Statement of
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Before the
House Oversight and
Government Reform Committee

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Chairman Issa, Ranking Member Cummings, and members of this Committee, thank you for inviting me to appear 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 welcome the opportunity to address your questions and concerns about compensation for our executive team – which, to be clear at the outset, is not the same team that directed Freddie Mac's operations prior to conservatorship. I want to provide the Committee all the facts as you consider this important issue.

Our nation is now in the fourth year of recession, with nearly one in ten Americans still out of work. Millions of families have lost their homes, and millions more remain at risk of foreclosure. Given the widespread economic hardship facing so many in our nation, I fully understand why the American people are upset about executive compensation in general, particularly about the levels of pay at companies that have received substantial financial support from the federal government during the past few years, including Freddie Mac and Fannie Mae.

At the same time, my number one objective since becoming CEO in August 2009 has been to keep the company functioning and able to carry out our housing mission. When the Freddie Mac board of directors and FHFA Director asked me to accept the CEO role, they emphasized that it was absolutely critical that we keep the machinery of the company running smoothly in order to support the recovery of the mortgage market and the national economy. FHFA and Treasury were particularly concerned about our ability to fulfill our mission if we could not attract and retain competent and experienced executives and employees – a very real and legitimate concern given the current status of Freddie Mac and its highly uncertain future.

It was clear that if Freddie Mac suffered an exodus of our most highly experienced and talented employees, our ability to fulfill our top two objectives under conservatorship -- making sure mortgage funds remained available and helping financially stressed families avoid foreclosure – would be greatly hindered. Failure to achieve these objectives would undermine market stability and cause harm to more families for a longer period of time.

So we focused on stabilizing the company, giving particular attention to developing a compensation program that would strike a proper balance between retaining talented executives and employees while recognizing the market expectations for an enterprise receiving substantial federal financial support to ensure our continued existence. As discussed below, our compensation program was developed in coordination with FHFA (and with Treasury's input and review) in the months following our placement into conservatorship. Its purpose was, and continues to be, to attract and retain qualified professionals who are critical to our continued ability to support the mortgage market while policymakers determine long-term reform, including the future of Freddie Mac. While we must offer competitive compensation, we have taken several measures to reduce overall compensation levels, including reducing the number of executive positions, reducing compensation levels for the executive management team absent a substantial increase in operating responsibilities, and paying newly hired executives at lower levels than their predecessors. The result is that we have reduced compensation for the top 10 percent of our management team by approximately 40 percent since entering conservatorship.

I also want to highlight for the Committee's attention the dedication and work of our employees under conservatorship. Our employees have endured several major management changes in a short time, lost nearly all of the value of their personal holdings of Freddie Mac stock,[1] lost any assurance of a long-term career with the company, and have been working under the burden of continuing public condemnation of the company.

These people, it is important to note, did not make the business decisions that led to conservatorship.

At the same time, they have been asked by policymakers to stay on the job and put 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, and, very importantly, help at-risk families avoid foreclosure. To the credit of our new leadership team and our employees, they have performed admirably to meet these expectations. 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 running smoothly.

To illustrate a few of our achievements, since the beginning of 2009, Freddie Mac has

- Provided more than $1.1 trillion to finance homeownership and rental housing for more than 5.5 million American families.

- Enabled 3.8 million homeowners to take advantage of record low interest rates and refinance into lower cost mortgages.

- Helped approximately 575,000 financially stressed families avoid foreclosure -- and we continue working every day to help many thousands more at-risk borrowers.

For these and many other reasons, I am proud of the work our employees are doing for our nation.

It is fully appropriate for policymakers to consider how we should be compensated for the work we are doing. As discussed below, I believe that question would be best

[1] Equity-based compensation comprised a significant portion of many employees' overall compensation in the years before conservatorship. Employee holdings of Freddie Mac stock often were set aside as savings for retirement or college funds for their children.

addressed as part of comprehensive reform of the GSEs and the housing finance system. However, I believe it would be entirely counterproductive to dramatically revise compensation absent that reform, which would amount to changing the rules on our people midstream. It would make it that much harder for us to retain the people we have and attract qualified people to replace them during this time of transition to a new mortgage finance system. Without sufficient competent and experienced employees, our ability to continue supporting the mortgage market and the broader economic recovery would be impaired, which in turn would expose taxpayers to additional future losses.

Freddie Mac is a different company under conservatorship

The Freddie Mac of today is not the company that existed pre-conservatorship. The Treasury Department, FHFA and we have made a number of changes that address the very concerns underlying this hearing.

First, when Freddie Mac was placed into conservatorship, FHFA removed the top executives it deemed most responsible for the company's failure. I was not here – I am, in fact, the third CEO since conservatorship began – so I am not passing judgment on the previous executive team. However, as FHFA Acting Director Edward DeMarco recently said in a letter to U.S. Senators, these individuals "left the companies, and no severance or golden parachutes were permitted."[2]

Second, we have virtually an entirely new senior management team in place. 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 people are either new to Freddie Mac or in new roles since conservatorship. In fact, 14 of our 18 management committee members have turned over since my tenure began. Some of this turnover resulted from voluntary departures – an indication of the difficulties we face in retaining qualified top executives given the company's current status and uncertain future. We also have many new employees since being placed into conservatorship, who, like the longer-term employees, embrace our housing mission. This is a new team, with a new focus.

Third, we have cut compensation levels for the top 10 percent of our management by 40 percent since conservatorship. I know that many of you feel strongly that we should be paying less than we did pre-conservatorship. Let me assure you, we are. We not only cut total executive compensation levels significantly, we seek to pay less compensation to newly hired executives than their predecessors made. We also have reduced and consolidated 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.

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[2] Letter from FHFA Acting Director Edward DeMarco to U.S. Senators, November 10, 2011 ("DeMarco letter")

As a result, the 15 highest paid people at Freddie Mac today as a group receive less compensation than the top 15 received a decade ago. Moreover, most of the compensation paid to executives today is deferred and based on a combination of individual and corporate performance. Most of what is being characterized as "bonuses" for executives is in fact deferred base pay from prior periods of service.

With regard to my own compensation, it is set by a committee of independent members of our Board of Directors, in consultation with and subject to FHFA's approval, without my involvement or input. When I came aboard as Freddie Mac's CEO in August 2009, neither the level of my compensation nor its structure had yet been finalized. I was on the job four months before my compensation was fully determined in December 2009.

Fourth, we have cut annual general and administrative expenses by more than $120 million since 2009. We have sought to cut expenses wherever possible to reduce administrative costs, support our conservator's duty to conserve and preserve the company's assets, and be good stewards of taxpayer dollars.

Finally, and perhaps most important for taxpayers, we have substantially improved the credit quality of our book of business since entering conservatorship. On the whole, the mortgages we guarantee today are of higher credit quality with lower loan-to-value ratios than the mortgages we guaranteed prior to conservatorship. While we continue to face losses from the pre-conservatorship book of business, our revenues on current business exceed our credit expenses. 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. For example, the primary market's serious delinquency rate on first lien single-family mortgages is 7.85 percent, and the subprime market's serious delinquency rate is over 26 percent. Freddie Mac's single-family serious delinquency rate, in contrast, is 3.51 percent.[3]

Freddie Mac compensates appropriately under conservatorship

After Freddie Mac was placed into conservatorship, our senior management and Board of Directors worked with FHFA to revise our executive compensation policies to ensure we had an appropriate structure in place. These policies have been in place since 2009 and were approved by FHFA, which retains ultimate decisionmaking authority, after extensive consultation with Treasury. Compensation for our top executives, including myself, is reported publicly each year in our SEC Form 10-K disclosure, and, as required by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, a report on overall executive compensation is provided to the Senate Banking Committee and House Financial Services Committee annually.

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[3] Overall market and subprime data as of June 30, 2011 from the National Delinquency Survey of the Mortgage Bankers Association. Freddie Mac data as of September 30, 2011. Serious delinquency is defined as three monthly payments or more past due.

Pursuant to best practices adopted by the Compensation Committee of the Board of Directors ("the Compensation Committee"), we have implemented a well-documented and governed process that guides the executive compensation review and decision process:

- The Compensation Committee consists of independent directors approved by FHFA, with no management representation. It determines Target Total Direct Compensation ("Target TDC") levels for top executives by reviewing compensation data for comparable positions and receiving guidance from its independent compensation consultant.

- Compensation data comes from the Comparator Group, which consists of companies that are either in a similar line of business or are otherwise comparable for purposes of recruiting and retaining individuals with the requisite skills and capabilities to effectively manage and run our business. The Compensation Committee, with the aid of its compensation consultant, selects companies to include in the Comparator Group each year. The current Comparator Group includes 19 companies.

- In establishing Target TDC levels for our top executives, the Compensation Committee uses as a guideline the market median, or 50th percentile, of the total direct compensation paid to comparable positions at Comparator Group companies. However, to comply with a December 16, 2010 FHFA directive requiring the company to maintain individual salaries and wage rates at 2010 levels for 2011, absent a promotion or a significant change in responsibilities, the Compensation Committee set Target TDC levels for 2011 at or below Target TDC levels for 2010.

The Compensation Committee presents its recommendations to FHFA, which are subject to review and approval by FHFA, in consultation with Treasury. As stated above, this process has led to a 40 percent reduction in compensation since conservatorship for the top 10 percent of our management team, and our top 15 executives today receive less compensation as a group than the top 15 received a decade ago.

Freddie Mac faces significant challenges in attracting and retaining employees

We are finding it increasingly difficult to retain critical employees and attract people with the skills and experience we need. We cannot offer equity-based compensation, which is both common in our industry and provides a key incentive for employees to stay with the company. Given our current status, we cannot offer the prospects of even medium-term employment, much less long-term. And continued public condemnation of our company and its employees creates yet another obstacle to hiring and retaining the talent we need.

Because Freddie Mac is a monoline company buying and guaranteeing home mortgages, our business may seem simple. But in reality, we are operating a very complex enterprise engaged in a wide array of business activities, and on a very large scale. Successfully carrying out these activities requires employees with specialized skills and experience.

To fund our mortgage purchases – more than $250 billion during the first nine months of 2011 – Freddie Mac creates a variety of capital markets securitization structures and issues thousands of single class and multiclass mortgage-backed securities each year. Highly experienced and talented personnel are needed to carry out the mortgage securitization process; manage operational, interest rate, prepayment and other risks relating to mortgage securitization and investment; and manage business dealings with hedging counterparties and the firms with which we conduct securitization business.

Freddie Mac works with more than 2,000 single-family mortgage sellers and servicers throughout the nation in the day-to-day operation of our business. Our single-family business units are responsible for the development, negotiation and implementation of contracts that outline specific terms for the loans Freddie Mac will purchase. They also monitor and enforce our standard underwriting requirements and seller/servicer compliance with representations and warranties. On the multifamily side of our business, we have a separate team operating under a completely different business model, which requires property-specific underwriting, different securities market executions and specialized loss mitigation efforts.

We also employ an extensive "back office" of operations and servicing professionals who manage the nearly 12 million home mortgages we own or guarantee. On a monthly basis, we process more than 14 million servicing transactions, most of which are borrower payments our servicers have passed through to us, which we in turn pass through to investors in our securities. Given the enormous volume and scale of these transactions, we need employees skilled in processing, managing, monitoring and providing technology support to this critical process.

To help at-risk borrowers avoid losing their homes to foreclosure, we have developed a team of professionals experienced in working with not only the broad spectrum of foreclosure alternatives (including loan modifications, short sales, and other related types of workouts), but also in coordinating efforts with servicers and working with borrowers directly. Similarly, we have a team highly experienced in managing, marketing, and selling foreclosed properties.

Finally, we have teams of professionals in information technology, accounting, financial analysis and modeling, legal support, compliance and various other areas of the company whose specialized expertise is vital to the everyday management of our business.

We have to attract and retain the type of talent that can perform all of these functions on a par with their counterparts in banking and securities firms. To do otherwise would put the enterprise, the mortgage market and taxpayers' dollars at risk. Even in midst of the recession, there is a lot of demand for the skills of our employees, and we already have lost many of them. Voluntary attrition rates for high performing employees have risen markedly since we were placed into conservatorship.

Attracting qualified senior executives is particularly hard. Under conservatorship, we remain an SEC-registered company and thus are subject to all SEC disclosure regulations and Sarbanes-Oxley requirements. Like executives at any large public company, Freddie Mac executives face significant potential liability arising from these and other sources. Additionally, we operate in an environment today in which virtually every business decision is closely scrutinized and subject to public criticism. Many executives are unwilling to accept these risks for less than what they could earn elsewhere.

In my view, cutting compensation at this time would only exacerbate these problems by driving away even more employees. This would greatly reduce the value of taxpayer investment in our company. It also would place at significant risk our ability to manage $2.2 trillion in mortgage assets taxpayers are supporting, to continue providing liquidity and support to the mortgage market, and to continue improving our operations and reducing costs and credit losses. It would needlessly destabilize the company, endanger the progress we have made, and expose taxpayers to further losses.

Taxpayer support

Much of the concern underlying the compensation discussion arises from the financial support Freddie Mac receives from Treasury. For this reason, I would like to explain what we do with those funds.

Freddie Mac uses taxpayer funds to support the nation

Freddie Mac uses the support we receive to keep the mortgage market stable, liquid and affordable and to help families avoid foreclosure.

Since the start of 2009, our single family employees and our multifamily employees have worked to provide more than $1.1 trillion in mortgage liquidity, financing housing for nearly 5.5 million families. Together with the employees of Fannie Mae, our employees help provide two-thirds of mortgage funding today.

Also since the start of 2009, Freddie Mac has helped approximately 575,000 families avoid foreclosure. We have worked with servicers to improve their performance and provide greater assistance to borrowers. Our outreach team has traveled to hundreds of events around the country and sat across the table from thousands of families, helping them understand their options and, where possible, keep their homes.

We know the hardships families face, the confusion and the fear. Our people work with families who are suffering -- disempowered by lost jobs, a crushing debt burden and a process that is often unfamiliar to them. Our people work with them every day -- thousands each year -- trying to find some alternative to foreclosure. We also work with you, members of Congress and your staff members, who are also trying to help those families. I know there is so much more that Freddie Mac and everyone in the industry must do, but I am proud of the focus and determination of those employees.

Also since the beginning of 2009, we have enabled 3.8 million homeowners to take advantage of record low interest rates and refinance into lower cost mortgages. Recent changes to the Home Affordable Refinance Program will enable us to help even more borrowers refinance into lower cost loans – including many with underwater loans.

Misconceptions about taxpayer support

Former Treasury Secretary Henry Paulson stated that 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."[4] Our private shareholders have 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 they have lost their shareholder rights in the company.

Other companies received federal support to enable them to emerge as viable companies. Freddie Mac, in contrast, receives support only to enable our continued operations until a new secondary market can take our place.

Let me be clear: I am not criticizing this decision, which was 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 to make clear that the funds we receive are not used to enrich private shareholders.

Compensation should be modified in connection with broader secondary mortgage market reform

When I took this job over two years ago, it was my sincere hope that by this time, all of us would know what the mortgage market of the future would look like and I could help guide Freddie Mac through the transition. No one is more disappointed than I am that we are not there yet.

It is fully appropriate to revisit the GSE compensation structure in connection with broader reform. As Acting Director DeMarco said in his letter to Senators, "[taking] action to provide a clear path forward to end the conservatorships and reduce the taxpayer exposure to the mortgage market. . . is the only way to truly resolve this matter."[5]

It would be counterproductive, however, to dramatically revise compensation absent broader secondary mortgage market reform. While there is much disagreement over how to reform the housing finance system, there is one thing that all sides in the debate seem to agree upon: regardless of the new secondary market we create, there has to be a smooth transition from the status quo to that future state if we are to properly support the housing market and economy as they recover. Dramatically changing compensation now

[4] 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.

[5] DeMarco letter, pg. 2.

would directly undermine our ability to achieve this objective. In particular, legislatively forcing employees to forfeit compensation they had earned in prior years but had not yet been paid under the vesting terms of our compensation program will simply compel them to leave the company.

As Acting Director DeMarco recently wrote to Senators, FHFA needs "to ensure that the companies have people with the skills needed to manage the credit and interest rate risks of $5 trillion worth of mortgage assets and $1 trillion of annual new business that the American taxpayer is supporting."[6]

Conclusion

In closing, let me reiterate that I understand the concerns underlying this Committee's hearing today, and I understand the anger and profound concerns expressed by many policymakers and taxpayers. Under conservatorship, we have significantly reduced executive compensation and overall administrative spending. But we have done it in a way that does not disrupt the functioning of our company. We have a new senior management team supported by an outstanding group of employees. Together, they are keeping borrowers in their homes, creating a quality book of new business, and keeping the housing market liquid and stable during an economic crisis. We continue to be effective stewards of taxpayer support by using that support to fulfill our mission.

I ask this Committee and Congress to avoid taking actions that are likely to significantly disrupt our company, place at risk the progress we have made, and quite possibly delay the housing market and economic recovery we all want to see.

Thank you for giving me this opportunity to testify today.

[6] DeMarco letter, pg. 2.

Charles E. "Ed" Haldeman, Jr.
Chief Executive Officer

Charles E. "Ed" Haldeman, Jr. is chief executive officer of Freddie Mac, a publicly-traded company that is the second largest source of mortgage financing in the United States and a leader in the nation's efforts to keep families in their homes during the nation's current housing crisis. Haldeman's leadership in helping to support the nation's housing and economic recovery is why Bloomberg's Businessweek named him one of their "50 Most Powerful People in Real Estate" in March 2010.

Haldeman has 35 years of experience in finance and as a corporate leader. He joined Freddie Mac from Putnam Investments where he served as Chairman of Putnam Investment Management, LLC, the investment advisor for the Putnam Funds, from July 2008 until June 30, 2009. Prior to that, he served as president and chief executive officer of Putnam Investments, a position to which he was appointed in 2003 and charged with reorganizing the business and improving business policies and compliance following a series of probes into the industry's business practices. Based on that success, *CFA Magazine* named him "One of the Most Influential CFA Institute Members" in December 2006, citing his personal commitment to fiduciary duty, his work to restore Putnam's reputation and his creation of an organizational culture that reinforced trust in the firm. Haldeman also spearheaded the sale of Putnam Investments to Power Financial Corporation in January 2007.

A member of the Putnam Funds' Board of Trustees from 2004 - 2009, Haldeman was president of the Putnam Funds from 2007 - 2009. He joined Putnam Investments in 2002 as co-head of the investment division. Putnam is one of the world's largest mutual fund administrators, with more than $100 billion in assets under management.

Prior to joining Putnam, Haldeman served as chairman and chief executive officer of Delaware Investments, and as president and chief operating officer of United Asset Management Corporation (UAM).

Haldeman earned an M.B.A. from Harvard Business School, where he was a Baker Scholar, a J.D. *cum laude* from Harvard Law School, and an A.B. *summa cum laude* from Dartmouth College. He holds a Chartered Financial Analyst (CFA) designation. Haldeman was chairman of the Board of Trustees of Dartmouth College from 2007 – 2010. He formerly served on the Board of Governors of the Investment Company Institute and the Investment Counsel Association of America.

Haldeman and his wife, Barbara, have three children.

Freddie Mac was established by Congress in 1970 to provide liquidity, stability and affordability to the nation's residential mortgage markets. Freddie Mac supports communities across the nation by providing mortgage capital to lenders. Over the years, Freddie Mac has made home possible for one in six homebuyers and more than five million renters.

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