

## *What Is Freddie Mac—Federal Home Loan Mortgage Corp. (FHLMC)?*

The Federal Home Loan Mortgage Corp. (FHLMC) is a stockholder-owned, [government-sponsored enterprise \(GSE\)](#) chartered by Congress in 1970 to keep money flowing to mortgage lenders, which in turn supports homeownership and rental housing for middle-income Americans. The FHLMC, familiarly known as Freddie Mac, purchases, guarantees, and [securitizes](#) home loans and is a mainstay of the secondary mortgage market.

### KEY TAKEAWAYS

- Freddie Mac is the officially recognized nickname for the Federal Home Loan Mortgage Corp. (FHLMC).
- Freddie Mac is a stockholder-owned, government-sponsored enterprise (GSE) chartered by Congress in 1970 in support of homeownership for middle-income Americans.
- The role of Freddie Mac is to buy a large number of loans from mortgage lenders, then combine them and sell them as mortgage-backed securities.
- Fannie Mae and Freddie Mac are both publicly traded GSEs. The main difference between them is that Fannie Mae buys mortgage loans from major retail or commercial banks, while Freddie Mac obtains its loans from smaller banks.
- Some have argued that unchecked growth for Fannie Mae and Freddie Mac was a primary driver in what led to the credit crisis of 2008 that turned into the Great Recession.

### History of Freddie Mac

Freddie Mac was created when Congress passed the Emergency Home Finance Act in 1970. A wholly owned subsidiary of the [Federal Home Loan Bank System \(FHLBS\)](#), it represented an attempt to reduce interest rate risk for savings and loans associations and smaller banks. In 1989, under the [Financial Institutions Reform, Recovery, and Enforcement Act \(FIRREA\)](#), Freddie Mac underwent a reorganization. It became a publicly owned company, with shares that could trade on the New York Stock Exchange.

In 2008, during the financial crisis sparked by the [subprime mortgage meltdown](#), the U.S. government—specifically, the [Federal Housing Finance Agency](#)—took over Freddie Mac. Though it's gradually transitioning toward independence, it remains under federal conservatorship.

### What Does Freddie Mac Do?

Freddie Mac was created to enhance the flow of credit to different parts of the economy. Along with a similar [GSE](#), [Fannie Mae](#), it is a key player in the [secondary mortgage market](#).

Freddie Mac doesn't originate or service home mortgages itself. Rather, it buys home loans from banks and other commercial mortgage lenders (giving these institutions funds that they can then use to finance more loans and mortgages). These loans must meet certain standards that Freddie Mac sets.

After purchasing a large number of these mortgages, Freddie Mac either holds them in its own portfolio or combines and sells them as [mortgage-backed securities \(MBS\)](#) to investors who are seeking a steady income stream. Either way, it "insures" these mortgages—that is, it guarantees the timely payment of principal and interest on the loans. As a result, securities issued by Freddie Mac tend to be very liquid and carry a credit rating close to that of U.S. Treasuries.

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62%

*The percentage of all U.S. mortgage originations (that is, new loans) securitized and guaranteed by Freddie Mac and its sister enterprise, Fannie Mae, as of mid-2020.*

### Criticism of Freddie Mac

Freddie Mac has come under criticism because its ties to the U.S. government allow it to borrow money at interest rates lower than those available to other financial institutions. With this funding advantage, it issues large amounts of debt (known in the marketplace as “agency debt” or “agencies”), and in turn purchases and holds a huge [portfolio](#) of mortgages known as its “retained portfolio.”

Some people believe that the size of the retained portfolio combined with the complexities of managing mortgage risk poses a great deal of [systematic risk](#) to the U.S. economy. Critics have argued that

the [unchecked growth of Freddie Mac and Fannie Mae](#) led to the [credit crisis of 2008](#) that plunged the U.S. into the [Great Recession](#). (In response, advocates of the enterprises argue that, while Freddie and Fannie made bad business decisions and held insufficient capital during the housing bubble, their portfolios made up only a tiny fraction of total subprime loans.)

Fannie Mae and Freddie Mac's single-family foreclosure moratorium, put in place due to the 2020 economic crisis, ended on July 31, 2021. However, real estate owned evictions are halted until Sept. 30 and their forbearance programs continue. Homeowners with mortgages can enroll and pause their payments for up to a year; those who were enrolled as of Feb. 28, 2021, may qualify for up to 18 months. Other borrowers may be eligible for a loan modification.

#### Freddie Mac vs. Fannie Mae

Fannie Mae (Federal National Mortgage Association or FNMA) was created in 1938 as part of an amendment to the [National Housing Act](#). It was considered a federal government agency, and its role was to act as a secondary mortgage market that could purchase, hold, or sell loans that were insured by the Federal Housing Administration. Fannie Mae stopped being a federal government agency and became a private-public corporation under the Charter Act of 1954.

Fannie Mae and Freddie Mac are very similar. Both are publicly traded companies that were chartered to serve a public mission. The main difference between the two comes down to the source of the mortgages they buy. Fannie Mae buys mortgage loans from major retail or commercial banks, while Freddie Mac obtains its loans from smaller banks, often called "[thrift banks](#)" or "savings and loan associations," [that are focused on providing banking services to communities](#).