



March 21, 2022

State of the Mortgage Market

Speakers



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Freddie Mac



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Director, ASG
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Alec Hollis

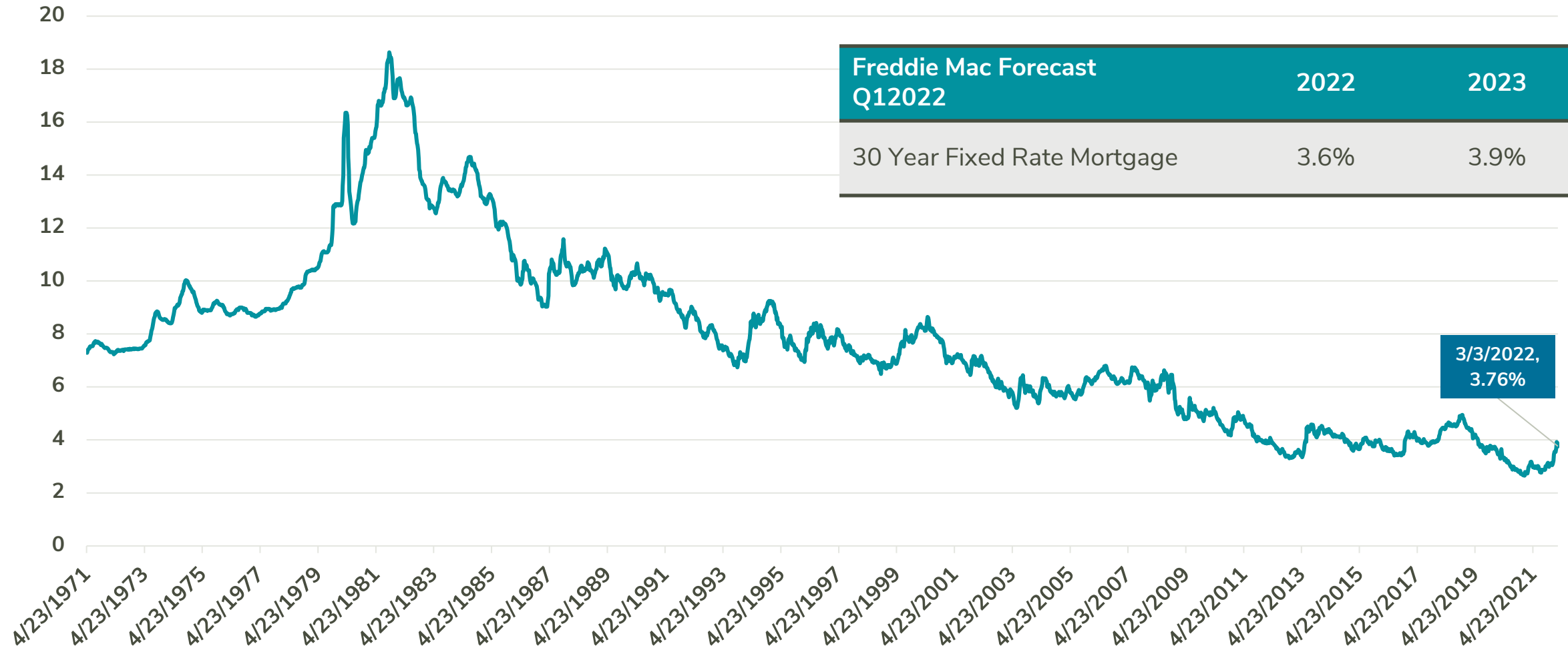
Managing Director, ASG
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Agenda

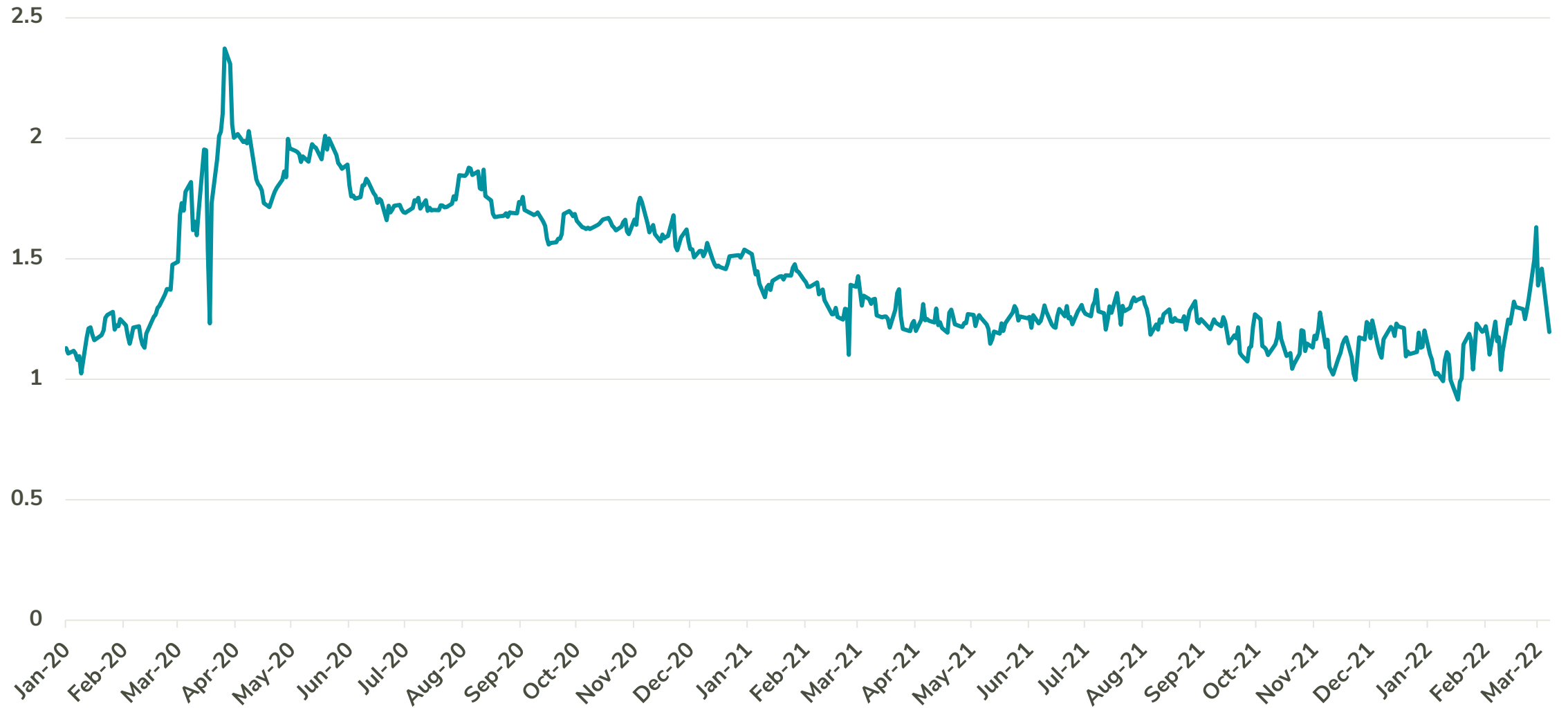
- Housing and Mortgage Market Update
- Affordable Housing Discussion
- Hedging Loans for Sale

Housing and Mortgage Market Update

Mortgage Primary Rate: 30-Year Fixed

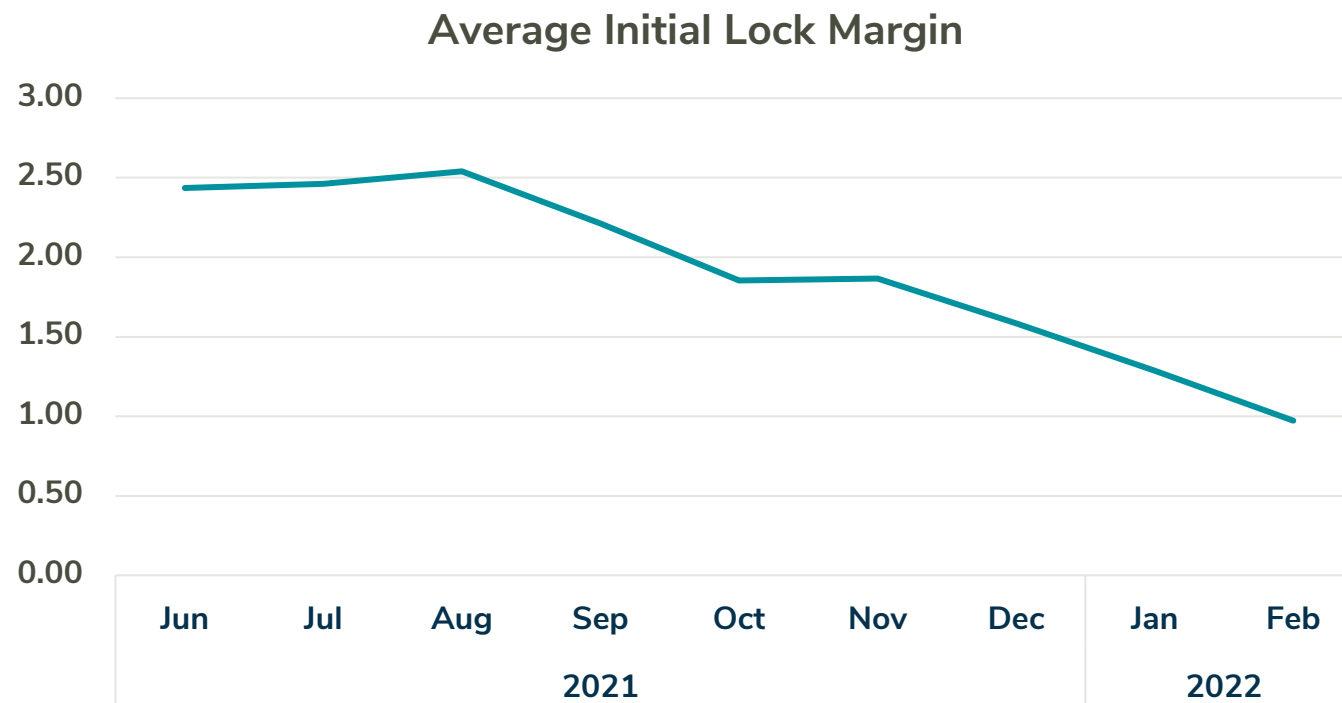


Primary/Secondary Spread



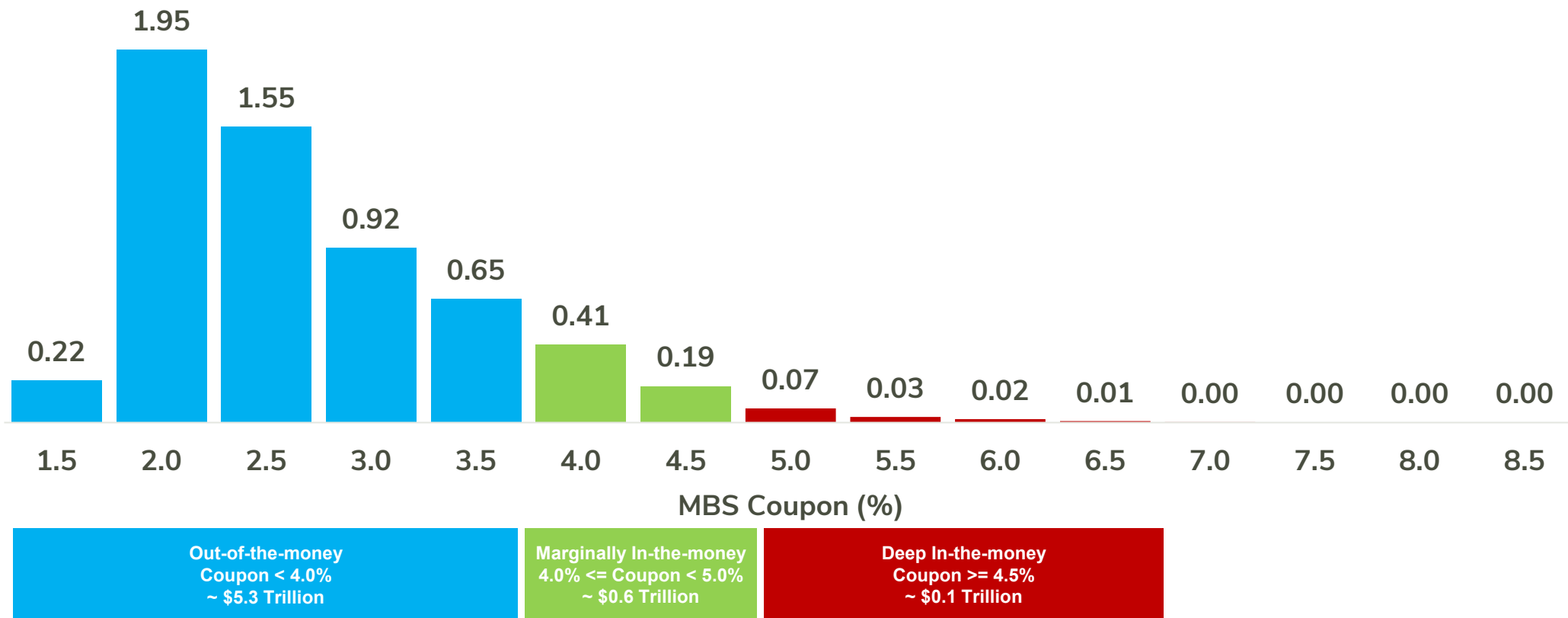
Striving to Keep Volumes Up

- Lenders reducing lock margins
- Cost to originate remains between 0.50-1%
- United Wholesale Mtg target GOS is 75-85bps



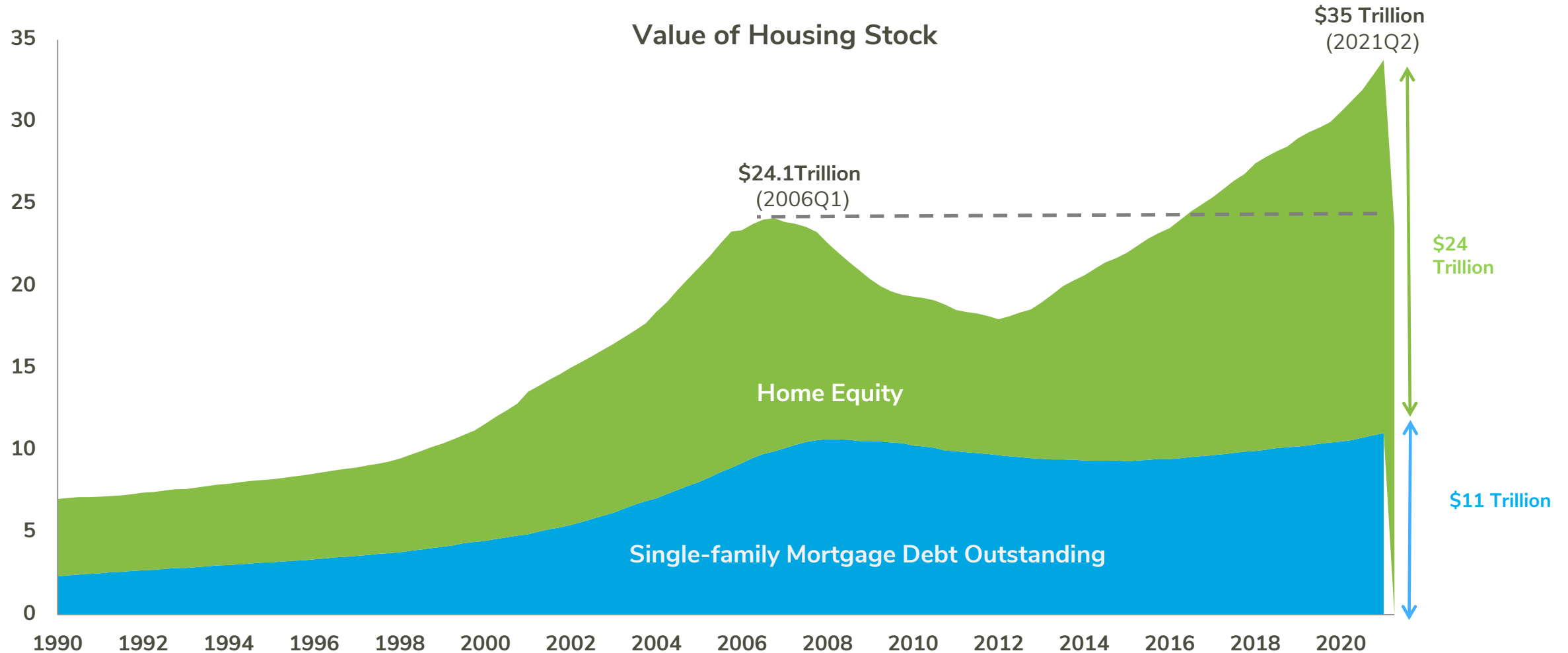
Higher Mortgage Rates Will Drive Down Refinance Activity

Outstanding 30-year Conforming Balance by Coupon (\$T's)



Source: Bloomberg as of 12/8/2021
 Conforming includes Freddie Mac, Fannie Mae, Ginnie Mae 30-year fixed MBS Outstanding (UMBS, GNMA1, GNMA 2)

Homeowners are Sitting on Trillions of Dollars of Home Equity...

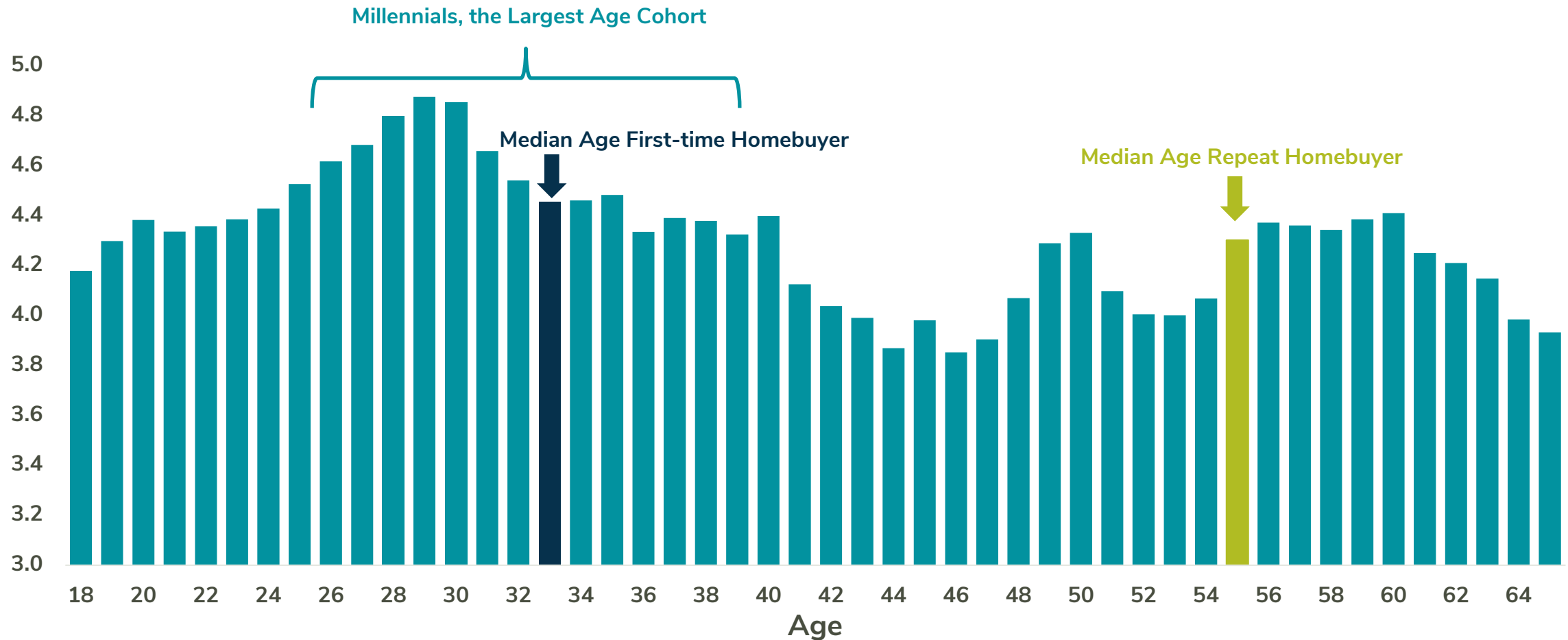


Note: Value of U.S. housing stock includes homes with and without underlying mortgages. U.S. home equity is the difference between the value of the U.S. housing stock and the amount of U.S. single-family mortgage debt outstanding.

Source: Freddie Mac, Federal Reserve Board's Financial Accounts of the United States, Table B. 101. Data as Q22021

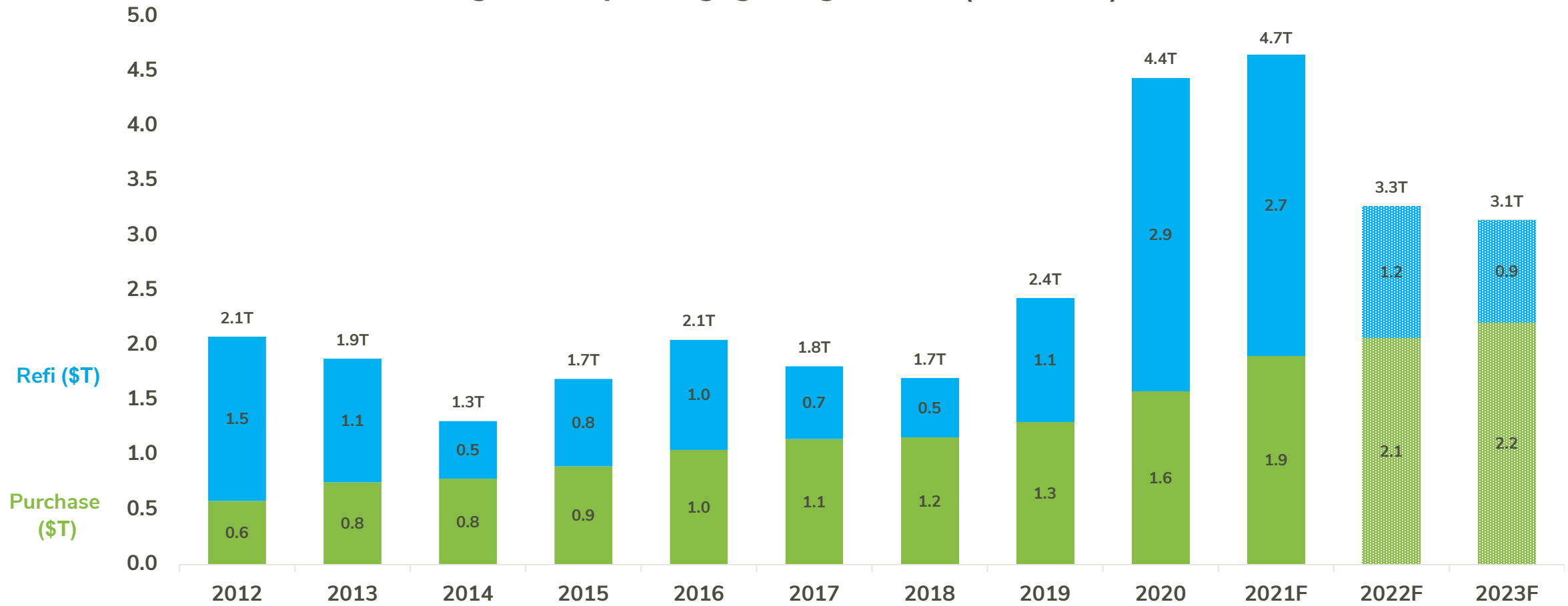
Demographic Tailwind Likely to Support Housing Market for Longer

2020 Population Estimate in Millions



Purchase Originations are Expected to Remain Strong in 2022 and 2023 on Solid Demand for Housing due to Low Rates and Demographic Tailwinds

Annual single-family mortgage originations (\$Trillions)



Source: Freddie Mac Q12022 Economic and Housing Research Outlook
 Note: Totals may not add due to rounding ; * Includes only 1st liens

Inventory Remains Low and Not Enough for Renters Looking to Buy

Total homes available for sale (Ths)



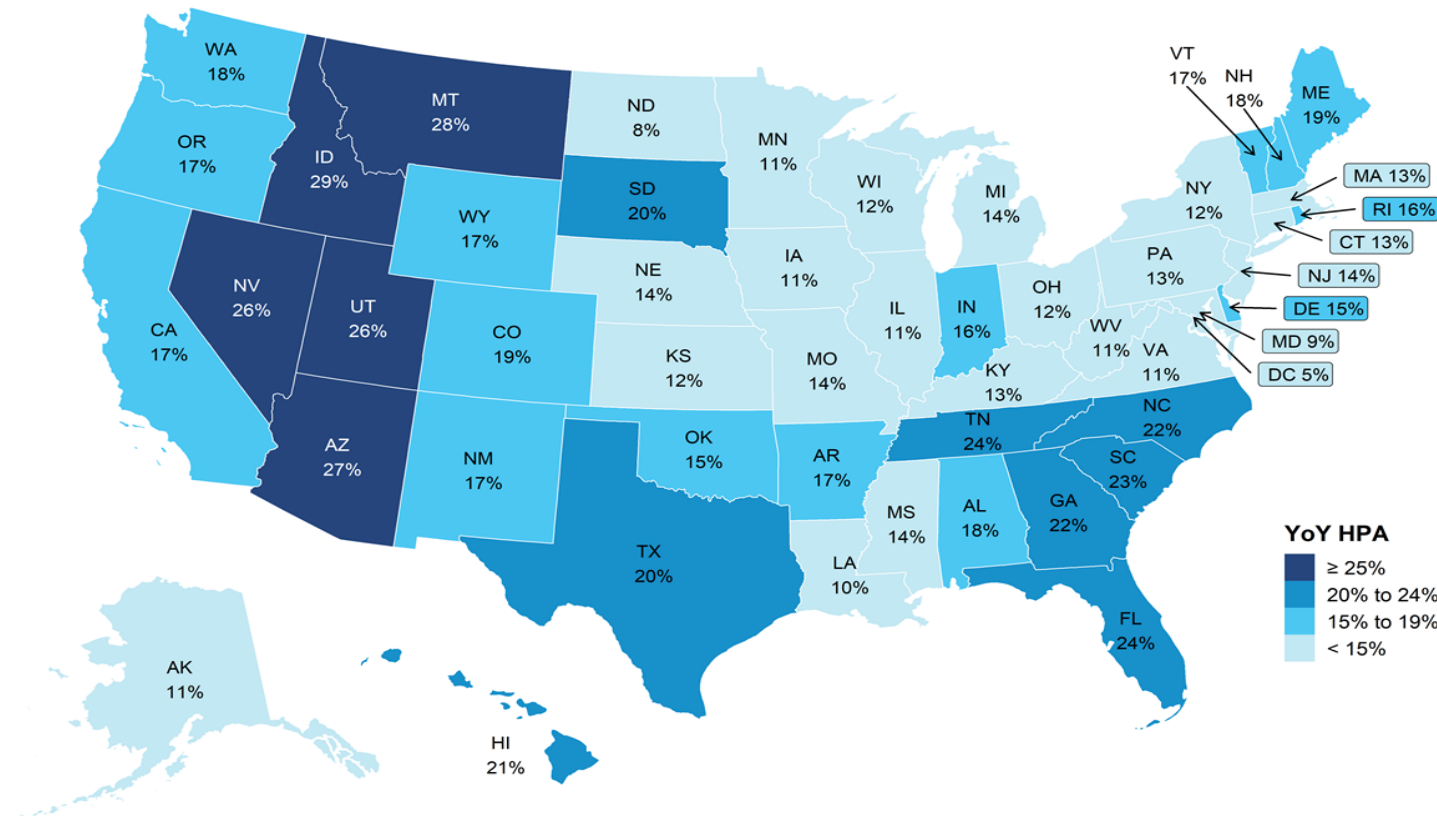
Number of renter household per homes available for sale



House Price Appreciation Strongest in the Mountain West

United States: 16.7%

Year-Over-Year Growth Nov 2021



Freddie Mac Forecast Q12022	2021	2022	2023
House Price Growth	15.9 %	6.2%	2.5%

The Freddie Mac House Price Index for the U.S. is a value-weighted average of the state indexes where the value weights are based on Freddie Mac's single-family credit guarantee portfolio. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions. The Freddie Mac House Price Index for the U.S. is a non-seasonally adjusted monthly series. Percent changes were rounded to the nearest whole percentage point

Source: Freddie Mac

Affordable Housing

Making Home Possible for 52 Years

- Freddie Mac was **chartered by Congress in 1970** and operates in the Secondary Mortgage Market
- **Mission** to promote liquidity, stability, affordability and equality in housing – nationwide, in all economic conditions
- **Community mission**
 - Stabilize communities
 - Prevent foreclosures
 - Expand credit responsibly
 - Educate future homebuyers and counsel homeowners
 - Support affordable rental housing
- **Three main business lines**
 - Single-Family (1- to 4-unit for-sale properties)
 - Multifamily (5+-unit for-rent properties)
 - Capital Markets



The Affordable Ecosystem

It takes many hands to make home possible.

Partnership and collaboration across the affordable ecosystem are critical to drive both business opportunities and making the dream of home a reality for families.



Creating Affordability for Many Types of Borrowers

First-time homebuyers and very low- to moderate-income borrowers

Refinance and repeat borrowers with limited home equity

Changing demographics and greater opportunities: first-time homebuyers, millennials, multi-generational households, seniors, Hispanics, Asians, Black Americans

Relevant for the ever-growing condominium market

Product that supports financing for manufactured housing, energy-efficient properties and property renovations



Challenges to Homeownership



13%

of All Buyers



26%

of Millennials
28 and younger



24%

of Millennials
29 to 38

Saving for down payment most difficult step in home buying process²



40%

Don't know down payment requirements and...



42%

Don't know of low down payment programs

Borrowers lack general down payment knowledge¹

Access to a down payment for a mortgage remains one of the most common hurdles for today's borrower.

With housing prices rising, incomes remaining stagnant and limited housing stock, it creates a highly competitive market for very-low and low-income borrowers who increasingly struggle to save for their initial down payment.

Top Expenses that Delayed Saving for Down Payment²



Student Loans



Credit Card



Car Loan



Child Care



Health Care



Other

Source: ¹ 2017 Urban Institute Report Barriers to Accessing Homeownership: Down Payment, Credit and Affordability

² 2019 National Association of Realtors Home Buyer and Seller Generational Trends Report

Offering Low Down Payment Options

- **Home Possible®**

- First-time buyers and other buyers who qualify based on area median income in the home's location
- Down payment as low as 3%
- Flexible down payment and closing cost funding options
- Co-borrower who is not part of the household allowed
- Private mortgage insurance stops at 80% LTV

- **HomeOneSM**

- First-time buyers – no income restriction
- All borrowers must occupy
- Fixed-rate terms only

- **HFA Advantage®**

- Based on Home Possible underwriting requirements
- 1-unit primary residence; all borrowers must occupy
- State/Local HFA's down payment assistance and guidelines
- Minimum MI coverage required



Home Possible[®] Mortgage Overview

<p>LTV Ratios by loan type (Manufactured Homes, refer to Seller/Service Guide)</p>	<p align="center">Fixed Rate Mortgages</p> <p>1-unit property: 97% LTV / 105% TLTV (with Affordable Second[®]) / 97% HTLTV 2- to 4-unit property: 85% LTV / 95% TLTV / 95% HTLTV</p> <hr/> <p align="center">5/1 or 5/5 7/1 or 10/1 Adjustable-Rate Mortgages</p> <p>1-unit property: 95% LTV / TLTV / HTLTV 2-unit property: 85% LTV / 95% TLTV / 95% HTLTV 3- to 4-unit property: 75% LTV / TLTV / HTLTV</p>
<p>Transaction Type</p>	<p align="center">Purchase/no cash-out refinance</p>
<p>Property Types</p>	<p align="center">1- to 4-unit detached/attached properties, planned unit developments, condominiums</p>
<p>Occupancy</p>	<p align="center">Owner occupied, primary residences only Non-occupying co-borrower permitted</p>
<p>Mortgage Insurance</p>	<p align="center">Lender Paid Single Premium MI and Financed Single Premium MI allowed</p>
<p>Other Property Ownership</p>	<p align="center">Occupying Borrower can own one other property in addition to the subject property</p>

Check-in



True or False:

All conventional conforming mortgages submitted to Loan Product Advisor[®] are checked for Home Possible[®] mortgage area median income eligibility.

True

False

Overview of HomeOneSM Conventional Mortgage

	HomeOne SM
LTV ratio	97% LTV / 105% TLTV (with Affordable Second [®]) / 97% HTLTV
Purchase Status	At least one borrower must be a first-time homebuyer (as defined in the Guide)
Refinance	No cash-out refinance • Mortgage being refinanced must be owned or securitized by Freddie Mac unless it has secondary financing that is an Affordable Second
Units	1-unit properties only • No manufactured homes
Occupancy	All borrowers must occupy the mortgaged premises as their primary residence
Loan Type	Fixed rate
Income Limits	No limits
Homeownership Education	Required when all borrowers are first-time homebuyers
Underwriting Path	Loan Product Advisor [®] only

HFA Advantage[®] Mortgage

- One-unit primary residence
- Purchase and no cash-out refinancing
- Maximum 97% LTV and 105% TLTV ratios
- Flexible funding options for down payment and closing costs
- No reserves required

High loan-to-value (LTV) conventional offering that's **an excellent alternative to FHA** lending requirements and mortgage premiums.

Adopts the requirements of Home Possible[®] but with **added flexibilities for HFAs.**

- HFA-established income limits
- Available to first-time homebuyers, repeat buyers, and borrowers seeking no cash-out refinances
- Loan Product Advisor[®], manual UW, or alternative UW system subject to prior approval
- Flexible MI options available

Future Borrowers: Challenges and Opportunities



Changing demographics

The higher share of minorities is likely to lead to a reduced homeownership rate

What Freddie Mac is Doing



Broadening educational resources both in content and language availability



Freddie Mac is establishing new programs to specifically address financial capabilities and mortgage solutions for communities of color



Freddie Mac is developing plans to further expand partnerships with organizations that lead the way to bring greater equality in housing.

Potential Industry Options to Explore



Increase outreach programs



Provide more targeted and effective financial education programs



Engage targeted audiences through specialized tactics and language

Low financial literacy

Low financial literacy is more common with younger adults, even though more online resources are available

What Freddie Mac is Doing



July 2021 - Relaunched [CreditSmart®](#) suite of free educational resources designed to empower consumers with the skills to assist them through their financial capability and homeownership journey.



Available in English and Spanish, CreditSmart® Homebuyer U is a comprehensive homeownership education course to help guide first-time homebuyers. Completion of this course delivers a homebuyer education certificate required for Freddie Mac Home Possible® and HomeOne® mortgages. ([Freddie Mac CreditSmart®](#))



Partnering across the housing ecosystem to help connect borrowers with valuable resources such as our Freddie [Borrower Help Center Network](#) and [Housing Counselors Resource Centers](#).



Creation of effective financial education apps aimed at tech-savvy millennials and Gen-Z



Increase outreach of housing professionals through class offerings in high schools, colleges, employers, consider including - community centers, places of worship



Lenders and real estate agents to connect borrowers with housing counselors who can provide guidance and serve as a trusted advisor to help in preparation of future homebuyers

Down payment savings and assistance

Nearly 2/3 of potential first-time homebuyers consider down payment to be a number one barrier to homeownership

What Freddie Mac is Doing



Offering low, 3% down payment solutions such as the: [Freddie Mac Home Possible®](#) and [HomeOne®](#) mortgages.



Promote down payment assistance programs to real estate professionals and other partners

Potential Industry Options to Explore



Creation of digital wallet tools such as down payment savings accounts with special interest rates with matching deposits earmarked for housing down payments to a certain percent



Lenders help better educate potential borrowers on ways to raise down payment funds aside from savings



Increase awareness of and better customize down payment assistance programs

Affordable housing shortages

There are more than 400,000 “missing” households headed by 25- to 34-year-olds (households that would have formed except for higher housing costs)¹.

What Freddie Mac is Doing



Offering loan options that promote renovations and energy efficiency improvements like [GreenCHOICE Mortgages](#)[®] and [CHOICEHome](#)[®] mortgages and [CHOICERenovation](#)[®] for financing necessary repairs in older homes



Offering financing solutions for [Manufactured Housing](#)

Potential Industry Options to Explore



Accelerate housing construction and offer more affordable options to meet demand



Local governments to consider relaxing excessive regulations and restrictive zoning policies



Innovate housing solutions to create and preserve affordable housing through vacant property conversion, educating developers on affordable housing opportunities, shared equity models, financing of new housing choices

Opportunities to Drive Business and Build Communities

Build Your Community and Grow Your Business by Enabling Low-Income Refinance



Be the trusted advisor.



Expand your referral and advocate connections.



Drive to achieve Community Reinvestment Act (CRA) goals.



Provide an opportunity for homeowners to save on monthly expenses.



Improve your customer savings capabilities to help them stay in their homes long-term.



Offer cancellable mortgage insurance solutions.



Realize your personal mission to build up communities.

Hedging Loans for Sale

Why Sell?



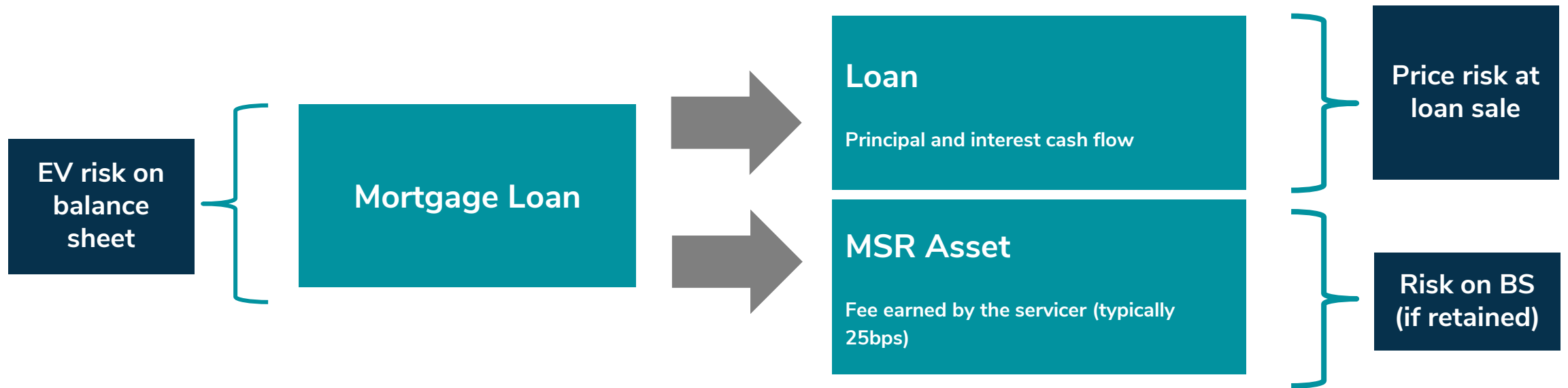
The Portfolio Versus Sell Decision

Profitability Calculator Funding Curve: FHLB_Avg

			Asset Inputs			Profitability Outputs									
LoanNumber	Product	Desc	Loan Amount	NonInt Exp	Credit Cost	Price	Yield	AvgLife	EffDur	Credit Cost	FTP Rate	FTP Spread	ROA	ROE	Hold/Sell
124293	30-Year Fixed Rate	Term>180: 1.250	180,000	0.25%	0.15%	99.42	3.70%	10.43	7.33%	0.15%	1.96%	1.74%	1.49%	29.77%	HOLD
121668	30-Year Fixed Rate	Term>180: 0.500 CORefi: 0.875	120,000	0.25%	0.15%	100.04	3.62%	10.36	7.20%	0.15%	1.97%	1.65%	1.40%	27.96%	SELL
122385	30-Year Fixed Rate	Term>180: 1.000	225,000	0.25%	0.15%	101.64	3.89%	8.98	5.72%	0.15%	2.09%	1.80%	1.55%	30.94%	HOLD
122445	30-Year Fixed Rate	Term>180: 0.500	439,500	0.25%	0.15%	100.44	3.82%	9.59	6.24%	0.15%	2.06%	1.75%	1.50%	30.06%	HOLD
122487	30-Year Fixed Rate	Term>180: 0.750	116,000	0.25%	0.15%	101.62	3.66%	9.93	6.71%	0.15%	2.00%	1.66%	1.41%	28.26%	SELL
122652	30-Year Fixed Rate	Term>180: 0.500 CORefi: 1.125	115,000	0.25%	0.15%	101.92	3.86%	9.40	6.22%	0.15%	2.04%	1.82%	1.57%	31.43%	HOLD
123222	30-Year Fixed Rate	CORefi: 0.375	258,000	0.25%	0.15%	100.05	3.74%	9.98	6.58%	0.15%	2.02%	1.72%	1.47%	29.37%	HOLD
120816	30-Year Fixed Rate	Term>180: 0.250 CORefi: 0.625	168,000	0.25%	0.15%	98.55	3.55%	10.76	7.55%	0.15%	1.95%	1.60%	1.35%	27.05%	SELL
120999	30-Year Fixed Rate	Term>180: 1.000	112,000	0.25%	0.15%	100.42	3.57%	10.60	7.51%	0.15%	1.95%	1.62%	1.37%	27.44%	SELL
121128	30-Year Fixed Rate	Term>180: 0.500	77,500	0.25%	0.15%	99.82	3.40%	11.10	8.00%	0.15%	1.92%	1.48%	1.23%	24.62%	SELL
121173	30-Year Fixed Rate	Term>180: 0.500	181,475	0.25%	0.15%	100.17	3.60%	10.37	7.07%	0.15%	1.98%	1.62%	1.37%	27.50%	SELL

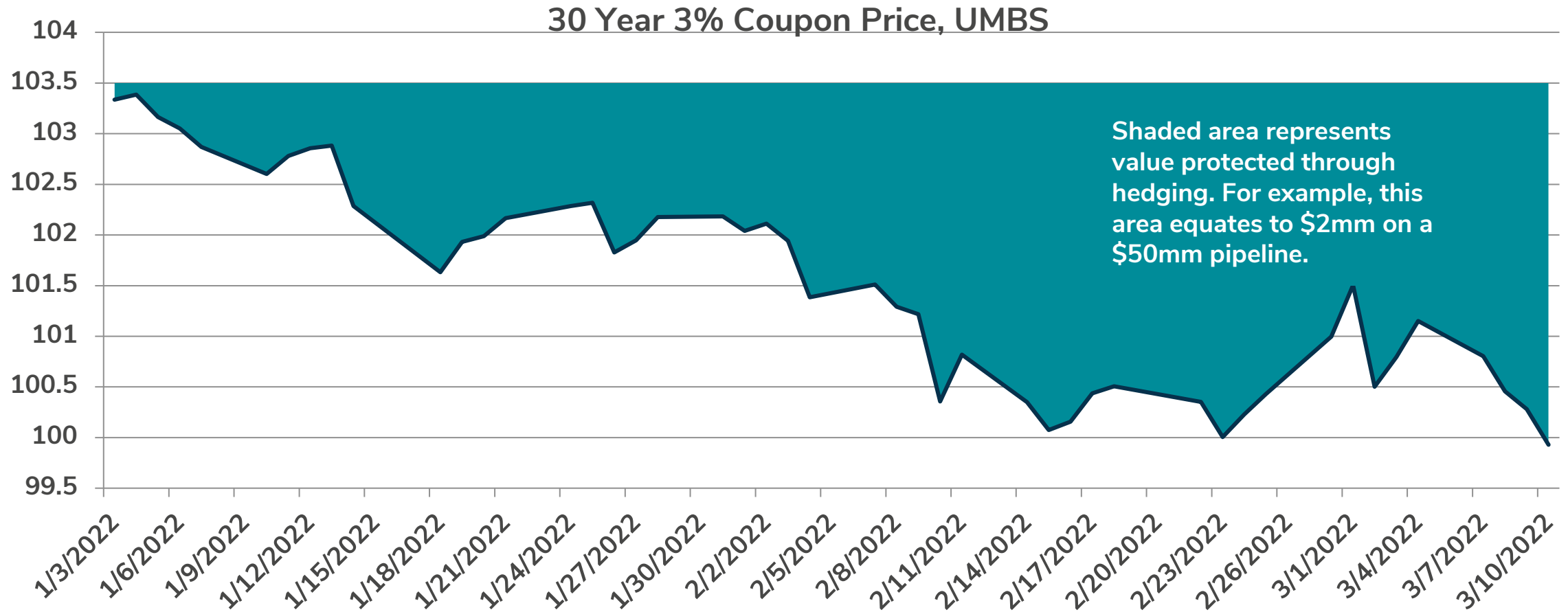
Hedging Mortgage Lending: Selling Vs. Holding

- Hedging objective:
 - HFI versus HFS
- Selling a mortgage loan generates two sets of cash flows and creates a servicing asset



Why hedge?

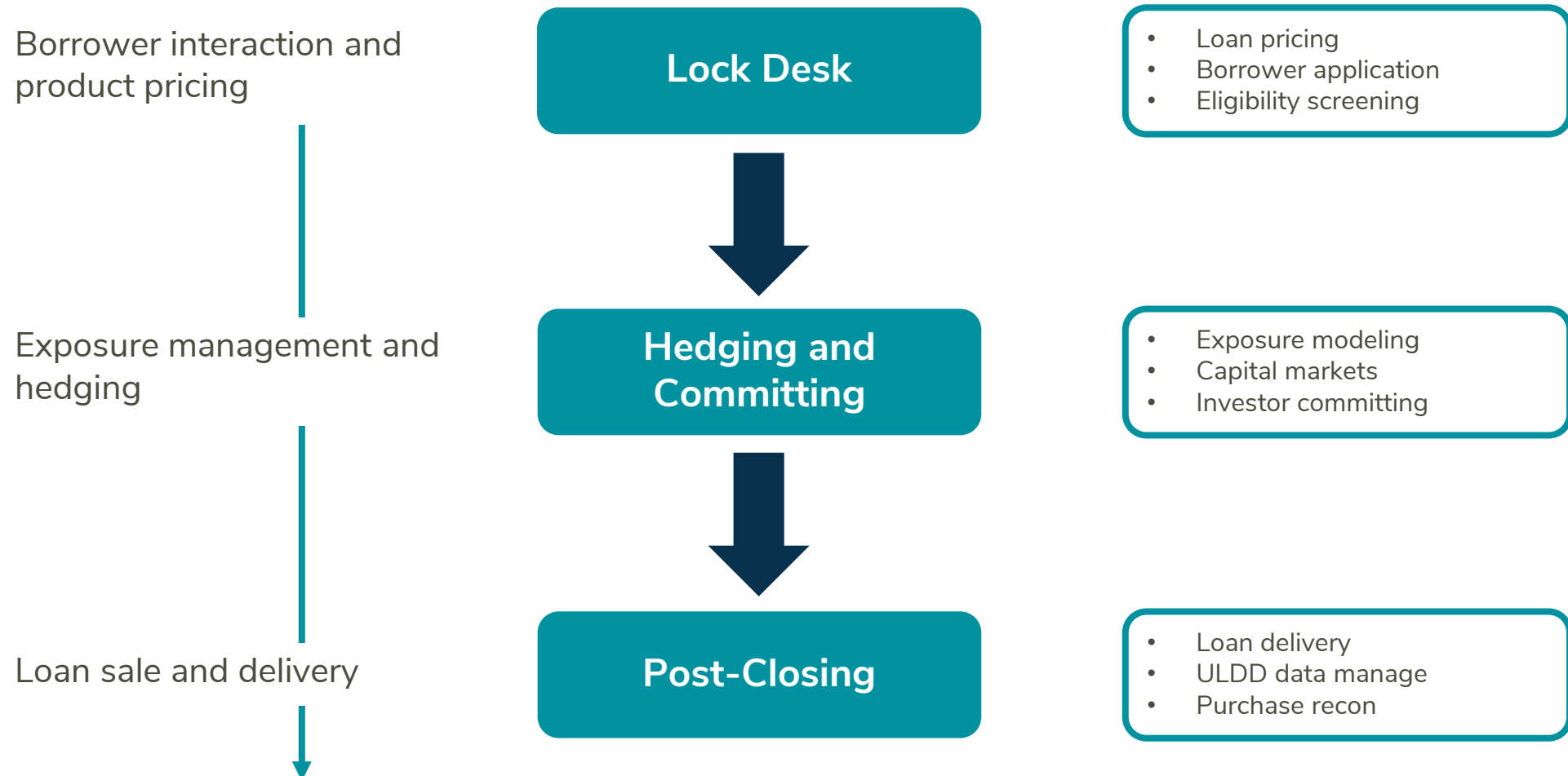
- Market volatility during the pipeline period can result in price volatility and potential losses at sale



Three Tips for Enhancing Intended for Sale Pipeline

- **Centralized lock desk**
 - Manage initial lock margin and loan changes
- **Increase investor price**
 - Minimize hedge cost – improvements in hedge cost go directly to bottom line!
 - Improve execution for existing investors
 - Multiple investors increase best ex opportunity
- **Interest carry component**
 - Identify which loans carry best – not all loans carry equally

The Loan Sale Process



Different Mortgage Hedging Instruments



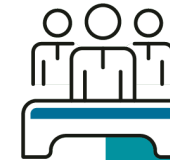
Best Efforts Commitments

- **Pros**
 - No fall-out risk
 - Extremely flexible
 - Effective hedge
- **Cons**
 - Lower price
 - Loan by loan
 - Tied to one investor



Mandatory Commitments

- **Pros**
 - Better price
 - Effective hedge
 - Bulk committing
- **Cons**
 - Difficult to scale
 - Tied to one investor
 - Hard to implement pull through



To-be announced (TBA) MBS Market

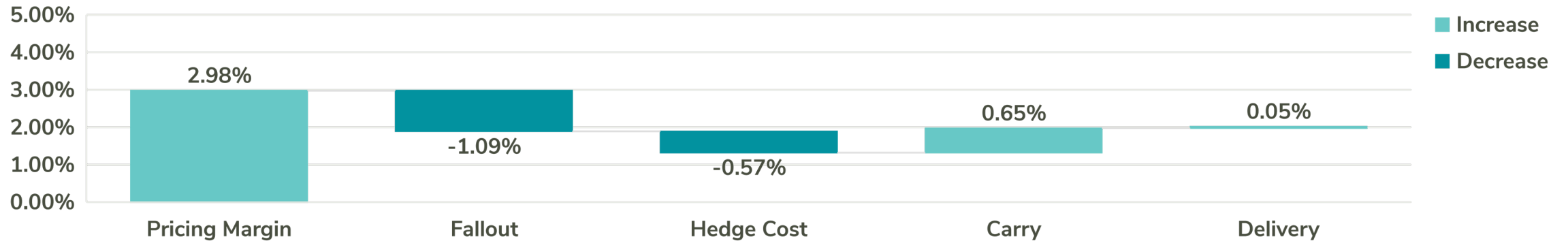
- **Pros**
 - Extremely liquid market,
 - Effective hedge
 - Easy to adjust hedges
 - Bifurcates hedge & end investor
 - Ability to scale
- **Cons**
 - Difficult for lower volume
 - Must connect with multiple investors
 - Separate security instrument

Delivered Loan Profitability

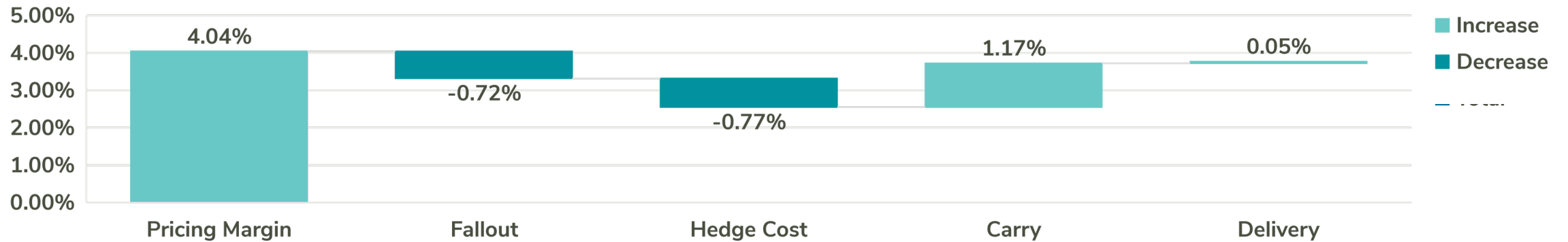
LoanNumber	UPB	DiscountFee	InvestorPrice	Lipa	DeliveredGainLoss	HedgeInstrumentGainLoss	InterestIncome	DeliveredGainLoss
1	203,089.02	-	98.63	-2.125	(7,104.26)	6,416.25	1,861.95	1,110.31
2	303,937.80	(762.50)	98.46	-0.875	(8,089.22)	9,437.12	2,488.84	3,751.42
3	308,863.08	(388.13)	97.90	-0.5	(8,425.06)	9,454.82	2,619.77	3,556.03
4	545,297.93	-	97.35	-0.875	(19,247.93)	16,168.39	4,576.66	1,311.69
5	426,388.01	(535.75)	98.59	-1.125	(11,330.62)	11,577.23	4,006.87	4,105.06
6	219,806.84	(828.75)	96.03	-0.375	(10,385.51)	10,424.66	1,857.21	1,815.16
7	422,540.48	(2,120.00)	96.76	-1.5	(22,166.59)	20,277.32	3,963.23	2,073.95

Peer Comparisons

FINANCIAL INSTITUTION A

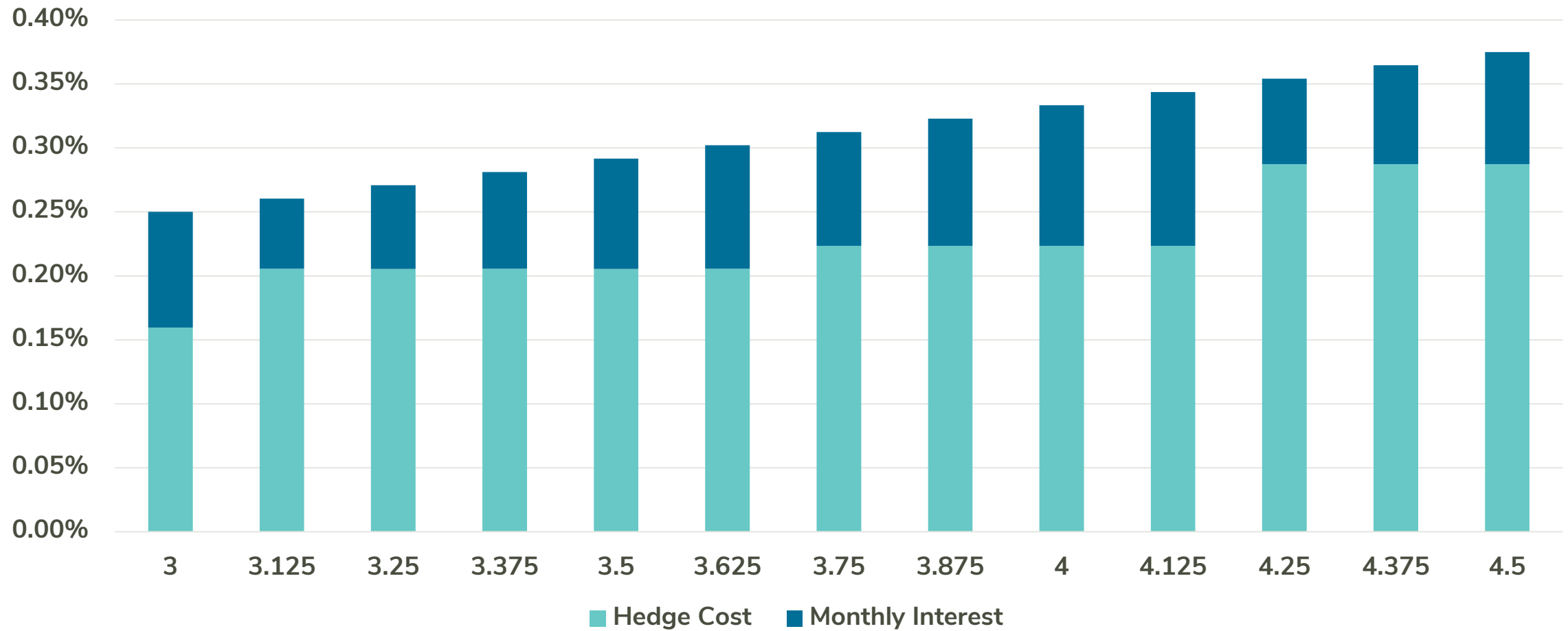


FINANCIAL INSTITUTION B



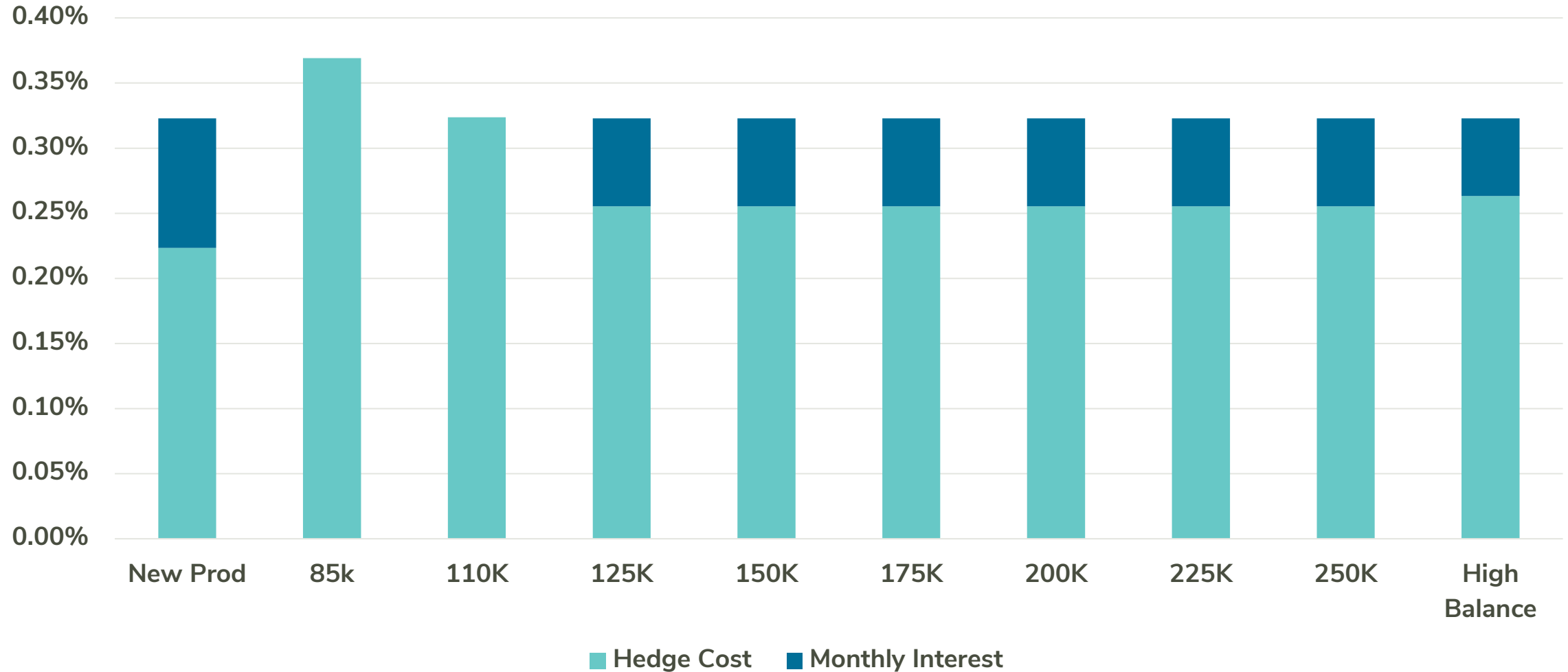
The illustration represents a hypothetical situation and it not intended to be representative of any particular client or situation.

Interest Carry Analysis by Note Rate



The illustration represents a hypothetical situation and it not intended to be representative of any particular client or situation.

Interest Carry Analysis by Product for 3.875%



The illustration represents a hypothetical situation and it not intended to be representative of any particular client or situation.

Conclusion

Final Thoughts

- Shifting to a purchase market
- The need for more creative products to capture volume
- Rising rates a headwind for mortgage profitability
- MSR values increasing; revenue stream during origination declining
- Effective hedge strategy paramount

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