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### Freddie Mac CEO Richard Syron Talks about the Stock Slide

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## THE PROGRAM

# Transcripts

## Freddie Mac CEO Richard Syron Talks About The Stock Slide

Wednesday, August 06, 2008

**SUSIE GHARIB:** Washington bureau chief Darren Gersh spoke with Freddie Mac Chairman and CEO Richard Syron this afternoon. Darren began by asking Syron why shareholders in Freddie Mac should stick with the stock.

**RICHARD SYRON, CHAIRMAN & CEO, FREDDIE MAC:** Well, Freddie is obviously a company that's been quite volatile recently. Candidly, owning Freddie shares is in a way a bet on the U.S. economy and on the U.S. housing market. And I think that both those things are valued, at least the housing market pretty low right now and that they'll come back.

**DARREN GERSH, NIGHTLY BUSINESS REPORT CORRESPONDENT:** But the company right now has said it wants to go out and raise \$5.5 billion in capital.

**SYRON:** That's correct.

**GERSH:** But the market is valuing the company right now at about \$4.4 billion. So how do those numbers work?

**SYRON:** First of all, we didn't say we wanted to raise \$5.5 billion in pure equity capital. We said it would be some mix of the two. The other is that we've said that we're not under any imminent pressure to raise capital today or tomorrow and that we want to do so at the time that's most auspicious for us, for the financial markets as a whole because that's going to influence the economy. So --

**GERSH:** But how do you do it when you're trying to raise more capital than a company is worth right now, at least in the marketplace?

**SYRON:** You know, well, that -- that -- that valuation you gave is the valuation of the common shares, right? It doesn't take into consideration of preferred stock etcetera, right? So not saying we want to do this, but just the pure arithmetic of it, say the company were to raise \$2 billion in common shares, not saying we're going to do it at this price but say -- that would be about half of what the company -- little less than half of what the company is valued at. The preferred shares are valued at substantially more at this point in time.

**GERSH:** So you could issue more preferred?

**SYRON:** Yes, sir.

**GERSH:** OK. On your conference call, there was a discussion that Freddie is one of the only games in town when it comes to the mortgage market right now, but you're going to be not growing your mortgage portfolio anymore. And one of the reasons that Congress kicked in with rescue plan to keep you guys going was the idea that you would stay engaged in the housing market. So aren't you in a way saying you're going against what Congress was hoping would happen here?

**SYRON:** No and maybe we didn't make that clear enough on the call. We have two ways that we're involved in the housing market. One is called our guarantee portfolio which is when people get mortgages essentially, they originate as salesmen. We package them and they become securities and sold around the world. We've said that that's been growing around 10 percent. We expected that to continue growing around 10 percent. Then, we're also involved in something called our retain portfolio which is when we buy mortgage securities, right? We've increased that quite dramatically in order to bring spreads in in the market. In fact, we increased it about \$100 billion. And what we're saying at this point in time is that that hasn't grown as strongly as it has. We expect that we'll match run-off with new purchases but we will --

**GERSH:** To keep it flat?

**SYRON:** -- grow more slowly.

**GERSH:** But keep it flat. But doesn't that mean the mortgage market's going to be tighter? And isn't that why Congress wants companies like Freddie and Fannie out there?

SYRON: You raised a very good question because this all has to do with trade offs. Now we have specified capital ratio. As you just pointed out, you know, raising a lot more capital at these kinds of prices could be quite dilutive to our shareholders, so we have to balance the interest of our shareholders, call out the price. The interest of our regulator, call that the capital ratios and the interest of our mission which you're dead spot on in helping the market. They often -- in fact, most often conflict. What we're saying is we believe we can continue to support the market --

GERSH: You probably see this question coming but I will ask you. Why didn't you see more of this coming? A lot of people said, look, Freddie should have seen this coming. You should have seen this coming. You should have been prepared. There was a lot of evidence, concern that the housing market might -- the bubble might burst and your company would be left holding the bag to mix metaphors.

SYRON: Well, I think quite candidly and people have said that I was one of the most bearish people on the housing market, but I wasn't as bearish as what eventuated. If you go sort of through this by years, go back to when I first came to the company in '04, our loss ratio at that point was .86 of one basis point. So it was 8600s of 100th of a percent. Now when you get into '06 and '07, actually we did pull our horns in a little bit. We reduced our market share during that period and that was a period in which as you may know, a lot of the quote/unquote Street came into the market with candidly, extremely liberal terms.

GERSH: Let me ask this. You were quoted in the "New York Times" as saying if you had perfect foresight, you wouldn't have taken this job but you're looking for a new CEO. So how are you going to recruit a new CEO for a job that you now say you wish you hadn't taken?

SYRON: Well actually I didn't say I wish I hadn't taken it. I mean, that was somewhat tongue-in-cheek in saying no one has perfect prescience. You know, if someone said to you, do you want to take a job managing essentially a portfolio of insurance and assets that goes down -- expect to go down around 20 percent in the next period of time, I think you'd scratch your head and say whether or you want to do this or not. Now I think the situation for someone coming in now is entirely different because they're coming in near what I think is going to be if not the bottom of the trough, approaching the bottom. There are some straws in the wind, preliminary signs that housing is turning around in some parts of the country.

GERSH: You've got some prospects for the CEO? Discussions you've been 7turned down a couple of times?

SYRON: You know, you talk to people. Some people are interested in being a draft choice and other people aren't.

GERSH: Richard Syron, Freddie Mac, chairman and CEO. Thank you very much for your time.

SYRON: Thank you, sir.

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