Freddie Mac Ecosystem

Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102
Phone: +1 (703) 903-2000 http://www.freddiemac.com/

Outside Relationships

Regulators | Capital | Suppliers | Customers

- **Lenders**
  - Federal Reserve System
  - STACR Notes Investors
  - Bondholders
- **Federal Home Finance Agency**
- **Federal Regulation**
- **Federal Home Finance Agency** (Duty to Serve Underserved Markets, Affordable Housing Goals and Allocations, Minimum Capital Requirement, Restrictions on Portfolio Activities, and Limits on Debt Incurred)
- **U.S. Department of Housing and Urban Development** (Fair Lending and Anti-Discrimination Rules)
- **U.S. Treasury Department** (Purchase Agreement Confers Approval Authority over Issuances of Debt, Equity and New Types of Mortgage-Related Securities and Dividends to Junior Classes of Equity)
- **Consumer Financial Protection Bureau** (Loan Origination, Finance and Servicing Rules, "Ability-to-Repay" Rule, and Limits on Buying Loans with Term Exceeding 30 Years)
- **U.S. Securities and Exchange Commission** (Securities Law Reporting Requirements Only)

Working Capital Financing

Conservatorship (FHFA Controls Business Activity, Sets Required Minimum Capital, and Imposes Limits on Investment Portfolio)

Business Regulation

Federal Home Loan Mortgage Corporation (Federally-Chartered Corporation)

Debt Structure

Debt ($2.179 Trillion @ 12/31/19); Credit Ratings (Senior Long-Term Debt: AA+ (S&P), Aaa (Moody's), AAA (Fitch)

- $281.17 Billion of Other Debt Held by Freddie Mac to Fund its Operations
  - $99.954 Billion of Discount Notes and Reference Bills (2.36% Weighted Average Interest Rate)
  - $155.201 Billion of Medium Term Notes (1.47% to 2.39% Weighted Average Interest Rates)
  - $15.496 Billion of STACR Notes (5.99% to 12.76% Weighted Average Interest Rates)
- $1.898 Trillion of Debt Securities of Trusts (i.e., Mortgage-Backed Securities) Held by Third Parties
  - $1.554 Trillion (or 81%) Represents 30-Year or More Fixed Rate Single-Family Mortgages

Equity Structure

Equity

- Voting Common Stock (1,610 Common Stockholders)
- Variable Rate, Non-Cumulative Preferred Stock (FMCCI, FMCCG, FMCCL, FMCCM, FMCCN, FMCCJ, FMCCS)
- 5% Non-Cumulative Preferred Stock
- 5.1% Non-Cumulative Preferred Stock
- 5.79% Non-Cumulative Preferred Stock
- 5.9% Non-Cumulative Preferred Stock
- 5.81% Non-Cumulative Preferred Stock
- 5.57% Non-Cumulative Preferred Stock
- 6% Non-Cumulative Preferred Stock
- 5.66% Non-Cumulative Preferred Stock
- 5.7% Non-Cumulative Preferred Stock
- 6.02% Non-Cumulative Preferred Stock
- 6.42% Non-Cumulative Preferred Stock
- 6.55% Non-Cumulative Preferred Stock

Governance

Board of Directors

- Kathleen L. Casey (A,NG)
- Mark H. Bloom (CHC,R)
- Aleem Gillani (E)
- Mark B Grier (R)
- Christopher E. Herbert (CHC,R)
- Grace A. Huebscher (E,NG)
- Sara Matthew (E)
- Saiyid T. Naqvi (E,NG,R)
- David M. Brickman (E)
- Lance F. Drummond (A,CHC,E)

Committees: Lead Independent Director (LD); Audit (A); Compensation and Human Capital (CHC), Executive Committee (E), Nominating and Governance (NG), and Risk (R)

Management Team

- CEO David M. Brickman
- SVP and General Auditor Gilbert Gitiche
- EVP and CFO Christian M. Lown
- EVP, General Counsel, and Corporate Secretary--Ricardo A. Anzaldua
- EVP and Chief Risk Officer Anil D. Hinduja
- EVP and Chief Information Officer Frank Nazzaro
- SVP, Enterprise Operations Charlotte Catalfo
- EVP, Investments and Capital Markets Michael T. Hutchins
- EVP and Chief Administrative Officer Jerry Weiss
- EVP, Head of Single-Family Business Donna Corley
- EVP, Head of Multifamily Business Deborah Jenkins
- SVP, Chief Human Resources and Diversity Officer--Jacqueline Welch

Human Resources
- Recruiting / Hiring / Training
- Pension Plans
- Compensation
- Benefit / 401(k) Plans
- Equity Incentive Plan
- Talent Development

Audit, Risk and Compliance
- Internal Audit
- Compliance
- Enterprise Risk Management
- Audit Committee Reporting
- Financial Forecasting
- Analytics
- Quality

Capital Markets
- Loan Pricing
- Trading
- Structuring
- Multifamily Securitization
- Research & Modeling
- Investor Relations
- Portfolio Strategy/Execution
- Portfolio Management

Selling and Marketing
- Digital Strategy/Content Creation
- Mortgage Eligibility
- Origination and Underwriting
- Selling and Delivery

Finance and Accounting
- Budget Support
- Internal Audit
- Accounting
- Financial Reporting
- Tax
- Risk Management
- FP&A / Analytics
- Insurance
- Treasury / Cash Management

- Conventional
- Small Balance Loan
- Targeted Portfolio Housing
- Seniors Housing
- Media Relations

Corporate Matters

Professional, Corporate, IT, Facilities, & Financial Services
- Business Process Development
- Legal
- Contract Management
- Facilities/Building Equipment
- Property Preservation and Maintenance
- Auction Services
- Emerging Technologies
- IT Software
- IT Hardware
- Application Development
- E Commerce Platforms
- Data Processing Systems
- General Contractor Services

Servicing
- Servicing Default Management
- Servicing All Mortgages
- Transfers of Servicing

Administration
- Government and Industry Relations
- Public Policy
- Public Relations and Corporate Marketing
- "Making Home Affordable" Compliance
- Conservatorship and Regulatory Affairs
- Economic and Housing Research
- Internal Communications

Commercial Real Estate
- Multifamily Real Eastate Asset Management
- Guarantor Risk
- Insurance Compliance

Securities Regulation and OTCQB (or Venture Market) Listing Rules

Equity Capital Agreement to Purchase Equity to Eliminate Net Worth Deficit

Audit Services

Legal Services Standards

Outside Relationships

Customers | Suppliers | Capital | Regulators

- **Securities Regulators**
  - US Securities and Exchange Commission
  - OTC Markets Group, Inc.
- **Shareholders**
  - U.S. Treasury Department (100% Senior Preferred Plus Warrant to Buy Common Stock)
  - Top Institutional Shareholders (Voting Common Stock)
    - Capital Research & Management (14.15%)
    - American Funds Growth Fund of America (14.06%)
    - Parkwood (0.17%)
    - Macquarie Investment Management (0.16%)
    - Delaware Healthcare Fund (0.16%)
- **Professional Services Firms**
  - PwC (Auditors)
  - Qualifying Default Law Firms (Legal Services to Loan Servicers for Foreclosures, Bankruptcies, and Loss Mitigation Arrangements)

PRIMARY MORTGAGE MARKET

- Homeowners/ Sellers
- 1B Cash
- 1C Single-Family Home Sales
- Single and Multifamily Home Buyers
- 1A Cash Loans
- 2C Loan Servicing and Collection
- 1D Qualifying Single-Family Mortgages
- **Bank Customers** (as Originators, Sellers or Servicers of Loans)
  - JP Morgan Chase Bank
  - Wells Fargo Bank
  - Commercial, Regional & Community Banks
  - Berkadia Commercial Mortgage
  - CBRE Capital Markets
  - Savings Institutions
  - Mortgage Banking Companies
  - Credit Unions
  - Non-Depository Financial Institutions
  - State or Local Housing Finance Agencies

Prudent Loan Underwriting and Servicing Standards

2A Sales of Single-Family Mortgages (Whose (a) Loan Amount Can't Exceed an FHFA-Indexed Amount (Currently $510,400) and (b) Loan-to-Home Value Ratio Can't Exceed 80%)

2B Cash Fee (for Freddie Mac's Guarantee of Principal and Interest on Loans)

2D Remit Loan Payments Collected

SECONDARY MORTGAGE MARKET

3A Establish Trust and Transfer of Mortgages to Trust (with Guarantee of Interest and Principal Payment on Underlying Loan)

3B Issuance of Mortgage-Backed Securities (and Pay Guarantee Fee)

3C Data Acceptance, Issuance Support, and Bond Administration Services (under Common Securitization Platform with Fannie Mae)

4A Sale of Guaranteed Mortgage-Backed Securities

4B Distribution of Underlying Loan Payments (Net of any Guarantee Fees—see 2B and 3B)

- Trust (Freddie Mac Serves as Trustee)
- Common Securitization Solutions, LLC (Joint Venture Owned Equally by Freddie Mac and Fannie Mae)
- Investors in Mortgage-Backed Securities
  - U.S. Treasury
  - Federal Reserve System
  - Investors in Mortgage-Backed Securities (Assumes the Interest Rate, Prepayment and Liquidity Risk on the Underlying Loans; Freddie Mac Retains the Credit Risk)

5B Sale of STACR and SCR Notes (Notes are Linked to Freddie Mac's Credit Risk Position—First Loss, Mezzanine, and Senior Positions--Under Mortgage-Backed Securities)

5C Principal and Interest Notes (Less Amounts Payable by Trust to Freddie Mac for Credit Default)

- Investors in Credit Risk Transfer Transactions
- Credit Risk Transfer and Other Credit Enhancements
- STACR Trust (Freddie Mac's Primary Single-Family Securities-Based Credit Risk Sharing Vehicle)
- ACIS (Freddie Mac's Primary Insurance-Based Credit Risk Sharing Vehicle), MCIP, AFRM, and IMAGiN

6A Insurance Policies (Linked to Freddie Mac's Credit Risk Position) and Collateral

- Global Insurance and Reinsurance Companies

5A Payments to Support Interest Due on STACR Notes

5D Payment upon Credit Default on Mortgage-Backed Securities

6B Credit Risk Transfer Insurance Premiums

6C Payment Upon Credit Default

Long-Term Standby Commitments (in Exchange for Guarantee Fees)

- Third Parties Holding Mortgage Assets
- Non-Consolidated Trusts

Contractual Guarantee Fees for Multifamily Securitizations

- Hedging Counterparties

Swaps, Swaptions and Other Derivatives Transactions

Sales or Securitizations of Delinquent or "Seasoned" Loans Re-Acquired by the Guarantee Segments

- Buyers of, and Investors in, Delinquent Loans and Securitizations

Operations

Freddie Mac's Role in the Secondary Mortgage Market

STEP 1
When an individual wants to purchase a home but lacks the cash in-hand to purchase it outright, they must receive a cash loan from a lender (commercial bank). In exchange, the lender acquires a property interest (mortgage) in the home until the homeowner pays off the loan.

STEP 2
In order to maintain enough liquid cash to keep providing cash loans to potential homeowners, lenders will sell mortgages with unpaid principal balances (UPB) to Freddie Mac in exchange for cash.

STEP 3
After purchasing mortgages from lenders, Freddie Mac puts these mortgages in trust. These trusts then package similar mortgages together to create mortgage-backed securities.

STEP 4
Since Freddie Mac has to maintain cash in-hand to keep purchasing mortgages from lenders, Freddie Mac sells shares (tranches) of its relatively safe mortgage-backed securities to investors.

STEP 5
When Freddie Mac sells guaranteed mortgage-backed securities to investors, Freddie Mac is taking on the credit risk associated with the underlying mortgage. To minimize the amount of credit risk Freddie Mac holds, it will purchase credit protection (insurance) from credit investors.

1 Home Seller → Deed to Home / Cash Purchase → Home Buyers → Mortgage / Cash Loan → Lenders and Servicers (Commercial Banks)

2 Lenders and Servicers (Commercial Banks) → Mortgage Sale / Cash Purchase → Freddie Mac

3 Freddie Mac → Mortgage Transfer / Issue Mortgage-Backed Securities → Trusts

4 Freddie Mac → Cash Purchase / Mortgage-Backed Securities Sales → Interest Rate Investors

5 6 Freddie Mac → Cash / Credit Protection → Credit Investors

Single-Family Guarantee Segment:
Purchase, securitization, and guarantee of single-family loans and management of mortgage credit risk

Securitization and Guarantee Products

Level 1 Securitization Products: Pass-Through Securities Representing Beneficial Interest in Trusts Holding Pools of Single-Family Mortgages/Loan

- **Universal Mortgage Backed Securities (UMBS)** — 55-day delay on first payment; underlying mortgages must meet government-sponsored enterprise requirements (To-be-Announced or TBA-eligible, interchangeable with UMBS issued by Fannie Mae, and fixed interest rate on underlying mortgages)
- **Adjustable Rate Mortgage Participation Certificate (ARM PCs)** — 75-day delay on first payment; interest rate of underlying mortgages is adjustable
- **55-day MBS** — 55-day delay on first payment; non-TBA-eligible; interest rate of underlying mortgages must be fixed
- **Gold Participation Certificate (Gold PCs)** — 45-day delay on first payment; interest rate of underlying mortgages must be fixed; can be TBA-eligible or not TBA-eligible; no longer issued, can be resecuritized into UMBS or 55-day MBS

Re-Securitization Products: Pass-Through Securities Representing Beneficial Interests in Pools of Level 1 Securitization Products

- **Single-Class Re-Securitization Products**
  - **Supers** — Re-securitization of UMBS and certain other TBA-eligible mortgage securities
  - **Giant MBS** — Re-securitization of 55-day MBS and/or Giant MBS which are non-TBA eligible
  - **Giant PCs** — Re-securitization of previously issued PCs or Giant PCs, including existing Gold PCs and ARM PCs
- **Multiclass Re-Securitization Products**
  - **REMICs** — Re-securitization of previously issued mortgage securities that divide cash flows of underlying collateral into two or more classes
  - **Strips** — Re-securitization of previously issued Level 1 Securitization Products or single-class re-securitization products and issuance of stripped securities backed by cash flows from underlying collateral

Multifamily Guarantee Segment (e.g., Apartment Complex Owners/Rental Housing):
Purchase, sale, securitization, and guarantee of multifamily loans and securities, investments in those loans and securities, and the management of multifamily mortgage credit risk and market risk

Products and Activities

Loan Purchases and Commitments: Offer Borrowers Loan Products for the Acquisition, Refinance or Rehabilitation of Multifamily Properties; Freddie Mac Buys These Multifamily Loans for Aggregation and Securitization

- **Conventional Loans** — Financing via lenders that includes fixed- and floating-rate loans, loans in lease-up and with moderate property upgrades, manufacturing housing community loans, senior housing loans, student housing loans, supplemental loans, and certain Green Advantage loans
- **Targeted Affordable Housing** — Financing via lenders for borrowers in underserved areas that have restricted units affordable to households with low income (i.e., earning up to 80% of Area Median Income or AMI) and very-low income (i.e., earning up to 50% of AMI) and that receive government subsidies
- **Small Balance Loans** — $1 million to $7.5 million financing via lenders for small rental property borrowers for the acquisition or refinance of multifamily properties, focused on affordable or workforce properties from 5 to 50 units

Securitization and Guarantee Products: Issuance of Senior, Mezzanine, and Subordinated Securities Representing Beneficial Interest in Trusts Holding Pools of Multifamily Loans Freddie Mac Previously Purchased

- **K Certificates** — Regularly issued structured pass-through securities backed by recently originated multifamily loans. A non-Freddie Mac trust will issue the senior classes of securities, which Freddie Mac guarantees, as well as the unguaranteed subordinated securities.
- **SB Certificates** — Regularly issued securities typically backed by multifamily small balance loans Freddie Mac underwrites at loan origination and purchases prior to securitization. A non-Freddie Mac trust will issue the senior classes of securities, which Freddie Mac guarantees, as well as the unguaranteed subordinated securities. However, unlike K Certificate transactions, while Freddie Mac may purchase a portion of the senior securities, it generally does not place those securities into a Freddie Mac trust.

Capital Markets Segment:
Managing mortgage-related, mostly single-family, investments portfolio (excluding Multifamily Segment investments, Single-Family Segment's seriously delinquent loans, and credit risk of Single-Family performing loans), Single-Family Segment securitization activities, and treasury functions (which includes interest-rate risk management for Freddie Mac)

Investing and Related Activities
- **Agency Securities** (Investment in Freddie Mac, Fannie Mae, and Ginnie Mae Securities)
- **Single-Family Unsecuritized Loans**
  - Loans Acquired Through Cash Loan Purchase Program While Awaiting Securitization
  - Seasoned (i.e., Seriously Delinquent or Reperforming) Loans Removed from the Securitization Trusts
- **Other Investments Portfolio** (Liquidity Portfolio Including Cash and Cash Equivalents, Cash and Other Investments Held by the Securitization Trusts, Investments Used to Pledge as Collateral, and Secured Loans)
- **Legacy Non-Agency Mortgage-Related Securities** (No Longer Investing)

Funding and Liquidity Management (Treasury Function of Issuing Unsecured Debt to Fund Operations)
- Discounts Notes
- Medium –Term Notes
- Reference Notes
- Securities Sold Under Agreements to Repurchase

Interest-Rate Risk Management
- Managing Economic and GAAP Exposure to Changes in Interest-Rates (Derivatives Transactions)

All Other Segment:
Consists of material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of the other reportable segments

Additional Activities
- No Activity

Competition

- Federal National Mortgage Association (or Fannie Mae)
- Federal Housing Administration/U.S. Department of Veterans Affairs, with Securitization by Government National Mortgage Association (or Ginnie Mae)
- Other Financial Institutions that Retain or Securitize Loans
  - Commercial Banks
  - Life Insurance Companies
  - Dealers
  - Savings Institutions
  - Investment Banks
  - Commercial Mortgage-Backed Securities Conduits

Key Company Data (12/31/2019)

Financials (2019)
- Revenue: $75.125B
- Net Revenue: $14.1B
- Net Interest Income: $11.85B ($7.79B or 65.7% from Guarantee Portfolio)
- Net Profit: -$573M
- Total Assets: $2.203T

Share Information
- OTC Markets Symbol: FMCC
- Share Price: $2.10 (8/7/20)
- Dividend: Currently $0 (By formula, Freddie Mac's pays the Treasury the amount by which its" net worth" at the end of the immediately preceding fiscal quarter, less its "capital reserve," exceeds zero)
- Capital Reserve Amount: $25 Billion
- EPS: -$0.18

Resources
- 6,912 Employees
- 4 Office Buildings in McLean Virginia

Factors Impacting Freddie Mac's Business and Financial Results
- Interest Rates
- Unemployment Rate and Net New Jobs
- Single-Family Housing and Mortgage Market Conditions (Affordability of Single-Family Homes, Preference for Homeownership vs. Renting,, Etc.)
- Multifamily Housing and Mortgage Market Conditions (Construction Cycles, Preference for Homeownership vs. Renting, and Property Prices)
- Delinquency Rates

2019 Highlights
- Freddie Mac Transferred Credit Risk on 56% of its Single-Family Credit Guarantee Portfolio and 89% of its Multifamily Credit Guarantee Portfolio
- Freddie Mac's $2.581 Trillion Portfolio Consists of Single-Family Credit Guarantee Products (77.3%), Multifamily Guarantee Products (10.5%), and Mortgage-Related and Other Investments (12.2%)
- Federal Housing Finance Agency Requires Freddie Mac's Non-Guarantee Investment Portfolio to Remain at or Below $225 Billion
- To Ensure its Solvency, Since 2008 Freddie Mac has Operated in Conservatorship with the Federal Housing Finance Authority as Conservator

thinking One Page Thinking
© 2020
www.onepagethinking.net