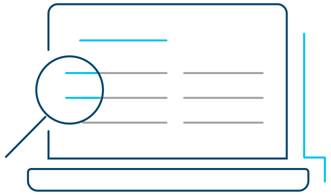
As chief credit officer for the past three years, Terri Merlino leveraged her broad-based knowledge of mortgage operations, sales, processing, underwriting, quality control and secondary marketing activities to substantially and positively impact Freddie Mac's mortgage credit risk management efforts, as well as our client experience. Ms. Merlino holds a Bachelor of Business Administration in accounting from the University of Houston.

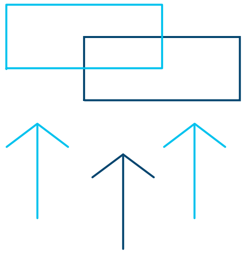
Our Agenda

1. Remaining Mission & Risk Management Focused for 2023
2. Single-Family Credit Risk Management
3. The Three Cs
4. Notable Policy Actions
5. Affordable Program Concentration & Risk in 2023

Remaining Mission & Risk Management Focused for 2023

- A key strategic priority is delivering on our mission by providing sustainable and equitable access to affordable housing
- One area of focus in supporting our mission is to practice risk management excellence; we must meet our affordable goals and remain within our risk appetite
  - Key pillars of our credit box have remained stable since 2014
  - Successfully manage higher concentration of layered risks of Affordable Program loans





Single-Family Credit Risk Management

Credit Policy

- Define, implement and manage credit policy, including negotiated credit terms of business

Automated Underwriting Risk Assessment

- Use automation, insights and collaboration to drive innovative intelligent credit risk assessments

Seller / Servicer Oversight

- Provide single point of accountability for all aspects of the S/S risk management lifecycle
- Consolidate analysis from key stakeholders, provide a comprehensive view of S/S risk and drive action to mitigate or reduce associated risk

Financial Risk Score

Credit Risk Score

Operational Risk Rating

Analytics, Reporting & Technology

- Establish benchmarks for acceptable loan quality and performance.
- Define the acceptable risk boundaries associated with mortgage credit

The Cs

Credit

Credit refers to a borrower's **willingness** to repay the loan, in this context. Factors that determine credit include:

- Credit score
- Foreclosures & bankruptcies
- Mortgage delinquencies
- Repossessions & collections

Capacity

Capacity refers to a borrower's **ability** to repay the loan. Factors that determine capacity include:

- Monthly housing expense-to-income ratio
- Debt payment-to-income ratio
- If the borrower is salaried or self-employed
- Cash reserves
- Loan characteristics

Collateral

Collateral refers to **property** used to secure the loan. Factors that determine collateral include:

- Borrower's total equity or down payment
- Property type (e.g., 1-unit, condominium)
- Property use: (e.g., primary residence, second home)

The Platform

Automated Underwriting Risk Assessment

Pre-Qual/ Application → Processing/ Underwriting → Pre-Closing → Closing

Loan Product Advisor® — Enhanced Underwriting Workflow

- Risk Assessment
- Purchase Eligibility
- Collateral Options (ACE, ACE+ PDR, Desktop Appraisal)
- Asset & Income Modeler (AIM)
- Rent Payment History for FTHB included in Loan Product Advisor® (LPA℠) credit assessment
- Borrower's Cash Flow included in LPA credit assessment

Loan Quality Advisor® — Eligibility Evaluated

- Risk Assessment
- Purchase Eligibility
- Loan Data Compare
- Confirmation of R&W Relief

Loan Collateral Advisor® — Accurate Evaluations

- Collateral Risk Scoring
- Collateral R&W Relief
- Appraisal Quality Messaging
- Comp Analysis
- Enhancement to support

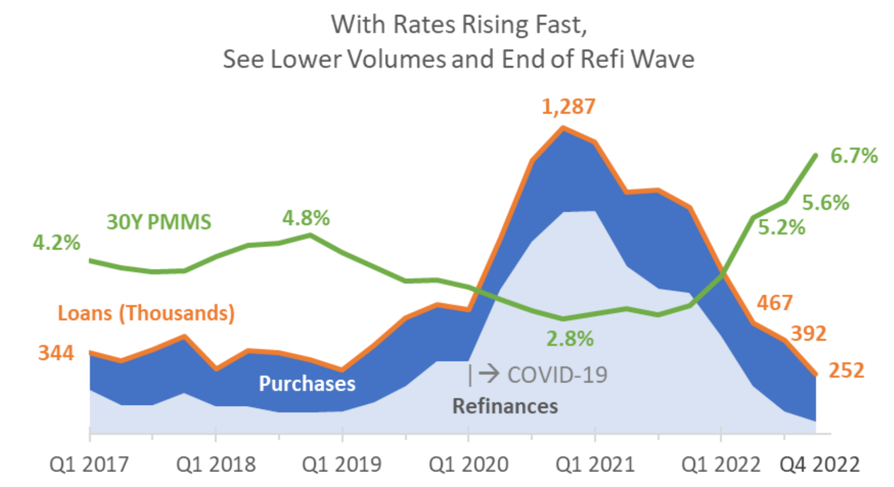
Condo Project Advisor® — Determine Viability

- Unit-level Condo Exception Tool
- Project Level Assessment (Condo Project Advisor® PAR)

Since 2021 Q2, all loans delivered to us must be evaluated by our tools and must receive an acceptable risk assessment, either an LPA Accept or LQA Green rating.

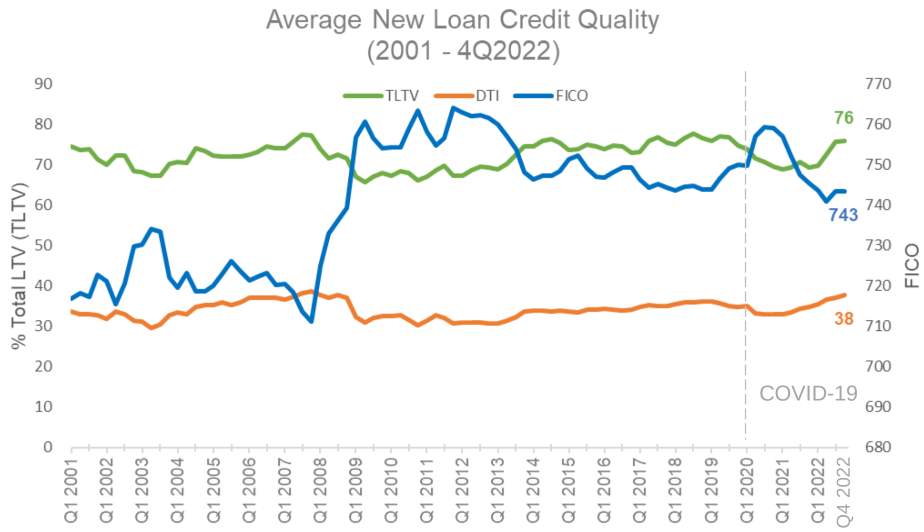
Funding Mix Shifted; but Quality Remains Strong

- Rising rates in 2022 shifted the market toward purchases and refinances with lower origination volumes. Purchases made up 80% of Q4 and 58% of all 2022 funding, while 2022 volume was down nearly 60% from 2021.
- Average TLTV increased during the year largely due to strong house price appreciation that drove refinance TLTV down to historically low levels before starting to flatten in Q4.
- Average FICO declined in 2021, primarily driven by refinance FICOs that dropped 44 points since their Q4 2020 peak, including 21 points in 2022, before flattening in the later part of the year.
- DTI trended up with rising rates and house prices.



All Flow Loans

	2018	2019	2020	2021	2022
Millions of Loans	1.3	1.7	3.8	4.2	1.8
Funded $ Billions	299	427	1085	1215	540
% Purchases	67%	56%	30%	33%	58%
% FICO <680	10%	8%	5%	8%	11%
% TLTV >90	22%	20%	12%	11%	18%
% DTI >45 Loan	16%	13%	10%	11%	16%
Ever 90 Day in 1 Year (bps)	18	195	109	35	
Ever 90 Day in 1 Year (bps) excl. COVID		11	9	10	



Notable Policy Actions

Credit Underwriting

Refinance Mortgages:

- Added a requirement that when there is a change in borrowers between the new mortgage and the mortgage being refinanced, the new borrower must have 12 months history of making timely payments on the mortgage being refinanced, with exception of when the new borrower inherited or was legally awarded the property
- Added a requirement for cash-out refinances that the mortgage being refinanced must be seasoned from the original note date at least 12 months

Employment/Income:

- Provided more extensive requirements and guidance for underwriting income received on IRS Form 1099 for services performed (i.e., "contractor" income)
- Provided requirements & guidance for borrowers with <25% business ownership interest who receive ordinary income or guaranteed payments reported on an IRS Schedule K-1 for partnerships and S-corporations

Gift Funds:

- Expanded requirements for use of gift funds for closing and reserves to permit graduation gifts provided by non-relatives, gift funds from an estate or trust of a related person, and gift funds provided by an unrelated individual with close, family-like ties to the borrower

Collateral

ACE+ PDR:

- Introduced ACE+ PDR, which provides the Seller with the option to obtain a Property Data Report (PDR) in lieu of appraisal for certain "no cash-out" refinances and cash-out refinances

Affordable

Accessory Dwelling Unit (ADU):

Expanded to allow the following flexibilities and clarifications:

- An ADU on 2- and 3-unit properties
- ADU rental income from a 1-unit primary residence
- Clarified that a no cash-out for previously constructed ADUs is allowable under a CHOICERenovation® mortgage

CHOICERenovation®:

In the February 2023 Single-Family Seller/Servicer Guide Bulletin, we announced the following revisions:

- Combined CHOICERenovation and GreenCHOICE Mortgages®, which allows the Seller to receive a $500 fee credit for energy and water efficient items that meet GreenCHOICE Mortgages requirements in a CHOICERenovation mortgage
- Provided some flexibility around contingency funds for outdoor recreational construction items and extended the construction/delivery timeframe to 450 days

Notable Policy Actions cont.

COVID-19 Related Underwriting Requirement Added in Seller/Servicer Guide

Desktop Appraisals:

- Due to success of desktop appraisals permitted for COVID-19, effective for new Loan Product Advisor submissions or resubmissions on or after March 6, 2022, Sellers were offered to obtain desktop appraisals for certain purchase transactions

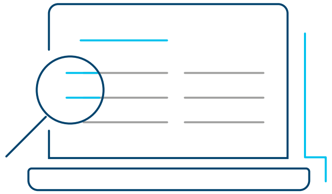
COVID-19 Related Underwriting Requirements Retired

Borrower Eligibility Requirements with Existing Mortgages:

- Verification that borrower is current on their existing mortgage(s) as of the note date of the new mortgage or meets additional eligibility requirements as stated in Guide Bulletin 2020-17

Self-employed Borrowers

- Seller must confirm Borrower's business is open and operating within 20 days of the Note Date



Affordable Program Concentration & Risk to Increase in 2023

- Affordable Program loans have higher concentration of risk tails and layered risks than non-Affordable Program loans. Borrowers are also much more likely to be first-time home buyers, qualifying on one borrower's income, and below 80% of Area Median Income.

- As we drive efforts toward mission goals in 2023, we expect higher Affordable Program concentration and tail risk to achieve these goals.

- Affordable Program volume declined in 2022 as total originations contracted nearly 60% year-over-year.

- We remain focused on Freddie Mac's Mission while practicing safe and sound risk management strategies.

Questions?

Thank You