Freddie Mac Announces Tougher Subprime Lending Standards To Help Reduce The Risk Of Future Borrower Default

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Contact: **corprel@freddiemac.com**
or (703) 903-3933

Company Also to Develop Model Subprime Mortgages

McLean, VA – Freddie Mac (NYSE: FRE) today announced that it will cease buying subprime mortgages that have a high likelihood of excessive payment shock and possible foreclosure. First, Freddie Mac will only buy subprime adjustable-rate mortgages (ARMs) – and mortgage-related securities backed by these subprime loans – that qualify borrowers at the fully-indexed and fully-amortizing rate. The goal is to protect future borrowers from the payment shock that could occur when their adjustable rate mortgages increase.

Second, the company will limit the use of low-documentation underwriting for these types of mortgages to help ensure that future borrowers have the income necessary to afford their homes. In addition, Freddie Mac will strongly recommend that mortgage lenders collect escrow accounts for borrowers' taxes and insurance payments.

In keeping with its statutory responsibility to provide stability to the mortgage market, Freddie Mac will implement the new investment requirements for mortgages originated on or after September 1, 2007, to avoid market disruptions.

To help lenders better serve borrowers with impaired credit, Freddie Mac is also developing fixed-rate and hybrid ARM products that will provide lenders with more choices to offer subprime borrowers. For example, in contrast to the payment structures of many of today's "2/28" ARMs, Freddie Mac's new hybrid ARMs will limit payment shock by offering reduced adjustable rate margins; longer fixed-rate terms; and longer reset periods. Freddie Mac will require originators to underwrite these products at the fully indexed and amortizing rate. The company plans to commit significant capital to purchasing these loans into its retained portfolio.

"Freddie Mac has long played a leading role in combating predatory lending and putting families into homes they can afford and keep," said Richard F. Syron, chairman and CEO of Freddie Mac. "The steps we are taking today will provide more protection to consumers and enhance the level of underwriting standards in the market."

Freddie Mac's new requirements cover what are commonly referred to as 2/28 and 3/27 hybrid ARMs, which currently comprise roughly three-quarters of the subprime market. Specifically, the company is requiring that borrowers applying for these products be underwritten at the fully- indexed and amortizing rate, as opposed to the initial "teaser" rate. The company also will limit the use of low-documentation products in combination with these loans. For example, the company will no longer purchase "No Income, No Asset" documentation loans and will limit "Stated Income, Stated Assets" products to borrowers whose incomes derive from hard-to-verify sources, such as the self-employed and those in the "cash economy." There will be a reasonableness standard for stated incomes.

In addition, Freddie Mac will require that loans be underwritten to include taxes and insurance and will strongly recommend that the subprime industry collect escrows for taxes and insurance, as is the norm in the prime sector. Because the maintenance of escrow accounts requires significant infrastructure and is not widely used in the subprime sector, Freddie Mac does not believe it is practical to unilaterally mandate it as a purchase requirement at this time.

"Escrowing for taxes and insurance clearly provides an added layer of consumer protection," Syron said. "It is our hope that this universal practice in prime lending today becomes the universal practice in subprime lending tomorrow."

As a secondary mortgage market investor, Freddie Mac works closely with its customers in the primary market to combat predatory lending and promote foreclosure prevention. The higher underwriting standards and model subprime products announced today build on Freddie Mac's long-term leadership in this arena. The company's previously implemented anti-predatory lending practices include:

- refusing to do business with institutions that engage in predatory lending practices;
- not investing in mortgages that require mandatory arbitration;
- refusing to invest in high-rate or high-fee mortgages as defined by the Home Ownership and Equity Protection Act of 1994 (HOEPA), as well as mortgages with single-premium credit insurance or subprime mortgages with prepayment penalty terms of more than three years; and,
- requiring that lenders provide complete credit information about borrowers to all the credit bureaus and reporting agencies.

Freddie Mac also promotes consumer education through programs such as *CreditSmart®*, its award-winning financial education curriculum, *Don't Borrow Trouble*, an anti-predatory lending campaign, as well as its many foreclosure prevention initiatives. These programs help borrowers understand the mortgage origination process, their housing finance options, and how to avoid abusive lending practices.

Freddie Mac is a stockholder-owned company established by Congress in 1970 to support homeownership and rental housing. Freddie Mac fulfills its mission by purchasing residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage-related securities and debt instruments in the capital markets. Over the years, Freddie Mac has made home possible for more than 50 million families.

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