Testimony of Charles E. Haldeman
Freddie Mac CEO
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House Financial Services Committee
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Chairman Neugebauer, Ranking Member Capuano, and Members of this Subcommittee: thank you for inviting me to speak with you today. I am Ed Haldeman, Chief Executive Officer of Freddie Mac. I joined Freddie Mac in August 2009, almost a year after the company was placed into conservatorship by the Federal Housing Finance Agency (FHFA). I joined Freddie Mac from Putnam Investments, where I served as President and CEO for several years beginning in 2003. I have been a financial services professional for more than 35 years.

I appreciate the importance of this hearing and I thank you for inviting me to attend. This hearing covers FHFA's oversight responsibility, as both our regulator and conservator. With that in mind, I want to discuss with you from a management standpoint how we are running the company under conservatorship.

As we address the important issue of oversight of Freddie Mac and Fannie Mae, I want to make something very clear: the Freddie Mac of today is a new company with a new team and new focus. Let me provide some examples.

- ***New management team***: The management team running Freddie Mac today is not the team we had pre-conservatorship. I am the third CEO since conservatorship and 14 of our 18 management committee executives have turned over since my tenure began two years ago.

- ***New emphasis on strong credit standards:*** We are placing renewed emphasis on safety and soundness and responsible lending, putting on the books higher-quality loans, with lower loan-to-value ratios and higher credit scores. Our focus is on helping borrowers own homes that they can afford and keep.

- ***New approach to expenses:*** We take seriously our obligation to use taxpayer support efficiently and effectively, and to responsibly reduce spending wherever possible. As of September 30, 2011, we reduced annual G&A expenses by more than $120 million from 2009 levels. We also project that by the end of this year we will have reduced annual G&A by more than $150 million below 2009 levels. While we recognize members of this Subcommittee may have questions about particular expenditures, our overall efforts to reduce expenses and improve the efficiency of our operations are producing real results.

- ***New approach to the retained portfolio:*** Consistent with the terms of Treasury financial support, we have reduced the size of our retained portfolio every year in conservatorship. Its size today is almost 25 percent below its peak, and we are working with FHFA to identify ways to prudently accelerate the rate of contraction.

- ***New approach to executive salaries:*** We reduced overall compensation of the top ten percent of our new senior executive team by 40 percent. We have done this in part by eliminating some senior executive positions, filling others at lower salaries, and asking some executives to perform tasks representing multiple job responsibilities.

- ***New focus on helping families avoid foreclosure:*** We helped 575,000 financially stressed families avoid foreclosure since 2009, about 80 percent of whom have been able to stay in their homes, and we are working every day to help thousands more at-risk borrowers. At the same time, we are implementing an FHFA directive to substantially improve how servicers work with delinquent borrowers.

- ***New emphasis on leadership:*** We have developed a new culture at Freddie Mac, one that emphasizes responsible and accountable leadership. This is a particular priority of mine and I would be happy to discuss it further with the Subcommittee.

- ***All of this has contributed to significantly improved results in the quality of our new book of business:*** Our pre-conservatorship business has generated the overwhelming majority of our credit expenses. In contrast, our book of business under conservatorship -- mortgages we've purchased since 2009 -- have generated guarantee income well above credit expenses – $779 million during 2010 and $805 million through the first nine months of 2011. Serious delinquency rates, which currently exceed 10 percent for mortgages purchased during 2006-07, are about 0.25 percent for mortgages purchased from 2009-11. And even including our pre-conservatorship book of business, Freddie Mac's single-family serious delinquency rate is less than half that of the overall market.

  We have achieved this change while providing more than $1.1 trillion in critically needed mortgage liquidity since 2009. We financed homeownership and rental housing for more than 5.8 million American families since 2009 – including 1.25 million so far in 2011. We also enabled nearly 4.1 million homeowners to refinance into lower cost mortgages, saving them in aggregate about $10 billion in interest costs during the first year after refinancing.

Clearly, we could not have achieved these results without the support we receive from FHFA, Treasury and the American taxpayer. But I want to make clear that our new team uses this support to provide liquidity, help avoid foreclosures and aid in our nation's housing and economic recovery. In other words, the ultimate beneficiaries of the support Freddie Mac has received are taxpayers, homeowners, renters, and the housing finance system we serve.

Freddie Mac is run by a new management team

The management team running Freddie Mac today is not the team we had before conservatorship. We have a new CEO, chief financial officer, head of our single family business unit, head of our multifamily business unit, head of our investments business unit, interim general counsel, chief risk officer, chief compliance officer, head of human resources, and chief information officer. All of these leaders are either new to Freddie Mac or in new roles since conservatorship.[1] In fact, 14 of our 18 management committee executives have turned over since my tenure began two years ago. Our top management team also reflects Freddie Mac's commitment to diversity. We also have many new non-executive employees who have joined Freddie Mac since being placed in conservatorship.

I want to highlight for the Subcommittee the dedication and work of our employees under conservatorship. Without any assurance of a long-term career with the company, they are putting their considerable skills to work to help stabilize the housing market, continue to make mortgage credit available when no other sources of liquidity were available, reduce taxpayer losses, and, very importantly, help at-risk families avoid foreclosure. They remained focused on the company's vital housing mission and have done everything that has been asked of them. They have kept the machinery of the company running smoothly. For these and many other reasons, I am proud of the work our employees are doing for our nation.

Freddie Mac's new book of business generates positive revenue

As we have helped fulfill the nation's mortgage liquidity needs, we also have been building a strong foundation of responsible lending practices in order to produce better quality loans. Our goal is to create sustainable homeownership opportunities for America's families, ensure fewer unexpected costs for our lenders, drive better loan performance, and minimize Freddie Mac's dependence on taxpayer dollars. We believe these actions are essential to placing the housing finance system on a better foundation of responsible lending practices.

The result is that mortgages we have purchased since 2009 are of higher credit quality overall, with lower loan-to-value ratios and higher borrower credit scores, than the mortgages we guaranteed prior to 2009. Single-family serious delinquency rates,[2] which as of September 30, 2011 are at 10.54 percent for the 2006 book of business and 11.21

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[1] Some of this turnover is the result of voluntary departures of some executives, underscoring the challenges we face in attracting and retaining qualified and experienced executives and employees while under conservatorship.

[2] Defined as three monthly payments or more past due.

percent for the 2007 book of business, are only 0.41, 0.17 and 0.03 percent for the 2009, 2010, and 2011 books of business, respectively.[3]

While we continue to face losses from the pre-conservatorship book of business, our guarantee revenues on mortgages purchased from 2009-2011 exceed our credit-related expenses. During 2010, guarantee income from mortgages we purchased during 2009-2010 exceeded credit-related expenses on those loans by $779 million. Through the first nine months of 2011, guarantee income from mortgages in our 2009-2011 book of business has exceeded credit-related expenses on those loans by $805 million.

Moreover, our overall book, including our pre-conservatorship assets, is of a significantly higher quality than the market at large and far better than the subprime market. Freddie Mac's serious delinquency rate on all single-family mortgages as of September 30, 2011 is 3.51 percent. In contrast, the primary market's overall serious delinquency rate on first lien single-family mortgages was 7.89 percent – and about 13.8 percent when loans owned or guaranteed by Freddie Mac and Fannie Mae are removed from the calculation. The subprime market's serious delinquency rate, in comparison, was over 25 percent.[4]

In an appendix to this statement, we provide charts and tables further illustrating the differences between Freddie Mac's pre-conservatorship book of business and the mortgages we have purchased under conservatorship.

Freddie Mac has substantially cut overall general and administrative spending

I understand that Freddie Mac's expenditures under conservatorship are a matter of interest to this Subcommittee. Freddie Mac is mindful of the taxpayer support we have received, and we take very seriously our obligation to use this support prudently and to continue challenging ourselves to spend more efficiently. Accordingly, we have focused on cutting expenses wherever possible to reduce administrative costs without compromising our ability to manage the company safely and soundly.

As of September 30, 2011, we reduced annual G&A expenses by more than $120 million from 2009 levels. We also project that by the end of this year, we will have reduced our overall annual G&A by more than $150 million since 2009. Much of these savings have come from reducing the number of employees through restructuring and not filling some vacant positions. In 2011 alone, we expect to reduce the number of employees by 9 percent. We also have reduced and consolidated executive positions where appropriate. For example, we no longer have a chief operating officer, and we combined the chief credit officer and chief enterprise risk officer functions.

[3] Calculated based on the loans remaining in the single-family guarantee portfolio as of September 30, 2011.

[4] Overall market and subprime data as of September 30, 2011 from the National Delinquency Survey of the Mortgage Bankers Association.

The overall trend is clear: we have substantially reduced general and administrative expenses and will continue striving to do so.

Freddie Mac is helping fulfill the nation's mortgage liquidity needs

One of the principal objectives of the conservatorship has been to help ensure sufficient liquidity to fulfill the nation's housing needs. Freddie Mac supports the policy goal of attracting private capital back to the market and reducing government's role in the mortgage market over time. However, until the private mortgage market recovers, we are tasked with helping ensure that mortgage financing remains available to aid in housing market and economic recovery. As a result, Freddie Mac and Fannie Mae together continue to provide roughly two-thirds of mortgage liquidity today.

Since the start of 2009 we have provided more than $1.1 trillion in liquidity and financed homeownership and rental housing for nearly 5.8 million families. During the first nine months of 2011 alone, we purchased more than $250 billion in mortgages, financing homeownership for 1 million families and rental housing for more than 250,000 families.

We also have been tasked with helping financially strapped families reduce their mortgage costs through refinancing their mortgages. Since the beginning of 2009 we have enabled nearly 4.1 million families to take advantage of record low interest rates and refinance into lower-cost home mortgages. Savings to borrowers from refinancing are significant: the typical borrower refinancing today saves about $2,500 per year in interest costs on a $200,000 mortgage, and we estimate that in the aggregate, borrowers whose mortgages we refinanced are saving about $10 billion in interest costs during the first year after refinancing. Recently announced changes to the Home Affordable Refinance Program will enable us to help even more borrowers – including many with underwater loans – refinance into lower cost loans.

Freddie Mac is helping hundreds of thousands of families avoid foreclosure

At this critical time, foreclosure prevention remains one of Freddie Mac's top priorities. Since the housing crisis began, we have helped nearly 575,000 struggling borrowers avoid foreclosure. Of these borrowers, approximately eight out of 10 were able to stay in their homes.

Freddie Mac takes our duty to prevent avoidable foreclosures very seriously – and we have long been recognized as an industry leader in identifying and addressing delinquencies before they become foreclosures. In addition to helping borrowers through our loss mitigation tools, we have worked closely for years with national nonprofits and housing counselors to educate borrowers about foreclosure prevention and mortgage fraud. We support these efforts through a number of online resources, including an award-winning financial literacy curriculum.

Our recent efforts to help as many families as possible include:

- Paying servicers more to find a non-foreclosure solution than to foreclose.

- Participating in hundreds of foreclosure prevention workshops nationwide.

- Opening Borrower Help Centers to provide free counseling for distressed borrowers in cities especially hard hit by the foreclosure crisis.

- Partnering with nonprofits to hold direct-to-homeowner auctions of Freddie Mac-owned properties in cities across the country.

Under a directive from FHFA, we are also engaged in a Servicing Alignment Initiative (SAI) with Fannie Mae. This initiative, announced last April, responded to concerns about how delinquent mortgages were being serviced. SAI meets the conservatorship objective of assisting homeowners with alternatives to foreclosure. FHFA instructed Freddie Mac and Fannie Mae to establish a single, consistent set of procedures for servicing delinquent mortgages. The updated framework, which went into effect on October 1, prioritizes early borrower outreach, streamlines documentation requirements, simplifies mortgage modification terms and requirements, and establishes a schedule of performance-based incentive payments and penalties aimed at ensuring that servicers review foreclosure alternatives in a timely manner.

Freddie Mac uses taxpayer funds to support the nation, not to enrich private shareholders

I readily acknowledge that Freddie Mac has been able to achieve these results only because of the substantial and continued support we receive from the Treasury. Thus, as we address our expenses, it is fair for taxpayers to ask what we do with their support.

The new management team at Freddie Mac uses taxpayer support to keep the mortgage market stable, liquid and affordable and to help families avoid foreclosure. None of these funds have been used to benefit our private shareholders. In other words, the ultimate beneficiaries of the support we receive are homeowners, renters, and the housing finance system we serve.

Under the terms of our Preferred Stock Purchase Agreement with Treasury, Freddie Mac is paying dividends each quarter, returning to taxpayers $14.9 billion through September 30, 2011.

Prospects for the company's solvency

This Subcommittee has asked for our views on prospects for the company's solvency. Freddie Mac's future need for additional capital support from Treasury depends upon a number of variables.

FHFA recently reported to Congress projections about future GSE capital draws, based on assumptions about operations, loan performance, macroeconomic and financial market conditions and house prices. Under two out of three economic and housing market scenarios, FHFA projects that Freddie Mac would require no additional draws from Treasury after 2011 and would draw a cumulative $75-76 billion in taxpayer funds through 2014. When dividend payments are subtracted from the gross cumulative amount of our Treasury draws, Freddie Mac's projected cumulative net draw through 2014 under the two scenarios would drop to $36 billion. However, under a third scenario, which assumes a "double-dip" recession and further declines in house prices, FHFA estimates Freddie Mac through 2014 would require a cumulative draw of $92 billion, or a net draw of $49 billion when dividend payments are subtracted.[5]

There is significant uncertainty about our long-term financial sustainability. Depending on future economic and housing market conditions, we may request additional draws under our agreement with Treasury in future periods. Moreover, our dividend obligation to Treasury will be a driving force behind future draw requests. Although we may experience period-to-period variability in earnings and comprehensive income, it is unlikely that we will regularly generate net income or comprehensive income in excess of the annual dividends that we must pay to Treasury over the long term.

To understand why this is so, it is important to recognize the context of the financial support we receive from Treasury, especially as it relates to the prospects for the company's solvency.

Federal support of Freddie Mac often is characterized as a bailout, and much of the public anger directed toward the company appears rooted in a belief that our equity shareholders and former executives are benefiting from taxpayer funds. In fact, the owners of Freddie Mac – the common and preferred shareholders – were not bailed out. On the contrary, as former Treasury Secretary Henry Paulson stated, the decision by the Bush Administration to place Freddie Mac and Fannie Mae into conservatorship "wasn't a bailout… [the companies'] common and preferred shareholders were being wiped out."[6] Thus, not only have our private shareholders not received any of the funds the company has received to date from the Treasury, their equity investments in Freddie Mac have fallen to less than one percent of previous values, and FHFA as conservator stands in their shoes.

[5] Projections of the Enterprises' Financial Performance, October 2011, pgs. 4-5. Under the terms of Freddie Mac's Preferred Stock Purchase Agreement with Treasury, dividend payments are not deducted from the amount of prior draws outstanding. FHFA's report expressly states: "The projections reported here are not expected outcomes. They are modeled projections in response to "what if" exercises based on assumptions about Enterprise operations, loan performance, macroeconomic and financial market conditions, and house prices. The projections do not define the full range of possible outcomes. Actual outcomes may be very different. This effort should be interpreted as a sensitivity analysis of future draws to possible house price paths."

[6] Henry M. Paulson, Jr., *On The Brink: Inside the Race to Stop the Collapse of the Global Financial System*, Hachette Book Group, New York, 2010, pg. 14.

Furthermore, the terms of Freddie Mac's Preferred Stock Purchase Agreement with Treasury were explicitly designed to make it difficult if not impossible for the company to emerge from conservatorship and for shareholders to recoup any value from their investments. Freddie Mac and Fannie Mae are required to pay a ten percent dividend on funds received. As former Treasury Secretary Paulson and other Treasury officials from the Bush Administration have stated, this was by design to ensure that the GSEs could not emerge from conservatorship and that shareholders would not benefit from federal support.[7] In practice, the dividend is set at a level resulting in Freddie Mac paying more than 100 percent of our profits to Treasury over the long term, necessitating additional requests for Treasury funds.

Let me be clear: I am neither criticizing this arrangement, suggesting that the quarterly dividend is the sole reason for our continued need for Treasury support, nor asking Congress to reduce or eliminate our dividend obligation. This was a public policy decision made at the highest levels during a time of crisis. Moreover, I want to emphasize our appreciation for the support we have received. I raise the issue, however, because our critics point to any draw as evidence of current mismanagement. Given the structure and purpose of the draw, that is not a fair assertion.

Housing finance reform

Housing finance reform, including determining the long-term future of the GSEs, poses a set of complex issues and challenges for policymakers. From my perspective as Freddie Mac's CEO, I believe addressing these issues sooner rather than later would be in the best interests of Freddie Mac, the housing finance system, and the nation as a whole.

As Acting Director DeMarco has stated on several occasions, conservatorship is not a viable long-term state of being for the GSEs. Continued lack of clarity about our future is harmful to our companies and poses heightened risks to taxpayers. Freddie Mac is engaged in a wide array of business activities relating to the underwriting, origination, securitization and servicing of home mortgages. To run our business safely and soundly – and protect taxpayers' investment in our company – we need highly skilled and experienced executives and employees. Because of our current status and uncertain future, it is increasingly difficult for us to retain such people, let alone successfully recruit new professionals.

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[7] In a May 12, 2011 guest post on the House Financial Services Committee blog, former Treasury Assistant Secretary Philip Swagel wrote, "In recent quarters, the large dividend payments on the government-owned preferred shares have given rise to the seemingly unusual situation in which Fannie and Freddie are now profitable in their operations but usually still make net losses because of the payments to the government. As a result, the two firms take more government capital in order to turn around and pay some of the money back to the Treasury as dividends. . . This is by design. . . [Shareholders] got exactly what happens to shareholders of insolvent firms: a loss of their investment."

Enacting housing finance reform also will hasten the return of private capital to the residential mortgage market by providing investors with greater clarity about the structures, rules, and risks of mortgage investment.

Conclusion

In closing, let me reiterate that I understand the concerns underlying this Committee's hearing today. Under conservatorship, we have significantly reduced overall administrative spending and executive compensation. We have a new senior management team providing leadership and direction for an outstanding group of employees. Together, they are keeping borrowers in their homes, building a quality book of new business, and keeping the housing market liquid and stable during an ongoing economic crisis. We are being effective stewards of taxpayer support by using that support to fulfill our mission.

Thank you for giving me this opportunity to testify today.

APPENDIX: Freddie Mac's 2009-11 vs. pre-2009 books of business

As we have helped fulfill the nation's mortgage liquidity needs, we also have substantially improved the credit quality of the mortgages we have purchased since entering conservatorship. While Freddie Mac continues to experience credit losses from the pre-2009 book of business, the 2009-2011 book has generated guarantee income greater than credit expenses.

The table below summarizes key data on single-family mortgages Freddie Mac guaranteed as of September 30, 2011.[8] It shows that mortgages in our single-family guarantee portfolio originated during 2009-2011 overall are of higher credit quality with lower loan-to-value ratios, higher borrower credit scores and significantly lower serious delinquency rates than the mortgages in our guarantee portfolio that were originated prior to 2009. Today 50 percent of the single-family mortgages we guarantee are from the 2009-2011 book of business.

Single-Family Credit Guarantee Portfolio Data by Year of Origination, as of September 30, 2011

Year of Origination	% of Portfolio	Average Credit Score	Original LTV Ratio	Current LTV Ratio	Current LTV Ratio >100%	Serious Delinquency Rate
2011	10 %	752	71 %	70 %	5 %	0.03 %
2010	20	755	70	70	5	0.17
2009	20	754	68	72	5	0.41
2008	7	726	74	91	33	5.20
2007	10	706	77	112	59	11.21
2006	7	710	75	111	54	10.54
2005	8	717	73	95	37	6.20
2004 and prior	18	720	71	60	9	2.63
Total	100 %	735	72	79	19	3.51

The next table shows information about net amount of management and guarantee income and credit expenses by year of origination for our single-family guarantee portfolio for the first nine months of 2011, segmented by the year of origination of the mortgages we guarantee.[9] It shows that while credit-related expenses exceed

[8] Reproduced from Table 2 on page 5 of Freddie Mac's SEC Form 10-Q disclosure for the third quarter of 2011, filed on November 3, 2011.

[9] Reproduced from Table 14 on page 29 of Freddie Mac's SEC Form 10-Q disclosure for the third quarter of 2011, filed on November 3, 2011. We currently believe our management and guarantee fee rates for guarantee issuances after 2008, when coupled with the higher credit quality of the mortgages within our new guarantee issuances, will provide management and guarantee fee income, over the long term, that exceeds our expected credit-related and administrative expenses associated with the underlying loans. Nevertheless, various factors, such as continued high unemployment rates or further declines in home prices, could require us to incur expenses on these loans beyond our current expectations. See Freddie Mac's SEC Form 10-K for the year ended 2010 and SEC Form 10-Q for the third quarter of 2011, filed on November 3, 2011, for a more complete listing of Risk Factors.

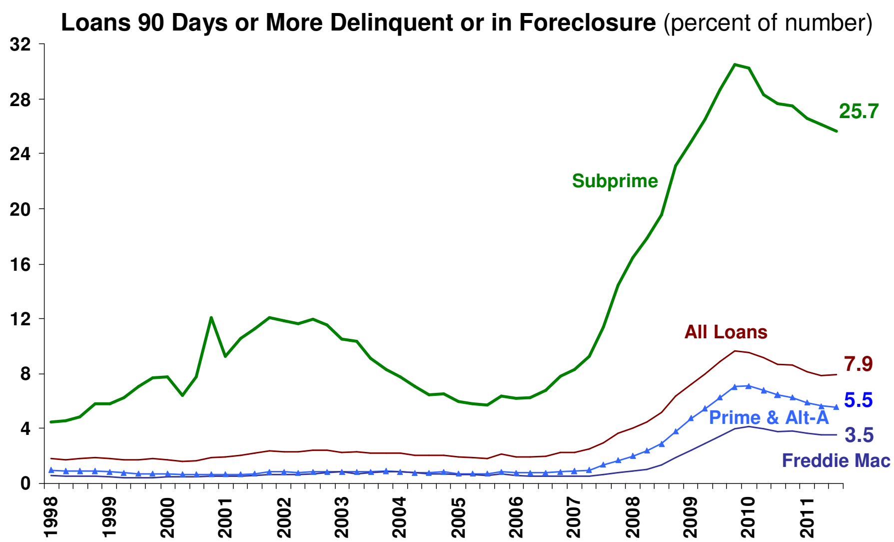
management and guarantee income for the pre-2009 book of business, through the first nine months of 2011 management and guarantee income from mortgages in our 2009-2011 book of business has exceeded credit-related expenses by $805 million.

Segment Earnings Composition — Single-Family Guarantee Segment, January 1-September 30, 2011

Year of origination	Management and Guarantee Income	Credit Expenses	Net Amount
		(in millions of $)	
2011	$ 202	$ (40)	$ 162
2010	555	(199)	356
2009	498	(211)	287
2008	292	(879)	(587)
2007	283	(3,320)	(3,037)
2006	172	(2,483)	(2,311)
2005	194	(1,525)	(1,331)
2004 and prior	435	(1,039)	(604)

This next table compares Freddie Mac serious delinquency rates with those of the overall market, the prime market, and the subprime market. While Freddie Mac's numbers include both the pre-2009 and 2009-2011 books of business, this chart shows that even with mortgages purchased prior to conservatorship, Freddie Mac serious delinquency rates are more than two percentage points lower than the prime market, less than one-half that of the overall market, and less than one-seventh that of the subprime market.[10]

Single-Family Serious Delinquency Rates: Freddie Mac vs. the Market



[10] Overall market and subprime data as of September 30, 2011 from the National Delinquency Survey of the Mortgage Bankers Association. Serious delinquency is defined as three monthly payments or more past due or in the process of foreclosure, as reported to us by our servicers.