

# Freddie Mac Single-Family Home Starts Here Podcast Episode Transcript:

## Power of Partnership Episode 1 – Optimize Decisions for Optimized Execution

**Announcer** [00:00:01] The power of partnership is our podcast under the Freddie Mac Home Starts Here podcast series that focuses on the strong relationships between Freddie Mac and our third-party partners. Learn how we're teaming up with these partners to provide you with an efficient end to end experience for conducting business with us.

**Amy** [00:00:21] Hello, I'm Amy Christen, Freddie Mac's director of sales for our secondary market advisors or SMA team, and I'm your host for this episode of The Power of Partnership: Optimize Decisions for Optimized Execution. I'm looking forward to a robust conversation with my guests, Mike Hutcheson, senior director of pricing at Freddie Mac, and Brad Eskridge, managing director of MIAC, one of our valued SMA partners. We'll discuss Freddie Mac pricing objectives for the year, how MIAC supports our mutual clients best execution decision making needs, and the opportunities for our clients to optimize their pooling. Welcome, Brad and Mike, thanks to you both for spending some time with us. I'm excited to facilitate today's conversation because I know so many listeners will be interested to learn about Freddie Mac loan pricing components and loan sale opportunities, and how MIAC can make the analysis and loan sale process easier and deliver better results with its technology platform and advisory services. So let's start this conversation with Mike to get a background on Freddie Mac pricing considerations and influences, and some helpful hints for sellers to consider in their execution analysis.

**Mike** [00:01:28] Well, thanks for having me, Amy. One of our primary considerations when reviewing pricing for clients is how their performance and mix of business that we purchase aligns with our goals and objectives. One area that we continuously focus on is UMBS alignment. But before discussing alignment, let's do a quick recap of UMBS for our listeners. So FHFA's single security initiative created a new fixed rate, mortgage backed security that will be issued and guaranteed by either Freddie Mac or Fannie Mae Single-Family mortgage loans. As you may recall, prior to mid 2019, Freddie Mac and Fannie Mae each had its own mortgage backed security. Freddie Mac Securities were nicknamed gold, while Fannie Mae were simply called MBS, and due to the differences in their securities, they typically traded at a spread to each other. The new security, which launched back in June of 2019, is called the uniform MBS, or UMBS for short. The Single Security Initiative was implemented to strengthen the mortgage market by increasing liquidity to the to-be-announced or TBA market, thereby maintaining or possibly even lowering the cost of housing finance, which benefits both borrowers and investors. With single security, FHFA established requirements for both Freddie Mac and Fannie Mae securities to ensure that they are similar in both composition and performance. So with single security, disclosure data was also expanded, allowing investors to perform additional analysis on UMBS. So with all these considerations, we not only pay attention to traditional prepayment alignment characteristics such as, you know, weighted average coupon, weighted average original loan size and servicer concentration, but we also adjust our efforts based on investor sentiment or investor feedback. So recently, investors have been focused on both the percentage of appraisal waivers, as well as a percentage of third party originations. The challenge that we try to balance is managing to both actual prepayment differences, think about classic CPR ratios, as well as perceived prepayment differences, which could be based on investor sentiment. Another key facet of alignment is, of course, representative mix. This is something that we monitor very closely. Specifically, in what we refer to as the big pools. These are Freddie Mac's multi lender giants and Fannie Mae major pools. And of course, aside from prepayment characteristics, representative mix from a credit profile, you're thinking FICO, LTV, et cetera, is also key and does also play an important role in security performance as well.

**Amy** [00:03:56] Thanks for the UMBS alignment overview, Mike. Investors of UMBS are seeking stability and reliability in these assets, which in turn, means Freddie Mac must be diligent in its influence on formation of UMBS. So Freddie Mac must work with our clients to ensure their loan deliveries to us, whether through cash or guarantor, are not disruptive to UMBS performance. Is that correct?

**Mike** [00:04:22] You got it.

**Amy** [00:04:24] All right. Well, Brad, on that point of UMBS alignment and how deliveries by lenders to Freddie Mac require balance, I'd like to talk about how MIAC can help. The constraints, the opportunities and the analysis required to review best execution for a group of loans or even a month's GSE deliveries. It's a difficult task and really best supported through complex computations. So would you tell us how MIAC has approached a technology platform solution to optimize loan sale execution analysis?

**Brad** [00:04:54] Sure, Amy, thanks for having me on the podcast today. I just want to reiterate the point about UMBS alignment. I think it's important to note that this does apply to cash window sellers too, as at the end of the day, you know, all these loans will eventually end up in the UMBS. So one of the ways we've worked to better serve our mutual customers in this area is through our pool optimization tool called MOJO. Now we started out MOJO years ago. It was you're basically looking at the GSC and Ginnie Mae level constraints, meaning the UMBS spec pool minimums, the super conforming concentration and the diminished roles, that type of thing. And then, as we, you know, started promoting that and talking to customers and prospects about it. The feedback we received is that they wanted to get much more granular and be able to apply constraints on any variable. So our current version of MOJO, what we can do is we can apply constraints on any variable in your dataset. It can be numeric, be text, it can be date, it can be any combination of the three. Mike just mentioned the appraisal waivers and third party originations, those are two great examples of what I'm talking about here. This tool allows you to create a weighted average baseline with a plus or minus variance. You can also add a limit, minimum or maximum concentration, and these can be applied at the at the pool level or all the way up to the highest level, like at the Freddie Mac level.

**Amy** [00:06:21] Well, Brad, best or suboptimal execution analysis exercises definitely require sophisticated platform like MOJO, and it sounds like the MOJO platform is right on time in this challenging environment. We've just come off a historical refinance wave and a period of unprecedented low rates, and for two years, lenders have enjoyed wider profit margins while producing record loan volumes, however, seems as flushed days have come to a close, and lenders must pivot to competitive pricing on purchase transactions and minimizing operational expenses. So Brad, what else is MAIC advising in these transitional times to our mutual clients?

**Brad** [00:06:55] Yeah, absolutely. The landscape in 2022 is definitely different than we've seen over the last two years. Yeah, you just hit the nail on the head. It's time to look at efficiencies, your bestex, you know, new products. One thing we're hearing about and sort of talking about is, you know, e-notes; you know, it's not really in our world, in the secondary world, but you know, that's something that's been more widely adopted and it can help save some time on your process. You close loans quicker. Bestex is the biggest thing that we really focus on. I need to dial it in and make sure all of your assumptions are as accurate as possible. You know, one of the most obvious and I think most widely adopted assumptions is, you know, admin fees, but I'm still going to mention it. An example is If you're selling to aggregators and Bestexing across different aggregators into Freddie Mac and others, you know, if someone's got a \$400 funding fee for an admin fee, you want to make sure you factor that into your Bestex because that can be a big factor in the Bestex. You know, do you factor in best return times? You know, what is your warehouse cost associated with each of your investors? Do you have a cost associated for high touches? Is an investor conditioning you guys? Are you, you know, having to touch a file three, four, five times with investor "A" versus someone else or you just deliver file and it gets purchased? Is that factored into your Bestex? You know, is cash a concern? Going back to the last couple of years, everybody had very wide margins. So if you're, you know, delivering to Freddie Mac and retaining servicing, you know that cash intensive process of retaining servicing was not that big of a deal. But now that margins have thinned down and productions down, you know, you might want to look at other alternatives like, ya know, cash release exchange or a co-issue. That might still offer that efficiency of delivery to Freddie Mac, but give you that cash upfront by selling the servicing on day one. In other areas, you know, MAIC's group, MDS. They work with customers to deliver their files to the GSC's and Ginnie Mae. And



that's just an efficient process on our side that we can help out where, again, fewer touches and get ones delivered quicker and cleaner and going to purchase faster.

**Amy [00:09:05]** And of course, Freddie Mac is providing opportunities for lenders to reduce costs to improve efficiencies in mortgage origination, sale and servicing processes. We've invested and we continue to invest in a variety of technologies with the express purpose of helping lenders reduce their origination, selling and servicing costs. The modeling and algorithms and Freddie Mac tools leverage large amounts of data to help lenders more accurately assess risk and drive greater efficiencies and reduce the cost of doing business and provide borrowers ultimately with a better mortgage experience. In particular, in the underwriting process, our loan product advisor, asset and income modeler, or AIM, it provides lenders with capabilities to fully automate the assessment of borrower assets and income by leveraging data from third party service providers with the objective, of course, of offering rep and warranty relief when the data meets Freddie Mac underwriting and eligibility requirements. Freddie Mac also has integrated secondary marketing technology platforms like MAIC's MOJO with Loan Selling Advisor. So through application programming interfaces or, more commonly known as APIs, efficient and accurate retrieval of pricing and commitment take out is done without leaving MAIC's MOJO platform so the lender can interact with Freddie Mac through MAIC. You mentioned cash released exchange in our servicing released selling programs, Freddie Mac has incorporated technology to automate the servicing dataset file creation and servicer document delivery requirements to expedite servicing transfers. And this automation minimizes delivery errors and can shorten the operational process. And I'd like to point out to our listeners that while our goal is to promote lender choice, Freddie Mac prioritizes best in class third party service providers that have lender adoption and are disciplined with respect to data quality, to access, and of paramount importance, security. So we appreciate that lenders are seeking ways to reduce costs in the mortgage production lifecycle and rely upon the efficiencies of vendors to lower expenses. So to that end, Freddie Mac is partnering with vendors in all stages of the mortgage manufacturing, sale and servicing process to automate much of mortgage lending, data communication and analysis. I'd like to turn now to a key 2022 emphasis for Freddie Mac, and that is on increasing affordable lending opportunities for our lenders and their low and moderate income borrowers. Mike, how is Freddie Mac continuing our charter to responsibly promote equitable access to affordable housing through our mortgage purchases?

**Mike [00:11:38]** Great question, Amy. So as you know, Freddie Mac continuously works to support our overall mission, which is to provide liquidity, stability and affordability to the U.S. housing market. However, as is evident with our updated housing goals in effect for 2022, our emphasis on affordability has really moved to the front and center. We're not only focused on traditional sustainable homeownership goals, which provide support for low and moderate income borrowers, but we're also expanding our efforts to ensure we address challenges in the market related to equitable housing. With this in mind, we're working very closely with our clients on ways to help achieve these goals, and we do constantly monitor clients individual performance and contribution to our housing goals. From a pricing perspective, we work to ensure that our cash specified pay-ups are competitive and align with market levels. This is definitely a priority for us as it relates to low loan balance pay-ups, due to the high correlation between loan balance and affordability. However, as you know, the challenges that you mentioned in the current environment in regards to rapidly increasing rates, continued low housing supply and increasing housing costs continues to put pressure on housing affordability.

**Amy [00:12:45]** Yes, Freddie Mac is laser focused on pursuing all efforts to make home possible for more people. So, Brad, what observations does MIAC have from the lender community regarding affordable lending, and how can MIAC help facilitate lenders affordable lending goals?

**Brad [00:13:00]** Yeah, we've all seen the volume shrinking this year, and that's just causing originators to look for new products to make up the difference. Affordable housing, affordable lending, is probably something that was ignored, or underserved, the last couple of years, just because with record volume, every loan officer out there had 10 slam dunk deals a day they could run through LP and get an approval. So now these loans that are a little bit higher touch are being focused on because there is a population there to be served and our guys, our originators, can go out there and originate these loans. You know, as far as how we can help out, obviously talked about MOJO at the beginning of the call and we are able to put in whatever constraints we can to make sure we have the appropriate rep mix. And then, as Mike mentioned, spec payups, that's absolutely something we factor into the equation with our optimization exercise every time we do our pooling.



**Amy** [00:14:01] Well, it certainly sounds like 2022 is shaping up to be an interesting year at a minimum. Brad, thank you so much for being on the podcast today and for being a valued partner to Freddie Mac. MAIC provides an elegant, secondary marketing solution for its clients, and I encourage our listeners to reach out to Brad with any questions about MAIC offerings.

**Brad** [00:14:20] Likewise, Amy. I appreciate the opportunity to be here with you and Mike today, and I'm grateful for the partnership with Freddie Mac.

**Amy** [00:14:27] And Mike, my esteemed colleague. I appreciate you educating us on UMBS and providing a glimpse into Freddie Mac loan pricing considerations. Always a pleasure to speak with you.

**Mike** [00:14:37] Thank you, Amy, and the pleasure's all mine. And Brad, as always, it's great to work with you on our mutual clients.

**Amy** [00:14:42] And thanks to our listeners for tuning in. You're Freddie Mac's important partner in our efforts to make home possible for low and moderate income families, minority communities and other underserved populations. As always, we look forward to our continued collaboration. Make sure to look for the next installment of our Power of Partnership series soon. In the meantime, check out Freddie Mac's API integration webpage. Go to the Single-Family website at [sf.freddiemac.com](https://sf.freddiemac.com) and search API integration. You can also reach the SMA team directly via email at [smasupport@freddiemac.com](mailto:smasupport@freddiemac.com). Thanks partners. Have a great day!

**Announcer** [00:15:25] Thank you for listening to the Power of Partnership podcast under the Freddie Mac Home Starts Here podcast series. Subscribe to listen to future discussions with Freddie Mac leaders and the partners we work with to bring you the full benefits of our business relationship. Home starts here is available wherever you listen to your podcasts. We appreciate you rating, reviewing and sharing with your network.

