



# Ninth Annual LARIBA Symposium

## “Freddie Mac’s Role in the U.S. Housing Finance System”

James F. Carey, Director  
Freddie Mac



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*Every Step of the Way*



## Freddie Mac’s Role – Background

- Chartered by congress in 1970
- Transitioned to publicly owned corporation in 1989
- Links mortgage origination market with capital market
- Helps finance 1 in 6 American Homes



## ***Freddie Mac in 2001***

- Overall U.S Mortgage Origination Volume was 2.1 Trillion
- Freddie Mac's Single Family Purchase Volume was \$384B
- Volume was driven by high refinance volume with historically low rates

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## ***Brief History of Freddie Mac***

- In 1960's and 1970's the U.S Housing Finance System was regional in scope
- Mortgage capital availability and interest rates varied by region
- Thrift Industry was the primary source of capital
- In the 1980's housing policy makers recognized the need for a broad financial base for the U.S. housing finance system – The Secondary Market developed

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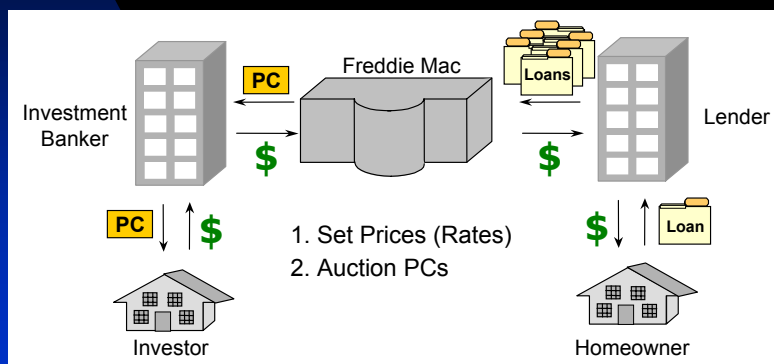
## Freddie Mac – Business Models

- Securitization – Buying Loans for Cash
  - ◆ Loans can be sold on individual basis
  - ◆ Approximately 20% of our annual business
- Securitization – Swapping Loans for a Participation Certificate (PC)
  - ◆ Minimum Pool \$1million
  - ◆ Approximately 80% of our annual business

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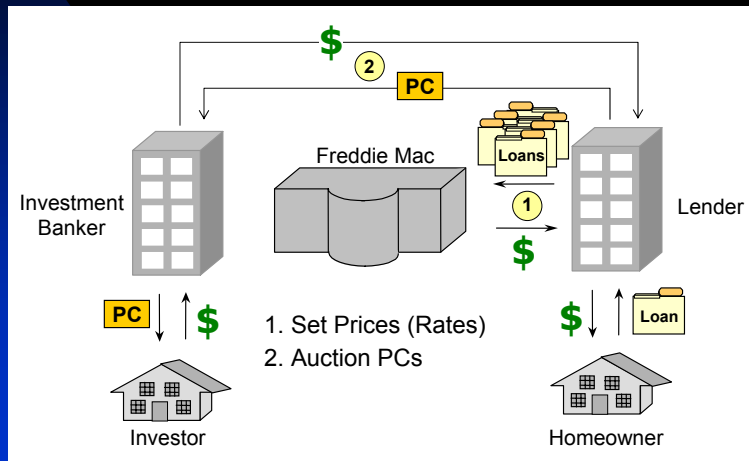
## Securitization - Buying Loans for Cash



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## Securitization - Swapping Loans for a Participation Certificate (PC)



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## Freddie Mac's Vision

“Tap the vast potential of the worldwide capital markets to finance housing in America make the cost of credit as low as an efficient market can make it, wring unnecessary costs and barriers to housing finance system and put people into homes they can afford and keep”

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## “Freddie Mac’s Role in Financing Muslim Homeowners”

Saber Salam, Vice President  
Freddie Mac



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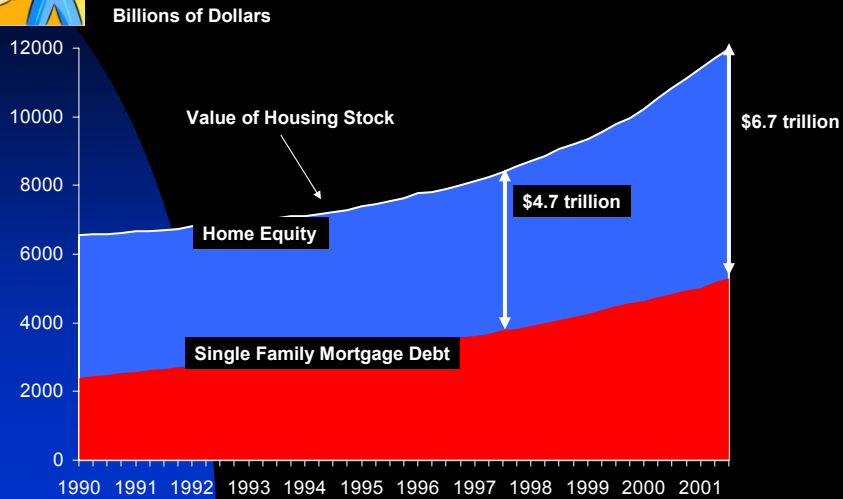


## Home Financing in America

- Homeownership is an American Dream and the fabric of strong and vibrant communities.
- Home equity is a significant source of wealth accumulation for American families.
- Housing is a major sector of the U.S. Economy.
- Home financing will remain strong in the coming decade and financing costs remain near 30 year lows



## Home Equity Grew \$2 Trillion Over Four Years

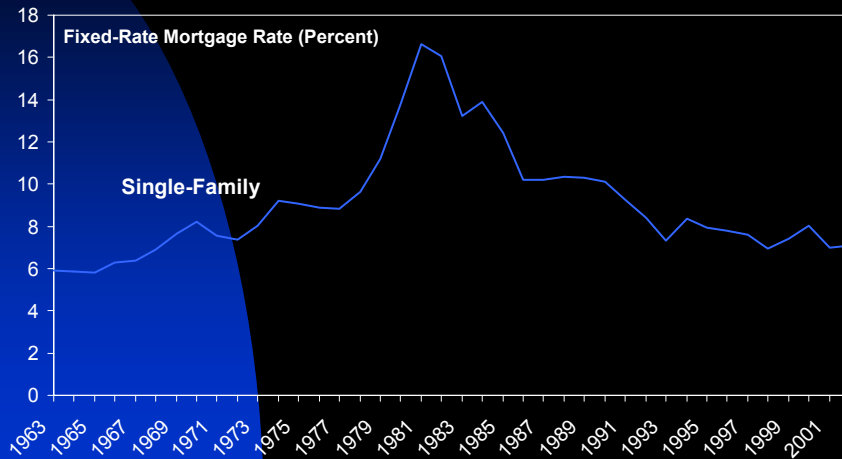


Source: Board of the Governors of the Federal Reserve System

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## Home Financing Costs Are at Lowest Level in 30 Years



Source: Freddie Mac, Federal Housing Finance Board

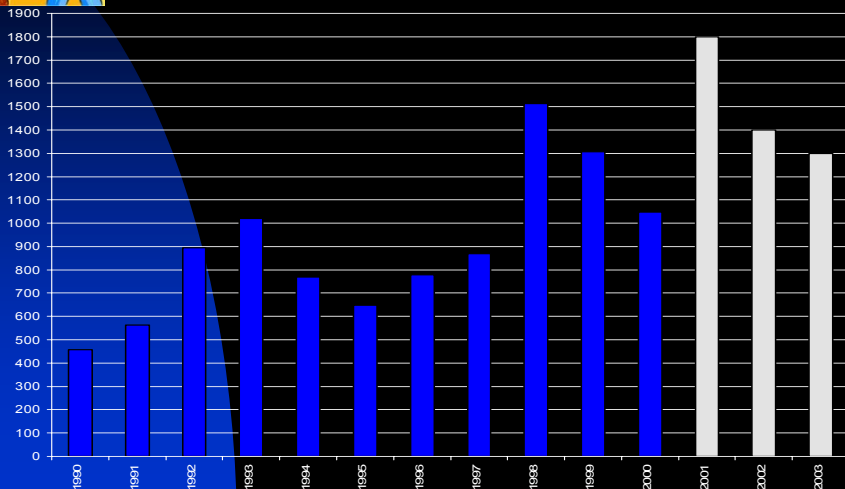
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## Home Financing Will Continue To Be Strong

Total Single-Family Mortgage Originations (Billions of Dollars)

Forecast



Sources: HUD, Freddie Mac

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## U.S. Home Financing Outlook

- Home financing is expected to double in the next 10 years from \$5.5 trillion to over \$11 trillion.
- Home equity will continue to be a significant component of wealth accumulation for American families.
- Significant growth of homeowners is expected from minority and immigrant communities.

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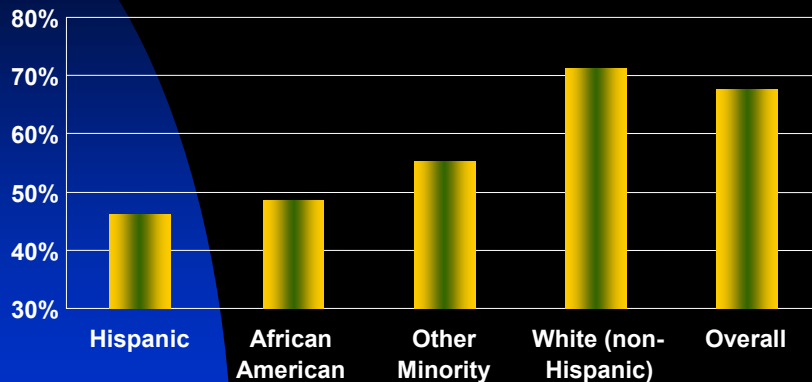
## ***Growth in the Minority and Immigrant Market***

- Overall, home ownership rates are at an all time high of 68%
- Homeownership rates for minority families are estimated to be 49%
- Over the next 20 years, minority families will be 36% of the US population, up from 25% today
- 10 million new immigrants are expected over the next decade.

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## ***Homeownership Rates (Census Bureau 2Q 2001)***



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## ***U.S. Muslim Home Financing Market***

- Homeownership opportunities for America's devout Muslim families have been very limited.
- Most devout Muslims own homes either through family savings or through financing available from individual investors, cooperatives organized by communities and a handful of financial institutions providing financing through portfolio lending.
- The American Muslim community has a very high percentage of minority and immigrant families.

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## ***Impediments to Muslim Homeownership***

- A lack of steady flow of capital make it prohibitive for Muslim families in America to realize the dream of homeownership.
- Although the home-financing system in the US is among the most progressive in the world, structuring contracts that comply with Islamic religious standards and are compatible with US home financing regulations are not well understood.

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## ***Further Impediments***

- In addition, the secondary markets central to a steady flow of low cost financing are not being fully leveraged.
- This is largely due to the lack of uniform financing instruments.

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## ***Freddie Mac and Islamic Lending***

- Recognize the need to remove barriers for Muslim's in achieving homeownership
- Provide streamlined and cost efficient access to mortgage funding
- Allow our customers to meet the financing needs of Muslims who live in the U.S..

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## ***Freddie Mac's Role***

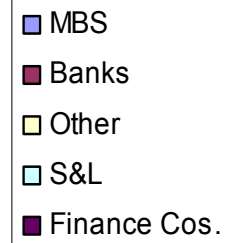
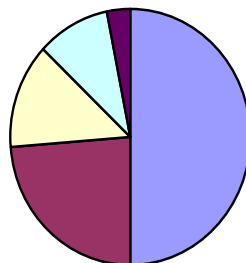
1. **Product development**
2. **Providing a steady flow of capital by purchasing home financing contracts to Muslim homebuyers**
3. **Approving new Freddie Mac Sellers/Service providers serving Muslim community in the US.**

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## ***Government Sponsored Entities (GSE's) Provide the Bulk of Home Financing in the United States***

### **Home Finance Sources**



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## ***Success with American Home Finance House LARIBA***

- **Approved American Finance House LARIBA as Seller/Service in March 2001**
- **Freddie Mac purchased the 1<sup>st</sup> \$1 million in financing contracts in March, 2001**
- **2001 Freddie Mac purchased \$20 million in home financing that was made available to Muslim home buyers**

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## ***Challenge to Overcome***

- **Standardized products that meet the needs of Muslim home buyers and comply with U.S. home financing regulations.**
- **Financial companies that specialize in Islamic Home Financing and can bring scalable and infrastructure**

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## **Conclusion**

- **Today's American families have greater access to low-cost home financing than at any time in history.**
- **Home equity is a key to wealth accumulation and building stronger communities.**
- **Secondary markets are key to bringing increased liquidity into the Muslim home financing process in America**
- **Product standardization and investment in infrastructure are imperative to expanding the flow of low cost capital.**