



# Freddie Mac Duty to Serve Underserved Markets Plan

For 2022 – 2024

Revised ~~January 9, 2024~~ December 19, 2024



## DUTY TO SERVE

Underserved Markets Plan 3-Year Activities and Objectives  
(By Evaluation Area and Year)



## Manufactured Housing

ACTIVITIES AND OBJECTIVES	EVALUATION AREA				PLAN YEAR		
	Loan Purchase	Loan Product	Outreach	Investment	Year 1 (2022)	Year 2 (2023)	Year 3 (2024)
<b>Activity 1 – Support for Manufactured Housing Titled as Real Property: Regulatory Activity</b>							
Objective A: Increase Single-Family Loan Purchases of Manufactured Housing Titled as Real Property	✓				✓	✓	✓
Objective B: Design New Product Flexibilities to Facilitate the Origination of Mortgages Securing Manufactured Housing Titled as Real Property in Tribal Areas		✓			✓	✓	✓
Objective C: Support Growth in the Market for Manufactured Homes through Research and Outreach			✓		✓		
<b>Activity 2 – Support for Manufactured Housing Titled as Personal Property: Regulatory Activity</b>							
Objective A: Conduct Due Diligence and Accumulate Data to Support Development of Initiative Guidelines for Personal Property Loans on Manufactured Homes		✓				✓	✓
<b>Activity 3 – Manufactured Housing Communities Owned by a Governmental Instrumentality, Non-Profit Organization, or Residents: Regulatory Activity</b>							
Objective A: Purchase Resident-Owned, Non-Profit-Owned, and Government Instrumentality-Owned Loans	✓				✓	✓	✓
<b>Activity 4 – Manufactured Housing Communities with Certain Tenant Pad Lease Protections: Regulatory Activity</b>							
Objective A: Purchase Loans that Institute Duty to Serve Tenant Protections	✓				✓	✓	✓

## DUTY TO SERVE

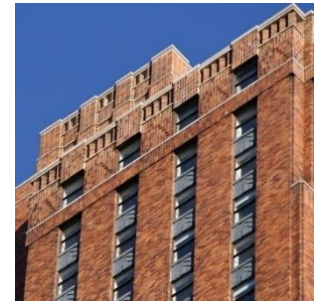
Underserved Markets Plan 3-Year Activities and Objectives  
(By Evaluation Area and Year)

### Rural Housing



ACTIVITIES AND OBJECTIVES	EVALUATION AREA				PLAN YEAR		
	Loan Purchase	Loan Product	Outreach	Investment	Year 1 (2022)	Year 2 (2023)	Year 3 (2024)
<b>Activity 1 – Support for High-Needs Rural Regions: Regulatory Activity</b>							
Objective A: Purchase Single-Family Loans in High-Needs Rural Regions	✓				✓	✓	✓
Objective B: Develop Product Enhancements to Increase Origination of Conventional Mortgages from Community Development Financial Institutions		✓				✓	✓
Objective C: Facilitate Thought Leadership and Research Related to Housing and Mortgage Financing in Rural Communities			✓		✓	✓	✓
Objective D: Engage in LIHTC Equity Investment				✓	✓	✓	✓
<b>Activity 2 – Support for High-Needs Populations: Regulatory Activity</b>							
Objective A: Facilitate Conventional Lending to Members of Federally Recognized Native Tribes in Tribal Areas		✓			✓	✓	
Objective A: Facilitate Conventional Lending to Members of Federally Recognized Native Tribes in Tribal Areas	✓						✓
Objective B: Engage in LIHTC Equity Investment				✓	✓	✓	✓
<b>Activity 3 – Financing by Small Financial Institutions of Rural Housing: Regulatory Activity</b>							
Objective A: Provide Liquidity to Small Financial Institutions Serving Rural Regions	✓				✓	✓	✓
<b>Activity 4 – Small Multifamily Rental Properties in Rural Areas: Regulatory Activity</b>							
Supported through our LIHTC Equity Investments (Activity 1 Objective D, Activity 2 Objective B and Activity 5 Objective B) and our USDA 515 loan purchase objective (Activity 5 Objective A)	✓			✓	✓	✓	✓
<b>Activity 5 – Support Multifamily Properties in All Rural Areas: Additional Activity</b>							
Objective A: Purchase Loans to Preserve Properties with USDA Section 515 Debt	✓				✓	✓	✓
Objective B: Engage in LIHTC Equity Investment in All Rural Areas				✓	✓	✓	✓
Objective C: Provide Financial Empowerment Offerings for Rural Renters		✓			✓		

Objective D: Explore and Establish Rural Developer Capacity Building Program		✓				✓	✓
Objective E: Enhance LIHTC Program to Better Support Non-Profit Ownership at the End of the Compliance Period		✓			✓		



## DUTY TO SERVE

Underserved Markets Plan 3-Year Activities and Objectives  
(By Evaluation Area and Year)

### Affordable Housing Preservation

ACTIVITIES AND OBJECTIVES	EVALUATION AREA				PLAN YEAR		
	Loan Purchase	Loan Product	Outreach	Investment	Year 1 (2022)	Year 2 (2023)	Year 3 (2024)
<b>Activity 1 – Low Income Housing Tax Credits (Debt): Statutory Activity</b>							
Objective A: Provide Liquidity and Stability through LIHTC Loan Purchases	✓				✓	✓	✓
Objective B: Publish Research Analyzing LIHTC Properties at Risk of Exiting the Program and Develop Loan Offering Parameters to Preserve Their Affordability			✓		✓		
Objective B: Publish Research Analyzing LIHTC Properties at Risk of Exiting the Program and Develop Loan Offering Parameters to Preserve Their Affordability		✓				✓	
<b>Activity 2 – Section 8: Statutory Activity</b>							
Objective A: Provide Liquidity and Stability through Section 8 Loan Purchases	✓				✓	✓	✓
<b>Activity 3 – Section 515: Statutory Activity</b>							
Objective A: Purchase Loans to Preserve Properties with USDA Section 515 Debt	✓				✓		
<b>Activity 4 – Financing of Small Multifamily Rental Properties: Regulatory Activity</b>							
Objective A: Purchase/Guarantee Loans for 5-50 Unit Multifamily Properties from Small Financial Institutions	✓				✓	✓	✓
Objective B: Develop Multifamily Correspondent Lender Program for Community Development Financial Institutions, Minority Depository Institutions and Small Lenders		✓			✓		
<b>Activity 5 – Support for Residential Economic Diversity: Additional Activity</b>							
Objective A: Purchase Loans on Properties that Support Residential Economic Diversity	✓				✓	✓	✓
<del>Objective B: Publish Research Analyzing Recently Implemented Upzoning Programs and Implications for Increased Housing and Resident Opportunity</del>			✗				✗
Objective <del>CB</del> : Publish Research Assessing Alternative Methods of Identifying High Opportunity Areas			✓		✓		
<b>Activity 6 – Comparable State and Local Affordable Housing Programs: Statutory Activity</b>							
Objective A: Purchase Loans with State and Local Programs	✓				✓	✓	✓

<b>Activity 7– Develop Loan Offerings to Finance the Rehabilitation of Affordable Rental Housing: Additional Activity</b>							
Objective A: Expand Preservation Rehab Loan Offering		✓			✓		
Objective B: Develop “Bridge to Rehab” Loan Offering		✓			✓		
<b>Activity 8 – Sustainability and Resiliency: Additional Activity</b>							
Objective A: Address Resiliency Through Analysis on Public Incentive Programs/Policies and Loan Offering Development			✓		✓	✓	
Objective A: Address Resiliency Through Analysis on Public Incentive Programs/Policies and Loan Offering Development		✓					✓
<b>Activity 9 – Financing of Energy- and/or Water-Efficiency Improvements on Single-Family Properties: Regulatory Activity</b>							
Objective A: Develop Automation and Industry Standards to Facilitate Secondary-Market Growth for Mortgages Securing Energy-Efficient Properties		✓			✓	✓	
Objective A: Develop Automation and Industry Standards to Facilitate Secondary-Market Growth for Mortgages Securing Energy-Efficient Properties	✓						✓
<b>Activity 10 – Support for Shared Equity Programs for Affordable Housing Preservation: Regulatory Activity</b>							
Objective A: Increase Loan Purchases of Shared Equity Mortgages	✓				✓	✓	✓
Objective B: Design New Product Flexibilities to Facilitate the Origination of Shared Equity Mortgages		✓			✓	✓	

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**Disclaimer:** Implementation of the activities and objectives in Freddie Mac’s Duty to Serve Underserved Markets Plan may be subject to change based on factors including FHFA review for compliance with the Charter Act, specific FHFA approval requirements and safety and soundness standards, FHFA guidance and directives, regulatory requirements, Preferred Stock Purchase Agreement obligations, and adverse market or economic conditions, as applicable.

# Executive Summary



Since its creation more than 50 years ago, Freddie Mac's mission has been to deliver "liquidity, stability and affordability" to the housing market. We interpret that mission expansively to meet the country's broader housing needs in both good and challenging times. It includes:

- Enhancing liquidity within the mortgage and capital markets.
- Stabilizing the housing market throughout the economic cycle, including helping families facing hardship remain in their homes.
- Working with an array of housing market participants and creating both public and private partnerships to promote greater access to and supply of affordable and sustainable homes throughout the country.
- Addressing longstanding issues of inequity in housing.
- Working with lenders of all sizes to better serve their communities.
- Continuing to integrate environmental, social and governance strategies into our business and operations.

Our mission of Making Home Possible for millions of renters and borrowers across the nation is the overarching purpose of all our efforts. Our goal is to do so sustainably, to ensure the safety and soundness, financial strength and operational resilience of our company.

Freddie Mac's 2022-2024 Duty to Serve Underserved Markets Plan is an important component of this work. The Plan describes our integrated, comprehensive and sustainable approach to setting standards and taking action for the benefit of underserved communities across the country.

Specifically, our goals for the three Duty to Serve underserved markets are expansive:

- In the **manufactured housing** market, we will expand financing solutions for consumers, improve tenant protections in the manufactured housing communities (MHCs) that we finance, and increase secondary market liquidity.
- In the **rural housing** market, we will increase secondary market liquidity and improve access to quality affordable housing for renters, homebuyers, and homeowners in some of the hardest-to-serve markets in the country.
- In the **affordable housing preservation** market, we will continue to innovate in support of creating and preserving affordable housing, advance opportunities for social and economic mobility, and increase liquidity to public and private entities to enable them to expand their impact in the communities they serve.

Duty to Serve presents an opportunity – one that Freddie Mac welcomes – to lead work across the mortgage industry in developing effective solutions to some of our most persistent housing problems. It is something we cannot do alone – lowering many of these barriers will take long-term commitment, innovation, and partnership with organizations and communities nationwide.

We look forward to helping more of America's families meet their housing needs.



## Strategic Priorities Statement

Manufactured housing is an important source of affordable housing for millions of families nationwide and directly supports our mission. Freddie Mac has consistently provided financing for manufactured homes (MH) titled as real property and is a leading provider of financing for manufactured housing communities (MHCs).

During this Plan cycle, our goals are to expand financing solutions for consumers, improve tenant protections in MHCs, and increase secondary market liquidity for manufactured housing. To achieve this, we plan to assess how Freddie Mac could address challenges facing manufactured housing titled as personal property (also known as chattel) and consider loan purchase activity that could inform future product design. In addition, we aim to increase market adoption of Duty to Serve tenant protections, requiring them in every MHC loan we purchase, and growing our support for communities owned by residents, non-profits, or government instrumentalities.

Freddie Mac's strategy takes into account the public input we received regarding manufactured housing market needs, while enabling us to make informed decisions about an appropriate level of loan purchases within the bounds of safety and soundness.

### Over the next three years, Freddie Mac intends to expand our support for the manufactured housing market in the following ways:

1. Support manufactured housing titled as real property:
  - a. Increase purchases of loans secured by manufactured homes titled as real property.
  - b. Provide new product flexibilities to facilitate the origination of mortgages secured by manufactured homes.
  - c. Support growth in the market for manufactured homes through research and outreach.
2. Support manufactured housing titled as personal property:
  - a. Complete a feasibility assessment for the requirements and processes necessary to support loan purchase, including but not limited to credit, servicing, consumer protections, pricing, and risk structures.
  - b. If FHFA approval is obtained, purchase loans that can provide data to assist with future decisions on developing a conventional product.
3. Support the Resident Owned Community (ROC), non-profit, and government instrumentality market:
  - a. Purchase loans on ROCs and non-profit and government instrumentality-owned communities.
4. Support opportunities for Duty to Serve-qualifying tenant pad lease protections:
  - a. Purchase loans on properties that commit to implement Duty to Serve tenant pad lease protections.

# Market Context

## Overview

Freddie Mac recognizes that manufactured housing is a critical source of affordable housing, especially in non-metropolitan areas. According to the Manufactured Housing Institute, more than 22 million people live in 8.5 million manufactured homes across the United States; the median income of these households is about \$30,000 per year.<sup>1</sup> Manufactured homeowners also tend to have lower net worth than owners of site-built homes.<sup>2</sup> Manufactured housing is prevalent in rural areas, especially in southern and western states.<sup>3,4</sup> In rural areas, 43 percent of such homes are located in manufactured housing communities (MHCs) and 57 percent are located on privately-owned land.<sup>5</sup>

The United States suffers from a severe single-family housing shortage, and an estimated 3.8 million additional housing units will be needed to fill this gap.<sup>6</sup> Less housing is available for rent and sale than at any time in 30 years, and the situation is only getting worse.<sup>7</sup> The annual supply of new housing units is running an estimated 100,000 below new housing demand, creating the largest shortfall in nearly a half century, equal to almost a year of new construction at its current pace. Urban Institute found that undersupply is most prevalent in the lower end of the market, driving up house prices and rents for low- and moderate-income families. Materials, labor, and land are significant factors that determine the price of building a new home and they have all been in short supply, driving up their cost and reducing builders' profit margins and thus their incentive to put up more homes, particularly lower-priced housing with lower margins.<sup>8</sup> Although the manufactured housing industry is not exempt from material and labor cost pressures, manufactured homes are positioned to help meet the needs of very low-, low-, and moderate-income homebuyers looking to purchase a home on land they own or in a MHC.

Manufactured homes are a unique form of housing in that they may be titled as either personal property or real property. A borrower's titling choice can have significant ramifications for taxation, financing, consumer protections, and remedies in case of default.

According to the Consumer Financial Protection Bureau (CFPB), personal property financing typically costs a homeowner more over the long term through higher interest rates and shorter loan terms, while providing fewer consumer protections.<sup>9</sup> Despite this, the majority of people buying new manufactured homes elect to title them as personal property and rely on personal property financing.

Based on our research and public outreach, the reasons for this dichotomy are as follows:

- Homeowner concerns about encumbering land that is owned outright.
- A lack of awareness of available mortgage (that is, real property) financing.
- The desire for quicker settlement processes and lower upfront closing costs.

Many market participants are actively working and investing in the manufactured housing market to educate homebuyers about appraisals and borrowing options as well as advancements in manufactured housing construction. Nonetheless, data from the Home Mortgage Disclosure Act (HMDA) shows that 15 lenders provided more than 43 percent of the financing for manufactured homes titled as real property and personal property in 2018 and 2019. The market appears less concentrated than in 2014 and 2015, when only five lenders accounted for 50 percent of financing for manufactured homes.

Close to half of all manufactured homes are located in MHCs, which makes financing for these MHCs an important part of serving this market. Datacomp/JLT, the authoritative data source for the MHC market, tracks 37,897 MHCs serving people of all ages.<sup>10</sup> Geographically, MHCs are heavily concentrated in several states. A quarter of the MHCs are in Florida and California, while 18 percent are in Michigan, Texas, and Arizona. In all, 61 percent of all MHCs are in 10 states.<sup>11</sup> Many of these MHCs may not be in suitable condition to finance in a safe and sound manner for a number of reasons, including their physical condition, concentration of homes built prior to 1976 Housing and Urban Development manufactured home construction safety standards, sponsorship, and

safety issues. In addition, a portion of these MHCs may be too small for the government-sponsored enterprises (Enterprises) to finance cost-effectively.

Based on available data from approximately 16,000 MHCs, the average community is around 43 years old. In the 1960s, 3,808 MHCs were constructed. The 1970s saw a surge, with 5,535 MHCs constructed, roughly 80 percent of which were not restricted to certain age groups. Construction declined in the 1980s, with 2,942 MHCs constructed. The decline continued as the first decade of the 2000s (2000-2010) saw only 478 MHCs built, the lowest on record since the 1940s. Since 2010, only 43 communities have been constructed.

The limited creation of new MHCs is generally attributed to local zoning restrictions as well as a general preference for other land uses. As a result, it is more common to see expansion within existing MHCs rather than newly established MHCs.

## Current Freddie Mac Support for Manufactured Housing and MHCs

Freddie Mac is committed to purchasing mortgages secured by manufactured homes in support of expanding homeownership opportunities. Our requirements for purchase and refinance transactions are designed to help qualified borrowers buy and stay in homes they can afford.

In all economic conditions, we purchase and securitize loans for manufactured homes titled as real property. Our manufactured housing program finances loans to very low-, low-, and moderate-income borrowers and to first-time homebuyers at a higher rate than our overall business.

We currently purchase a variety of manufactured housing residential loans, including fixed-rate mortgages, 7/6-month and 10/6-month adjustable-rate mortgages (ARMs) and our low down payment Home Possible<sup>®</sup> mortgages. During the first Plan cycle, we expanded eligibility for manufactured homes under our construction conversion mortgages, announced additional flexibilities in our offerings, and introduced our CHOICEHome<sup>®</sup> mortgage for financing CrossMod<sup>™</sup> homes.

In July 2014, Freddie Mac's Multifamily Business launched our MHC program, purchasing our first MHC loan in October of that year. Since starting this program, we have become one of the top sources of funds for MHCs. In total, we have provided \$9.6 billion in financing, making housing available for more than 227,000 units in more than 950 MHCs across 44 states, with a sizable portion of our purchases in non-metropolitan and rural areas.

In 2019, Freddie Mac expanded our existing MHC program and developed an offering that requires borrowers to include the full complement of Duty to Serve tenant pad lease protections. This product was the first of its kind, as the implementation of these tenant pad lease protections are neither a market standard nor required in full by state laws. This offering made a profound impact to the MHC tenant pad lease protections market in 2019 and 2020. We have seen the market adoption of our tenant protections offerings grow over time, and through 2019 and 2020 we purchased 22 loans that provided tenant protections to a total of 2,625 tenant pad leases across 13 states, with a total of \$160 million in financing and an important precedent set for more impact over time. In 2021 we announced and implemented a requirement that all new MHC transactions must include DTS tenant pad lease protections.<sup>12</sup> We anticipate continued adoption of this offering in future years.

## Challenges and Needs

In Freddie Mac's public outreach, we repeatedly heard concerns from a wide range of market participants about the limited number of active lenders providing loans to manufactured housing buyers. These market participants encouraged us to expand the secondary market by providing greater liquidity and standardization and to address consumer protections. From our outreach, we have gained a deeper understanding of the current challenges facing this market and the unique needs that must be met to serve it successfully.

### 1. COVID-19 challenges

It is unclear how and when the market will recover from the COVID-19 pandemic. In addition to the toll it is taking on individuals, families, and communities, it is adversely affecting housing construction, rehabilitation, and lease-up, which could present delays for Freddie Mac financing. Also, the market's recovery may be slow and/or uneven. However, affordable housing is likely to remain in very high demand for prospective homeowners and existing renters, and that demand may increase as new households enter the market. In addition, if pre-pandemic income levels are slow to recover for very low-, low- and moderate-income households, this could increase the need for an already scarce supply of affordable housing, particularly at lower rent levels. Our focus is to remain a source of stability, liquidity, and affordability for the housing market in all economic conditions.

### 2. Limited supply of manufactured homes

The production of manufactured housing has significantly declined since its peak in the 1990s. Although it is beginning to rebound, the low volume of new manufactured housing continues to limit market growth. Manufacturers have been impacted by the pandemic, supply chain issues, increasing cost of building materials, a lack of skilled labor, and absenteeism – all of which have resulted in increased production costs and delays. The demand for manufactured housing is strong and, coupled with pandemic challenges, has resulted in extended production times and increased home cost. In addition to the low volume of new units, a limited number of units are available for resale due to financing issues on older units and title constraints.

### 3. Specialization and limited size of the Duty to Serve-identified MHC market

The Duty to Serve regulation provides eligibility credit for activities that serve a small subset of the MHCs market. Two categories of MHCs are eligible for credit:

- a) Communities owned by a non-profit, a government instrumentality, or by the majority of its residents
- b) Communities that have a combination of specific tenant protections

Datacomp/JLT does not currently track the ownership structures of MHCs and there are no other definitive data sources. Based on our outreach, we understand that there are only around 1,065 resident-owned communities out of the 45,600 MHCs in the United States, equaling 2.4 percent of the MHC market and only 0.09 percent of households in the country overall.<sup>13</sup> Of these, not all are suitable for financing due to their condition and/or size, with a portion containing fewer than 25 homes and some with fewer than five.

In 2018, we conducted a survey of resident-owned communities across the country to determine the number of properties that existed, their location and costs, and details such as ownership structures and equity models. We published a report on MHROCs in 2019 where we analyzed the markets where MHROCs are most prevalent, the differences and challenges of converting an MHC to an MHROC, and the costs and fees associated with this process. Based on our research, we found MHROCs to be one of the few sources of unsubsidized, naturally occurring affordable housing in the country not subject to market-based rent increases.<sup>14</sup> This specialization, combined with the very small market size, makes it difficult to attract private capital at scale.

Additionally, we conducted research on MHC Tenant Pad Lease Protections and through this we discovered that no state requires all tenant protections as identified in the regulation, nor have surveys of leases among communities for which we have purchased loans revealed any communities that currently include the full complement of tenant protections. This research on MHC Tenant Pad Lease Protections led us to enhance our core MHC offering to include incentives for borrowers to commit to providing all eight tenant protections and to later make these protections a requirement on all new MHC transactions.

### 4. Limited number of manufactured housing lenders

Due at least in part to relaxed underwriting credit standards and less stringent requirements for supporting loan documentation, the manufactured housing industry experienced a crisis in the late 1990s. The poor quality of the originated loans led to a large number of distressed loans with high rates of delinquencies, defaults, and,

eventually, repossessions. This led to a collapse in the secondary market for manufactured housing real property loans. Innovative products and new underwriting flexibilities introduced in the first Duty to Serve Plan cycle resulted in an increase in the number of lenders originating real property manufactured home loans. Even today, many lenders are reluctant to provide manufactured housing mortgage financing and the secondary market remains constrained.

#### *5. Appraisals of manufactured housing*

Appraising manufactured housing as real property is a challenge due to the limited amount of comparable data in the Multiple Listing Service used by real estate professionals, the variety of secondary market and lender requirements concerning the comparable property's distance from the subject property, and the timeframe between sales of comparable properties. In addition, appraisal guidelines currently do not account for energy-efficiency improvements, which can lead to undervaluation of the home and overestimation of the borrower's cost burden. These challenges can impede a borrower's ability to obtain a mortgage loan, which in turn creates an incentive for borrowers to rely on personal property financing. Freddie Mac and the Appraisal Institute introduced a new valuation course for manufactured homes in 2019. Appraisers learn how to meet the new, specific requirements of Freddie Mac, the Federal Housing Administration, the U.S. Department of Veterans Affairs, the U.S. Department of Agriculture, and Fannie Mae using a new, groundbreaking tool – the Manufactured Home Quality Rating Worksheet – which is consistent with the Marshall & Swift/CoreLogic Residential Cost Handbook and the Uniform Appraisal Dataset. Freddie Mac will continue to promote manufactured home appraiser training.

#### *6. Titling manufactured housing as real property*

Titling manufactured housing as real property can be challenging for lenders because laws concerning manufactured housing vary by state. State ordinances also vary on converting title from personal property to real property, which may act as a disincentive for borrowers to complete such conversions. We published a fact sheet in 2019, "Titling Manufactured Housing as Real Property", to give lenders an overview of the three methods for converting manufactured housing titles to real property, with a contact list of each state's agency that governs the process. This provides lenders insight into which agency owns the title-conversion process and contacts to find the state-specific requirements and procedures.

#### *7. Lack of mortgage financing products for American Indians and Alaska Natives (AIAN) on or off tribal lands*

Market participants indicated that 49 percent of the loans made to AIAN borrowers on tribal lands were for manufactured homes.<sup>15</sup> Requests for manufactured home loans made up 63.6 percent of all home purchase loan applications by AIAN applicants in the 2016 HMDA data in all census tracts overlapping reservations and 75.8 percent in the census tracts mostly on reservations. Participants stated that the market needed new secondary market offerings, enhancements to existing offerings, flexible underwriting, low closing costs, and shorter processing times.

#### *8. Need for insight into loan performance*

In response to market participants request for research, we published "Insights into Manufactured Housing Loan Performance: A Decade in Review" during the first Plan cycle to provide a line of sight into manufactured home loan performance. Recently, many market participants have asked about the impact of forbearance stemming from the pandemic response and how manufactured home loans will perform after the forbearance period ends.

#### *9. Lack of private mortgage insurance*

The manufactured housing market currently suffers from limited offerings from private mortgage insurers providing comprehensive mortgage insurance coverage on manufactured homes, which affects the ability of the GSEs to purchase mortgages with loan-to-value ratios of more than 80 percent. This impedes lenders' ability to provide conventional financing. Because very low-, low-, and moderate-income households frequently lack the financial resources for significant down payments, limited availability of mortgage insurance reduces the availability of affordable low down-payment mortgages.

# Activities and Objectives

## Activity 1 – Support for Manufactured Homes Titled as Real Property: Regulatory Activity

Freddie Mac’s strategic approach to increasing liquidity and expanding the distribution of capital in the manufactured housing market builds on our previous efforts and includes three objectives targeted to manufactured housing titled as real property. During the Plan cycle, Freddie Mac intends to pursue the following objectives:

- Increase our purchases of single-family loans secured by manufactured homes titled as real property.
- Enhance existing product offerings to increase overall support for the single-family MH market.
- Continue and increase outreach efforts in markets that would benefit from MH as an affordable housing option as well as conduct and publish research that could factor into solutions for expanding affordable lending and access to credit for MH.

### OBJECTIVE A: INCREASE SINGLE-FAMILY LOAN PURCHASES OF MANUFACTURED HOUSING TITLED AS REAL PROPERTY

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	1, 2 and 3	VLI, LI, MI	Not Applicable

Freddie Mac plans to use various tactics to increase our purchases of loans on manufactured housing titled as real property. Building on the momentum achieved during our 2018-2021 Duty to Serve Underserved Markets Plan, our efforts will include enhancing our existing secondary market offerings, conducting and publishing research, conducting outreach, as well as expanding our seller/servicer network.

### Baseline

The following table reflects Freddie Mac’s single-family purchases of loans on manufactured homes from 2017 through 2021. Our baseline for performance in this market is the average of all Freddie Mac manufactured home loans purchased during that time span that meet Duty to Serve income-qualifying definitions of very low-, low-, and moderate-income borrowers. The loan counts include purchase-money originations and refinances for owner-occupied properties only.

Freddie Mac Single-Family Loan Purchase Volume – Manufactured Housing					
Year	2017	2018	2019	2020	2021
<b>Income-Qualifying Loan Count</b> (A five-year average of this loan count was used to establish the baseline)	3,824	3,601	4,390	6,634	12,788
<b>Baseline</b>	6,247				

## 2022-2024 Targets

Our single-family purchase targets for real-property manufactured home loans that meet the Duty to Serve income-qualifying definition for very low-, low-, and moderate-income borrowers are set forth in the following table. We used a five-year historical average to help ensure that we have set realistic targets as we implement Plan activities to increase our loan purchases.

We anticipate that origination volume will eventually contract, and the significant spike of refinance volume will abate during the 2022-2024 Plan cycle. Our Economic & Housing Research group estimated in July 2022<sup>16</sup> that U.S. home prices will increase almost 13 percent in 2022 and another 4 percent in 2023, driving down home sales from 6.9 million in 2021 to 6 million in 2022 and 5.4 million in 2023. Total 2022 home sales were down 17 percent through June. Based on market conditions and patterns, we anticipate the dollar amount of total home-purchase loan originations will stay fairly stable, going from slightly more than \$2 billion in 2021 to slightly less than \$2 billion in 2022 and \$1.9 billion in 2023. On the other hand, we anticipate that refinance originations may decrease from \$2.8 trillion in 2021 to \$885 billion in 2022 and \$463 billion in 2023.

Also, the low volume of new manufactured housing continues to limit market growth. Manufacturers have been impacted by the pandemic, supply chain issues, rising cost of building materials, and a lack of skilled labor, which have increased production times and costs. In addition to the low volume of new units, a limited number of units are available for resale because of financing issues on older units and title constraints.

Therefore, our purchase targets will increase meaningfully relative to our historical average but are not expected to reach the levels achieved in 2020. To build on our momentum, we will deploy various tactics to expand lender adoption and usage of Freddie Mac's mortgage offerings, including the product flexibilities introduced under our Duty to Serve program to help create more homeownership opportunities for very low-, low-, and moderate-income households nationwide.

Projected volume does not take into account potential market reactions to changes in the interest-rate environment, the coronavirus pandemic, or other market disruption. It also does not take into account the possibility of slower-than-expected adoption of product enhancements we may introduce. Lenders' business priorities and the complexities of their internal processes affect the rate of adopting new or updated mortgage offerings, even when lenders understand the value of offerings and are anxious to incorporate them into their businesses.

Single-Family Loan Purchase Targets – Manufactured Housing		
Year 1 – 2022	Year 2 – 2023	Year 3 – 2024
8,000-8,500 loans	5,800-6,300 loans	6,300-7,500 loans

## Market Opportunity and Impact

We estimate that we will provide lenders with an average of more than \$3 billion in liquidity over the Plan cycle to finance manufactured housing titled as real property. Because manufactured housing is more prevalent in rural areas, the rural market will benefit as well. Our loan purchases will expand access to credit for qualified borrowers and help create affordable, sustainable homeownership opportunities.

We expect that continuing our efforts – begun in earlier Plan years – to engage lenders already active in the MH market as well as to encourage additional lenders to participate will lead to wider distribution of liquidity. Because of the relatively small size of the market, any increase in origination volume for loans secured by manufactured housing titled as real property will be significant in terms of market impact and encourage lending in the market.

Demand for MH is strong. However, rising material costs, labor shortages, as well as pandemic-related plant closures, absenteeism, and supply chain disruptions have driven up home prices and caused manufacturing backlogs of six to 12 months, according to the Manufactured Housing Institute. As a result, some potential MH buyers may delay their purchases or choose an alternate housing option.

Increasing the amount of data available on MH owners who entered forbearance plans and the performance of their mortgage loans after the forbearance has ended will provide insights that will enable the industry to better support MH owners who may be struggling to sustain homeownership. Understanding the efficacy of the forbearance and post-forbearance options available to MH owners will be first-of-its-kind research. Information gleaned from it could give lenders information they need to have confidence in participating in the market and may lead to product enhancements that contribute to safety and soundness.

In addition, bringing together industry participants to share the findings of our 2021 market-based research and informing them on the potential benefits of manufactured housing to their communities will help increase understanding of market opportunities. From that base, the collaboration triggered through the convenings will help spur development of strategies to expand the use and acceptance of manufactured housing into additional geographies. This will increase affordable housing supply where it is needed, improve MH’s image as an attractive housing option, and create opportunities for affordable lending and homeownership.

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### **OBJECTIVE B: DESIGN NEW PRODUCT FLEXIBILITIES TO FACILITATE THE ORIGINATION OF MORTGAGES SECURING MANUFACTURED HOUSING TITLED AS REAL PROPERTY IN TRIBAL AREAS**

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	1, 2 and 3	VLI, LI, MI	Not Applicable



A combination of changes to existing product offerings plus collaboration across the ecosystem are required to increase affordable lending and access to credit in the manufactured housing (MH) market, especially for very low-, low-, and moderate-income households. Freddie Mac made great strides on both fronts during the 2018-2021 Duty to Serve Plan cycle. We introduced enhancements to improve operational efficiencies, promote lender adoption, support more borrowers, and increase liquidity as well as extensively engaged stakeholders and furthered industry collaboration to help ensure that our solutions effectively addressed market needs. We will continue moving manufactured housing forward, with a particular focus during this Plan cycle on facilitating affordable, sustainable ownership of MH in addition to site-built homes among American Indians and Alaska Natives (AIAN) in tribal areas.

Demand for homeownership among AIAN in tribal areas has been growing in recent years. Increasingly, tribes are highlighting the benefits of homeownership to their members. The coronavirus pandemic and related stay-at-home orders underscore the pressing need to increase homeownership opportunities in tribal areas. MH is an affordable housing solution used in Indian Country. According to Prosperity Now<sup>17</sup>, 17 percent of households on tribal lands live in manufactured housing – versus 15 percent in rural areas generally and 6 percent nationally. Furthermore, based on research by the Center for Indian Country Development (CICD) at the Federal Reserve Bank of Minneapolis<sup>18</sup>, 49 percent of all home loans to AIAN borrowers in census tracts that included tribal lands were for manufactured homes. In comparison, MH accounted for 13 percent of homes for all other borrowers. Examining AIAN home-purchase loan applications in the aforementioned census tracts, MH accounted for about 76 percent of applications.

However, our outreach and activities during prior Plan years, including work done to lay the foundation for enhancing our conventional product suite to support site-built home mortgage financing in tribal areas, revealed that governance in tribal areas can make homebuying more complicated than in other areas and significantly lengthen the process. Many lenders opt not to make mortgage loans to potential borrowers on tribal trust lands as a result. The hurdles they told us about included, but were not limited to, the complexities of land ownership where the land may be held in a trust by the federal government, interacting with tribal courts and tribes, completing environmental reviews, obtaining title status reports, and difficulties in obtaining appraisals. These factors are in addition to issues that are pronounced in rural and underserved markets generally, including individuals with thin or no credit histories, insufficient housing stock, and higher lending costs due to the expansiveness of rural markets. The result is low mortgage origination rates and high denial rates. About 75 percent of AIAN households applying for loans on MH are on reservations.<sup>19</sup>

In response, Freddie Mac will develop a conventional solution for financing manufactured homes on tribal lands that can help provide alternate options while reducing financing costs for consumers. It will be tailored to fit the homebuyer profile and loan-origination dynamics in Indian Country, while incorporating safety and soundness considerations. Providing clear, specific guidance around operational processes will be a key to equipping the various entities involved in the loan production cycle and ensuring the collection of information necessary to originate loans that meet our requirements and can be sold into the secondary market.

The process of developing and implementing conventional mortgage product requirements will be intricate and take several years to complete. It will require coordination across the ecosystem, including leveraging our existing relationships and continuing to build strong partnerships in Indian Country with lenders of all sizes, governmental agencies and tribal entities, appraisers, trade groups, non-profit housing intermediaries serving AIAN populations, and other industry stakeholders. To help ensure that the requirements are market-relevant, we will begin with an analysis to determine the enhancements needed to update established Freddie Mac products (including our affordable suite of offerings) in a way that will serve this population.

Learning how to effectively participate in the conventional secondary market requires a series of complex steps unique to conventional mortgage lending. Given the level of effort and business complexities involved, the process for building market awareness, lender acceptance, and implementation can take two to three years. Freddie Mac and the lender community will make a substantial commitment to provide this offering.

This may not be a comprehensive solution that eliminates systemic obstacles to financing manufactured homes on tribal lands. However, Freddie Mac can play an important role in providing technical assistance to lenders and increasing their confidence to finance MH in tribal areas.

## Baseline

Freddie Mac does not offer a product that supports unique requirements for financing manufactured homes in tribal areas, although we allow purchases of HUD Section 184 Indian Housing Loan Guarantee Program (HUD Section 184) loans. Lenders delivered zero HUD Section 184 loans to us to finance MH on tribal lands between 2018 and 2020. Our technical assistance in these areas to date primarily has focused on increasing non-profit housing intermediaries' capacity to provide financial and homebuyer education to tribal members, which increases the pipeline of individuals prepared to take on responsible, sustainable homeownership.

## Market Challenges

Freddie Mac will address the following specific challenges through our actions under this objective.

### **Support for conventional mortgage financing of MH in tribal areas**

Unique requirements of tribal trust land may dissuade lenders from lending on tribal trust land, particularly for manufactured homes. To title MH as real property, lenders must secure title status reports and obtain environmental clearances. By and large, the mortgage-lending process on trust land takes six to 12 months. MH buyers on tribal trust land often finance their homes using personal property loans secured solely by the home to avoid the operational hurdles they could encounter with trust land requirements.

### **Prevalence of higher-priced mortgages in tribal areas**

The CICD found that AIAN borrowers were nearly twice as likely to be given higher-priced mortgage loans than non-AIAN borrowers.<sup>20</sup> Further, when financing homes on reservation lands, more than 55 percent of loans are likely to be higher-priced loans.

## Actions

### **Year 1 – 2022**

1. Leverage our non-profit partners to conduct four outreach sessions, in regions where tribal lands are concentrated with tribally designated housing entities, tribal housing authorities, lenders with and without a presence and/or experience in tribal areas that source or can source MH, and non-profit organizations supporting MH that serve AIAN tribes and communities to gather feedback on lending to support MH; participants will be selected for their ability to encourage innovation and to shape existing practices to promote quality, energy-efficient MH in tribal areas. Examine policies in tribal areas that support new construction of MH and renovation of existing MH; also determine how to address relocation of existing homes that are moved from their original locations. Highlight the advantages of titling homes as real estate versus personal property as part of our outreach efforts.

## Year 2 – 2023

1. Publish updates to our Single-Family Seller/Service Guide to support MH located in tribal areas, based on the information gleaned through outreach conducted in Year 1.

## Year 3 – 2024

1. Socialize the tribal MH product enhancements by offering lenders guidance and support through various channels:
  - Post product information and resources on Freddie Mac's web site,
  - Publish articles to Freddie Mac's Single-Family News and Insights web pages and send via email to Lender News subscribers.
  - Host a manufactured housing training webinar for at least 10 lenders that can provide MH financing in tribal areas.
2. Promote the product to industry participants to raise awareness and encourage adoption. Efforts may include, for example, industry conferences and learning events; webinars/tutorials; distribution via MH industry organizations and non-profit partners serving tribal areas; e-mail to target audiences; podcasts; marketing collateral; updated web site content, including the Duty to Serve Manufactured Housing and Native American Homeownership Preparedness pages; Freddie Mac-supported rural housing forums; articles; blog posts; and feature items in Lender News.
3. Establish agreements with tribal entities referenced in Rural Housing Activity 2, Objective A: Facilitate Conventional Lending to Members of Federally Recognized Native Tribes in Tribal Areas to socialize our conventional MH mortgage offering and distribute training resources to stakeholders that can produce and promote MH as infill or in MH communities as well as enable MH lending in tribal areas.

## Market Impact

Manufactured homes are an affordable choice for a high percentage of AIAN households looking to purchase homes on tribal lands. Providing a conventional mortgage product for financing MH in these areas will expand much-needed access to credit for AIAN homebuyers and increase liquidity, once it matures in the marketplace. Additionally, such a conventional MH offering will help reduce the prevalence of high-priced mortgages made to AIAN homebuyers in tribal areas, thereby increasing sustainable homeownership opportunities and potentially helping to reduce the overcrowding experienced in many tribal communities<sup>21</sup>. Being able to sell the loans to Freddie Mac will lower lenders' risk and costs.

The conventional MH product also will offer a financing option in addition to HUD Section 184 loans and will compare favorably. When we purchase HUD Section 184 loans, the seller must retain recourse and the borrower must pay mortgage insurance for the life of the loan; with our conventional products, mortgage insurance may be discontinued once the borrower has 20 percent equity in the home. The HUD Section 184 requirements may reduce affordability for the borrower.

Further defining MH property eligibility in our product requirements will increase lenders' understanding and usage of our products and boost their confidence in lending for MH in tribal areas. In addition, the training that we provide to lenders on process and available resources will encourage them to begin or resume MH mortgage lending in tribal areas. We also will deliver training to help ensure that they understand how to use our product to help increase sustainable homeownership opportunities and to originate and package loans for delivery to Freddie Mac.

Lenders' business priorities and the complexities of their internal processes affect the rate of adopting new or updated mortgage offerings, even when lenders understand the value of offerings and are anxious to incorporate them into their businesses. The speed to market depends on priorities as well as the need for resources, systems updates, new internal policies, and training. The process can take a year or more under typical circumstances.

However, many lenders continue to focus on assisting customers who have been adversely affected by the pandemic, implementing policy changes, and maintaining service levels for the large number of refinance customers. Accordingly, many lenders have delayed new product releases and development. As a result, product adoption may be slower than expected.

Increasing the amount of data available on MH owners who entered forbearance plans and the performance of their mortgage loans after the forbearance has ended will provide insights that will enable the industry to better support MH owners who may be struggling to sustain homeownership. Understanding the efficacy of the forbearance and post-forbearance options available to MH owners will be first-of-its-kind research. Information gleaned from it could give lenders information they need to have confidence in participating in the market and may lead to product enhancements that contribute to safety and soundness.

In addition, bringing together industry participants to share the findings of our 2021 market-based research and informing them on the potential benefits of manufactured housing to their communities will help increase understanding of market opportunities. From that base, the collaboration triggered through the convenings will help spur development of strategies to expand the use and acceptance of manufactured housing into additional geographies. This will increase affordable housing supply where it is needed, improve MH’s image as an attractive housing option, and create opportunities for affordable homeownership.

Besides the product enhancements under this objective, we will introduce enhancements to broadly support affordable lending and access to credit in tribal areas under Rural Housing Activity 2, Objective A: Facilitate Conventional Lending to Members of Federally Recognized Native Tribes in Tribal Areas. We also will collaborate with the Appraisal Institute and housing industry professionals to develop and deliver an appraisal training curriculum for performing property valuations in tribal areas. Our work will help increase affordable, sustainable homeownership opportunities and channel more liquidity to tribal areas.

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**OBJECTIVE C: SUPPORT GROWTH IN THE MARKET FOR MANUFACTURED HOMES THROUGH RESEARCH AND OUTREACH**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Outreach</b>	<b>1</b>	<b>VLI, LI, MI</b>	<b>Not Applicable</b>

Freddie Mac is uniquely positioned to deliver insights and resources that help prompt new solutions and increase collaboration that could accelerate manufactured housing (MH) market growth and sustainable homeownership opportunities. In previous Plan years, we delivered groundbreaking research into consumers’ MH buying and financing behaviors as well as MH loan performance. We also performed extensive outreach to educate the industry on the benefits of MH and acted as a catalyst, prompting collaboration across the ecosystem to drive market growth and increase support for sustainable MH ownership. We will continue to demonstrate our thought leadership and commitment in the MH market through first-of-its-kind research into the effectiveness of forbearance plans and post-forbearance options for MH owners who faced financial hardship during the coronavirus pandemic. We also will use research that we performed in 2021 to help focus industry participants on expanding the use and acceptance of MH into additional geographies to increase affordable homeownership opportunities.

The coronavirus pandemic has led to unprecedented levels of mortgage forbearance. At the peak in May 2020, more than 4.75 million U.S. mortgages were in forbearance, representing about 8 percent of outstanding mortgages and \$1 trillion in mortgage debt. At that time, more than 7 percent of all loans backed by the

Enterprises and nearly 13 percent of all Federal Housing Administration/Veterans Affairs (FHA/VA) loans were in forbearance.<sup>22</sup>

According to the Joint Center for Housing Studies of Harvard University<sup>23</sup> (JCHS), 45 percent of U.S. households reported that they had lost employment income between mid-March and December 2020 because of the pandemic, including more than two-fifths of homeowners. Lower-income households, who tend to have fewer resources to begin with, were more likely to lose employment income; many higher-wage earners were able to work from home, while many lower-wage earners were laid off or had their hours cut. Lower-income households also were far more likely to report being behind on their housing payments as of December 2020, with about one-fifth of homeowners with a mortgage who earn less than \$25,000 annually struggling to make monthly payments. Moreover, households living in manufactured homes were most likely to be behind on their mortgages – more than 20 percent of MH homeowners, compared to 10 percent of all single-family homeowners.

Freddie Mac's research will deepen understanding of the impacts of the pandemic for MH homeowners who entered forbearance and trends in post-forbearance loan performance. After the Great Recession, many lenders withdrew from MH lending or decided not to enter this market segment because of the high level of MH loan defaults. Our research will provide fact-based evidence of the pandemic's impact on MH loans and MH owners' recovery to help drive informed business decisions and confidence in financing MH.

The pandemic also heightened awareness of the affordable housing crisis. Manufactured housing can play a more significant role in helping to increase housing supply. In 2021, Freddie Mac performed research to identify markets that significantly lack affordable housing, have a large number of residents who are mortgage-ready, and are primed for opportunities to introduce manufactured homes as a housing stock choice where they currently are absent.

We can help increase the critically needed supply of high-quality, affordable homes in markets of opportunity highlighted in our research. Toward that end, we will test two innovative concepts in Year 1 of the Plan. If they prove to be practical and feasible, we anticipate modifying the Plan to show progression on these activities in Years 2 and 3.

1. We will strategically promote the placement of MH in new housing developments in specified markets by partnering with an established non-profit that supports MH ownership and a housing developer to help drive greater use and availability of energy-efficient manufactured homes. We anticipate this collaborative effort will attract households representing a variety of demographics, including Millennials, who are more likely than other generations to choose homes with energy-efficient features.<sup>24</sup>
2. To reach potential homebuyers who may not have envisioned purchasing a manufactured home, we will test the concept of a digital homebuying experience that will differ significantly from today's process of purchasing a home on a retail lot. By providing homebuyers with the option to shop on-line, access to another source of affordable homes and financing could be scaled beyond traditional MH markets. It also could expand homeownership opportunities for households representing a wide variety of demographics across the country, including minority and low-income households, for whom the low housing supply has created a tremendous barrier to affordable homeownership.

We also will educate market participants – including real estate professionals, lenders, manufactured home retailers, manufacturers, and developers – in markets that we identified to facilitate placements of manufactured homes to help increase affordable housing availability and financing of MH titled as real property as well as generate market growth.

## Baseline

Freddie Mac has not previously analyzed or conducted research into the impacts of the coronavirus pandemic on homeowners occupying manufactured housing. In the aforementioned assessment of the pandemic's economic impacts on households, the JCHS revealed that households living in MH were the most likely to be behind on their rent or mortgages. However, we found no analysis in the marketplace of the aftereffects of forbearance.

In 2021, we analyzed data to identify high-opportunity markets for manufactured homes. We will use our findings as well as our experience and relationships with market participants to design a more targeted approach to raising awareness and educating industry professionals in areas where the market environment will support growth of manufactured homes as an affordable housing solution.

Existing on-line tools for buying manufactured homes focus on displaying the homes themselves but not on an end-to-end, personalized homebuying experience.

## Market Challenges

Freddie Mac will address the following specific challenges through our actions under this objective.

### **Understanding of the impact of forbearance on MH owners**

Market participants have been asking how the pandemic and the related mortgage forbearance have affected MH homeowners and are seeking to understand the aftereffects of forbearance to better equip themselves to make informed policy decisions. Among their questions: How likely were MH homeowners to go into forbearance? Were homeowners with certain income levels hit harder than others and turned to forbearance to sustain homeownership? Were homeowners who went into forbearance current on their mortgages before the pandemic? After forbearance? Were the post-forbearance options available to the homeowners adequate? Currently, relevant data is limited or unavailable.

### **Lack of awareness of MH as an affordable housing option in areas with little or no manufactured housing**

Work needs to be done in markets that lack both affordable housing stock and manufactured housing to raise the visibility and image of manufactured housing, encourage acceptance of it in more communities, and expand possibilities for affordable homeownership through it.

## Actions

### **Year 1 – 2022**

1. Research and publish a report on the impact of the coronavirus pandemic on MH loan performance and on whether forbearance stemmed further delinquency. Identify trends that may point to future MH loan performance and inform lenders of Freddie Mac resources that they can deploy to help borrowers retain homeownership. Develop an outreach campaign in partnership with Freddie Mac's Borrower Help Centers and call-in Borrower Help Network, specifically those offering support for owners of manufactured homes, to raise lenders' awareness.
2. Work in partnership with a non-profit organization and a mission-oriented developer that can deliver manufactured homes at scale to achieve the following:
  - Leverage our 2021 research to identify at least one target market to expand deliveries of quality, energy-efficient manufactured homes that are, at a minimum, ENERGY STAR® certified and offer features and options that can broaden the homes' consumer appeal.

- Test the concept and feasibility of providing prospective MH buyers with a digital homebuying experience; create a digital marketing plan to promote the concept.
3. Host at least four convenings of real estate professionals, lenders, MH manufacturers, and developers in target markets identified as opportunistic for manufactured housing growth to showcase manufactured housing as an affordable housing solution.

## Market Impact

Our research findings and outreach, along with the collaboration that we facilitate, will help in replacing perceptions and assumptions about manufactured housing with facts. Given that manufactured homes and MH loan performance suffer from long-standing negative images, changing minds and fostering a more supportive environment will take a series of actions over time. Efforts such as those under this objective will help generate more positive impressions of MH as well as opportunities for greater market participation and growth.

Increasing the amount of data available on MH owners who entered forbearance plans and the performance of their mortgage loans after the forbearance has ended will provide insights that will enable the industry to better support MH owners who may be struggling to sustain homeownership. Understanding the efficacy of the forbearance and post-forbearance options available to MH owners will be first-of-its-kind research. Information gleaned from it could give lenders information they need to have confidence in participating in the market and may lead to product enhancements that contribute to safety and soundness.

The findings also are expected to give insight into trends that may lead to delinquency, which could enable proactive deployment of assistance to homeowners; earlier intervention could lead to more sustainable homeownership. Freddie Mac offers an array of supportive resources that lenders may recommend to struggling homeowners, including post-purchase counseling and servicing interventions. Deliberate outreach campaigns will focus lenders on referring their borrowers to HUD-certified Freddie Mac Borrower Help Centers and the call-in Borrower Help Network, where housing counselors assist homeowners in developing action plans that meet their specific situations.

The research findings also may give lenders the data they need to make decisions around continuing or starting to offer mortgage financing for manufactured homes; the data-driven facts could help dispel assumptions and misperceptions about the performance of the manufactured housing market. Maintaining and expanding lender participation will help increase market liquidity.

In addition, bringing together industry participants to share the findings of our 2021 market-based research and informing them on the potential benefits of manufactured housing to their communities will help increase understanding of market opportunities. From that base, the collaboration triggered through the convenings will help spur development of strategies to expand the use and acceptance of manufactured housing into additional geographies. This will increase affordable housing supply where it is needed, improve MH's image as an attractive housing option, and create opportunities for affordable homeownership.

Our efforts with non-profit organizations and mission-oriented developers will lead to increases in housing supply and equitable access to affordable housing options in selected markets where conditions are favorable for expanding the use and acceptance of manufactured housing.

Delivering a digital homebuying experience will make it easier to view homes and to reach a wider audience, particularly in areas with little or no MH. This could interest more people in manufactured homes and expand access to this housing solution. Potential homebuyers could see the design features and quality first-hand without investing the time and effort of going to a physical location. The approach could help combat persistent misperceptions of MH, enable more people to consider it, and result in greater MH ownership and financing opportunities for first-time and repeat homebuyers.

# Activity 2 – Support for Manufactured Housing Titled as Personal Property: Regulatory Activity

The manufactured housing industry has experienced a continuous and significant increase in the use of personal property financing (also called chattel financing) over the last several years. We consistently heard requests for GSE support of personal property financing during our outreach. Freddie Mac does not currently purchase personal property loans or have the requisite systems in place to purchase such loans; however, we are committed to working to address the challenges facing the personal property market in a safe and sound manner.

Freddie Mac intends to conduct a systematic and incremental risk management assessment to develop a product before entering the personal property market. We plan to develop requirements and a process to support loan purchases to assess and explore ways to manage the risks in this market. We also will evaluate securitization and/or risk-sharing structures. Subsequently, we plan to collaborate with FHFA in seeking approval to engage in loan purchase activity. Historically, Freddie Mac has provided deep liquidity to the conventional mortgage market and will apply our expertise to exploring the personal property market for financing manufactured homes.

## OBJECTIVE A: CONDUCT DUE DILIGENCE AND ACCUMULATE DATA TO SUPPORT DEVELOPMENT OF INITIATIVE GUIDELINES FOR PERSONAL PROPERTY LOANS ON MANUFACTURED HOMES

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	2 and 3	VLI, LI, MI	Yes

Freddie Mac will conduct due diligence in Year 2 of the Plan to develop a framework – for which we will seek FHFA approval – to support loan purchases in Year 3. The data that we collect will inform future decisions. The launch date depends on the FHFA approval process. The scope of work will include these activities:

- Complete a feasibility assessment for the requirements and processes necessary to support loan purchases, including but not limited to the credit, servicing, consumer protections, pricing, and risk structures. Obtain FHFA approval.
- If FHFA gives approval to move forward, consider purchasing loans using various purchase execution options (including bulk portfolio transactions) to model risk and assist with product design to support future loan purchase capabilities.

### Baseline

Freddie Mac does not have a personal property product. We have not purchased those types of loans in the past three years. Therefore, we also lack recent historical data on which to base assumptions on loan profiles and performance. Accordingly, our baseline is zero.

Freddie Mac has spent considerable time working to understand the origination and servicing practices of personal property loans. We have met with a wide variety of industry participants and experts to gain insight into the market and its challenges. We also have evaluated the credit parameters and performance of personal property loans.



## 2024 Loan Purchases

Our loan purchase activity over the Plan cycle is set forth in the following table and intended to help us to learn how to develop a conventional offering. Purchasing 1,500-2,500 loans will be a challenge, given that we are new to the market and will have to establish a risk structure and operational processes to support the loan volume.

Single-Family Loan Purchase Activity – Manufactured Housing Titled as Personal Property	
Year 3 – 2024	
1,500-2,500 loans	

## Market Challenges

### Lack of standardization

- Products in support of this market vary from lender to lender. Most originations are held in retained portfolios because of the proprietary nature of products used to originate loans.
- Without standard underwriting practices and an automated underwriting model, the market’s ability to grow and attract private capital remains constrained.
- There is no consistent approach to assessing property values and current valuation methods are inconsistent with how real property is valued. Manufactured housing titled as personal property is typically appraised according to the National Automotive Dealer Association (NADA) guidelines, which allow for numerous adjustments and result in a broad range of values. The guidelines also do not take location into consideration during valuation, which can lead to higher depreciation rates compared to manufactured housing titled as real property.

## Actions

### Year 2 – 2023

Freddie Mac will determine the feasibility of having the components in place to develop terms and select counterparties to support purchases of loans on manufactured homes titled as personal property.

1. Define policy parameters to support loan purchases, including but not limited to the following:
  - a. Underwriting criteria
  - b. Risk management framework, including determining appropriate credit enhancement methods and quality control processes
  - c. Consumer protection controls
  - d. Special delivery criteria
  - e. Servicing and property disposition requirements

2. Explore potential securitization and/or risk-sharing structures.
3. Determine counterparties to be included.
4. Request FHFA approval.

### **Year 3 – 2024**

1. Purchase 1,500-2,500 loans to obtain data that can help inform future decisions related to a conventional product, dependent on FHFA approval of the framework to support purchase activity.

## **Market Impacts**

Purchasing manufactured homes titled as personal property will allow Freddie Mac to gather additional information needed to build a sustainable product to increase support for the manufactured housing market. Leveraging loan purchases to inform product design will contribute to developing a more robust secondary market, reducing the degree of specialization across processes, increasing the flow of liquidity, attracting private capital to the market, and propelling industry growth.

The loan purchase activity will provide us with the opportunity to test features and processes, gather feedback, and adjust quickly as needed on a small scale to help ensure that we deliver relevant and meaningful market support. Through this activity, we expect to be able to develop and test a framework that includes, but will not be limited to, a reliable underwriting and valuation model, a securitization and/or risk-sharing structure, and consistent requirements for servicing and disposition activities.

Developing and carrying out the purchase activity will demand extensive and rapid coordination, collaboration, decision making, and implementation activity within Freddie Mac and with selected business partners. To gain experience in analyzing personal property loans, we will rely on external resources and partners, to assist with data and analytical support. Additionally, we will draw on resources from across Freddie Mac, including Single-Family teams responsible for affordable lending, customer relationships, credit decisions, modeling, pricing, securitizations, and product development to understand the economics, credit risk, and operational and technology impacts.

# Activity 3 – Manufactured Housing Communities Owned by a Governmental Instrumentality, Non-Profit Organization, or Residents: Regulatory Activity

Based on our outreach in the Resident Owned Community (ROC), non-profit and governmental entity MHC markets, we have found that there is a strong interest in our role in this space, particularly for ROCs. During this three-year Plan, we intend to focus our efforts in support of ROCs, as well as communities owned by governmental entities or non-profits. ROCs are typically created when investor-owned MHCs are bought by their residents. Although there is no formal data tracking of the incidence of conversions from investor-owned to ROCs across the entire market, our outreach to lenders suggests that up to 25 communities are converted each year. We have also learned that there are some communities being sold back to traditional MHC sponsors/investors, although the exact numbers are not known.

The completion of a conversion from an investor-owned community to a ROC is a challenging process that requires a unique alignment of circumstances. Generally, at least seven factors must come together:

- A community must be put up for sale.
- The residents must want to own their community.
- A sophisticated tenant group must be appropriately organized to purchase it.
- Sufficient equity or equity-equivalent financing must be available.
- Specialized debt financing products must also be available.
- Adequate technical assistance must be provided.
- The seller must choose to sell the community to the residents.

Although many MHCs are sold annually (the exact number of which is unknown), these seven factors presumably align in only a small minority of these cases. We have conducted research on MHROCs<sup>25</sup> in order to understand the market’s needs, challenges and opportunities and to provide liquidity to the ROC market as part of our 2018-2021 Duty to Serve Plan. We intend to continue and expand our efforts to address the challenges and needs of the ROC market during this 2022-2024 Plan cycle through purchasing ROC loans.

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## OBJECTIVE A: PURCHASE RESIDENT-OWNED, NON-PROFIT-OWNED AND GOVERNMENT INSTRUMENTALITY-OWNED MHC LOANS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	1, 2 and 3	Affordable	Not applicable

Through our landmark research and report publication in our immediately preceding Duty to Serve Plan cycle, we demonstrated that the ROC market is extremely small, consisting of 1,065+ communities, which comprises only 2.4 percent of the broader MHC market, and 0.09 percent of households in the country.<sup>26</sup> Because of the numerous challenges described above and below to creating new ROCs – challenges that extend beyond the availability of capital – we expect the market will remain small and broad capital markets interest will still be

limited. However, we remain committed to serving the MHROC market by purchasing ROC loans and increasing awareness of our ability to do so, which will be fundamental to serving the market over time and reducing the cost of debt for ROCs. The market for non-profit owned and government instrumentality-owned MHCs is even smaller than the market for ROCs. As of 2019, there were only five non-profits with more than one MHC; between these five, they own 52 communities. Additionally, there are only two government instrumentalities that own more than one MHC.<sup>27</sup> Our core MHC offering is well suited to helping these non-profits, and others, both refinance their loans for a lower cost of debt and acquire new communities as opportunities arise that are consistent with their business plans. We remain committed to supporting this segment of the market as well.

During this plan cycle, we anticipate redoubling our outreach efforts through ROC and non-profit market stakeholders and others to increase the opportunities for us to purchase loans on ROCs, government instrumentality-owned, and non-profit-owned communities, and we will look to be flexible in assessing these opportunities, as each transaction has unique needs.

**Baseline**

Year	Number of Transactions	Total Amount (\$)
2018	1	\$5 million
2019	0	0
2020	0	0

We have purchased four ROC loans and two non-profit loans since the inception of our MHC program in 2014 for a total of approximately \$25 million (\$15 million for ROCs, \$10 million for non-profits). Five of the six transactions were completed prior to our formal loan offering for MHROCs<sup>28</sup> created in 2019, with two non-profit transactions in 2015, two ROC transactions in 2016 and one ROC transaction in 2018. From 2018-2021, we purchased two ROC loans, despite having quoted more than 1500 loans for MHCs, with five for ROCs, and having done considerable work with our lenders and other stakeholders to increase this. Based on the fact that we have funded one transaction from 2018-2020, our three-year average baseline will be one transaction.

**Market Challenges**

The primary challenge involved in making loan purchases on new ROC conversions is the unique circumstances for a ROC loan to occur. For a ROC loan to initiate, the following must happen: A community must be put up for sale, the residents must want to own their community, a sophisticated tenant group must be appropriately organized to purchase, sufficient equity or equity- equivalent financing must be available, specialized debt financing products must be available, adequate technical assistance must be provided, and the seller must choose to sell the community to the residents. It is very rare that all of these factors combine to enable a transaction.

This long list of requirements is lengthened by other factors. In the case of refinances, properties must show a history of stable operation and professional management of the community and borrowing entity. Further, there are very few ROCs seeking financing in a given year and transactions can be highly reliant on factors outside of Freddie Mac's control, such as reliance on additional capital sources with unpredictable timelines and underwriting criteria. Also, and perhaps most importantly, the prevailing financing model in the market is not conducive to either significant growth or attracting the private-capital investment at scale necessary to distribute risk away from the public. ROCs generally require subordinate debt with foreclosure rights in addition to the senior loan, bringing the combined loan-to-value ratio over 100 percent. This falls well outside typical credit parameters for the GSEs and typical first-lien debt providers.

## 2022-2024 Targets

The vast majority of MHROC conversions are supported by organizations such as CDFIs that can provide capital in excess of the appraised value of the property – something that Freddie Mac cannot do – along with technical assistance. Therefore, Freddie Mac’s role is better suited to supporting refinance transactions that can help MHROCs obtain more cost-effective long-term debt and help CDFIs re-deploy capital. This is an even smaller market, with great unpredictability year-over-year and few transaction opportunities to be pursued by both Freddie Mac and Fannie Mae. Our lender network is actively pursuing MHROC transactions.

In addition, we have developed and are implementing deliberate marketing and outreach strategy to target ROC, non-profit and government loans in order to help increase opportunities for loan purchases. There are three components to our outreach strategy:

- Actively target our lender network and send out multiple announcements to our entire lender network about our interest in pursuing MHROC, non-profit and government owned transactions every quarter throughout the Duty to Serve plan cycle.
- Hold regular conversations with our lenders as well as brokers specifically explaining our interest in targeting MHROC, non-profit and government instrumentality transactions and why these deals are particularly impactful.
- Connect with non-profits across the country to inform them of our program standards and eligibility.

Our purchase targets represent our continued commitment to seek opportunities to provide liquidity to this market. Based on our outreach strategy, we are increasing our loan purchase targets over our prior plan and over our baseline.

Year	2022	2023	2024
<b>Target</b>	Three transactions	Four transactions	Four transactions

## Market Impacts

We believe having a stable capital source for senior debt provides liquidity for this market. Today, ROC financing is dependent upon select originators and investors with profound expertise. With our presence in the market and our commitment to purchase loans, we can, over time, maximize the impact of these expert providers, help communities achieve low cost of capital to refinance higher interest rate existing debt, and assist with the conversion to resident ownership. Our prior transactions have taught us how to effectively work in this space when opportunities are available, and we are actively working to grow those opportunities.

# Activity 4 – Manufactured Housing Communities with Certain Pad-Lease Protections: Regulatory Activity

During the previous Plan cycle, we conducted research on MHC tenant pad lease protections in order to provide a broader market understanding of the gaps between what the market currently offers for MHC tenant pad lease protections and what is identified in the Duty to Serve regulation and explore ways to close that gap over time. This research informed our thinking when developing a MHC tenant pad lease protections offering in 2019, which led us to add a purchase target for loans instituting Duty to Serve tenant pad lease protections in 2020. In 2021 we announced and implemented a requirement that all new MHC transactions include Duty to Serve tenant protections. In 2022-2024, we plan to continue purchasing loans on properties that commit to implement Duty to Serve tenant pad lease protections, and anticipate increasing adoption of tenant protections in the market.

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## OBJECTIVE A: PURCHASE LOANS THAT INSTITUTE DUTY TO SERVE TENANT PAD LEASE PROTECTIONS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	1, 2 and 3	Affordable	Not applicable

Based on our research, our successful loan offering in 2019, and our ability to complete 22 transactions through our loan purchase objectives in 2019 and 2020, and our increased loan purchases in 2021, we believe we have identified adoptable parameters to provide the full complement of Duty to Serve protections to homeowner tenants. In 2021 we implemented a requirement that DTS tenant protections must be included on all new MHC transactions.

Loan purchases will count under this objective based on the borrower’s commitment to implement tenant pad lease protections in accordance with our Manufactured Housing term sheet at the time of our mortgage purchase.

### Baseline

We implemented our tenant pad lease protections product offering in 2019, with a subsequent loan purchase objective for 2020 and 2021 due to the success of this offering and increased market adoption. Through our 2019 and 2020 loan purchase objectives, we provided tenant protections to a total of 2,560 pad leases across 13 states, with a total of approximately \$160 million in financing for 22 loans and set an important precedent for more impact over time.

Year	2019	2020
<b>Total Loan Amount</b>	\$88 million	\$71.6 million
<b>Properties</b>	8	14
<b># of Qualifying Pads*</b>	1,322 pads	1,238 pads

\*Qualifying Pads means pads occupied by a tenant who owns their home at the time of origination. Vacant pads and pads occupied by homes that are rented are excluded.

Based on the averaging of our 2019 and 2020 activity, our baseline for 2022-2024 is 11 properties and 1,280 qualifying pads.

## Market Challenges

We have demonstrated in 2021 that Duty to Serve tenant protections can be adopted at meaningful scale. As of September 13, 2021, we have implemented a requirement that all new MHC transactions include these protections. Since that announcement we have seen continued adoption by community owners through new loans. However, we were the first capital provider with this requirement. MHCs can obtain loans from life insurance companies, banks, CMBS conduits, housing finance agencies, and CDFIs. Because these institutions do not require additional protections for tenants above and beyond state law, communities may prefer to obtain financing from these entities instead. We are encouraged, however, by the success of our offering, and anticipate that we will continue to have a strong presence in the MHC market and increase protections for tenants nationwide.

## 2022-2024 Targets

Based on our success in 2021 in purchasing loans with Duty to Serve tenant protections, we have set our targets well above our baseline, with intended increases each year under the Plan. We anticipate that – even with increased competition from lenders that do not require protections – we will meet or exceed these targets.

Year	2022	2023	2024
<b>Target</b>	Lesser of 110 properties or 11,000 pads	Lesser of 105 properties or 10,500 pads	<del>Lesser of 110 properties or 11,000 pads</del> <a href="#">17,100 pads</a>

## Market Impact

Freddie Mac intends to continue our role of providing liquidity in these hard-to-serve markets through our innovation and dedicated platform, providing support to more families through our MHC tenant pad lease protections financing. As a result of our MHCs offering and partnership with our lender network, we have increased the protections for tenants in MHCs across the country above and beyond existing tenant protection laws in all 50 states. This represents a potential sea change in the MHC market, where we support not just affordability for tenants, but also a better tenant experience. As we continue to purchase loans requiring these tenant protections, we will further improve the standards provided to MHC tenants nationwide.

Recognizing the critical role the GSEs may play in providing a stable source of capital, we will be mindful that our purchase volume and credit standard are consistent with safety and soundness. In furtherance of this goal, we are also able to distribute risk away from taxpayers through our market-leading credit risk transfer program. This allows us to provide attractive financing and flexible terms to borrowers, channel private capital to support public good efficiently and cost effectively while protecting taxpayers, and maintain safety and soundness.

## Strategic Priorities Statement

Affordable rural housing is core to Freddie Mac's mission and essential to the stability, economic development and viability of rural communities. However, it is clear from our outreach and public input that there is insufficient liquidity to meet the needs in these markets.

During this Plan cycle, our goals are to increase secondary market liquidity responsibly and improve access to quality affordable housing for renters, homebuyers, and homeowners in some of the hardest-to-serve markets in the country. This will include designing financing solutions for community development financial institutions (CDFIs) and American Indian and Alaska Natives (AIAN) that will provide homeownership opportunities. In the rental market, we will expand our commitment to LIHTC equity investments and enhance our program to provide non-profit owners greater control of their properties through the end of the compliance period. We will also leverage our LIHTC equity investments to advance renter financial empowerment. To achieve our goals, we will continue to expand our network of partner organizations to better implement products and services that will be beneficial to this market.

### Over the next three years, Freddie Mac will expand our support for the rural housing market in the following ways:

1. ~~Increase~~ Provide financing for rural homebuyers, homeowners, and rental-housing developers.
2. Introduce product enhancements to create a tailored solution that facilitates CDFIs' origination of conventional mortgages in high-needs rural regions.
3. Develop and roll out conventional product terms to support lending to members of federally recognized AIAN tribes in tribal areas.
4. Continue hosting a Rural Research Symposium that focuses on new research and insights on rural mortgage markets to better understand who is being served and the effectiveness of mortgage products, services, and financing.
5. Conduct research to provide the industry with information that helps drive strategies and solutions for expanding access to credit and sustaining homeownership.
6. Purchase loans to support USDA Section 515 program to preserve long-term affordability for rural renters (reported under the Affordable Housing Preservation market).
7. Further financial empowerment for rural renters through our Credit Building and CreditSmart programs.
8. Explore and develop a capacity-building program for rural developers.
9. Enhance our LIHTC program to better support non-profit ownership at the end of the compliance period.



# Market Context

## Overview

Today, rural areas encompass 94 percent of our country’s landmass, but they are home to only about 19 percent of the population.<sup>29</sup> While rural areas are socially, economically and geographically diverse, they face many common challenges. In many rural areas, industries that historically drove the economy – including manufacturing, timber and agriculture – are shrinking. The population is aging and younger generations are leaving in search of job opportunities.<sup>30</sup> As a result, rural areas have disproportionately high rates of unemployment, under-employment and poverty.

According to the 2010 U.S. Census, 42 percent of homes in rural areas were owned “free and clear” versus only 27 percent in urban and suburban areas.<sup>31</sup> This may be in part because homes are less expensive overall<sup>32</sup> or because older populations may have had more time to pay off mortgages or transfer equity from another property. However, there remains an overall need to provide affordable housing due, in part, to poor economic conditions. These economic conditions, in turn, can lead to borrowers with poor credit histories who lack available assets for down payments.<sup>33</sup>

There are approximately 7.1 million renter-occupied units in rural communities, comprising 28.4 percent of the rural and small-town housing stock. The physical composition of rural rental housing differs from rental characteristics nationally. Rural renters are most likely to live in single-family homes or in small multifamily structures rather than large buildings or apartment complexes. Among rural renters, 49 percent live in one-unit, single-family rental homes, while 17 percent live in two- to four-unit rentals, 16 percent in five- to 49-unit multifamily properties, and 3 percent in properties with 50 or more units. The remainder live in manufactured housing rental units.<sup>34</sup> Key information about the high-needs rural regions is summarized in the table below.<sup>35</sup>

Metric	Total U.S.	Middle Appalachia	Lower Mississippi Delta	Border Colonias	Native American Regions
Population	301,461,533	8,841,811	8,922,311	5,586,664	1,191,561
Poverty Rate	13.5%	17.8%	19.7%	23.8%	24%
Small-Town/ Rural Population	21.2%	54.8%	50.8%	29.8%	Not Listed
Homeownership	66.9%	73.0%	68.0%	67.7%	70.1%
Manufactured Housing	6.8%	20.7%	17.1%	19.2%	15.8%

High-needs rural regions and populations share common characteristics, but they may also have unique social, economic, and demographic features that will make it challenging for Freddie Mac to create sustainable mortgage purchase programs to support housing in these areas.

### *Middle Appalachia Region*

The Middle Appalachia region includes 237 counties in Kentucky, North Carolina, Ohio, Tennessee, Virginia, and West Virginia. This region is rich in natural resources; it has relied on coal mining and timber for employment for over a century.<sup>36</sup> This has recently shifted, and the main industries are now education and health care.<sup>37</sup> In this region, it is more common for homes to be owned free and clear, and for multiple generations to live on the same plot of land that has been in the family for generations. Manufactured housing is very common; in 2016, 23.1 percent of renters in rural Middle Appalachia lived in mobile homes, which is more than five times higher than the national average.<sup>38</sup>

The Middle Appalachia region's total rural population is just over nine million, with about 5.4 million living in rural areas.<sup>39</sup> Like many other rural areas, Middle Appalachia is experiencing an aging population and an exodus by the younger workforce. A high percentage (73 percent) of households own their homes compared to the national average, but the value of the homes is low.<sup>40</sup> Persistently low property values have impeded household asset accumulation.

### *Lower Mississippi Delta Region*

The Lower Mississippi Delta region includes 251 counties in parts of Alabama, Arkansas, Illinois, Kentucky, Louisiana, Mississippi, Missouri, and Tennessee. The region encompasses a 200-mile plain that includes more than 90,000 miles of rivers and streams and has some of the richest soil in the country. Notwithstanding its richness in natural resources, the region is home to some of the poorest populations in the country, as evidenced by the high concentration of persistent-poverty counties and overall poverty rate of 22 percent, as of 2017.<sup>41</sup> Its residents have suffered through devastating natural and man-made disasters, including multiple hurricanes since the mid-2000s and the Gulf of Mexico oil spill in 2010, which have caused massive property destruction and stalled segments of the economy.

The Lower Mississippi Delta region has a population of just under 10 million, with about 5.2 million living in rural areas.<sup>42</sup> According to the 2010 U.S. Census, the population grew by only 1 percent from 2000 to 2010. This region also experiences a large degree of out-migration, with the younger workforce moving to the urban centers for job opportunities. Homeownership rates in this region are high (70.8 percent), and ownership is sought after as a means of stability, investment, and asset accumulation.

### *Colonias*

Colonias are located in parts of Arizona, California, New Mexico, and Texas along the U.S.-Mexico border.<sup>43</sup> Until recently, the Colonias was a poorly defined designation. In 2020, a concept known as Colonias Investment Areas was developed to better inform a comprehensive approach to the provision of home mortgage finance in this region. The U.S.-Mexico border region encompasses more than 2,400 government-recognized Colonias communities. Texas contains 61 percent of all Colonias Investment Areas.<sup>44</sup>

Approximately 1.7 million people live in the rural border Colonias, most of whom are foreign-born residents. Nearly two-thirds of the adults living in Colonias are U.S. citizens.<sup>45</sup>

The Colonias Investment Areas poverty rate of 27 percent is more than twice the national average. More than 70 percent of the residents in the Colonias Investment Areas live in persistent-poverty counties.<sup>46</sup> Colonias residents often live in substandard housing.<sup>47</sup> They continue to live there for a multitude of reasons, including a desire to remain close to relatives, the security of a familiar culture and limited ability to move into other areas of the country. Many of these communities developed because housing was not provided by the agriculture industry that hired residents as seasonal and migrant workers.<sup>48</sup>

Conventional mortgage lending is substantially lower in the Colonias Investment Areas compared to most markets. Non-Conventional and "high-cost" products lead to an asymmetric financing system in Colonias Investment Areas. The incidence of high interest mortgage lending in Colonias Investment Areas is more than twice the rate for consumers nationally.<sup>49</sup>

### *Federally Recognized American Indian and Alaska Native Populations in Tribal Areas*

There are roughly 5.2 million people who identified themselves as members of American Indian or Alaska Native tribes per the 2010 Census, representing 1.7 percent of the nation's population. However, this estimate relies on self-identification and does not distinguish between federally recognized and non-federally recognized tribes.<sup>50</sup> A closer estimate of the number of individuals in federally recognized tribes may come from the Indian Housing Service, which serves 2.6 million tribal members.<sup>51</sup> In addition to the population component, this high-needs

population is unique in that it also contains a geographic component that is discussed at length in our 2018 paper on LIHTC in tribal areas.<sup>52</sup> Because of this, summarizing housing conditions of this population has an added layer of complexity.

The U.S. Department of Health and Human Services estimates that only 22 percent of those who identify as Native American live on reservations or other trust lands.<sup>53</sup> Each tribe has a unique culture and history, which makes generalizing about this market difficult. However, through our own research and that of the Housing Assistance Council (HAC), we have learned that tribes located in rural areas often face substandard housing, lower education levels, lower income levels, and persistent poverty.<sup>54,55</sup>

Each tribe has its own government and, through treaties with the U.S. government, authority over its tribe and land. Land controlled by Native American tribes can be tribal or trust-owned land. Tribal land can be owned by an individual or the tribe, whereas trust land has a title that is held in trust by the federal government. The legal complexities of land titles have made mortgage financing difficult due to, among other things, the inability of a mortgage holder to foreclose on the property in cases of default. “Checkerboarding,” a term used to describe the variety of land titles used, hampers the ability of the tribes to accumulate land under one type of ownership.

Tribal areas have a larger percentage of owner-occupied housing. Specifically, on reservations (including both rural and urban), 67.3 percent of households were homeowners as of 2016. Reservations generally have a mix of tribal members and non-tribal members, and we found that reservations with a higher proportion of tribal members tended to have higher rates of homeownership.<sup>56</sup>

According to the National Congress of American Indians, up to 40 percent of housing located on reservations is considered substandard, and up to one-third is considered overcrowded due to high levels of poverty and the lack of affordable rental housing.<sup>57</sup> Additionally, a 2011 report by the U.S. Environmental Protection Agency showed that more than 120,000 tribal homes lacked access to basic sanitation.<sup>58</sup>

### *Agricultural Worker Population*

The agricultural industry in the U.S. is a multibillion-dollar industry that requires more than two million farmworkers annually to harvest crops.<sup>59</sup> Agricultural workers are considered a high-needs population due to evidence of persistently lower income levels and higher rates of residence in substandard housing. The 25 percent poverty rate is almost twice the national average of 13.4 percent.<sup>60</sup>

Agricultural workers often rely on seasonal or temporary work, requiring them to move from location to location to maintain employment, which can make owning a home impractical. While agricultural workers today move less often than in past decades, many continue to live in poverty.<sup>61</sup> Given their reliance on short-term employment, as well as employment instability and low wages, agricultural workers are frequently renters instead of homeowners.

## Freddie Mac’s Current Support for Rural Housing

Freddie Mac offers a variety of loan products that support rural borrowers. Freddie Mac’s Home Possible® product provides flexible underwriting and low down-payment requirements, allows borrowers to obtain their down-payment funds from a variety of sources, and permits total loan-to-value ratios up to 105 percent. Home Possible can also be combined with a USDA Section 502 single-family leveraged second loan, which can be beneficial to rural households. Our HFA Advantage® is an extension of Home Possible and includes affordable product features with additional flexibilities for housing finance agencies. Additionally, we recently offered guidance to assist with rural property valuations. We recognize, however, that more work remains to be done.

In addition to single-family loan products, Freddie Mac has loan products that are designed for multifamily borrowers. Our ability to serve rural areas is constrained by the small number of multifamily properties to finance and the significant reliance these properties tend to have on public subsidy. Even so, Freddie Mac has increased our activities in rural markets over the past several years consistent with our community mission and beyond the

scope of Duty to Serve. From 2014-2020, we provided \$7.2 billion of financing in support of more than 120,000 households living in nearly 1,100 multifamily properties in rural areas. We have been able to provide financing for multifamily properties in Middle Appalachia, Lower Mississippi Delta, and rural persistent-poverty counties as well as financing for high-needs populations such as agricultural workers. Since reentering the LIHTC Equity Investment market, we have invested more than \$550 million in rural markets, supporting over 4,100 households across 66 properties through 2021. We believe that our investment and loan purchase objectives described below are necessary to more effectively support rural markets.

## Challenges and Needs

Freddie Mac's outreach to a wide range of rural market participants has identified that challenges in rural regions can be multifaceted and affect virtually all residents, extending beyond housing affordability, and can include persistent poverty, declining employment opportunities, and limited access to financial services, among other factors.

Through our research and outreach, we have gained a deeper understanding of the current challenges facing this market and the unique needs that must be met to serve it successfully.

### 1. *COVID-19 challenges*

It is unclear how and when the market will recover from the coronavirus pandemic. In addition to the toll it is taking on individuals, families, and communities, it is adversely affecting housing construction, rehabilitation, and lease-up, which could present delays for Freddie Mac financing. Also, the market's recovery may be slow and/or uneven. However, affordable housing is likely to remain in very high demand for prospective homeowners and existing renters, and that demand may increase as new households enter the market. Additionally, if pre-pandemic income levels are slow to recover for very low-, low- and moderate-income households, this could increase the need for an already scarce supply of affordable housing, particularly at lower rent levels. Our focus is to remain a source of stability, liquidity, and affordability for the housing market in all economic conditions.

### 2. *Lack of affordable housing and high cost burdens*

Households in rural areas experience a high housing cost burden, which is defined as housing costs that exceed 30 percent of a family's income. This is one of the most significant barriers to homeownership.<sup>62</sup> Our outreach suggests that this may be due to a combination of four factors: low employment, poor economic conditions that can lead to weaker credit, a lack of housing stock due to construction costs, and lack of access to financial services. Many rural areas do not have adequate access to financial services because they are often very remote and have low populations. The comments we received suggested the lack of financial services leads to higher borrowing costs and higher interest rates. Additionally, a significant portion of the population may have poor credit and a higher percentage of owners have high-cost loans in comparison to non-rural areas. High-cost loans result in decreased asset accumulation, higher default rates, and an increased cost burden of ownership.

### 3. *Persistent poverty*

Approximately 16.3 percent of the rural population lives in poverty.<sup>63</sup> As of 2020, there were 455 counties in the United States seen as having persistent poverty; around three-quarters of these were located outside metropolitan areas.<sup>64</sup> In 2018, while the national median household income was \$60,293, the rural median household income was \$47,921. However, based on our research we published on LIHTC in rural persistent poverty counties, the median income in rural persistent poverty counties was substantially lower at \$34,299.<sup>65</sup> According to the Duty to Serve rule, a county has persistent poverty if 20 percent or more of its population has been living in poverty for the past 30 years.

#### 4. *Substandard/Overcrowded housing*

Compared to the national housing market, rural areas have higher rates of substandard housing and overcrowding as well as a shortage of certified professionals to construct and repair homes. Due to higher rates of unemployment and poverty, extended families may live together. These same factors lead to delayed home repairs and deteriorating properties. There are also a high number of abandoned homes and vacant units, as low market values make selling a property uneconomical and households move to find work.

#### 5. *Declining employment*

The unemployment rate is higher in rural areas than the national average.<sup>66</sup> The limited growth of traditional rural industries – manufacturing, timber and agriculture – has led to limited employment opportunities. An inconsistent employment history may make it difficult or impossible to access credit.

#### 6. *Lack of access to lenders*

Rural borrowers have access to fewer mortgage lenders. Given the relatively low volume of loans and comparatively low home values in rural areas, it is less profitable for lenders to provide financial services in these areas. In addition, rural borrowers may not have access to reliable, consistent internet service. As a result, these borrowers may be completely reliant on one or two local lenders, who may have limited loan products and charge higher rates in order to maintain a local presence.

#### 7. *Appraisals*

Rural appraisals are challenging for a number of reasons: there are limited comparable sales; those sales may not be similar to the subject property; and those sales may not be physically near the property being appraised. As a result, rural appraisals may take additional time, research and justification to determine an acceptable value for a property. Because of the additional work involved, rural appraisals may also cost more, an expense that is proportionately greater where the property value may be low.

#### *Additional Challenges Facing Middle Appalachia and Lower Mississippi Delta*

The Middle Appalachia and Lower Mississippi Delta areas face the same challenges described earlier, but on a greater scale. The economies in these areas lack diversity, which exacerbates unemployment and underemployment. The population centers of these areas are geographically isolated, which makes the lack of available financial services providers more of a concern. This isolation also means that infrastructure may be a problem; a relatively large percentage of homes lack plumbing and electricity. The housing stock is also aging and, combined with a lack of certified professionals to do repairs, more housing is becoming substandard.

#### *Additional Challenges Facing Colonias*

Colonias continue to make basic infrastructure improvements and build better quality housing; however, a significant amount of work still needs to be done to address the challenges faced by the residents of these communities. The level of education in the Colonias lags behind the national average; only 75 percent of residents graduated from high school versus 84 percent nationally. This lowers their opportunities to secure higher-paying jobs and could decrease the possibility of obtaining a mortgage. Additionally, a significant portion of the population has limited English proficiency and limited access to financial services. In addition, the poverty rate is high; 23.8 percent live below the poverty line. Eight counties in Texas are among the poorest counties in the country.<sup>67</sup> Also impacting the financial stability of the Colonias, particularly in Texas, is the contract-for-deed system. With contract for deed, the buyer makes payments directly to the developer, while the land title remains with the developer until the amount is paid in full. These arrangements often involve high interest rates and may not be recorded with the county clerk. Even if one payment is missed, the developer may foreclose on a property and the buyer will lose his or her full investment.<sup>68</sup>

### *Additional Challenges Facing American Indian and Alaska Native Populations in Tribal Areas*

In addition to the challenges common to all rural areas, lending to federally recognized tribe members in tribal areas is difficult for many reasons, including the complexity around land titling, understanding and negotiating with distinct governments, the supply and quality of available housing, the need for flexibility around standard mortgage parameters, and the involvement of multiple federal programs.

In a 2020 convening, the South Dakota Native Homeownership Coalition stated that, “in many tribal communities in South Dakota, even when a family qualifies for a mortgage, there are no homes to purchase.”

### *Additional Challenges Facing Agricultural Workers*

Agricultural workers face many challenges common to rural areas generally and experience hardships including poverty, substandard housing, lower educational levels and home overcrowding. A critical challenge in creating liquidity for the mortgage market for agricultural workers is that data on the population are scarce. Furthermore, although agricultural workers currently are less mobile than they have been historically and may be more likely to stay in one area for longer periods of time, they remain more likely to rent rather than own. As we discussed above, there is limited rental housing in rural areas, and housing dedicated to agricultural workers is an even smaller submarket that is often heavily reliant on LIHTC equity and cannot support debt financing.

# Activities and Objectives

## Activity 1 – High-Needs Rural Regions: Regulatory Activity

The high-needs rural regions – Middle Appalachia, Lower Mississippi Delta, Colonias, and other rural tracts in persistent-poverty counties not included in one of the other three categories – share common challenges. They are diverse in their landscapes as well as in the economies that support them and their residents.

Freddie Mac’s strategic approach to increasing liquidity and expanding the distribution of capital in high-needs rural regions includes objectives targeting individual regions as well as challenges faced by multiple regions. During the Plan cycle, Freddie Mac intends to engage in the following objectives:

- ~~Increase Purchase loans secured by~~ single-family ~~purchase volume homes~~ in high-needs rural regions, including those using products and offerings developed or enhanced during the 2022-2024 Plan cycle.
- Develop product flexibilities to help community development financial institutions (CDFIs) increase originations of conventional mortgages.
- Continue to lead efforts to promote research on barriers to affordable homeownership in rural regions and support housing solutions.
- Publish research on the impact of the coronavirus pandemic and borrowers in high-needs rural regions taking up pandemic-related forbearance. Also publish research on the economics of small-dollar mortgage lending in high-needs rural regions.
- Engage in LIHTC equity investment.

### OBJECTIVE A: PURCHASE SINGLE-FAMILY LOANS IN HIGH-NEEDS RURAL REGIONS

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Purchase</b>	<b>1, 2 and 3</b>	<b>VLI, LI, MI</b>	<b>Yes – HNRR</b>

Freddie Mac will continue to purchase single-family mortgage loans in certain high-needs rural regions each Plan year to channel liquidity to these markets. For purposes of this objective, we will continue to focus specifically on the rural census tracts in the following high-needs regions: persistent-poverty counties, Lower Mississippi Delta, Middle Appalachia, and Colonias as defined in the revised Duty to Serve rule published on April 12, 2023.

## Baseline

The following table reflects Freddie Mac’s historical Duty to Serve-qualified single-family loan purchases in the high-needs rural regions listed above from ~~2018~~2019 to ~~2022~~2023. To calculate a baseline, we used a five-year historical average of our volume to normalize the record amount of volume we purchased in 2020 ~~and 2021 through 2022~~ as a result of the historically low interest-rate environment. Using the 20212023 reference files provided by FHFA,<sup>69</sup> refinance volume accounted for approximately 4045 percent of total Duty to Serve-qualifying loan deliveries in high-needs rural regions in ~~2018 and~~ 2019; however, in 2020 ~~and 2021~~, refinances ~~comprised composed more than 60~~64 and 66 percent of total qualifying volume, respectively. ~~As rates have risen rapidly since March 2022, qualifying loan volume has contracted accordingly.~~ In 2022, volume remained elevated but began to decline, with refinances composing just over half of qualifying loan volume. By the end of 2023, interest rates had more than doubled and qualifying loan volume continued to fall sharply, with refinances composing just 26 percent of the total. Overall qualifying loan volume in these areas increased 7071 percent from 2019 to 2020 and 42 percent from 2020 to 2021, whereas the annual increases were approximately 9 percent in prior years. On the other hand, the qualifying loan volume declined 34 percent from 2021 to 2022 and 45 percent from 2022 to 2023.

Freddie Mac Single-Family Loan Purchase Volume – High-Needs Rural Regions					
Year	<del>2018</del> 2019	<del>2019</del> 2020	<del>2020</del> 2021	<del>2021</del> 2022	<del>2022</del> 2023
<b>Income-Qualifying Loan Count</b> (A 5-year average of this loan count was used to establish the baseline)	<del>10,557</del> 11,505	<del>11,509</del> 19,633	<del>19,628</del> 27,802	<del>27,807</del> 18,255	<del>18,270</del> 10,003
<b>Baseline</b>	17,55417,440				

## 2022-2024 Targets

Our purchase targets over the Plan cycle are set forth in the following table. Purchase volume in prior years increased year-over-year; however, the combination of a shortage of affordable homes in rural areas, years of rapid home price increases, rising mortgage interest rates, and high inflation rates prevent many individuals from buying and refinancing homes, thereby affecting our potential loan purchase volume. We will deploy a variety of tactics to maximize loan purchases in high-needs rural regions, including expanding the number of lenders, leveraging all available purchase-execution options, conducting outreach, and enhancing our product features to spur increased conventional originations by CDFIs.

Given the circumstances, our purchases in 2023 and 2024 arewill not expected to reach the levels achieved in 2020-2022. Instead, they ~~likely~~will fall below the baseline.

Refinance volume in the first half of 2024 was the weakest since the first half of 1995. Although interest rates declined slightly in 2024 from their recent highs, they hovered around 7 percent in the first three quarters of the year and home prices continued to rise, preventing many households from purchasing homes. Furthermore, the labor market has been cooling. The slowdown in job growth can further affect the number of households actively seeking to buy homes. While inventory of existing homes rose year-over-year, the number of homes available for sale remains well below the pre-pandemic average. Inventory of new homes is at the highest level since January 2008. However, only around one-fifth of the homes for sale are completed; construction has not yet begun on one-fifth and the rest are under construction. The June 2024 National Association of Home Builders’ Housing Market Index continued to fall and indicates poor building conditions over the next six months.<sup>70</sup>

After showing signs of slight improvement earlier in the year, the National Association of REALTORS® second quarter 2024 Housing Affordability Index was the lowest since July 1985.<sup>71</sup> This put downward pressure on loan purchase volume in high-needs rural regions. With interest rate volatility and the remaining affordability



challenges, we anticipate that 2024 loan purchase volumes will continue the decline observed in 2023.

Projected volume does not take into account potential market reactions to the interest-rate environment or the coronavirus pandemic. It also does not take into account the possibility of slower-than-expected adoption of our product enhancements. Lenders' business priorities and the complexities of their internal processes affect the rate of adopting new or updated mortgage offerings.

Single-Family Loan Purchase Targets – High-Needs Rural Regions		
Year 1 – 2022	Year 2 – 2023	Year 3 – 2024
12,800-13,850 loans	6,400-6,500 loans	<del>14,750-16,000</del> 8,000-9,000 loans

## Market Opportunity and Impact

We estimate that we will provide lenders with an average of around a total of more than \$1.85 billion in liquidity each year of over this Plan cycle to finance homes in high-needs rural regions. Lenders originating the loans that we purchase may include CDFIs and small financial institutions; our purchases from rural areas will include loans secured by manufactured homes, an affordable housing option for many households that tends to be more prevalent in rural regions than in other areas. Our loan purchases will expand access to credit to qualified borrowers and help create affordable homeownership opportunities in high-needs rural regions.

We also expect that, through our continuing and extensive lender engagement, lenders will gain more financing options and more confidence in lending in high-needs rural regions. More lenders also will gain access to the secondary market, with some becoming direct Freddie Mac seller/servicers; direct selling allows us to provide liquidity to a more diverse set of lenders.

Realizing these benefits will depend on continuing to make progress toward lowering barriers to homeownership and lender participation – some new, many long-standing. For example, high-needs rural regions have a higher concentration of households with thin or no credit profiles than other areas of the nation, making it harder for even creditworthy individuals to qualify for mortgage financing. We will continue to raise lenders' awareness that Freddie Mac's Loan Product Advisor® has the capability to evaluate borrowers with thin or no credit scores.

In addition, some economic opportunities may not extend to rural areas to the level that they are available elsewhere and economic downturns may affect rural areas to a greater extent and for longer than other areas. Exacerbating these circumstances, This has been the case during and since the coronavirus pandemic has been causing unemployment and underemployment to rise, primarily in service-related industries. As a result, many potential homebuyers may remain on the sidelines and homeowners may be challenged to stay in their homes and/or holding off on investing in home improvements.

Furthermore, high-needs rural regions are primarily served by small community-based lenders; many may not have the capacity to sell directly to Freddie Mac and building relationships with aggregators through which they could deliver their loans takes time. Lenders have told us that their ability to adopt new or enhanced products and the speed to market depends on business priorities and the need for resources, systems updates, new internal policies, and training. The process can take a year or more; once completed, it takes additional time before the lender uses the product and delivers the loans to us. We will continue our efforts to expand access to the secondary market by engaging with lenders already active in this market and connecting with others that would be new to it.

**OBJECTIVE B: DEVELOP PRODUCT ENHANCEMENTS TO INCREASE ORIGINATION OF CONVENTIONAL MORTGAGES FROM COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Product</b>	<b>2 and 3</b>	<b>VLI, LI, MI</b>	<b>Yes – HNRR</b>

CDFIs that serve high-needs rural regions facilitate investment and provide affordable financing for a wide range of needs in some of the nation’s most economically distressed areas, including for affordable housing. To achieve this, CDFIs use the finance industry levers available to them to draw capital into these areas, which otherwise suffer from disinvestment. However, overall investment in and resources for community and economic development dramatically lags in high-needs rural regions compared to urban areas.<sup>72</sup> For affordable home financing specifically, existing conventional mortgage products do not effectively support rural areas, particularly persistent-poverty counties. This limits access to the secondary mortgage market and, consequently, the flow of liquidity to these geographies.

During the first Plan cycle, Freddie Mac formed partnerships with CDFIs that enabled them to become direct and indirect sellers to us, opening their access to the secondary mortgage market. Through these relationships, we provided direct liquidity to the CDFIs. In addition, we increased their capacity to deliver localized financial and homebuyer education to help prepare more people for responsible homeownership in high-needs rural regions, including Native American tribal areas. Moreover, our partnership enabled non-profit housing intermediary Come Dream Come Build (formerly Community Development Corporation of Brownsville, or CDCB) to provide homeownership opportunities through its innovative MiCASiTA program<sup>73</sup>, which provides mortgages that allow homeowners in South Texas to expand their homes in stages; the mortgage is modified over time to accommodate the phased construction. This approach allows low-income households to finance additions gradually and more affordably than they could with traditional mortgage loans or high-cost, short-term loans.<sup>74</sup>

However, most of the loans that we have tried to purchase have not met our traditional conventional eligibility requirements. The rural CDFI community has asked for more targeted product offerings that better fit the profiles of the regions and people they serve.

Therefore, Freddie Mac will explore potential solutions during the second and third years of this Plan cycle to better enable CDFIs to expand affordable lending and access to credit in high-needs rural regions, while taking into account safety and soundness considerations. We will apply relevant lessons learned in developing an offering to support lending in tribal areas under Rural Housing Activity 2, Objective A of this Plan (such as lending terms, lender aggregation) as we develop an offering for use by CDFIs.

**Baseline**

Freddie Mac offers low down-payment mortgage options for very low-, low-, and moderate-income households, including Home Possible®, HFA Advantage®, and HomeOne®. However, these products are not tailored to meet the specialized needs of CDFIs, which limits our ability to support these lenders and their customers.

## Challenges

### Limited applicability of conventional mortgage products

The majority of loans sourced by CDFIs serving rural regions do not meet current conventional requirements. Without mortgage products better tailored to the needs of rural households, CDFIs' ability to provide conventional financing options and to sell those loans into the secondary mortgage market will remain severely constrained. As a result, they will lack the liquidity needed to increase affordable lending and access to credit in the areas they serve.

## Actions

### Year 2 – 2023

1. Host a series of at least four working group sessions to collaborate with industry CDFI partners in evaluating existing conventional mortgage offerings and identifying product terms and flexibilities needed to increase originations in high-needs rural regions. Select CDFIs for their experience in lending in high-needs rural regions, including those that also can provide performance data and profiles of customers already being served in this market.
2. Identify aggregators to partner with CDFIs acting as third-party originators to support conventional mortgage originations via an indirect selling relationship with Freddie Mac. Assess and select additional CDFIs for their capabilities to support a direct selling relationship with Freddie Mac to extend our pipeline of CDFIs that can leverage conventional financing effectively.

### Year 3 – 2024

1. Introduce product enhancements based on input gathered from CDFIs during the Plan cycle to create a tailored solution that facilitates CDFIs' origination of conventional mortgages in high-needs rural regions. Provide the offering to at least three CDFIs via a negotiated term of business (TOB).
2. Provide technical assistance to support CDFIs in implementing and using the product offering effectively.
3. Create an indirect channel for additional CDFIs in rural regions to sell loans that they originate using the offering into the secondary market. Provide technical assistance on how to originate and package loans for sale through CDFIs with the TOB, which will serve as aggregators.

## Market Impacts

Through our efforts under this objective, Freddie Mac will help fill gaps that CDFIs have stated limit their ability to provide affordable lending and access to credit in rural regions. The mortgage solution that we develop will meet the specific needs of very low-, low- and moderate-income households and promote quality conventional mortgage lending in high-needs rural regions. By deepening relationships with select CDFIs and providing technical assistance, we will help ensure that they can adopt and use the solution efficiently and effectively. The aggregation capabilities that we will support in collaboration with CDFIs, along with the accompanying training on loan origination and packaging, will create a conduit to the secondary mortgage market. As we purchase loans from these CDFIs, we will increase liquidity in their communities, which can be used to help additional low-income households attain and sustain homeownership. Also, working to establish additional CDFIs as direct sellers to Freddie Mac will enable us to increase liquidity to a more diverse set of lenders. Because the flow of liquidity to these areas currently is low, our purchases will make a meaningful difference.

Developing a specialized offering for CDFIs serving high-need rural regions will be challenging because a targeted approach must also be scalable across communities. Additionally, the coronavirus pandemic has exacerbated economic conditions already common in rural markets, which could further shrink the pool of households ready to benefit from a conventional home mortgage. Among the challenges are higher-than-average

unemployment rates before and since the coronavirus pandemic began<sup>75</sup>, underemployment, and a general lack of resources. The length and extent of the pandemic’s impact on rural communities cannot be predicted at this time.

The pandemic also may affect efforts to develop and roll out the solution. CDFIs, like many lenders, are focusing on assisting customers who have been adversely affected by the pandemic and implementing any required changes to servicing and origination policies. Many lenders have delayed new product releases and development.

In any case, completing the actions under this objective will require Freddie Mac and CDFIs to devote substantial time and resources. Freddie Mac will need to adjust internal policies on how we instruct lenders to deliver and service these loans, taking into account consistent safety and soundness practices. We will draw on our experience in creating limited-purpose offerings to drive engagement with CDFIs active in the market and the solution-development process, culminating in an offering in Year 3 of the Plan. FHFA approval will be required to introduce any policy and related system updates to the market. For CDFIs, their internal processes affect the rate of adopting new or updated offerings, even when they understand the value of offerings and are anxious to incorporate them into their businesses. The speed to market depends on priorities as well as the need for resources, systems updates, new internal policies, and training. The process can take a year or more.

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**OBJECTIVE C: FACILITATE THOUGHT LEADERSHIP AND RESEARCH RELATED TO HOUSING AND MORTGAGE FINANCING IN RURAL COMMUNITIES**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Outreach</b>	<b>1, 2 and 3</b>	<b>VLI, LI, MI</b>	<b>Yes – HNRR</b>

Freddie Mac’s Rural Research Symposium reflects our leadership in and commitment to supporting positive housing outcomes in rural communities nationwide. It brings together a broad spectrum of housing experts – academics, policy makers, finance industry professionals, and housing intermediaries focused on rural issues – to share research findings and build relationships across the ecosystem that could lead to innovative, market-relevant solutions. When we established the symposium in 2019, to our knowledge, it was the first-ever event to encompass such a variety of participants and research focused exclusively on rural housing and finance. Since then, it has become an annual event and has led other leading organizations focused on affordable housing to hold rural-centered events.

During the coronavirus pandemic in 2020, we held the symposium as a virtual event. The program highlighted research into matters that hinder rural communities and encouraged discussion about solutions that could promote prosperity. Topics included race and wealth building, unemployment in rural areas and its impact on housing, the impacts of the coronavirus pandemic on rural communities, housing and mortgage financing for AIAN households in tribal areas, shifting demographics within rural communities, characteristics of rural lenders and borrowers, and homes of the future. To facilitate interaction, the event platform featured various “rooms” where attendees participated in sessions, interacted with each other, and accessed additional resources.

Attendance doubled from 2019 to 2020, from more than 150 to more than 300. The growth resulted in part from moving the symposium to a virtual platform and promoting the event more widely as well as prior years’ attendees recommending it. The numbers also reflected interest across stakeholder groups, confirmed the symposium’s value, and acknowledged Freddie Mac’s leadership and commitment in the rural space.

Freddie Mac will continue to host the Rural Research Symposium annually during the Plan cycle.

To provide insight into a new and far-reaching challenge, we will deliver first-of-its-kind research into the effectiveness of forbearance plans and post-forbearance options for rural homeowners facing financial hardship during the coronavirus pandemic, including owners of manufactured homes. Information is available on borrowers who went into forbearance but not on outcomes. In addition to performing a review of rural homeowners including those residing in high-needs rural regions, we will perform research on outcomes for homeowners of manufactured housing as described under Manufactured Housing Activity 1, Objective C, and present our findings at the 2022 symposium.

The coronavirus pandemic has led to unprecedented levels of mortgage forbearance. At the peak in May 2020, more than 4.75 million U.S. mortgages were in forbearance, representing about 8 percent of outstanding mortgages and \$1 trillion in mortgage debt. At that time, more than 7 percent of all loans backed by the government-sponsored enterprises (GSEs) and nearly 13 percent of all Federal Housing Administration/Veterans Affairs (FHA/VA) loans were in forbearance.<sup>76</sup>

According to the Harvard Joint Center for Housing Studies, 45 percent of U.S. households reported that they had lost employment income between mid-March and December 2020, including more than two-fifths of homeowners.<sup>77</sup> Lower-income households, who tend to have fewer resources to begin with, were more likely to lose employment income; many higher-wage earners were able to work from home, while many lower-wage earners were laid off or had their hours cut. Lower-income households also were far more likely to report being behind on their housing payments as of December 2020, with about one-fifth of homeowners with a mortgage who earn less than \$25,000 annually struggling to make monthly payments.

In addition, to provide thought leadership that could lead to solutions to an entrenched barrier to homeownership that particularly affects persistent-poverty counties, we will conduct research into the economics of small-dollar mortgage lending. The definition of a small-dollar loan varies within the industry, ranging from less than \$70,000 to less than \$100,000.<sup>78</sup> In some areas where homes affordable to low- and moderate-income households are available for sale, financing options may not be.

Lenders hesitate to originate small-dollar mortgage loans for various reasons – some based in fact, others in perception. It is true that small-dollar mortgages are less profitable than other mortgages. The effort and cost to originate are the same regardless of loan size. A loan officer's commission typically is 1 percent of the loan amount. Small-dollar loan origination costs could exceed the loan amount.<sup>79</sup> One perceived reason is that small-dollar loans do not perform well. The Urban Institute found that, in fact, they perform about as well as other mortgage loans. However, the loss severity is greater when small-dollar loans perform poorly: the loss is calculated as a percentage of the loan amount and the homes tend to be in weaker housing markets. In some cases, lenders may decide that foreclosing is a more cost-effective option for them than pursuing loss-mitigation strategies.<sup>80</sup>

Just 10 percent of mortgages originated in 2019 for the purchase of a single-family home or condominium were for \$100,000 or less, according to Attom Data.<sup>81</sup> In many cases when lower-cost homes come onto the market, mortgage-ready homebuyers cannot secure financing. They lose out to investors willing and able to pay with cash, who then turn the homes into rental properties and further limit homeownership opportunities.

As we strive to keep the cross-disciplinary conversation relevant to current rural challenges and opportunities, the research results that Freddie Mac will deliver at the 2022 symposium will deepen the understanding of the impacts of the pandemic on rural homeowners who entered forbearance and trends in post-forbearance loan performance. The research results that we present in 2023 will deepen the industry's understanding of the small-dollar mortgage market and factors that affect support for it. Our findings will provide fact-based evidence to help drive informed business decisions and confidence in financing homes in rural areas; the findings could provide insights into program or product designs that help balance risk and market support.

## Baseline

Freddie Mac established the Rural Research Symposium in 2019 and has since hosted it annually.

We have not previously analyzed or conducted research into the impacts of the coronavirus pandemic on homeowners in high-needs rural regions. In addition, to our knowledge, no one has analyzed the aftereffects of being in forbearance.

Freddie Mac has not previously analyzed or conducted research into the economics of small-dollar loan originations. We are not aware of any robust analysis of factors that affect small-dollar mortgage lending in persistent-poverty counties or the potential market opportunity.

## Market Challenges

Freddie Mac will address the following specific challenges through our actions under this objective.

### **Need for research on issues affecting rural housing**

- Research that provides insight into affordable housing, housing finance needs, trends, and opportunities within rural markets is limited and narrowly available.
- Rural areas were particularly hard hit by the coronavirus pandemic.<sup>82</sup> Market participants have been asking how the pandemic and the related mortgage forbearance have affected homeowners and are seeking to understand the aftereffects of forbearance to better equip themselves to make informed policy decisions. Among their questions: How likely were rural homeowners to go into forbearance? Were homeowners with certain income levels hit harder than others and turned to forbearance to sustain homeownership? Were homeowners who went into forbearance current on their mortgages before the pandemic? After forbearance? Were the post-forbearance options available to the homeowners adequate? Currently, relevant data is limited or unavailable.
- The path to affordable homeownership is closed to many households with low and moderate incomes in high-needs rural regions – particularly, persistent-poverty counties – because mortgage financing for comparatively small dollar amounts may be unavailable. The current economics of small-dollar mortgage lending discourage many lenders from participating.

## Actions

### **Year 1 – 2022**

1. Host a Rural Research Symposium all or in part via a virtual platform that focuses on new research and insights developed since the 2021 symposium on rural mortgage markets to better understand who is being served and the effectiveness of mortgage products, services, and financing as well as the effect on communities, consumers, and financial institutions.
2. Conduct research on the impact of the coronavirus pandemic on loan performance of borrowers in rural areas including high-needs rural regions and whether forbearance stemmed further delinquency. Present findings at the Rural Research Symposium.

## Year 2 – 2023

1. Host a research symposium that focuses on rural mortgage markets to better understand who is being served and the effectiveness of mortgage products, services, and financing as well as the effect on communities, consumers, and financial institutions. The symposium will focus on new research and insights developed since the 2022 event. Delivering the event all or in part via a virtual platform likely will increase the symposium's reach.
2. Conduct research on the economics of small-dollar mortgage lending in persistent-poverty counties to better understand the current market dynamics, types of institutions participating, and incentives and disincentives for originating these loans. Present findings at the Rural Research Symposium and employ them to influence development of policy that will promote financing of small-dollar mortgages.

## Year 3 – 2024

1. Host a research symposium that focuses on rural mortgage markets to better understand who is being served and the effectiveness of mortgage products, services, and financing as well as the effect on communities, consumers, and financial institutions. The annual symposium will focus on new research and insights developed since the 2023 event. Delivering the event all or in part via a virtual platform likely will increase the symposium's reach.

## Market Impacts

Freddie Mac is uniquely positioned within the industry to bring together the variety of thought leaders and influencers from across the housing ecosystem. By hosting the Rural Research Symposium, we act as a catalyst to expand access to new research and to spark cross-disciplinary relationships as well as ideas for additional research and new approaches.

Importantly, each year's topics will center on current rural market dynamics, top-of-mind matters, and trends. As we have in the past, Freddie Mac will ask the housing industry's top thought leaders to collaborate in shaping the annual agendas by submitting research papers or detailed abstracts for research that highlight implications for consumers, households, communities, or financial institutions in rural housing areas for consideration. Among the recently suggested topics:

- Rural housing at the intersection of infrastructure, health, environment, or employment
- Housing issues specific to Native tribal areas, Middle Appalachia, the Lower Mississippi Delta, the Colonias, or rural areas of persistent or concentrated poverty
- Homeownership in rural areas
- Affordable rural rental markets
- Manufactured housing and other housing supply topics
- Effectiveness of mortgage products, services, and financing
- Impact of events such as the pandemic or natural disasters
- We also will incorporate ideas generated from discussions with lenders and CDFIs on challenges and opportunities relevant to the market's real-time conditions. In addition, we will choose topics to follow up on from the previous year's symposium.

The deeper understanding, collaboration, and energy that the annual symposium inspires can encourage the broader industry to explore opportunities and create possibilities for improving the future of home and boosting mortgage liquidity in rural America. The symposium’s success to date, plus the occurrence of other rural-centered events since the symposium was established, reflects the industry’s need for such a knowledge-sharing forum and Freddie Mac’s industry leadership.

In addition, our own research will increase the amount of data available on rural homeowners who entered forbearance plans and the performance of their mortgage loans after the forbearance has ended. Our findings will provide insights to the marketplace that will enable the industry to better support rural households, including those living in manufactured homes, who may be struggling to sustain homeownership because of a financial hardship. Understanding the efficacy of the forbearance and post-forbearance options available to homeowners will be first-of-its-kind research; other research analyzed the types of households that went into forbearance, but not on the outcomes. Information gleaned from it could give lenders information they need to have confidence in participating in the market. It also could lead to data-driven product enhancements that promote safety and soundness.

Moreover, our research findings on small-dollar mortgage originations will furnish the marketplace with information that could facilitate development of strategies at Freddie Mac as well as lender organizations for spurring lender participation and expanding access to affordable mortgage financing safely and soundly. The development of strategies could lead to more liquidity flowing to communities experiencing persistent poverty and more low-income and minority households becoming homeowners. This, in turn, could help increase stability and prosperity within these communities.

Posting the research presented during the symposium to our web site after each event will further raise the visibility of the research, which will help bring more people into the conversation and increase the potential to pursue additional research and new solutions.

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**OBJECTIVE D: ENGAGE IN LIHTC EQUITY INVESTMENT**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Investment</b>	<b>1, 2 and 3</b>	<b>VLI, LI</b>	<b>Yes</b>

Over the past several decades, LIHTC has remained the most important resource for creating affordable housing in the U.S. Created by the Tax Reform Act of 1986, the LIHTC program gives state and local LIHTC-allocating agencies the equivalent of nearly \$8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. By providing an incentive for private sector investment, LIHTC has financed nearly three million housing units for low-income households, with approximately 100,000 units added to the inventory each year.

To support rural markets with LIHTC equity, we need to act in a safe and sound manner, which will take into account factors such as concentration risk, diversity of investments, and investment at sufficient scale to ensure a stable business platform.

The majority of LIHTC in large and medium-sized metropolitan areas are purchased by financial institutions that are motivated by their Community Reinvestment Act (CRA) requirements. Often, strong competition leads investors to pay high prices. Most of the LIHTC-financed properties that are located within census tracts in high-needs rural regions are outside of most banks’ CRA assessment regions and, thus do not receive the most competitive pricing for their credits.



Freddie Mac re-entered the LIHTC equity market in 2018 in alignment with the first Duty to Serve plan, and our support has remained strong and consistent over the past three years. By continuing to focus a meaningful portion of our investment capital in these rural areas, Freddie Mac will continue to provide competition in the rural marketplace, which increases market stability and can improve LIHTC pricing. The higher the LIHTC pricing, the lower the need for a portion of the rent to pay for debt service; thus, increased LIHTC equity pricing makes properties more affordable.

Investing in LIHTC equity will bring many benefits to the market including the following:

- Stability by making long-term and consistent investments regardless of market volatility
- Liquidity, particularly for investments that positively impact low-income renters in underserved areas, such as rural communities, tribal reservation communities, and agricultural worker communities, as well as preservation deals and for any other investment type that may not receive consistent investment interest year after year
- Affordability for investments that may not be as attractive to the largest investors, such as preservation deals, Section 8 deals, and bond deals with high losses-to-LIHTC ratios

We intend to continue LIHTC equity investments in support of high-needs rural regions relative to market opportunity over the next three years. In making our investments, we will continue to work with our strong network of seven LIHTC syndicators several of which are primarily focused on rural areas. We will leverage this network to identify LIHTC investments in rural areas. We will also conduct our own outreach to market stakeholders such as non-profit organizations, developers, and affordable housing financiers to increase the awareness of Freddie Mac’s interest in LIHTC investments so they may work with our syndicator network in order to conduct transactions. Increased interactions with stakeholder groups will also allow us to better understand the needs of the high-needs rural regions market and make more investments serving these markets.

**Baseline**

The following table shows the number of transactions we completed in high-needs rural regions from 2018-2020. We were able to complete these transactions based on our strong relationships with our syndicator network and our commitment to preserving affordability in high-needs rural regions.

Year	2018	2019	2020	Three-Year Avg.
<b>Number of Transactions</b>	5	4	5	5

Our baseline for the 2022-2024 Duty to Serve Plan cycle is five transactions.

**Market Challenges**

There are several challenges when making LIHTC investments in high-needs rural regions. The primary market challenges are caused by a lack of general investment in these markets, supply and demand imbalance of LIHTC, and volatility of LIHTC allocation.

Properties in rural areas are frequently outside of most banks’ CRA assessment areas; thus, there is typically far less competition. This lack of competition leads to lower LIHTC pricing, which makes the credits less effective. There is a meaningful difference between a LIHTC deal located in a rural persistent-poverty county in Middle Appalachia like London, Kentucky, where there is not much CRA-motivated demand for investment, and one in The Bronx in New York, New York. Based on current market information from the Community Affordable Housing

Equity Corporation (CAHEC), a Raleigh, North Carolina-based LIHTC syndicator with 25 years' experience and covering the Southeast, a deal in London, Kentucky is expected to receive approximately 87 cents on the dollar, while a deal in the Bronx would receive up to 99 cents on the dollar. In a hypothetical transaction with \$10 million of debt and a need for \$6 million of equity, this difference in tax-credit pricing equates to a \$720,000 funding gap, which would require additional tax credits, soft debt, or a deferral of developer fee (with payment from cash flow) to close. This gap financing is often more expensive than LIHTC equity.

Second, supply and demand imbalances are being felt in the LIHTC equity market. CRA obligations felt by banks are often tightly confined to large urban centers, meaning developers are less likely to sell tax credits at an economically and financially feasible price for projects in lower-income markets. Bank branch closures in low-income, rural areas will only further the supply and demand gap of housing tax credit allocation over time, leaving underserved communities still in need of affordable housing. A study by CohnReznick concluded that the banking sector's demand for LIHTC investment is not aligned with the location of housing credit properties, which has led to overlapping CRA assessment areas in highly populated markets, driving capital to highly competitive areas and potentially away from hard-to-serve markets outside of major metro areas.<sup>83</sup>

Additionally, there is volatility of LIHTC allocation. Many state housing finance agencies do not have a set-aside for tribal housing or agricultural workers, making them virtually uncompetitive with urban and suburban properties that better meet the requirements of the state Qualified Allocation Plans (QAPs). QAPs change annually and rural areas may not be as competitive year in and year out for the limited number of deals that receive a LIHTC allocation.

There are also several underwriting challenges. Transactions in rural areas often require additional review and analysis. Deals in these areas are frequently in smaller markets, often with marketing and lease-up challenges compared to more urban and suburban properties.

The LIHTC investment market also has been experiencing challenges due to the global COVID-19 pandemic. The pandemic has weakened LIHTC investment demand due to uncertainty, while available supply of tax credits has seen a 4 percent increase for a total of \$9.5 billion per Novogradac.<sup>84</sup> If investor demand continues to weaken, unused credits will be placed into a national pool, likely leading to a concentration of credits in easier-to-serve markets. Further, with less competition, investor yields typically increase, leading to an equity financing gap that requires additional subordinate financing from states and localities that are already short on funds. Our continued presence in high-needs rural regions will help to mitigate this risk and help to ensure that vital LIHTC properties are placed in service in these underserved markets.

Some of these challenges in rural markets may be partially mitigated by the 4 percent floor on demand passed by Congress in December 2020. A provision included in the Consolidated Appropriations Act introduced a 4 percent credit floor for LIHTC projects, new or existing, that were financed with tax-exempt bonds and receiving an allocation after December 31, 2020.<sup>85</sup> The effects of this 4 percent floor will be felt through the coming years, with industry participants expecting the floor to allow for more equity in transactions and allow more affordable rental housing units to be produced.<sup>86</sup>

## 2022-2024 Targets

The targets established are based on the prior three years of performance in the market and are scaling upwards over time in light of our increased LIHTC equity authorization of \$850 million per year (up from \$500 million per year) across Duty to Serve rural markets, other underserved markets, and nationally. We intend to expand our strong presence in the market and provide liquidity in high-needs rural regions throughout changing market conditions. Based on our average number of transactions per year and the assumption that our cap will be \$850MM, our target represents over 10 percent of our investments. This is in excess of the national average allocation to high needs rural regions (6.7 percent) per our analysis of data from the National Housing Preservation Database (NHPD).

Year	2022	2023	2024
<b>Number of Transactions</b>	6	7	8

We believe it reasonable and appropriate to view these targets across all high-needs rural regions, as opposed to within any particular high-needs rural regions at this stage because it is not clear that there will be both viable projects and sufficient allocations of credits each year in each region to support setting region-specific targets at this time. Moreover, while there are fewer investors in non-CRA markets, it is unlikely that we, or the syndicator(s) with whom we work, will be the only participant(s); therefore, we have no guarantee that we will win each investment deal on which we bid. We will continue to work closely with our syndicator network in order to identify more potential transactions, provide a meaningful increase in liquidity to this market and deepen our exposure nationwide.

## Market Impacts

By investing LIHTC in high-needs rural regions, Freddie Mac will provide stability to the equity market specifically for investments that are directly impacted by the lack of investment due to investors' tax-reform concerns and lack of CRA credit. This is particularly important for LIHTC properties supporting high-needs rural regions due to the volatility in allocation and lack of investors.

Our investments will not only provide a meaningful benefit to the people living in rural markets by providing them with safe, decent and affordable housing that is hard to come by – we will also further competition into a segment of the market that lacks it, and often lacks investor interest at all. By doing so, we could potentially influence the price per credit, which could make the development of properties viable where they were not previously or allow developers to create or preserve more units than they would otherwise.

## Activity 2 – High-Needs Rural Populations: Regulatory Activity

High-needs rural populations include federally recognized American Indian and Alaska Native (AIAN) tribes located in tribal areas and agricultural workers. These populations have unique histories, cultures and economies. However, both face similar challenges that significantly impact their access to credit, including higher likelihood of living in substandard housing conditions and extremely limited access to financial services.<sup>87</sup> A report by HUD estimated that, to address the housing needs of tribal areas, a total of 68,000 new units must be constructed to eliminate overcrowding (33,000) and replace inadequate units (35,000).<sup>88</sup> Approximately 26 percent of the Native American population is living in areas close to Indian Country and may be interested in living in tribal areas if they could obtain mortgage financing.<sup>89</sup>

Freddie Mac’s strategic approach to serving high-needs rural populations includes partnering with local non-profit organizations, housing finance agencies, tribally designated housing development entities (TDHEs) and CDFIs to provide a conventional mortgage option tailored for use in tribal areas and technical expertise to lenders and appraisers serving tribal areas. During the Plan cycle, Freddie Mac intends to engage in the following objectives:

- Develop and roll out conventional product terms to support lending to members of federally recognized AIAN tribes in tribal areas.
- Collaborate with the Appraisal Institute and housing industry professionals to develop an appraisal training curriculum for performing property valuations in tribal areas. Deliver the curriculum to lenders and appraisers.
- Engage in LIHTC equity investment.

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### OBJECTIVE A: FACILITATE CONVENTIONAL LENDING TO MEMBERS OF FEDERALLY RECOGNIZED NATIVE TRIBES IN TRIBAL AREAS

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Product</b>	<b>1 and 2</b>	<b>VLI, LI, MI</b>	<b>Yes – HNRP</b>
<b>Loan Purchase</b>	<b>3</b>	<b>VLI, LI, MI</b>	<b>Yes – HNRP</b>

Freddie Mac engaged housing industry professionals serving AIAN populations, including Native CDFIs, to increase our understanding of the barriers to lending in tribal areas. The hurdles they told us about during our extensive outreach activities included, but were not limited to, the complexities of land ownership where the land may be held in a trust by the federal government, interacting with tribal courts and tribes, completing environmental reviews, obtaining title status reports, and difficulties in obtaining appraisals.

These factors are in addition to issues that are pronounced in rural and underserved markets generally, including individuals with thin or no credit histories, insufficient housing stock, and higher lending costs due to the expansiveness of rural markets. The result is low mortgage origination rates and high denial rates.

During our conversations, industry participants called for a conventional mortgage product tailored to fit the AIAN homebuyer need and loan-origination dynamics in Indian Country. In response, Freddie Mac will develop a comprehensive set of process and product requirements to support conventional mortgage lending in tribal areas, while incorporating safety and soundness considerations. Providing clear, specific guidance around operational processes will be a key to equipping the various entities involved in the loan production cycle and ensuring the collection of information necessary to originate mortgage loans and then sell them to Freddie Mac.

The process of developing and implementing conventional mortgage product requirements will be intricate and take several years to complete. It will require coordination across the ecosystem, including leveraging our existing relationships and continuing to build strong partnerships in Indian Country with lenders of all sizes, governmental agencies and tribal entities, appraisers, trade groups, non-profit housing intermediaries serving AIAN populations, and other industry stakeholders. To help ensure that the requirements are market-relevant, we will begin with an analysis to determine the enhancements needed to update established Freddie Mac products (including our affordable suite of offerings) in a way that will serve this population.

Because of the complexities of land ownership and the infrequency of comparable sales, lenders and appraisers will need additional guidance on the approach to property valuation. Freddie Mac will collaborate with the Appraisal Institute and industry professionals serving tribal areas to develop and deliver a relevant appraisal curriculum. We also will offer webinars and customized training to lenders and real estate professionals, which will be critical to facilitating increased lender participation in this market and enabling real estate professionals to make prospective homebuyers aware of their mortgage financing options.

Learning how to effectively participate in the conventional secondary market requires a series of complex steps unique to conventional mortgage lending. Given the learning curve as well as the efforts required for us to build market awareness of the offerings and for lenders to implement and roll them out to the public, the process can take at least two to three years.

Accordingly, we will initiate loan purchase activity in the final year of the Plan. We intend to buy loans from direct and indirect sellers, including CDFIs, housing finance agencies, and small financial institutions to increase affordable lending and access to credit in high-needs rural regions.

Enhancing our product suite to meet the needs of mortgage-ready individuals seeking financing for homes in tribal areas is a logical extension of work that began during the first Plan cycle. We established and have maintained partnerships with non-profit housing intermediaries that expand their capacity to provide financial and homebuyer education and counseling to tribal members, which increases the pipeline of individuals prepared to take on responsible, sustainable homeownership.

## Baseline

Freddie Mac's product eligibility requirements ~~do not~~ specifically support financing in tribal areas as of the start of this Plan cycle. Additionally, our requirements on title insurance, underwriting, servicing, loss mitigation, and foreclosure processing ~~do not~~ acknowledge the participation of tribal governments and the Bureau of Indian Affairs.

Lenders delivered ~~two zero~~ HUD Section 184 loans to us between 2018 and in 2019, one in 2020, four in 2021 (while interest rates were at their lowest), and zero in 2022 and 2023; lenders delivered zero conventional mortgage loans made to members of federally recognized Native American tribes living in tribal areas between since 2016 and 2020. Therefore, we set our baseline ~~is at~~ zero.

## 2024 Target

Our purchase target for Year 3 of the Plan cycle is set forth in the following table. Projected volume does not take into account potential market reactions to the The interest-rate environment, inflation rates, a steep learning curve for those lenders just entering the conventional secondary market, and start-up processes constrain the number

~~of loans we anticipate purchasing in the first year that our mortgage product will be in the market. the coronavirus pandemic, or other market disruption. Purchasing 15-50 loans will be a challenge, given that the product will be new to the market and many of the lenders will be new entrants to the conventional secondary market. The learning curve will be steep.~~

~~Since introducing our conventional product in October 2023, interest rates have hovered around 7 percent or higher and inflation rates have been elevated. This economic environment has reduced housing affordability and increased the cost of living. Many potential homebuyers are postponing homeownership as a result. Our target also does not factor in the possibility of slower than expected product adoption. In addition, Lenders' business priorities and the complexities of their internal processes affect the rate of adopting new or updated mortgage offerings, even when lenders understand the value of offerings and are anxious to incorporate them into their businesses. The speed to market depends on priorities as well as the need for resources, systems updates, new internal policies, and training. The process can take a year or more under typical circumstances. However, many lenders continue to focus on assisting customers who have been adversely affected by the pandemic, implementing any related policy changes, and maintaining service levels for the large number of refinance customers. Accordingly, many lenders have delayed new product releases and development. Lenders that decide to offer our product may experience longer-than-expected start-up timelines as they work through the adoption and origination processes.~~

Single-Family Loan Purchase Target – Conventional Loans to Federally Recognized Tribe Members in Tribal Areas
Year 3 – 2024
<del>15-50</del> <u>10</u> loans

## Challenges

Freddie Mac will address the following specific challenges through our actions under this objective.

### Limited lending activity

The market environment in tribal areas and circumstances of many people residing there inhibit lending activity. The Housing Assistance Council's research report<sup>90</sup>, "Exploring the Challenges and Opportunities for Mortgage Finance in Indian Country", confirms that the current mortgage lending conditions are limited on many reservations:

- Fewer than 1,000 mortgage loans are made annually.
- Nearly half of mortgage loan applications are denied annually.
- Almost one-fifth of homes are manufactured homes.
- Two of the 20 largest-volume lenders are Native-owned institutions.

### Limited applicability of conventional mortgage products

Current conventional mortgage product offerings may not take into account the unique aspects of land ownership and borrower profiles in eligible areas.

## **Governance on tribal lands**

Governmental agencies and tribal entities have prominent roles that must be considered and incorporated in the lending process on tribal lands, which may limit or prevent lender participation in these areas. Without guidance and knowledge of best practices, the lending landscape can be difficult to navigate.

## **Appraisal and valuation impediments**

Distances between homes, infrequent property sales, and complexities around land ownership make property valuations difficult without specific guidance.

## **Actions**

### **Year 1 – 2022**

1. Develop product enhancements that support financing for members of a federally recognized tribe in a tribal area.
2. Develop an appraisal curriculum to support property valuations for homes in tribal areas. Development activity will be in partnership with the Appraisal Institute and industry professionals supporting financing on tribal lands.
3. Participate in the inaugural Rural Housing Innovation Summit, being coordinated by one of our non-profit partners to promote and support housing for AIAN populations living in tribal areas.

### **Year 2 – 2023**

1. Publish the policy update in our Single-Family Seller/Servicer Guide to support financing for members of a federally recognized tribe in a tribal area.
2. Create tutorials and training materials that include best practices to help lenders navigate the unique aspects of the lending process in tribal areas.
3. Publicize product enhancements through various channels:
  - a. Post product information and resources on Freddie Mac's web site.
  - b. Host at least four webinars.
  - c. Publish articles to Freddie Mac's Single-Family News & Insights web pages and send via e-mail to Lender News subscribers.
4. Develop the Idaho Native Homeownership Coalition to address capacity issues and develop best practices in Native communities' housing systems; also support activities of the New Mexico and South Dakota Coalitions.
  - a. Host two virtual meetings across state Coalitions for peer-to-peer learning opportunities.
  - b. Host in-person Coalition development meeting in Idaho.
  - c. Conduct at least one training session in New Mexico and prepare a case study for a New Mexico Pueblo.
  - d. Conduct Native homeownership program training in Idaho.
  - e. Identify tribal partners requiring individual technical assistance and/or financial technical assistance; develop plans to meet their needs.
5. Convene a Native American Advisory Council of tribally designated housing entities, tribal housing authorities, Native CDFIs, tribal leaders, and other industry stakeholders to advance homeownership opportunities for federally recognized tribes.

## Year 3 – 2024

1. Purchase ~~15-500-10~~ loans from either direct or indirect sellers that offer the product flexibilities developed in Year 1.

## Market Impacts

A conventional mortgage product tailored to meet the needs of AIAN populations in tribal areas will help increase affordable lending opportunities and access to credit for more qualified homebuyers and homeowners, once it matures in the market. Being able to sell the loans to Freddie Mac will lower lenders' risk and costs. And our loan purchases will increase much-needed liquidity and capital for CDFIs and other lenders financing homes in tribal areas, enabling them to create sustainable homeownership opportunities for more households within minority communities where conventional mortgage lending historically has been limited or nonexistent.

Our tailored conventional product also will offer an affordable financing option in addition to the HUD Section 184 Indian Home Loan Guarantee program and standard conventional products. When Freddie Mac purchases HUD Section 184 loans, sellers must retain recourse and borrowers must pay mortgage insurance for the life of the loan, which can reduce affordability. In contrast, with this product, like Freddie Mac's products generally, mortgage insurance may be discontinued once the borrower has 20 percent equity in the home.

Further defining property eligibility in our product requirements will increase lenders' understanding and usage of our products and boost their confidence in lending in tribal areas. In addition, the training that we provide to lenders on process and available resources will encourage them to begin or resume mortgage lending in tribal areas. We also will deliver training to help ensure that they understand how to use our product to help increase sustainable homeownership opportunities and to originate and package loans for delivery to Freddie Mac.

In addition, the training that we will develop and deliver in partnership with the Appraisal Institute will deepen appraisers' knowledge and capabilities in appraising homes in tribal areas. It will inform them how to appraise properties in Indian Country in alignment with our property eligibility requirements and implement our flexibilities for valuations. Having access to more trained appraisers will help lenders obtain accurate appraisals faster.

Besides the product enhancements under this objective, we will introduce enhancements to enable conventional mortgage lending for manufactured homes in tribal areas under Manufactured Housing Activity 1, Objective B: Design New Product Flexibilities to Facilitate the Origination of Mortgages Securing Manufactured Housing Titled as Real Property in Tribal Areas. Our work with stakeholders that can produce and promote MH as infill or in MH communities as well as finance MH in tribal areas will help create additional affordable homeownership opportunities and channel more liquidity to tribal areas.

The Rural Housing Innovation Summit that will be hosted by one of our non-profit partners will put a spotlight on housing challenges and opportunities for AIAN populations in tribal areas. Focus areas for the 2022 convening will include conventional mortgage financing, home energy efficiency, and tools that enable housing professionals to help improve mortgage approval rates. We will be among the leaders from across the ecosystem who come together to gain insights, exchange ideas, and build relationships that ultimately could lead to innovative solutions that expand access to credit and increase housing affordability.

Also, working with the same non-profit partner to build on a model that we established in the previous Plan cycle will further homeownership programming and opportunities. Expanding state coalitions of stakeholders across the ecosystem will facilitate broader collaboration, the exchange of ideas and best practices, and education on conventional mortgage lending and Freddie Mac's offerings that help more households attain and sustain homeownership.



**OBJECTIVE B: ENGAGE IN LIHTC EQUITY INVESTMENT**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Investment</b>	<b>1, 2 and 3</b>	<b>VLI, LI, MI</b>	<b>Not applicable</b>

Over the past several decades, LIHTC has remained the most important resource for creating affordable housing in the U.S. Created by the Tax Reform Act of 1986, the LIHTC program gives state and local LIHTC-allocating agencies the equivalent of nearly \$8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. By providing an incentive for private sector investment, the LIHTC has financed nearly three million housing units for low-income households, with approximately 100,000 units added to the inventory each year.

In order to support rural markets with LIHTC equity, we need to act in a safe and sound manner, which will take into account factors such as concentration risk, diversity of investments, and investment at sufficient scale to ensure a stable business platform.

The majority of LIHTC in large and medium-sized metropolitan areas are purchased by financial institutions that are motivated by their CRA requirements. Often, strong competition leads investors to pay high prices. Most of the LIHTC-financed properties that are located within census tracts in high-needs rural regions are outside of most banks’ CRA assessment regions and, thus do not receive the most competitive pricing for their credits.

Freddie Mac re-entered the LIHTC equity market in 2018 in alignment with the first Duty to Serve Plan, and our support has remained strong and consistent over the past three years. By continuing to focus a meaningful portion of our investment capital in these rural areas, Freddie Mac will continue to provide competition in the rural marketplace, which increases market stability and can improve LIHTC pricing. The higher the LIHTC pricing, the lower the need for a portion of the rent to pay for debt service; thus, increased LIHTC equity pricing makes properties more affordable.

Investing in LIHTC equity will bring many benefits to the market including the following:

- Stability by making long-term and consistent investments regardless of market volatility
- Liquidity particularly for investments that positively impact low-income renters in underserved areas, such as rural communities, tribal reservation communities, and agricultural worker communities, as well as preservation deals and for any other investment type that may not receive consistent investment interest year after year
- Affordability for investments that may not be as attractive to the largest investors, such as preservation deals, Section 8 deals, and bond deals with high losses-to-LIHTC ratios

We intend to continue LIHTC equity investments in support of high-needs rural populations relative to market opportunity over the next three years. In making our investments, we will continue to work with our strong network of seven LIHTC syndicators several of which are primarily focused on rural areas. We will leverage this network to identify LIHTC investments in rural areas. We will also conduct our own outreach to non-profit organizations, developers, and affordable housing financiers and increase the awareness of Freddie Mac’s interest in LIHTC investments so they may work with our syndicator network in order to conduct transactions. Increased interactions with stakeholder groups will also allow us to better understand the needs of the high-needs rural populations market and make more investments serving these populations.

## Baseline

The challenges associated with LIHTC investment for high-needs rural populations was felt through 2018-2020 as we re-established our LIHTC equity business. In 2019, we had secured two transactions, but neither funded for reasons outside of our control, and in 2020 we funded two transactions serving high-needs rural populations. As such, our baseline for 2022-2024 is one transaction; an average of our 2018-2020 transactions.

Year	2018	2019	2020
<b>Number of Transactions</b>	0	0	2

When considering the baseline for 2022-2024, we also looked at overall market opportunity. We analyzed 2017-2019 data (the most recent data we have available) from a leading consultant on transactions in Indian Areas and found that, on average, there were less than six transactions available for financing per year. Several of those transactions were not in DTS designated rural areas, suggesting the market opportunity is even smaller. Additionally, only four states have tribal set-asides in their QAPs<sup>91</sup>, which means that these transaction often must compete with other priority transactions that may be more likely to receive LIHTC allocations based on other needs in the states.

Market opportunity for has been similarly limited for transactions supporting agricultural workers. Data from USDA<sup>92</sup> on USDA 514 properties reveals that only one property was available for refinance between 2018-2020. While 514 properties do not represent all housing for agricultural workers, this data suggests that opportunities are limited on an annual basis.

## Market Challenges

There are several challenges that will be presented when making LIHTC investments for high-needs rural populations.

Many of these challenges are the same as for any rural investments, as described below. However, for high-needs rural populations, the greatest challenge to our ability to invest in this market is the size of the market itself. In any given year, there are very few potential transactions to invest in that both serve these populations and do so in DTS – defined rural markets. Further, available investment opportunities do not always close in a timely manner due to various complications. Our experience in the first two years of investing demonstrates this. For example, we invested in multiple transactions in tribal areas, but they were not rural tribal areas, and other transactions experienced delays that extended them beyond the calendar year. We anticipate that this challenge will persist.

Beyond these specific challenges, we also see broad challenges to rural markets tied to a lack of investment, supply and demand imbalance of LIHTC, and volatility of LIHTC allocation.

Properties in rural areas are frequently outside of most banks’ CRA assessment areas; thus, there is typically far less competition. This lack of competition leads to lower LIHTC pricing, which makes the credits less effective. There is a meaningful difference between a LIHTC deal located in a rural persistent-poverty county in Middle Appalachia like London, Kentucky, where there is not much CRA-motivated demand for investment, and one in The Bronx in New York, New York. Based on current market information from the Community Affordable Housing Equity Corporation (CAHEC), a Raleigh, North Carolina-based LIHTC syndicator with 25 years’ experience and covering the Southeast, a deal in London, Kentucky is expected to receive approximately 87 cents on the dollar, while a deal in The Bronx would receive up to 99 cents on the dollar. In a hypothetical transaction with \$10 million of debt and a need for \$6 million of equity, this difference in tax-credit pricing equates to a \$720,000 funding gap, which would require additional tax credits, soft debt, or a deferral of developer fee (with payment from cash flow) to close. This gap financing is often more expensive than LIHTC equity.

Second, there are supply and demand imbalances being felt in the LIHTC equity market. CRA obligations felt by banks are often tightly confined to large urban centers, meaning developers are less likely to sell tax credits at an economically and financially feasible price for projects in lower-income markets. Bank branch closures in low-income, rural areas will only further the supply and demand gap of housing tax credit allocation over time, leaving underserved communities still in need of affordable housing. A study by CohnReznick concluded that the banking sector's demand for LIHTC investment is not aligned with the location of housing credit properties, which has led to overlapping CRA assessment areas in highly populated markets, driving capital to highly competitive areas and potentially away from hard-to-serve markets outside of major metro areas.

Additionally, there is volatility of LIHTC allocation. Many state housing finance agencies do not have a set-aside for tribal housing or agricultural workers, making them virtually uncompetitive with urban and suburban properties that better meet the requirements of the state Qualified Allocation Plans (QAPs). QAPs change annually and rural areas may not be as competitive year in and year out for the limited number of deals that receive a LIHTC allocation.

There are also several underwriting challenges. Transactions in rural areas often require additional review and analysis. Deals in these areas are frequently in smaller markets, often with marketing and lease-up challenges compared to more urban and suburban properties.

The LIHTC investment market also has been experiencing challenges due to the global COVID-19 pandemic. COVID-19 has weakened LIHTC investment demand due to uncertainty while available supply of tax credits has seen a 4 percent increase for a total of \$9.5 billion per Novogradac.<sup>93</sup> If investor demand continues to weaken, unused credits will be placed into a national pool, likely leading to a concentration of credits in easier to serve markets. Further, with less competition, investor yields typically increase, leading to an equity financing gap that requires additional subordinate financing from states and localities that are already short on funds. Our continued presence in high-needs rural regions will help to mitigate this risk and help to ensure that vital LIHTC properties are placed in service in these underserved markets.

Some of these challenges in rural markets may be partially mitigated by the 4 percent floor on demand passed by Congress in December 2020. A provision included in the Consolidated Appropriations Act introduced a 4 percent credit floor for LIHTC projects, new or existing, that were financed with tax-exempt bonds and receiving an allocation after December 31, 2020.<sup>94</sup> The effects of this 4 percent floor will be felt through the coming years, with industry participants expecting the floor to allow for more equity in transactions and allow more affordable rental housing units to be produced.<sup>95</sup>

## 2022-2024 Targets

Today, the size of the LIHTC equity market in rural areas with high-needs populations is unknown. Generally, though, our work in the past three years demonstrates that this is an extremely small and unpredictable market, with few transactions per year – the amount or presence of LIHTC equity investment opportunities on tribal lands and for agricultural workers may vary.

Our target of transactions per year over the 2022-2024 Plan cycle is highly impactful and a meaningful share of the likely market on an annual basis as there are a limited number of transactions available that both serve these populations and also meet FHFA's definition of rural based on the Duty to Serve Rural census tracts. Typically, state QAPs make it difficult to score highly in a competitive 9 percent round, where the emphasis is often on features such as proximity to grocery stores or transportation nodes. Based on our experience, few state QAPs have set-asides to prioritize these high-needs populations. We will continue to monitor LIHTC QAPs in the coming years in order to identify rural set-asides for tribal and farmworker populations and more effectively target harder to serve areas across the country. We will also analyze past tax credit allocation data and consider adjustments to our targets based on supportable market opportunity. Further, LIHTC transactions in rural areas with high needs populations are less predictable in moving through the development process and closing in a timely way, thus reducing likelihood that they would be able to close in a particular calendar year. To counter these concerns and develop a pipeline going forward of transactions in tribal areas, we have worked closely with Royal Bank of Canada (RBC) who has deep expertise in these transactions and understands well our DTS

targets and criteria, and National Equity Fund, who has extensive experience in supporting agricultural workers. We will continue to work closely with our syndicator network in order to identify more potential transactions, provide a meaningful increase in liquidity to this market and deepen our exposure.

Year	2022	2023	2024
<b>Total Rural Populations Transactions</b>	2 Transactions	3 Transactions	4 Transactions

### Market Impact

By continuing investments in the LIHTC market for high-needs rural populations, Freddie Mac will provide stability to parts of the market that receive less favorable LIHTC pricing due to limited competition, inconsistent allocations, and challenging transactions.

Our investments will not only provide a meaningful benefit to high-needs populations living in rural markets by providing them with safe, decent and affordable housing that is hard to come by – we will also further competition into a segment of the market that lacks it, and often lacks investor interest at all. By doing so, we could potentially influence the price per credit, which could make the development of properties viable where they were not previously or allow developers to create or preserve more units than they would otherwise.

These investments will allow us to continue to build out our market presence and lay the foundation for continued investment by us and others.

# Activity 3 – Financing by Small Financial Institutions of Rural Housing: Regulatory Activity

A small financial institution is defined for Duty to Serve purposes as one with less than \$304 million in assets. In many rural areas, these institutions are the only source of financial services. They are well-positioned to understand the needs and know the stakeholders in their communities.

Freddie Mac is committed to partnering with small financial institutions to leverage their market knowledge, experience, and stakeholder network and to maximize the secondary market impact in the rural housing market.

During the Plan cycle, Freddie Mac intends to increase purchase volume of loans on rural housing made by small financial institutions.

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## OBJECTIVE A: PROVIDE LIQUIDITY TO SMALL FINANCIAL INSTITUTIONS SERVING RURAL AREAS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	1, 2 and 3	VLI, LI, MI	Not Applicable

Freddie Mac intends to continue to provide liquidity to small financial institutions with assets of less than \$304 million. We plan to engage more deeply with small financial institutions that are already approved Freddie Mac seller/servicers to increase the purchase of rural housing loans. We also intend to expand our outreach and support to increase the number of small financial institutions that can be approved as direct Freddie Mac seller/servicers or that sell to us through an aggregator. Our approach will increase the financing options for these institutions and our purchase volume.

### Baseline

The following table reflects Freddie Mac’s historical single-family home-purchase loan purchases from small financial institutions serving rural areas from ~~2018~~2019 to ~~2022~~2023. To calculate a baseline, we used a five-year historical average of our volume to normalize the record amount of volume we purchased in 2020 and 2021 as a result of the historically low interest-rate environment. Freddie Mac’s targets for rural loan purchases from small financial institutions include only home-purchase loans. Our baseline calculation reflects this focus.

Buying homes in rural areas has become increasingly difficult. The combination of a shortage of affordable homes in rural areas, years of rapid home price increases, and rising mortgage interest rates prevent many potential homebuyers from buying homes. Additionally, volume from small financial institutions had been decreasing due to the loss of eligible lenders through mergers and acquisitions.

Freddie Mac Single-Family Loan Purchase Volume – Small Financial Institutions Serving Rural Areas					
Year	<u>2018</u> <u>2019</u>	<u>2019</u> <u>2020</u>	<u>2020</u> <u>2021</u>	<u>2021</u> <u>2022</u>	<u>2022</u> <u>2023</u>
<b>Income-Qualifying Loan Count</b> (A 5-year average was used to establish the baseline)	<u>2,242</u> <u>2,387</u>	<u>2,391</u> <u>3,048</u>	<u>3,048</u> <u>3,408</u>	<u>3,410</u> <u>2,518</u>	<u>2,524</u> <u>1,937</u>
<b>Baseline</b>	<u>2,723</u> <u>2,660</u>				

## 2022-2024 Targets

Our single-family purchase targets over the Plan cycle are set forth in the following table. We intend to use various tactics to meet our targets. These may include leveraging various execution options where feasible, conducting outreach, and offering technical training to raise lenders' confidence in lending to very low-, low-, and moderate-income homebuyers and homeowners.

Although interest rates declined slightly in 2024 from their recent highs, they hovered around 7 percent in the first three quarters of the year and home prices continued to rise, preventing many households from purchasing homes. Furthermore, the labor market has been cooling. The slowdown in job growth can further affect the number of households actively seeking to buy homes. While inventory of existing homes rose year-over-year, the number of homes available for sale remains well below the pre-pandemic average. Inventory of new homes is at the highest level since January 2008. However, only around one-fifth of the homes for sale are completed; construction has not yet begun on one-fifth and the rest are under construction. The June 2024 National Association of Home Builders' Housing Market Index continued to fall and indicates poor building conditions over the next six months.<sup>96</sup>

After showing signs of slight improvement earlier in the year, the National Association of REALTORS® second quarter 2024 Housing Affordability Index was the lowest since July 1985.<sup>97</sup> This put downward pressure on loan purchase volume in high-needs rural regions.

In addition, FHFA provided to the Enterprises a new data file identifying small financial institutions it viewed as qualifying under Duty to Serve. When we analyzed the impact of implementing the new loan file, we found that a significant portion of lenders that are no longer eligible have been providing us with a large number of qualifying purchase volume. The remaining lenders are not in a position to make up the difference. The pool of eligible lenders continues to shrink, reducing our opportunity to purchase Duty to Serve-qualifying loans from small financial institutions on homes in rural areas.

With interest rate volatility and the remaining affordability challenges, we anticipate that 2024 loan purchase volumes will continue the decline observed in 2023.

Therefore, our purchases ~~are expected to in 2023 and 2024 will~~ fall below the baseline.

Projected volume does not take into account potential market reactions to the interest-rate environment, the coronavirus pandemic, or other market disruption.

Single-Family Loan Purchase Targets – Small Financial Institutions Serving Rural Areas		
Year 1 – 2022	Year 2 – 2023	Year 3 – 2024
2,390-2,450 loans	1,475-1,800 loans	<del>2,420-2,500</del> 1,800-1,900 loans

### Market Opportunity and Impact

We estimate that we will provide ~~an average of more than \$340 million~~ a total of around \$1 billion in liquidity ~~each year of~~during the Plan cycle to small financial institutions that serve rural areas. Deliberately increasing our engagement with small financial institutions to provide liquidity will notably improve access to credit in rural markets because we have heard from lenders that they are limited in resources, available products, and outreach capacity.

Freddie Mac’s purchase volume will benefit these markets by improving the availability of affordable financing, including Freddie Mac’s low down-payment mortgages, Home Possible®, HomeOne®, and HFA Advantage®. Through our outreach efforts, more lenders also will become able to sell their loans into the secondary market either directly or indirectly, with some lenders becoming direct Freddie Mac seller/servicers.

We anticipate that achieving this objective will be very challenging because of lenders’ competing internal priorities, potential operational complexities, differing financing options, distinct financial products offered, and the large number of geographic areas served. Furthermore, Freddie Mac anticipates that that mergers and acquisitions will cause at least 4 percent of the eligible lender population each year to no longer exist as small financial institutions to originate or deliver loans; this will shrink the pool of Duty to Serve-eligible loans in this market. Developing relationships with small financial institutions not currently doing business with Freddie Mac will require a significant investment in resources to support and sustain the level of purchase growth targeted in the Plan cycle. Additionally, as we add new lenders to our customer base, it will take time before we realize loan purchases while lenders navigate through the onboarding process.

In addition, rural areas may not experience some economic opportunities available elsewhere and economic downturns may affect rural areas to a greater extent and for longer than other areas. ~~Exacerbating these circumstances, This has been the case during and since the coronavirus pandemic has been causing unemployment and underemployment to rise, primarily in service-related industries.~~ As a result, many potential homebuyers may remain on the sidelines and homeowners may be challenged to stay in their homes and/or holding off on investing in home improvements.

We will continue to actively engage with small financial institutions to increase liquidity and access to credit in rural markets and expand lenders’ ability to support affordable homeownership opportunities.

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## **Activity 4 – Small Multifamily Rental Properties in Rural Areas: Regulatory**

Small multifamily rental properties are an important segment of the rural rental market. A sizable portion, particularly those most affordable, are encumbered by USDA debt and at risk of being lost to the market over time as USDA 515 loans mature and properties can exit the program. This is known as the maturing mortgage crisis.

Freddie Mac will support small rural properties through our LIHTC Equity Investments (Activity 1 Objective D, Activity 2 Objective B and Activity 5 Objective B) and our USDA 515 loan purchase objective (Activity 5 Objective A).



## Activity 5 – Support Multifamily Properties in All Rural Areas: Additional Activity

### OBJECTIVE A: PURCHASE LOANS TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Purchase</b>	<b>1, 2 and 3</b>	<b>VLI, LI</b>	<b>Not applicable</b>

USDA's Section 515 program is vital for the preservation of highly affordable rural multifamily housing. It provides rental assistance to ensure that tenants pay no more than 30 percent of their income toward rent. According to an analysis by the Housing Assistance Council (HAC), the USDA has financed approximately 28,000 multifamily properties with over 533,000 units through the Section 515 program. As of early 2018, there were approximately 13,000 properties with 415,000 units still in the program. HAC has determined that the following number of units will exit the 515 program by 2040 based on their loan maturity dates.

Years	2017-2027	2028-2032	2033-2040
<b>Annual Unit Loss</b>	1,800 units	16,000 units	22,600 units
<b>Cumulative Units Lost Per Period</b>	18,000 units	64,000 units	158,200 units
<b>Cumulative Units Lost</b>	<b>18,000 units</b>	<b>82,000 units</b>	<b>240,200 units</b>

Per our analysis of the 515 portfolio on data.gov, we estimate that 75 percent of these units are in rural areas. And among rural 515 properties, 94 percent have between five and 50 units. When these units exit the program, affordable housing is lost in rural areas because owners will no longer be able to access the rental assistance that enables them to preserve rents at affordable levels to residents making low and very low incomes for their area while maintaining the property. This is often referred to as the “maturing mortgage crisis.” We have repeatedly heard from advocacy groups that USDA’s annual budget is not sufficient to preserve this number of properties at the rate at which they would exit the program. Therefore, the introduction of private capital is necessary to recapitalize and preserve these properties to maintain this important housing stock for rural communities.

### Baseline

We did not purchase any loans from 2018-2020 with USDA Section 515 debt, yielding a baseline of 0 transactions. In 2021 we purchased our first USDA 515 loan on a property in Utah which, per the DTS definition, was not rural. That same year we completed negotiations on a form subordination agreement with USDA, introduced our loan product offering, amended relevant loan product term sheets, and notified our seller/servicer network of our ability to purchase loans with USDA 515 subordinate debt.

## Market Challenges

There are several challenges involved in purchasing properties with USDA Section 515 debt.

First, there are limited financing sources for these properties. Apart from USDA’s Section 538 Guaranteed Rural Rental Housing Program, very few outside debt sources are being used in conjunction with USDA’s Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs. Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. The Freddie Mac loan product has a different loan and legal structure than the current financing option to this market. Developers experienced with the USDA 515 program are accustomed to and well-versed in the USDA Section 538 program, and leverage it as the primary source of new debt on existing properties. It may take time for developers to consider alternative financing and become accustomed to Freddie Mac’s loan structure and benefits.

Second, many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low- and low-income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of the tenants in a designated number or percentage of units. The one-year contract is only renewed as many times as funds are made available. Because the Section 521 rental assistance is only available if USDA 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.

Third, these transactions are highly complex, with multiple parties, multiple properties, and sometimes challenging market conditions. Even once initiated, a transaction can fall through due to many factors, such as disruptions in the LIHTC equity market, rising interest rates, or change in local market conditions. Consequently, these transactions are far less likely than those involving most other markets to be initiated and closed in the same year.

## 2022-2024 Targets

Transactions could come in two forms – single loans on individual properties or a pool of loans spanning multiple properties. In the early stages of our entry into this market, we are setting our targets as inclusive of both types of transactions, as both are highly impactful and establish further precedents in the market. Because pooled transactions have properties in multiple markets, it is possible that not all properties in the transaction would be located in a rural area per the DTS definition. Therefore, we are setting our targets using transactions, not loans, to account for this possibility.

We anticipate that market adoption of our loan offering will take several years. In addition to the long lead time for each transaction described above, we see an additional significant challenge to the adoption of our offering. Based on our outreach to market stakeholders, we understand that borrowers in this market are highly accustomed to using USDA 538 for their debt financing needs. Therefore, we have set our targets as follows, growing our commitment over time as more market participants consider our offering.

Year	2022	2023	2024
<b>Purchase Target</b>	One transaction including at least one property in a DTS rural market	Two transactions, each including at least one property in a DTS rural market	Four transactions, each including at least one property in a DTS rural market

## Market Impact

Purchases of loans on properties with USDA 515 debt are an integral part of our strategy of providing liquidity in support of the 515 program and the rural multifamily housing market. This will provide relief from the maturing mortgage crisis and preserve affordability for multifamily housing in the affordable preservation market. As a result of our outreach, we along with the USDA, will be able provide long-term liquidity and stabilize the 515 preservation market, while preserving the 521 rental assistance (subject to continued federal support for these programs).

The transactions we hope to complete will be precedent-setting. Through these transactions, we will demonstrate to rural developers that there is a new and replicable source of innovative financing for 515 properties that will enable the recapitalization and preservation of properties in need.

The immediate benefit of these transactions will be to rehabilitate and preserve safe, decent, and affordable rental homes for tenants who are at risk of becoming homeless if these properties exit the 515 program. This benefit cannot be understated in the near term or in the long term. Indeed, these loan purchases lay the foundation for more third-party financing and enable long term, stable liquidity, which is fundamental to providing long-term residence to thousands of individuals and families.

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### OBJECTIVE B: ENGAGE IN LIHTC EQUITY INVESTMENT IN ALL RURAL AREAS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Investment	1, 2 and 3	VLI, LI, MI	Not applicable

Over the past several decades, LIHTC has remained the most important resource for creating affordable housing in the U.S. Created by the Tax Reform Act of 1986, the LIHTC program gives state and local LIHTC-allocating agencies the equivalent of nearly \$8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. By providing an incentive for private sector investment, the LIHTC has financed nearly three million housing units for low-income households, with approximately 100,000 units added to the inventory each year.

To support rural markets with LIHTC equity, we need to act in a safe and sound manner, which will take into account factors such as concentration risk, diversity of investments, and investment at sufficient scale to ensure a stable business platform.

The majority of LIHTC in large and medium-sized metropolitan areas are purchased by financial institutions that are motivated by their CRA requirements. Often, strong competition leads investors to pay high prices. Most of the LIHTC-financed properties that are located within census tracts in rural areas are outside of most banks' CRA assessment regions and, thus do not receive the most competitive pricing for their credits.

Freddie Mac re-entered the LIHTC equity market in 2018 in alignment with the first Duty to Serve Plan, and our support has remained strong and consistent over the past four years. By continuing to focus a meaningful portion of our investment capital in these rural areas, Freddie Mac will continue to provide competition in the rural marketplace, which increases market stability and can improve LIHTC pricing. The higher the LIHTC pricing, the lower the need for a portion of the rent to pay for debt service; thus, increased LIHTC equity pricing makes properties more affordable.

Investing in LIHTC equity will bring many benefits to the market including the following:

- Stability by making long-term and consistent investments regardless of market volatility
- Liquidity, particularly for investments that positively impact low-income renters in underserved areas, such as rural communities, tribal reservation communities, and agricultural worker communities, as well as preservation deals and for any other investment type that may not receive consistent investment interest year after year
- Affordability for investments that may not be as attractive to the largest investors, such as preservation deals, Section 8 deals, and bond deals with high losses-to-LIHTC ratios

We intend to continue LIHTC equity investments in support of high-needs rural regions relative to market opportunity over the next three years. In making our investments, we will continue to work with our strong network of seven LIHTC syndicators several of which are primarily focused on rural areas. We will leverage this network to identify LIHTC investments in rural areas.

We will also enhance our outreach strategy to increase LIHTC Equity investment across rural areas throughout the country. The goal of this outreach is twofold:

1. To better understand the needs of the market, and
2. To increase access for developers to Freddie Mac’s LIHTC Equity platform.

In order to achieve our goals, we will

1. Analyze state QAPs in order to identify rural set-asides and more effectively target harder to serve areas across the country. We will also analyze past tax credit allocation data and consider adjustments to our targets based on supportable market opportunity.
2. Conduct our own outreach to market stakeholders such as non-profit organizations and consortiums, developers and housing advocates.
3. Attend conferences and webinars to better understand the market dynamics for LIHTC DTS deals and increase relationships with market stakeholders, with a focus on high needs rural regions and high needs populations as these groups are harder to serve.

**Baseline**

The baseline is the average of transactions from 2018 through 2020, averaging 15 transactions and 922 units.

Year	2018	2019	2020	Three-Year Avg.
<b>Total Rural Transactions</b>	10	13	20	15
<b>Total Rural Units</b>	791	752	1,222	922

## Market Challenges

There are several challenges that will be presented when making LIHTC investments in rural markets. The primary market challenges are caused by a lack of investment, supply and demand imbalance of LIHTC, and volatility of LIHTC allocation.

Properties in rural areas are frequently outside of most banks' CRA assessment areas; thus, there is typically far less competition. This lack of competition leads to lower LIHTC pricing, which makes the credits less effective. There is a meaningful difference between a LIHTC deal located in a rural persistent-poverty county in Middle Appalachia like London, Kentucky, where there is not much CRA-motivated demand for investment, and one in The Bronx in New York, New York. Based on current market information from the Community Affordable Housing Equity Corporation (CAHEC), a Raleigh, North Carolina-based LIHTC syndicator with 25 years' experience and covering the Southeast, a deal in London, Kentucky is expected to receive approximately 87 cents on the dollar, while a deal in The Bronx would receive up to 99 cents on the dollar. In a hypothetical transaction with \$10 million of debt and a need for \$6 million of equity, this difference in tax-credit pricing equates to a \$720,000 funding gap, which would require additional tax credits, soft debt, or a deferral of developer fee (with payment from cash flow) to close. This gap financing is often more expensive than LIHTC equity.

Second, supply and demand imbalances are being felt in the LIHTC equity market. CRA obligations felt by banks are often tightly confined to large urban centers, meaning developers are less likely to sell tax credits at an economically and financially feasible price for projects in lower-income markets. Bank branch closures in low-income, rural areas will only further the supply and demand gap of housing tax credit allocation over time, leaving underserved communities still in need of affordable housing. A study by CohnReznick concluded that the banking sector's demand for LIHTC investment is not aligned with the location of housing credit properties, which has led to overlapping CRA assessment areas in highly populated markets, driving capital to highly competitive areas and potentially away from hard-to-serve markets outside of major metro areas.

Additionally, there is volatility of LIHTC allocation. Many state housing finance agencies do not have a set-aside for tribal housing or agricultural workers, making them virtually uncompetitive with urban and suburban properties that better meet the requirements of the state Qualified Allocation Plans (QAPs). QAPs change annually and rural areas may not be as competitive year in and year out for the limited number of deals that receive a LIHTC allocation.

There are also several underwriting challenges. Transactions in rural areas often require additional review and analysis. Deals in these areas are frequently in smaller markets, often with marketing and lease-up challenges compared to more urban and suburban properties.

The LIHTC investment market also has been experiencing challenges due to the global COVID-19 pandemic. COVID-19 has weakened LIHTC investment demand due to uncertainty while available supply of tax credits has seen a 4 percent increase for a total of \$9.5 billion per Novogradac.<sup>98</sup> If investor demand continues to weaken, unused credits will be placed into a national pool, likely leading to a concentration of credits in easier to serve markets. Further, with less competition, investor yields typically increase, leading to an equity financing gap that requires additional subordinate financing from states and localities that are already short on funds. Our continued presence in high-needs rural regions will help to mitigate this risk and help to ensure that vital LIHTC properties are placed in service in these underserved markets.

Some of these challenges in rural markets may be partially mitigated by the 4 percent floor on demand passed by Congress in December 2020. A provision included in the Consolidated Appropriations Act introduced a 4 percent credit floor for LIHTC projects, new or existing, that were financed with tax-exempt bonds and receiving an allocation after December 31, 2020.<sup>99</sup> The effects of this 4 percent floor will be felt through the coming years, with industry participants expecting the floor to allow for more equity in transactions and allow more affordable rental housing units to be produced.<sup>100</sup>

## 2022-2024 Targets

We built out our syndicator network in our first Duty to Serve Plan period. . In partnership with them, we have increased our focus on rural transactions. This has enabled us to source a significant number of rural deals and make an impact in the rural market across the country. As such, we are setting our target above our average baseline over the last three years, which demonstrates a strong and continued presence in rural areas.

Year	2022	2023	2024
<b>Total All Rural Transactions</b>	20 Transactions	22 Transactions	24 Transactions

These targets are especially significant because it is a substantially higher share of our LIHTC business devoted to rural areas compared to the industry overall. The targets established are based on the prior three years of performance in the market and are scaling upwards over time in light of our increased LIHTC equity authorization of \$850 million per year (up from \$500 million per year) across Duty to Serve rural markets, other underserved markets, and nationally. We intend to expand our strong presence in the market and provide liquidity in rural areas throughout changing market conditions.

Based on the total LIHTC properties placed in service from 2010 through 2020, rural properties make up 15 percent (106,782 properties out of 699,744). With the assumption that our authorization will be \$850 million, we estimate 20 to 24 transactions per year will represent 50 percent or more of our total investment in terms of properties. The share of our investments directed to rural markets is more than 300 percent of the national average.

Our targets are inclusive of transactions that will be completed in high-needs rural areas and for high-needs rural populations as described elsewhere in the Plan. We will continue to work closely with our syndicator network in order to identify more potential transactions, provide a meaningful increase in liquidity to this market and deepen our exposure nationwide.

## Market Impacts

Freddie Mac will continue to provide stability to the equity market specifically for investments that are directly impacted by the lack of investment due to investors' tax reform concerns and lack of CRA credit. This is as true for LIHTC properties in rural areas as it is for those in the even harder to serve high-needs rural regions and high-needs rural populations due to the volatility in allocation and lack of investors.

Our investments will not only provide a meaningful benefit to the people living in rural markets by providing them with safe, decent and affordable housing that is hard to come by – we will also further competition into a segment of the market that lacks it, and often lacks investor interest at all. By doing so, we could potentially influence the price per credit, which could make the development of properties viable where they were not previously or allow developers to create or preserve more units than they would otherwise.

These investments will allow us to continue our strong market presence and support this historically underserved market.

**OBJECTIVE C: PROVIDE FINANCIAL EMPOWERMENT OFFERINGS FOR RURAL RENTERS**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Product</b>	<b>1</b>	<b>VLI, LI, MI</b>	<b>Not applicable</b>

Individuals with lower credit scores or those who are credit invisible face greater barriers to housing opportunity and wealth building than those with higher credit scores. These individuals may face higher risk of being screened out of rental applications (i.e., tenant screening services often rely on credit scores as a factor) and have greater difficulty accessing credit, thus hindering their ability to obtain a mortgage, rent a house or apartment, buy a car, get insurance and even secure employment. The single largest and most consistent debt payment that most renter households make – their rent – is not captured in today’s traditional credit scoring model. Renters have much lower credit scores (638 – “Poor”) than homebuyers (717 – “Good”). Poor credit scores directly contribute to the growing wealth gap that exists today and can be harmful to renters’ financial future.

Renters can benefit from both financial capability resources and an efficient process that captures credit data to better help them manage their finances, plan for the future, and achieve homeownership capabilities.

**Baseline**

In November 2021, Freddie Mac announced its Credit Building program, which programmatically incentivizes multifamily borrowers to report on-time rent payments to credit bureaus. This program was originally designed to support properties on which we provide debt financing, and has not yet been extended to our LIHTC equity investment properties.

Freddie Mac also provides a proprietary financial empowerment curriculum called CreditSmart, which is free and robust. Lessons start with setting financial goals and put the power in the consumers’ hands to better understand concepts ranging from how to build a household budget, to saving for rainy day expenditures, to buying or leasing a vehicle. For renters, CreditSmart can guide users through creating household budgets, determining how much to spend on rent and what their tenant rights and obligations are before entering into a lease. While this program is available to the general public, it has not been promoted directly to renters in Freddie Mac properties through our loan offerings or LIHTC equity investments.

**Market Challenges**

As described above, rent payments do not count towards renter credit scores, thus inhibiting the potential opportunities associated with higher scores. While there is growing attention paid to this issue, and both legislative and technological solutions are emerging, there is still not widespread adoption.

**Actions**

Our goal in Year 1 is to expand our rollout of Credit Building and CreditSmart to LIHTC properties in rural markets. Our current promotion strategy has been focused around our role as a capital source for debt financing. In 2022, we will explore and implement an appropriate promotion strategy suitable for our role as LIHTC equity investor. Adoption of these services will be reported on under our LIHTC equity investment targets described in this Plan.

Period	Key Action Items	Targets
<b>Year 1 – 2022</b>	<ul style="list-style-type: none"> <li>• Design promotion strategy for Credit Building and CreditSmart features for our LIHTC equity investments.</li> <li>• Develop marketing materials.</li> <li>• Promote Credit Building and CreditSmart features to our syndicator network.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete development and rollout of Credit Building and CreditSmart features for our LIHTC equity investments.</li> </ul>

## Market Impact

By year end 2021, more than 73,000 tenant households had been offered this program across 284 properties. So far, we've helped establish credit scores for more than 6,000 individuals who were previously credit invisible. Participants with existing credit scores who saw an improvement in their score, improved their scores by an average of 43 points. Stronger credit scores open doors for tenants such as access to short-term credit options for emergency situations, qualifying for lower interest rates resulting in higher savings, providing economic mobility and improving their opportunity to become homeowners. To date, this has been marketed through our loan offerings, which typically do not reach the hardest to serve rural markets where properties generally cannot support first lien debt. Marking Credit Building and CreditSmart through our LIHTC Equity Investment offerings will allow us to further financial empowerment for rural renters.

## OBJECTIVE D: EXPLORE AND ESTABLISH RURAL DEVELOPER CAPACITY BUILDING PROGRAM

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Product</b>	<b>2 and 3</b>	<b>VLI, LI, MI</b>	<b>Not applicable</b>

Many rural communities remain underserved and are subject to underinvestment, affecting both community members and properties. Continued underinvestment – and difficulty accessing capital – enable housing and quality of life to deteriorate. There is a need to preserve the housing stock for renters living in historically disinvested areas by increasing the capacity of local organizations to invest in their communities and spur redevelopment and rehabilitation.

## Baseline

Freddie Mac does not currently have a capacity building program for developers in rural markets. Other capacity building programs exist in different markets. We will look to learn from those programs as we develop ours.

## Market Challenges

Development and rehabilitation of rental housing in rural markets is heavily dependent on public subsidy. LIHTC properties represent a disproportionately large share of rural rental housing when compared to the amount of LIHTC properties in the nation overall. This is the case to an even greater degree in high needs rural regions, as we demonstrated in our three papers “LIHTC in Rural Middle Appalachia,”<sup>101</sup> “LIHTC in Rural Lower Mississippi Delta,”<sup>102</sup> and “LIHTC in Rural Persistent Poverty Counties.”<sup>103</sup>



While subsidy programs are necessary in order to make development and property operations in rural markets economically feasible, they also mean that the process of development and rehabilitation is complicated and requires expertise. This makes it difficult for local developers to enter the market and serve their communities without specialized training or assistance from more experienced developers.

**Actions**

The goal of our developer capacity building program is to spur reinvestment from within rural communities through localized efforts and help local developers enter or grow their footprint in the housing market. The variety of community characteristics across the country necessitates an understanding of local markets in order to best serve rural communities.

We will approach the capacity building program development in stages.

- Stage 1 - Conduct a feasibility and impact analysis to determine potential market gaps, participants active in the market and opportunities and/or efficiencies
- Stage 2 - Assuming that we recognize a need for a capacity building program through the feasibility and impact analysis in Stage 1, develop a scoping document containing broad parameters of the program and curriculum
- Stage 3 - Implement capacity building program in an identified market and bring in seasoned multifamily LIHTC partners and/or Syndicators to provide industry knowledge and advice to emerging developers

Period	Key Action Items	Targets
<b>Year 2 – 2023</b>	<p>Feasibility and Impact Analysis:</p> <ul style="list-style-type: none"> <li>• Research market gaps and participants active in providing assistance today and identify potential opportunities and/or efficiencies in the market where a capacity building program could have a meaningful impact.</li> <li>• If the feasibility and impact analysis presents a reasonable opportunity for program development, create a scoping document.</li> </ul> <p>Scoping document:</p> <ul style="list-style-type: none"> <li>• Identify criteria for sourcing developer applicants into the program and target markets.</li> <li>• Develop a program scoping document that contains broad parameters of the program, including potential markets to focus on, a general outline of the curriculum, and size of the program for 2024, including number of participants in the program as partner developers/ organizations.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete feasibility and impact analysis document.</li> <li>• If there is opportunity and benefit to the program, complete scoping document.</li> </ul>

<b>Year 3 – 2024</b>	<ul style="list-style-type: none"> <li>• Select at least one partner for the program.</li> <li>• Develop a curriculum.</li> <li>• Select at least one initial market for first class of applicants in 2025.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a curriculum.</li> <li>• Select at least one partner for the first year of the program (2025).</li> <li>• Identify at least one initial market for the program.</li> </ul>
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## Market Impact

Various organizations provide different levels of capacity building across the country, however we aim to build a program that has national impact across rural markets through our specialized curriculum and resources. We anticipate that our program will increase the capacity of rural developers and local organizations to access necessary public subsidy and develop or rehabilitate housing vital to their communities. By empowering local developers and development, the economic returns on property development can stay in the community and help grow local economies while providing affordable rental housing. This program will be available and impactful for participants whether or not they choose to work with Freddie Mac for debt financing or equity investment, increasing liquidity to the market. Even if we determine creating a capacity building on our own is not feasible or will not have the desired impact, our outreach and analysis will increase our understanding of rural market needs and practices which we can leverage in our LIHTC equity investment capital.

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### OBJECTIVE E: ENHANCE LIHTC PROGRAM TO BETTER SUPPORT NON-PROFIT OWNERSHIP AT THE END OF THE COMPLIANCE PERIOD

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Product</b>	<b>1</b>	<b>VLI, LI, MI</b>	<b>Not applicable</b>

For over three decades, the Low-Income Housing Tax Credit (LIHTC) has been used to develop more affordable housing for very low- and low-income renters than any other federal program, through the investment of private sector equity. Properties with LIHTC are financed through partnerships between general partner (GP) developers and limited partner (LP) tax credit investors. In many cases, the GP is a nonprofit organization or an affiliate. As part of the LIHTC program, nonprofit GPs typically have the right to obtain ownership of LIHTC properties at a minimum purchase price equivalent to the outstanding debt plus exit taxes at the end of the initial 15-year compliance period (“Compliance Period”), i.e., the minimum period in which LIHTC properties must satisfy specific low-income housing compliance rules in order for the LP tax credit investor to claim all available tax credits. This is known as the right of first refusal (ROFR). The expectation is that if a partnership receives a bona fide third-party purchase offer, the nonprofit GP will exercise the ROFR and obtain complete ownership of LIHTC property by the end of the Compliance Period, thereby ensuring that the property will remain affordable.

This issue has received considerable attention through many high-profile court cases in recent years. Affordable housing advocates and some nonprofit developers have raised concerns that some holders of the LP interest in LIHTC partnerships (who may have purchased their interests from the initial LIHTC investor) have sought to unreasonably limit the circumstances in which the ROFR may be exercised.

## Baseline

To help preserve the ability of non-profits GPS to exercise ROFRs, Freddie Mac has developed language for our inclusion in partnership agreements involving non-profits GPs which is intended to prohibit the LP interest from being sold to a party that has a history of attempting to frustrate the effect of Section 42(l)(7) ROFRs. This language was used in only a subset of transactions with a subset of syndicators number of deals in 2021.

## Market Challenges

In addition to the challenges faced by non-profits described above, we recognize that we can only implement on a certain number of transactions. The opportunities for using this language could be limited, particularly since not all deals we close are with non-profit developers, and this language will only be applicable for new transactions. We cannot amend existing partnership agreements that do not already have this language.

## Action

### **Year 1 – 2022**

We have determined that it would be beneficial to include the language we developed in 2021 in all transactions with non-profit GPs in order to help preserve non-profit control. Therefore, starting in 2022, we will include this language in our standard partnership agreement(s) or suitably equivalent document governing the ownership of a project with a non-profit general partner. We will make this available through all of our LIHTC syndicators.

## Market Impact

By doing this we are establishing an important standard for LIHTC transactions with non-profits for a vital issue that has received a great deal of attention. The language we have developed will help non-profits maintain ownership of LIHTC properties and preserve affordability past the expiration of the Compliance Period. This language sets a template that other investors with a focus on long-term affordability preservation may choose to follow.

## Strategic Priorities Statement

As the demand for affordable housing continues to grow and outpace supply, the need to find innovative ways to create and support the long-term preservation of affordable housing is clear. Our experience and feedback from the public underscore this. Beyond this, it also is necessary to increase opportunities for social and economic mobility and to help more financial institutions increase their impact in the communities they serve. Freddie Mac's commitment to this work could not be clearer, it is in keeping with our expanded mission and consistent with feedback we have received from the public.

Under this Plan, we will optimize the use of our capital and resources as we increase our commitment to provide liquidity to federal, state, and local affordable housing programs. We also will work to increase sustainable opportunities for renters and potential homebuyers to further their social and economic mobility, and expand opportunities for small lenders to access Freddie Mac capital. In addition, we will work to preserve at-risk affordable housing and help prepare properties for increasing climate risk by leveraging and expanding our suite of loan offerings. Finally, we will build on standards that we set during the previous Plan cycle to increase loan purchases across this market and drive capital market activity, which will be demonstrated through our creation of a Single-Family Green Bond program.

## Over the next three years, Freddie Mac intends to expand our support for the affordable housing preservation market in the following ways:

1. Purchase loans to support the following:
  - a. Low-Income Housing Tax Credits (LIHTC) debt
  - b. Section 8 program
  - c. USDA Section 515 program
  - d. State and local subsidy programs
  - e. Properties that support Residential Economic Diversity (RED) in high opportunity areas
  - f. Energy-efficient homes
  - g. Shared equity homeownership
2. Provide liquidity to small financial institutions, which are a key source of financing for smaller, unsubsidized affordable housing properties.
3. Conduct and publish research on high opportunity areas, at-risk affordable housing, and climate and resiliency.
4. Innovate to increase liquidity for at-risk affordable housing and climate and resiliency measures in multifamily properties.
5. Explore and develop loan offerings to preserve at-risk affordable housing, support climate resiliency, and increase opportunities for renters.
6. Standardize market infrastructure.
7. Minimize operational complexity and incorporate automation, where feasible.
8. Establish an execution for securitizing energy-efficiency mortgages on single-family homes.
9. Perform a census to create a directory of community land trusts (CLTs) to help size the market opportunity.
10. Create a database of active CLTs nationwide and make it available on-line to facilitate collaboration between CLT program providers and lenders offering financing that supports shared equity homeownership.
11. Develop a curriculum in collaboration with a leading appraisal trade organization on the methodology for appraising properties on CLTs.

## Market Context

### Overview

Affordability challenges in the multifamily market have remained a nationwide issue, with very low-, low- and moderate-income renters experiencing a greater rent burden than renters of other area median income levels. Low to moderate income renters struggle with rent increases severely outpacing income growth, and the challenges associated with the coronavirus pandemic have only exacerbated these issues, as millions of households have lost income and struggled to pay their rents.

Rent affordability is an issue affecting a substantial number of households, and the new supply of affordable rental housing has not kept pace with the demand for units. According to the Joint Center for Housing Studies of Harvard University (JCHS), in 2019, 24 percent of all renters are severely rent burdened, which means they spend more than half of their incomes on rent. This compares to 20 percent of renters in 2001.<sup>104</sup>

Research from the National Housing Trust suggests “for every new affordable apartment created, two are lost due to deterioration, abandonment or conversion to more expensive housing.”<sup>105</sup> Nationally, there are only 7.4 million affordable rental units to serve 10.8 million households living on very low incomes.<sup>106</sup>

This affordability crisis is more pronounced in high-cost cities and in highly underserved populations or geographic areas. Affordable rental housing shortages disproportionately affect the lowest-income earners when looking at all households with incomes of less than the area median income (AMI). According to the National Low Income Housing Coalition (NLIHC), only 60 affordable units exist for every 100 households making up to 50 percent AMI, while 37 affordable units exist for every 100 households making up to 30 percent of AMI.

Homeownership affordability is also an issue of growing concern. While there are programs available to address this issue, such as inclusionary zoning as well as inclusionary housing offered by CDFIs, housing finance agencies, or community land trust organizations, these programs have not been enough to close the homeownership gap due to limited funding, low secondary market participation and lack of standardization.

Recent housing studies and market data show that housing cost burden – defined as housing costs that are higher than 30 percent of a family’s income – is among the most significant barriers to homeownership.<sup>107</sup> Housing cost burden presents significant barriers to homeownership, including saving for the down payment and paying down other debt obligations or, for homeowners, building a financial safety net through savings.

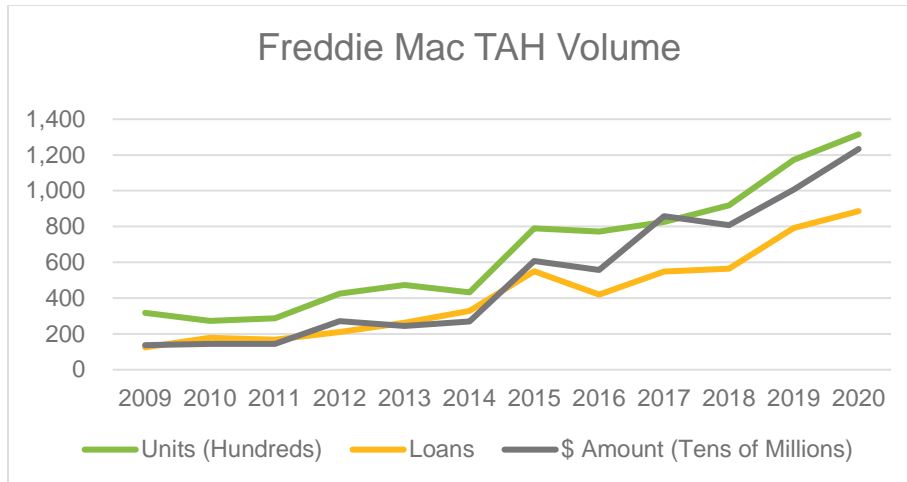
Even though house prices are going up and the number of households suffering from housing cost burden has been on the rise, the demand for housing and the appeal of homeownership remains strong. The pandemic has further increased this demand for homeownership, as a growing number of people now prefer large homes and lot sizes. Redfin reports that seasonally adjusted homebuyer demand increased by 60 percent from January 2020 to January 2021, while inventory declined by 13 percent over the year.<sup>108</sup>

Affordable housing stock remains limited. In the 2020 “State of the Nation’s Housing” report, the JCHS reported that, “The pandemic both broadened and accelerated the tightening of supply. In January [of 2020], for-sale inventories had already fallen year over year in 65 of the 96 large markets tracked by Zillow. By June, inventories were lower in 94 of those markets, with declines accelerating in all but two.”<sup>109</sup>

## Current Freddie Mac Support for Affordable Housing Preservation

Freddie Mac has long been active in affordable housing preservation, which the company views as fundamental to our mission, and we consistently have increased our support over the past several years.

For the multifamily market, Freddie Mac offers a broad suite of products that support subsidized and unsubsidized affordable housing in a manner that is consistent with and sometimes beyond the scope of Duty to Serve. Since 2015, about 70 percent of the units we financed through loan purchases were affordable at 80 percent of area median income (AMI) and nearly 95 percent were affordable at 120 percent of AMI. We are the market leader in multifamily financing overall in Targeted Affordable Housing (TAH) and in specific programs, such as LIHTC. Over the past decade we have invested heavily in the TAH platform, our product set, and our risk distribution methods. We also have focused our attention on providing liquidity to small financial institutions since 2015, implementing methods to enable such institutions to increase their lending capacity.



Over the past 11 years, we have increased the number of units we supported by 313 percent, the number of loans by 608 percent, and the annual loan amounts by 798 percent. These increases are especially apparent in the past three years of our business under our Duty to Serve Plan, and the number of units we have financed since inception of the Plan have increased by 121 percent. We continue to be a leader in the market, optimizing our Targeted Affordable volume and achieving a high level of consistent impact not only under Duty to Serve but also across our total business.

In addition to our loan purchase activity, Freddie Mac has published several research papers on topics such as residential economic diversity, green improvements in workforce housing and the preservation of affordable housing in underserved markets. We have published reports on LIHTC allocation across all 50 states' Qualified Allocation plans, explored the benefits of properties within high opportunity areas, and analyzed replicable energy and water efficiency improvements at the property level. We have also created products such as the Mission Map – a free tool for the public, our seller/servicer network, and industry stakeholders – which identifies the location and concentration of properties in FHFA-designated Duty to Serve areas. Our Mission Map allows for properties at the end of their compliance period and/or in need of preservation to be identified by lenders, which allows for refinancing or resyndication opportunities to preserve more affordable units.

We also introduced our Impact Bonds offerings in 2019, composed of Green, Social, and Sustainable Bonds, which target a specific impact area that relates to certain environmental or social challenges. Proceeds from our Impact Bonds have financed properties across Duty to Serve underserved areas, such as high opportunity areas and persistent-poverty counties. Since inception, we have issued more than \$5 billion in Impact Bonds, improving the environmental impact in workforce housing, affordability for renters, and economic health of communities.<sup>110</sup>

In the single-family market, Freddie Mac has a range of products that are consistent with affordable housing preservation. Freddie Mac believes that reducing home utility costs places families in a better financial situation, and we are committed to supporting the energy-efficiency market with the objective of helping to preserve affordability. Freddie Mac introduced GreenCHOICE Mortgages® during the prior Plan cycle to support financing of energy- and water-efficient improvements to existing homes. Freddie Mac also purchases mortgages secured by properties with resale restrictions or those in a community land trust; both offerings were introduced in the prior Plan cycle as part of comprehensive product enhancements to support shared equity financing.

Under Duty to Serve, we will leverage our infrastructure, resources and experience to provide further support for affordable housing preservation as we help address the affordable housing gap and cost burdens faced by so many renters and homeowners.

## Challenges and Needs

### *COVID-19 Challenges*

It is unclear how and when the market will recover from the COVID-19 pandemic. In addition to the toll it is taking on individuals, families, and communities, it is adversely affecting housing construction, rehabilitation, and lease-up, which could present delays for Freddie Mac financing. Also, the market's recovery may be slow and/or uneven. However, affordable housing is likely to remain in very high demand for prospective homeowners and existing renters, and that demand may increase as new households enter the market. Additionally, if pre-pandemic income levels are slow to recover for very low-, low- and moderate-income households, this could increase the need for an already scarce supply of affordable housing, particularly at lower rent levels. Our focus is to remain a source of stability, liquidity, and affordability for the housing market in all economic conditions.

### *Affordable Rental Housing Preservation*

Affordable rental housing is difficult to build and operate based on rental income alone. Material and construction costs, land costs, labor costs, and interest rates have created supply challenges in the affordable rental housing space. These factors, combined with the need for ongoing operations and maintenance, have driven the need for certain levels of rental income, which frequently cannot be supported by rents that would be affordable to very low-, low-, and moderate-income renters without some form of subsidy. This is especially true for renters with very low- and extremely low-income, where unsubsidized rents affordable to those making 30 percent of AMI, for example, cannot support the operation of a safe and decent property. Therefore, new supply and long-term preservation are often dependent upon federal and/or state and local subsidies to keep rents at levels affordable to lower income renters.

In evaluating challenges to preserving affordable rental housing, it is useful to look at two broad categories:

- Subsidized affordable housing: housing that is created or preserved as affordable through federal and/or state and local programs and regulatory agreements
- Unsubsidized affordable housing: housing in which market conditions, design decisions, age of property and voluntary agreements or property management decisions lead to affordable rents

#### *1. Subsidized Affordable Housing*

Generally speaking, the subsidized affordable housing market is overwhelmingly tied to two federal programs: LIHTC and Section 8. This is a function of both federal budget allocation and program definition. LIHTC and Section 8 are both broadly defined programs designed to work anywhere and to be paired with specialized programs. Indeed, they are often used together to maximize the application of federal subsidies to support more affordable housing units than could have been supported by the programs when used individually. Additionally, the same purposes served by many of the other individual statutory programs identified in the Duty to Serve rule are also served through LIHTC and Section 8 independent of those more specific statutory programs, as many localities include requirements in qualified allocation plans (QAP) used to award tax credits so they can direct tax-credit properties to meet locally-identified needs.

Despite the success of federal programs such as LIHTC and Section 8, an imbalance between these programs and the growing need for affordable housing persists. The gap between demand and availability of project-based Section 8 housing has been exacerbated by the shrinking housing supply; from 2005 to 2014, more than 46,000 units have been lost to demolition or expired Section 8 contracts.<sup>111</sup>

Additionally, the percentage of multifamily rental units that are affordable to households nationally making 50 percent of area median income (AMI) fell from 55.7 percent in 2010 to 39.1 percent in 2017.<sup>112</sup> Rent growth has surpassed income growth, and between 2010 and 2019 the increase in median rent for multifamily units nationwide was 40 percent, while median income grew by only 16 percent. The disparity between rent and income growth affects very low- and low-income renters most severely, as well as those living in major and growing metro areas. In the near future, it appears that it will become more difficult to close this gap, particularly



through federal and state and local subsidy programs, as the combination of the above and following factors has had a material impact on the supply and viability of properties affiliated with the major federal housing programs:

1. Reduced LIHTC equity pricing has led to a smaller market
2. Rising cost and/or shortage of materials makes new construction more expensive and slower
3. LIHTC subsidized properties nearing the end of their compliance or extended use periods can strain the limited public subsidy and are at risk of conversion to market-rate

According to Novogradac, tax-credit pricing dropped to \$0.90 in December 2020 after historic highs of about \$1.06 per credit recorded in mid-2016.<sup>113</sup> In a hypothetical transaction with \$10 million of debt and a need for \$6 million of equity, this reduction in tax credit pricing equates to a \$960,000 funding gap, which would require additional tax credits or soft debt to close.

Rising construction costs, labor shortages, and materials shortages have also put pressure on the creation of new supply. These factors have been felt across the multifamily development and rehabilitation industry and have contributed to the lack of supply of affordable units available for very low-, low- and moderate-income renters.

Additionally, many deals with LIHTC are reaching the end of their 15-year compliance period or 30-year extended use periods. This places additional pressure on the limited resources of the LIHTC program, which cannot support both the need for new housing and the growing number of units requiring new subsidy in order to preserve their affordability. Over the next decade, an estimated 387,000 LIHTC units are at risk of losing their affordability restrictions for the first time if there is not additional reinvestment<sup>114</sup> focused on preserving affordability.

Given these challenges, our activities to support affordable housing preservation through federal and local subsidy programs take on a more profound urgency, and the importance of the unsubsidized affordable rental housing market grows.

## *2. Unsubsidized Affordable Housing*

The unsubsidized affordable rental housing market, commonly known as naturally occurring affordable housing and workforce housing, is not formally or nationally defined at this time, though there have been various estimates of its size. It generally consists of lower-rent units that are affordable to lower-income families who may not qualify for rental assistance. Freddie Mac tabulations of Yardi® Matrix data show that just over 3.3 million units in their database are considered workforce housing.<sup>115</sup>

These properties can be found in virtually all markets nationwide, though it is important to recognize that a significant number fall outside Duty to Serve-qualifying criteria. Moreover, a sizable portion of these properties do not carry debt anymore and will likely remain without debt.

Among those qualifying for Duty to Serve, five-to-50-unit properties financed by small financial institutions with an asset cap of \$10 billion or less can help close the affordable housing gap over time. These lenders are constrained by regulatory requirements related to how much commercial real estate they can hold on their balance sheets. Currently, they do not have a reliable and standardized set of methods to increase their lending activities and sell loans in the secondary market to increase their liquidity. These institutions are also affected when interest rates rise. Their ability to sell loans from their portfolios can be limited if rates are higher at the time of sale than they were when the loans were made.

We see opportunities to address these challenges and meet the market's needs for both subsidized and unsubsidized affordable rental housing.

## *Affordable Single-Family Housing Preservation*

### *1. Home Energy and Water Efficiency*

New renewable energy technologies have created additional ways to reduce housing costs, primarily through utility savings, and through energy efficiency home improvements. According to the Department of Energy, heating and cooling costs are the largest utility expense for most U.S. homes. In fact, they account for more than half of energy use in a typical home.<sup>116</sup> Since utility expenses are a factor of overall housing costs, a reduction of energy expenses is a direct reduction of housing costs. However, utility expenses are typically not factored into traditional underwriting methods, and thus the value of energy efficiency home features has not been consistently accounted for in first lien financing.

The market for home energy efficiency has gained momentum, with several market participants pioneering new financing options, yet the residential energy efficiency market remains relatively small. During our outreach and research into this market, we learned that while there are a number of challenges and needs, the most significant challenge is the lack of standardization. Lack of standardization makes it difficult for lenders and investors to support the market in any scalable way. It also makes research challenging when it comes to assessing risks and/or the impact of energy efficiency on property values.<sup>117</sup>

The lack of standardization contributes to the challenges and needs related to energy efficiency in four categories:

- **Products** - Transactional ease is a key factor for lenders to provide first lien energy efficiency products. The complexity of mortgage underwriting guidelines, coupled with paperwork and longer settlement timelines, puts first lien mortgage financing at a disadvantage in comparison to unsecured financing options where the underwriting, approval and funds disbursement timelines are simpler and shorter.
- **Securitization** - Given the fragmented energy efficiency industry, financing programs vary significantly, which means securitization can be economically infeasible. In 2014, a report issued by the Coalition of Green Capital stated the “lack of standard documents, processes and program structures is one of the oft-cited barriers in the clean energy finance sector.”<sup>118</sup>
- **Data and research** - In general, the market needs more energy efficiency-specific performance data to properly assess risks, model performance of properties with energy efficiency features and design appropriate underwriting guidelines. On a longer-term basis, the data collected must be standardized to allow for more streamlined and broad-based modeling.
- **Market education and outreach** - Through our research and market outreach, we learned that the average consumer has limited awareness of the benefits of incorporating energy efficient features into a home. We also found that consumers who are knowledgeable about the potential value of investing in energy efficiency home features may not have access to comprehensive information about financing options to facilitate such improvements.

### *2. Shared Equity Homeownership*

To bridge the gap between the current relatively high home prices and what very low-, low-, and moderate-income borrowers can afford, state and local governments, housing finance agencies, and other organizations offer shared equity homeownership programs. They preserve the affordability of properties upon resale through deed restrictions or provide subsidies structured as secondary financing to borrowers; they may also employ a combination of these two options.

A key challenge that Freddie Mac will need to overcome is the lack of standardization among existing shared equity programs. Each organization develops highly customized programs based on its unique geographic needs, existing partnerships, available budgets, and funding mechanisms. This siloed development process creates loan products that, individually and in the aggregate, generate a small number of loans. The variety of program structures creates challenges when it comes to determining appropriate underwriting requirements and designing

property valuation guidance. The need to scale production and increase funding available to program sponsors are additional growth barriers inhibiting this market.

In addition, shared equity homeownership programs and the opportunities that the market presents are not widely understood by lenders and other market participants. Lenders that may be familiar with shared equity program structures have shied away from originating loans given their non-traditional structures. Available data on shared equity programs administered through community land trusts and other non-profits is thin, not easily accessible, and often out of date. Lenders may not have or want to expend the resources required to track down and compile information they need to assess and support the CLT market. The lack of information on CLT programs and the number of homes in their inventories available for sale in any given year may deter lenders from participating in CLT financing. As a result, investors have shown little interest in purchasing these loans. All of these challenges, together, have contributed to a lack of a secondary market for shared equity mortgages.

Over time, we will work to help standardize shared equity structures, while retaining appropriate levels of flexibility so that programs can meet the needs of their particular markets.

# Activities and Objectives

## Activity 1 – Low-Income Housing Tax Credits (Debt): Statutory Activity

LIHTCs comprise the number one subsidy currently available for new affordable rental housing units and are tightly connected to many other federal and local subsidy programs. The National Housing Preservation Database (NHPD), which was assembled jointly by the Public and Affordable Housing Research Corporation (PAHRC) and the National Low Income Housing Coalition (NLIHC), shows that there are just over 34,000 properties with an active LIHTC subsidy in 2020 and over 2.4 million total assisted units under this program.<sup>119</sup>

This table provides a summary of the overall LIHTC housing market in the U.S.

	Active Properties	Assisted Units
<b>NHPD Estimate of LIHTC</b>	<b>34,246</b>	<b>2,413,156</b>

Per analysis from the National Council of State Housing Agencies (NCSHA) in the 2019 State HFA factbook, the overwhelming majority (87.2 percent) of units financed with LIHTCs in 2019 also were supported by other federal subsidies. In addition to the high utilization of tax-exempt bond financing, the other major overlapping subsidies in units financed that year were HOME (14.6 percent) and Project Based Section 8 (23.7 percent). Only 12.8 percent of LIHTC units financed in 2019 were not also supported by another federal subsidy.

Freddie Mac currently supports the LIHTC program by providing debt financing on properties with tax credits. This market is largely driven by LIHTC equity investment, which ultimately informs market opportunity for debt financing.

We currently offer a comprehensive suite of debt financing products and flexible underwriting parameters that support LIHTC properties. This suite includes the following offerings:

1. Bridge to Resyndication
2. Immediate Cash Loan for LIHTC Preservation
3. Value-Add
4. Lease-Up
5. 9 percent new LIHTC Loan
6. Tax-Exempt Loan
7. Preservation Rehab Loan
8. Bond Credit Enhancement
9. Tax-Exempt Bond Securitization
10. Green Advantage®

Through our Tax-Exempt Loan product, we offer both forward commitments to take out construction loans – the majority of which also benefit from state and/or local programs – as well as immediate loans to support properties that are stabilized or have predictable and achievable rehab plans that do not disrupt economic performance of the property or materially affect tenants.

Given our comprehensive product offerings and our long history of growing our purchase volume, we are starting this cycle of our Duty to Serve Plan from a position as market leader. Over the next three years, we will continue to provide liquidity and stability through LIHTC loan purchase, leveraging our many debt offerings to best continue and grow our support for the LIHTC Debt market.<sup>120</sup>

**OBJECTIVE A: PROVIDE LIQUIDITY AND STABILITY THROUGH LIHTC LOAN PURCHASES**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Purchase</b>	<b>1, 2 and 3</b>	<b>VLI, LI, MI</b>	<b>Not applicable</b>

Over the past three years of purchasing LIHTC loans under Duty to Serve, we served a vital role in providing liquidity, stability and affordability in the LIHTC debt market. As described above, we have grown our TAH business considerably over the past 13 years since Duty to Serve was first described in the Housing and Economic Recovery Act (HERA), with a dramatic increase in the past few years, as a result of a mature suite of product offerings and favorable market factors. We have more than doubled our support for LIHTC debt and are a clear market leader, having maintained an extremely strong share of the LIHTC market over the past three years. In the 2022-2024 Plan cycle, we will continue to maximize the impact of our LIHTC debt loan purchases through our product offerings and leveraging our lender network.

Our LIHTC debt volume has grown as a share of our historical total unit volume over the past three years. This growing share of our business represents continued support for the LIHTC market over time, in line with our mission to bring liquidity and stability to underserved markets.

	2018	2019	2020
<b>LIHTC Units</b>	41,926	54,302	58,259
<b>Historical Total Freddie Mac Multifamily Volume in Units</b>	865,526	809,080	802,953
<b>% of Total Freddie Mac Multifamily Units</b>	4.80%	6.70%	7.30%

As a result of this growth, investments in our platform, product innovations, and our demonstrated market leadership, we believe that we are regularly providing meaningful liquidity to the market and have dedicated our business to providing mission-driven housing well before Congress first addressed Duty to Serve in HERA. Our objective is to provide consistent liquidity, certainty of execution, and stability to this market and increase our presence relative to market opportunity and need.

**Baseline**

In setting our baseline, we counted distinct units and properties on which we purchased loans during the year in question through our retail seller/servicer networks or via TAH negotiated transactions on individual mortgages. In the prior three years, our LIHTC loan purchases have been as follows:

Year	2018	2019	2020	Three-Year Avg.
<b>Total Loan Amount</b>	\$3.8B	\$4.8B	\$6.5B	\$5B
<b>LIHTC Units</b>	41,926	54,302	58,259	51,496
<b>Properties</b>	306	373	413	364

We are using our 2018-2020 three-year average actual volume of 51,496 units as the baseline for our 2022-2024 Plan. We exceeded our prior targets by 94 percent on average over the past three years, having increased liquidity to this segment of the market through our record purchase volume.

## Market Challenges

The overall shortage of LIHTC available in the affordable housing market has put supply constraints on the amount of units available for low-income renters. As stated above, there is a supply gap of approximately 4 million affordable units, which is further amplified by the rent and income growth disparity faced by millions of renters across the country. A shortage of LIHTC subsidy available in the market relative to the need only exacerbates the existing supply challenges of affordable units overall, making the preservation of these affordable units vital.

Many deals with LIHTC are also reaching the end of their 15-year or 30-year compliance period. This causes the tax credit program to be constrained, which can lead to a loss of affordability in rental units. Over the next decade, an estimated 387,000 LIHTC units are at risk of losing their affordability restrictions for the first time if there is not additional reinvestment.<sup>121</sup> LIHTC subsidized properties reaching Year 15 deals are up for resyndication, though there have been concerns in the market about Limited Partner (LP) interest holders extracting value from these properties through conversion to market rate or forced sale. If properties reaching the end of their LIHTC compliance periods do not receive adequate refinancing or resyndication, thousands of units are at risk of losing their affordability.

## 2022-2024 Targets

Given our many years of success of purchasing loans with LIHTC debt, we are in a very strong position in the market. However, growth cannot persist in perpetuity – especially without crowding out other capital providers. We operate within a broad allocation of our business, as defined in the FHFA Conservator Scorecard, to ensure both that there is sufficient liquidity to the market and that there is sufficient room for other capital providers to have adequate market share and reach. In setting our targets, we are seeking to maintain an extremely strong portion of our business devoted to Duty to Serve and LIHTC in particular, generally consistent (as a share of our overall business) with our record support for LIHTC over the past three years, while upholding safety and soundness standards for the benefit of the market overall.

In setting our targets, we will count distinct units on which we purchase loans during the year in question through our retail seller/servicer network or via TAH negotiated transactions on individual mortgages. These targets are inclusive of loans receiving LIHTC, as well as Section 8, USDA 515, or state and local program support.

Year	2022	2023	2024
<b>Target</b>	54,000 LIHTC Units	34,100 LIHTC Units	<del>56,000</del> 39,000 LIHTC Units

## Market Impacts

Freddie Mac intends to continue our role as the leader in purchasing loans on LIHTC properties through our comprehensive suite of products and dedicated platform, providing support to more families through our debt financing than any other lender in the market – indeed, the continuation of this market leadership has had, and will continue to have, a profound influence on the health of the market and availability of liquidity in the near and long term. Recognizing the critical role the GSEs play in providing a source of stability to the market as well as liquidity, we will be mindful of our status in conservatorship and ensure that our purchase volume and credit standard are consistent with safety and soundness. In furtherance of this goal, we are also able to distribute risk away from taxpayers with our market-leading ML securitization execution, K series executions, and Participation Certificate (PC) execution, all of which can be used for LIHTC debt. These are the most comprehensive risk distribution methods in the market which allow us to provide attractive financing and flexible terms to borrowers and channel private capital to support public good more efficiently and cost effectively than other market participants, all while protecting taxpayers and maintaining safety and soundness.

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### **OBJECTIVE B: PUBLISH RESEARCH ANALYZING LIHTC PROPERTIES AT RISK OF EXITING THE PROGRAM AND DEVELOP LOAN OFFERING PARAMETERS TO PRESERVE THEIR AFFORDABILITY**

<b>Evaluation Area</b>	<b>Year</b>	<b>Incomes Targeted</b>	<b>Extra Credit</b>
<b>Outreach</b>	<b>1</b>	<b>VLI, LI, MI</b>	<b>Not Applicable</b>
<b>Product</b>	<b>2</b>	<b>VLI, LI, MI</b>	<b>Not Applicable</b>

The LIHTC program has grown to be the largest affordable housing program in the United States. The duration of LIHTC affordability, however, is not indefinite. The affordability restrictions on LIHTC properties last at least 15 years during the Compliance Period. After 15 years, some properties may remain in the program for an additional 15 years (or longer, depending on the state), during what is known as the Extend Use Period. Other properties, depending on the state, have the option of leaving the program and dropping affordability restrictions through what is known as the Qualified Contract (QC) process. A property can also renew LIHTC credits and restart the affordability timer. Thousands of properties have exited the program through the QC process<sup>122</sup> – but even more may leave by reaching the end of their Extended Use periods.

Understanding where and how this issue is developing will provide valuable insight on where and how states can most effectively prioritize limited resources for LIHTC, private activity bonds, and other subsidy programs and how Freddie Mac can leverage and develop our loan offerings to address this growing need. With a continued shortage of affordable and available rental housing for low-income renters, public subsidy alone may not be enough to preserve all of the at-risk existing units and create new housing to close the affordable housing gap. Private market preservation efforts are likely also necessary.

Freddie Mac intends to address the risk of properties leaving the LIHTC program and becoming unaffordable in two stages: (1) conduct and publish research that analyzes the magnitude of this loss of affordability as well as when and where in the country it is most likely to occur, and, based in part on this research, (2) explore and develop loan offering parameters that incentivize developers to preserve the affordability of at-risk LIHTC properties, whether or not they receive new LIHTC.

## Baseline

Freddie Mac's prior research has focused on the characteristics of LIHTC affordability, general demographics, and access to opportunity. We have not conducted research explicitly investigating the issue of affordability loss due to LIHTC program exit or expiration. While other research has been published on this topic, our work—as described below—will expand upon that research—and support new loan offering development that provides liquidity specifically for the preservation of LIHTC properties exiting the program.

Freddie Mac routinely provides financing for LIHTC properties during their Extended Use period. However, our current offerings do not guarantee that properties exiting the Extended Use Period during our loan term will remain affordable for the life of our loan. In certain circumstances, these properties could become unaffordable. The offering we intend to develop in 2023 will address this issue and provide liquidity to preserve the affordability of these properties.

## Market Challenges

The most pressing issues stem from properties reaching the end of their Extended Use Periods or leaving the LIHTC program through the Qualified Contract Process. The first Extended Use Periods have begun to expire, and will continue to do so every year for properties that have remained in the LIHTC program. Prior published analysis that explores expiring LIHTC use agreements typically assumes that these expire after 30 years in all states, and that every property that leaves the program could become unaffordable. This potentially overstates the challenge and potentially makes it harder to target limited resources to preserving those properties most at risk. In many states, affordability restrictions last longer than 30 years, meaning properties will not exit the program as soon as is typically assumed. Further, properties exiting the program may be located in a market in which market rents and LIHTC rents are similar, meaning these properties are at lower risk of losing affordability even if their LIHTC agreements end. Our research will attempt to provide greater insight into the timing and market-based risk of lost affordability. This work will have two benefits: 1) it will help organizations focused on preserving affordable housing direct their limited resources to those properties most at risk and most in need of preservation, and 2) it will help Freddie Mac develop and market a loan offering in 2023 designed to preserve the affordability of these properties. As we conduct our research and outreach, we expect to better understand these challenges and identify additional factors that could be addressed to increase adoption.

## Actions

### Year 1 - 2022

Freddie Mac will analyze the magnitude of LIHTC property affordability loss as well as where and when it is most likely to occur through research and outreach. While other research has been conducted on this topic, our work will provide a more market-specific assessment of risk to affordability of units when restrictions expire.

We will publish the results of this research in a paper that identifies markets where LIHTC properties are at greater risk of lost affordability and examines these findings in the context of available public subsidy such as private activity bond and state-level LIHTC allocations.

This research will inform loan offering development in 2023 and help us to focus our efforts on the markets that need it most. This will help us to maximize the impact of the incentives we provide and direct them to properties at risk of losing affordability.



## **Year 2 – 2023**

Leveraging our research in 2022, we intend to explore and develop credit flexibilities and/or incentives to preserve at-risk LIHTC properties.

For LIHTC properties where the affordability restrictions expire during the Freddie Mac loan term, we will incentivize borrowers to preserve the affordability beyond the period of regulatory restriction. To receive our incentives, owners must commit to extending their current regulatory agreement or restrict at least 20 percent of the units at the property for the entirety of the loan term. This commitment will be enforced through the Freddie Mac loan agreement.

We will create a term sheet for this offering and promote it through our lender network.

## **Market Impact**

Expiring affordability is an urgent issue, potentially impacting hundreds of thousands of affordable units in the next several years. Understanding where and how this issue is developing will provide invaluable insight on how and where states can prioritize limited resources for greatest impact through LIHTC, private activity bonds, and other subsidy programs. Freddie Mac's loan offering development has the potential to leverage private capital and preserve affordable housing even if it cannot obtain limited public subsidy with affordability restriction. By leveraging covenants in the Freddie Mac loan agreement, we can help ensure continued affordability, even if properties leave the LIHTC program.

## Activity 2 – Section 8: Statutory Activity

Project-based Section 8 is an important federal program connected to a substantial number of affordable housing units nationwide. In our analysis of the NHPD, we identified about 22,000 properties with an active project-based Section 8 subsidy supporting more than 1.4 million units.

	Active Properties	Assisted Units
<b>NHPD Estimate of Section 8</b>	<b>22,134<sup>123</sup></b>	<b>1,403,603</b>

Section 8 HAP contracts are frequently combined with LIHTC equity to maximize the benefit of both programs. Per analysis from NCSHA in the 2019 State HFA factbook and provided to Freddie Mac, 23.7 percent of units financed with LIHTCs also have Project Based Section 8. As such, the market for Section 8 properties in a given year is tied to the market for tax credits. Where there is fluctuation in the LIHTC market, there will be fluctuation in the Section 8 market, particularly with respect to properties receiving new tax credits. As with LIHTC debt, it is vital that we continue to purchase loans in order to support this key federal program. We have historically had a very strong level of support of Section 8, and we intend to continue to provide market-leading liquidity to this segment of the market.

### OBJECTIVE A: PROVIDE LIQUIDITY AND STABILITY THROUGH SECTION 8 LOAN PURCHASES

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Purchase</b>	<b>1, 2 and 3</b>	<b>VLI, LI, MI</b>	<b>Not applicable</b>

Throughout the previous Duty to Serve Plan cycles, we played a key role in providing liquidity, stability, and affordability in the Section 8 market through a focus on loan purchases. We have more than doubled our support for Section 8 since Duty to Serve was first described in HERA and, particularly over the past three years, have maintained an extremely strong share of the Section 8 market. In this Plan cycle, we will continue to maximize the impact of our Section 8 loan purchases through our product offerings and leveraging our lender network.

Over the past three years, our Section 8 volume has grown as a share of our historical total unit volume. This growing share of our business represents continued support for the Section 8 market over time in line with our mission to bring liquidity and stability to underserved markets.

	2018	2019	2020
<b>Section 8 Units</b>	27,241	26,332	27,430
<b>Historical Total Freddie Mac Multifamily Volume in Units</b>	865,526	809,080	802,953
<b>% of Total Freddie Mac Multifamily Volume</b>	3.10%	3.30%	3.40%

## Baseline

In setting our baseline, we counted distinct units and properties on which we purchased loans during the year in question through our retail seller/servicer networks or via TAH negotiated transactions on individual mortgages.

The table below shows Freddie Mac’s support for Section 8 over the last three years, inclusive of loans that support properties with Section 8 and other subsidies, such as LIHTC and state and local subsidies.

Year	2018	2019	2020	Three-Year Avg.
<b>Section 8 Units</b>	27,241	26,332	27,430	27,001

We are using our 2018-2020 three-year average actual volume of 27,001 units as the baseline for our 2022-2024 Plan. We exceeded our prior targets by 55 percent on average over the past three years, having increased liquidity to this segment of the market through our record purchase volume.

## Market Challenges

The primary challenge of purchasing loans with Section 8 is the fixed amount of Section 8 units available is insufficient to fully meet the need of the affordable housing market. This overall shortage of available Section 8 units relative to the need has put supply constraints on the amount of units available for low-income renters in particular. As stated above, there is a supply gap of approximately four million affordable units, which is further amplified by the rent and income growth disparity faced by millions of renters across the country. With a fixed supply, the annual Section 8 debt market is also likely relatively stable, so the opportunity to grow our market share is minimized. A relative shortage of Section 8 subsidy available in the market only exacerbates the existing supply challenges of affordable units overall, making the preservation of these affordable units vital.

## 2022-2024 Targets

Given our many years of success in purchasing loans with Section 8 debt, we are in a very strong position in the market. In our prior Plan cycle, we increased our presence in the Section 8 market. The steadiness of our support over the past three years indicates that there is limited opportunity for growth, particularly without crowding out other capital providers. Further, the market for Section 8 units is fixed given that no new units are created. We intend to maintain our strong position in the market and increase our presence relative to market opportunity and need while being mindful of safety and soundness. In this context, our targets are responsibly aggressive.

In setting our targets, we will count distinct units on which we purchase loans during the year in question through our retail seller/servicer network or via TAH negotiated transactions on individual mortgages. These targets are inclusive of loans receiving Section 8, as well as LIHTC, USDA 515, or state and local program support.

Year	2022	2023	2024
<b>Target</b>	27,100 Section 8 units	20,400 Section 8 units	<del>27,300</del> <u>22,600</u> Section 8 units

## Market Impacts

Our continued market leadership will have a profound impact on the market as we will support more families than other lenders in the market and enable the continued improvement of properties while preserving affordable rents, leading to better quality affordable housing for residents over time.

Recognizing the critical role the GSEs may play in providing a source of stability during periods of market turmoil, we will be mindful of our status in conservatorship and ensure that our purchase volume and credit standard are consistent with safety and soundness. In furtherance of this goal, we are also able to distribute risk away from taxpayers with our market leading ML securitization execution, K series executions, and our PC execution, all of which can be used for Section 8 debt. These are the most comprehensive risk distribution methods in the market which allow us to provide attractive financing and flexible terms to borrowers, channel private capital to support public good, all while protecting the taxpayer and maintaining safety and soundness.

## Activity 3 – Section 515: Statutory Activity

USDA’s Section 515 program is vital for the preservation of highly affordable rural multifamily housing. It provides rental assistance to ensure that tenants pay no more than 30 percent of their income toward rent. According to an analysis by the Housing Assistance Council (HAC), the USDA has financed approximately 28,000 multifamily properties with over 533,000 units through the Section 515 program.<sup>124</sup> As of early 2018, approximately 13,000 properties with 415,000 units were still in the program. HAC has determined that the following number of units will exit the 515 program by 2040 based on their loan maturity dates:

Years	2017-2027	2028-2032	2033-2040
<b>Annual Unit Loss</b>	1,800 units	16,000 units	22,600 units
<b>Cumulative Units Lost Per Period</b>	18,000 units	64,000 units	158,200 units
<b>Cumulative Units Lost</b>	<b>18,000 units</b>	<b>82,000 units</b>	<b>240,200 units</b>

Per our analysis of the 515 portfolio on data.gov, we estimate that 75 percent of these units are in rural areas. And among rural 515 properties, 94 percent have between five and 50 units.<sup>125</sup> When these units exit the program, affordable housing is lost in rural areas because owners will no longer be able to access the rental assistance that enabled them to preserve rents at affordable levels to residents making very low incomes for their area while maintaining the property. This is often referred to as the “maturing mortgage crisis.” We have repeatedly heard from advocacy groups that USDA’s annual budget is not sufficient to preserve this number of properties at the rate at which they would exit the program. Therefore, the introduction of private capital is necessary to recapitalize and preserve these properties to maintain this important housing stock for rural communities.

Freddie Mac intends to address this by purchasing loans to preserve properties with USDA Section 515 debt.

### OBJECTIVE A: PURCHASE LOANS TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Purchase</b>	<b>1</b>	<b>VLI, LI</b>	<b>Not applicable</b>

### Baseline

We did not purchase any loans from 2018-2020 with USDA Section 515 debt, yielding a baseline of 0 transactions. In 2021 we purchased our first USDA 515 loan on a property in Utah which, per the DTS definition, was not rural. That same year we completed negotiations on a form subordination agreement with USDA, introduced our loan product offering, amended relevant loan product term sheets, and notified our seller/servicer network of our ability to purchase loans with USDA 515 subordinate debt.

## Market Challenges

There are several challenges involved in purchasing properties with USDA Section 515 debt.

First, there are limited financing sources for these properties. Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs. Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. The Freddie Mac loan product has a different loan and legal structure than the current financing option to this market. Developers experienced with the USDA 515 program are accustomed to and well-versed in the USDA Section 538 program, and leverage it as the primary source of new debt on existing properties. It may take time for developers to consider alternative financing and become accustomed to the Freddie Mac's loan structure and benefits.

Second, many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low- and low-income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of the tenants in a designated number or percentage of units. The one-year contract is only renewed as many times as funds are made available. Because the Section 521 rental assistance is only available if USDA 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.

Third, these transactions are highly complex, with multiple parties, multiple properties, and sometimes challenging market conditions. Even once initiated, a transaction can fall through due to many factors, such as disruptions in the LIHTC equity market, rising interest rates, or change in local market conditions. Consequently, these transactions are far less likely than those involving most other markets to be initiated and closed in the same year.

## 2022 Targets

A transaction could come in two forms – single loans on individual properties or a pool of loans spanning multiple properties. In the early stages of our entry into this market, we are setting our targets as inclusive of both types of transactions, as both are highly impactful and establish further precedents in the market. Because pooled transactions have properties in multiple markets, it is possible that not all properties in the transaction would be located in a rural area per the DTS definition. Therefore we are setting our targets using transactions, not loans, to account for this possibility.

We anticipate that market adoption of our loan offering will take several years. In addition to the long lead time for each transaction described above, we see an additional significant challenge to the adoption of our offering. Based on our outreach to market stakeholders, we understand that borrowers in this market are highly accustomed to using USDA 538 for their debt financing needs. Therefore, we have set our targets as follows, growing our commitment over time as more market participants become familiar with the structure and benefits of our offering.

Year	2022
<b>Purchase Target</b>	One transaction

## Market Impact

Purchases of loans on properties with USDA 515 debt are an integral part of our strategy of providing liquidity in support of the 515 program and the rural multifamily housing market. This will provide relief from the maturing mortgage crisis and preserve affordability for multifamily housing in the affordable preservation market. As a result of our work, we, along with the USDA, will be able provide long-term liquidity and stabilize the 515 preservation market, while preserving the 521 rental assistance (subject to continued federal support for these programs).

The transaction we hope to complete will be precedent-setting. We will demonstrate to rural developers that there is a new and replicable source of innovative financing for 515 properties that will enable the recapitalization and preservation of properties in need.

The immediate benefit of these transactions will be to rehabilitate and preserve safe, decent, and affordable rental homes for tenants who are at risk of becoming homeless if these properties exit the 515 program. This benefit cannot be understated in the near term or in the long term. Indeed, these loan purchases lay the foundation for more third-party financing and enable long term, stable liquidity, which is fundamental to providing long-term residence to thousands of individuals and families.

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## Activity 4 – Financing of Small Multifamily Rental Properties: Regulatory Activity

Small financial institutions (SFIs) serve an important role in supporting communities across the country as well as providing financing for projects that are smaller or locally important. For the purposes of this Regulatory Activity, Freddie Mac is defining small financial institutions to mean a community development financial institution, insured depository institution, or federally insured credit union, where the entity's total assets are \$10 billion or less. Many of the multifamily loans originated by these financial institutions are focused on these smaller projects. Buildings with five to 50 units account for more than one-third of the rental housing in the U.S.<sup>126</sup> Generally, rents in these smaller multifamily projects tend to be lower than those in larger buildings, especially the new Class A properties constructed in recent years.<sup>127</sup>

To enable small financial institutions to provide greater community benefit, particularly through five- to 50-unit properties, we intend to continue to purchase or guarantee seasoned small loans from small financial institutions.

Based on our outreach to small financial institutions, we understand that Freddie Mac can help this segment of the market by offering access to liquidity so these institutions can continue to grow and support affordable housing. Small financial institutions tend to hold their multifamily loans on their balance sheets, which limits new loan production, or to complete smaller, one-off loan portfolio sales, which is inefficient. As a result, these financial institutions are constrained in their lending abilities either by regulatory requirements or by access to balance sheet capital.

Regulators recommend that banks maintain commercial real estate (CRE) loan levels on their balance sheets within certain metrics.<sup>128</sup> The two primary metrics that regulators focus on:

- Total reported loans for construction, land development, and other land and if this population represents 100 percent or more of the bank's total capital
- Whether CRE levels remain below 300 percent of a bank's total risk-based capital

Banks with CRE concentrations above these levels may be targeted for more supervisory analysis and/or may be limited in their ability to underwrite new loans, thus decreasing the availability of capital for small multifamily properties. For example, our review of banks' CRE exposure indicated a correlation between these suggested thresholds and bank solvency.<sup>129</sup> A 2013 report from the Office of the Comptroller of the Currency and the Federal Reserve found that 23 percent of banks that exceeded supervisory levels for both CRE and construction and development loans failed during the three-year economic downturn, compared with less than 1 percent of banks that stayed below those levels.<sup>130</sup>

There are many challenges that limit the financing capabilities of small financial institutions. Freddie Mac demonstrated our industry leadership by creating multiple solutions to these issues in our first Duty to Serve Plan. With Freddie Mac participation, small financial institutions have the capability to select products based on market conditions and their individual needs. With multiple options, institutions will be encouraged to originate and purchase more loans as a result of the increased stability and liquidity in the market.



**OBJECTIVE A: PURCHASE/GUARANTEE LOANS FOR 5-50 UNIT MULTIFAMILY PROPERTIES FROM SMALL FINANCIAL INSTITUTIONS**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Purchase</b>	<b>1, 2 and 3</b>	<b>VLI, LI, MI</b>	<b>Not applicable</b>

Under our last Duty to Serve Plan, Freddie Mac’s Structured Targeted Affordable Housing group developed the capacity to support the guarantee of pools of loans for 5-50 unit multifamily properties through four product offerings launched from 2018 through 2021: an offering for small loan pool securitization, small loan pool credit enhancements, small loan PC securitization, and the “SMART Credit Enhancement” for secondary market transactions. In conjunction with this, we had strong purchase targets over our last Plan cycle and a large impact on the market. Providing liquidity to small financial institutions remains a vital part of our strategy to leverage our offerings to maximize impact in this segment of the market.

**Baseline**

Between 2018 through 2020, we securitized seven seasoned small loan pools of different sizes that met Duty to Serve requirements, leading to a three-year average of two transactions or \$567 million. These transactions supported both small depository institutions and CDFIs.

Year	Volume
<b>2018</b>	\$418MM, 1 Transaction
<b>2019</b>	\$835MM, 4 Transactions
<b>2020</b>	\$446MM, 2 Transactions
<b>Three-Year Average</b>	\$567MM, 2 Transactions

We are using our 2018-2020 three-year average actual volume of \$567 million as the baseline for our 2022-2024 Plan. We exceeded our prior targets by 183 percent on average over the past three years, having increased liquidity to this market, particularly for CDFIs.

**Market Challenges**

A few challenges are involved in purchasing or guaranteeing pools of these loans. The first issue is present in the interest rate environment. For this business model to operate effectively, interest rates at the time of securitization must be at or below interest rates at the time of loan origination. Because we would purchase, securitize, or guarantee loans 12 months after they were made, the buyer of the pool would be basing their return expectations on a spread over the Treasury or LIBOR or SOFR index at the time of purchase. If the index is higher at the time of securitization than it was at the time the loan was made, then the bank would have to sell at a loss, we would have to buy it at a loss or the securitization investor would have to invest at a loss.

Due to the index transition from LIBOR to SOFR, Freddie Mac cannot include hybrid loans (a common structure used in this market segment) with a LIBOR index in our seasoned pool securitizations for SFIs. This dramatically reduces our ability to provide liquidity to SFIs via seasoned pool securitization offerings going forward until banks convert from LIBOR to SOFR. Banks would have to originate loans indexed to SOFR for 12 months and aggregate a sufficient pool of SOFR loans that have conforming floating-rate language. As of September 2020,

we effectively transitioned from LIBOR to SOFR and are now unable to purchase LIBOR loans. Freddie Mac's timeline requirements to change from LIBOR to SOFR were different than the rest of the banking industry with most banks working towards a 2024 timeline for this transition, while Freddie Mac was required to transition in 2020.

After all banks switch to SOFR by 2024, there is expected to be further opportunity to pursue new transactions because there will be more collateral for us to securitize. Today, very few SFIs have transitioned to SOFR. We can expect this market to grow as more banks transition to SOFR and we can expect there to be more opportunities for us to lend to small financial institutions as a result. Although the SOFR transition will be complete in 2024, increased opportunities to securitize loans from SFIs will not be available until 2025 and beyond.

The second challenge involves the execution of the securitization. Securitizing seasoned loans originated by other financial institutions can often take 6 or more months to complete, as each transaction normally has over 100 loans (in many cases, more than 200), each of which needs to be underwritten and reviewed from a legal perspective. Therefore, to complete a transaction in a given year, we will need to have received the agreement of the borrower in the first half of that year. The loans are not originated on Freddie Mac documents and therefore require additional legal and underwriting due diligence to ultimately achieve credit approval on the underlying pool of loans.

Third, the financial institution has its own fiduciary duties it needs to weigh as part of entering into a deal, which can be a nuanced process. This includes identifying and obligating resources on its side related to negotiating deal terms, analyzing the deal's impacts to its balance sheet and the cost/benefit analysis of securitizing performing loans, working with Freddie Mac during the securitization process, monitoring the deal, closing, and in many cases, servicing the loans post-closing. A financial institution's board typically needs to approve its entering into a term sheet and internal employees are assigned to work on a deal to assist in Freddie Mac's underwriting and legal review of the pool of loans. With each relationship, we must ensure a financial institution is able to undertake this commitment. This combination of factors likely limits the institutions with which we could do business in a given year to a select few.

## 2022-2024 Targets

Given our many years of success of securitizing seasoned small loans, we are in a very strong position in the market. The offerings we introduced give SFIs a great deal of flexibility, and we have demonstrated their effectiveness. However, given the challenges cited above, we do not anticipate growing in this space at this time.

During this upcoming plan cycle, we intend to target small financial institutions with an asset size of \$10 billion or less with multifamily loan concentration on their balance sheets and significant loan growth over the past few years. These institutions might have difficulty showing liquidity on their loan portfolio and could benefit from our targeted product offerings. We can also target certain institutions that use similar small loan products currently and institutions that have established relationships with our current lenders and repeat sponsors.

The targets established reflect projected business based on a substantial shift in the market away from LIBOR loans to SOFR loans. To date, the majority of the seasoned pool securitizations for SFIs have included hybrid loans with a 5- or 7-year fixed-rate period followed by a floating-rate period, and this floating-rate period was tied to LIBOR. These hybrid loans make up 56 percent of our total seasoned pool securitization volume to-date of \$4.43 billion, with 70 percent of these hybrid loans having been originated by SFIs over the past four years. Freddie Mac cannot require SFIs to change their form loan documentation and underlying floating-rate index to what is required for us to purchase loans. As such, meeting our targets will be more difficult than meeting our targets from prior Plan years.

Year	Target
2022	Lesser of 2 Transactions or \$300MM
2023	Lesser of 3 Transactions or \$450MM
2024	Lesser of <u>1</u> 4 Transactions or <u>\$100</u> - <del>600</del> MM

## Market Impacts

The primary market impact will be found in the liquidity for small financial institutions. The potential for new deals, coupled with past deal experience, is expected to further enhance the market’s adoption of our various securitization structures. With each transaction we execute, we enable a small institution to lend more support to small multifamily properties. As we build momentum, increase predictability, increase our purchases and guaranties, and enable more lenders to increase their lending, we will increase our impact by supporting thousands of families per year making very low, low, and moderate incomes, all without relying on scarce public subsidies.

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### **OBJECTIVE B: DEVELOP MULTIFAMILY CORRESPONDENT LENDER PROGRAM FOR COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS, MINORITY DEPOSITORY INSTITUTIONS AND SMALL LENDERS**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Product</b>	<b>1, 2 and 3</b>	<b>VLI, LI, MI</b>	<b>Not applicable</b>

Community Development Financial Institutions (CDFIs), minority depository institutions (MDIs) and smaller regional banks or small financial institutions (SFIs) have a unique place in the market. These institutions often have specialty programs and a great level of expertise with programs and financing directed towards the hardest-to-serve areas in their states and communities.

## Baseline

Today Freddie Mac supports these financial institutions through our seasoned loan pool securitization offerings that are reported under Objective A above. We do not, however, have a formal mechanism for these institutions to sell loans to Freddie Mac on an individual basis.

## Market Challenges

CDFIs, MDIs and SFIs are often constrained in how much lending they can do because of either limited balance sheet size or borrower or geographic concentration challenges. As their borrowers grow and succeed, they can become too big to rely on small financial institutions which tend to be more adept at making smaller targeted loans, but do not typically support the larger loans necessary for growing borrowers to acquire and operate larger properties. Without greater access to capital, these institutions can no longer serve their more successful borrowers.

Additionally, securitization vehicles are effective in many circumstances but are not necessarily the best fit for all institutions, particularly smaller institutions that may not have existing securitization experience or have limited ability to aggregate larger volumes of loans on their balance sheet. Many of these institutions and the communities they serve would benefit most from the ability to sell individual loans to Freddie Mac. Typically, it is challenging for small lenders to develop the infrastructure required to sell loans directly to Freddie Mac. Developing a Correspondent Lender network can help to alleviate that challenge.

**Actions**

Our goal is to develop a correspondent lender program that bridges the gap between these lenders and Freddie Mac and help these lenders grow in scale and impact. By leveraging our existing multifamily lender network as intermediaries, we will develop a small multifamily lender mentoring and correspondent relationship program.

Under this program we will first identify lenders from our Optigo network who are willing and able to support smaller lending institutions. We will develop a framework of guidelines and standards for these Optigo lenders to interface with and support smaller lending institutions. This framework will include a menu of different support tactics and economic parameters. From there, we will (a) match incoming lender requests from these small institutions with the list of qualified Optigo lenders and monitor progress, and (b) conduct our own outreach and events to identify additional potential small lenders. We will start with a small number of correspondent relationships to refine parameters and develop our framework. Over time we will continue to expand and refine the list of qualified Optigo lenders and expand this correspondent relationship program through ongoing outreach and pairing.

Period	Key Action Items	Targets
<b>Year 1 – 2022</b>	<ul style="list-style-type: none"> <li>• Conduct outreach to Optigo lenders.</li> <li>• Analyze feedback to understand the feasibility and challenges of providing liquidity or other support to CDFIs, MDIs and other SFIs.</li> <li>• Develop draft framework for Optigo lenders engaging with correspondent lenders.</li> </ul>	<ul style="list-style-type: none"> <li>• Identify at least one Optigo lender to commit to supporting small lending institutions.</li> <li>• Engage at least one correspondent lender.</li> </ul>
<b>Year 2 – 2023</b>	<ul style="list-style-type: none"> <li>• Establish correspondent relationship(s) to identify opportunities for improvement before expanding availability.</li> <li>• Publish framework for Optigo lenders to leverage in supporting small lending institutions. Framework to include best practices and economic limits/requirements around warehouse lines for aggregating collateral, due diligence requirements, servicing resources, ongoing consulting and education resources.</li> <li>• Increase number of correspondent lenders and Optigo lenders engaged in the program.</li> </ul>	<ul style="list-style-type: none"> <li>• Publish framework for Optigo lenders.</li> <li>• Identify at least one additional Optigo lender to commit to supporting small lending institutions.</li> <li>• Grow correspondent network to at least three lenders.</li> </ul>

	<ul style="list-style-type: none"> <li>Continue outreach and engagement with CDFIs, MDIs and small lenders.</li> </ul>	
<b>Year 3 – 2024</b>	<ul style="list-style-type: none"> <li>Refine framework for Optigo Lenders based on experience and feedback as needed.</li> <li>Increase number of correspondent lenders and Optigo lenders engaged in the program.</li> <li>Continue outreach and engagement with CDFIs, MDIs and small lenders.</li> </ul>	<ul style="list-style-type: none"> <li>Identify at least one additional Optigo lender to commit to supporting small lending institutions.</li> <li>Grow correspondent network to at least five lenders.</li> </ul>

## Market Impact

Developing our correspondent lender network will require our Optigo lenders and Freddie Mac to go above and beyond our typical activities and roles in the market. Optigo lenders will not only act as an intermediary for smaller lenders but will also provide mentoring for these lenders over time. This is not typically a role played by our Optigo lenders today. Freddie Mac will also make concerted efforts to help these correspondent lenders grow in scale and impact—a role typically not played by a secondary market participant.

Smaller lenders such as CDFIs, MDIs and SFIs would benefit from greater access to capital so they can increase their impact and gain more exposure to the processes and requirements (both procedural and technical) that enable them to access that capital. We anticipate that during this plan cycle this correspondent lender network will increase access to liquidity for small lenders and will in turn increase the impact these small lenders can have in their communities.

As we work with our Optigo lenders to develop this correspondent lender program, we will continue to leverage our existing suite of seasoned and affordable loan pool offerings to provide liquidity to CDFIs, MDIs and SFIs and develop new offerings over time specifically targeted at small lenders.

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## Activity 5 – Support for Residential Economic Diversity: Additional Activity

The Duty to Serve regulation defines “Residential Economic Diversity” (RED) as affordable housing in a high-opportunity area or mixed-income housing in an area of concentrated poverty. The regulation defines “high opportunity area” to mean a HUD-designated Difficult Development Area, with a specified poverty rate cap, or an area designated in a state or local Qualified Allocation Plan (QAP), as determined by FHFA. FHFA has specified the state definitions of high opportunity areas in QAPs that qualify as high opportunity areas for Duty to Serve purposes. The regulation defines “area of concentrated poverty” as a HUD-designated Qualified Census Tract (QCT) or Racially or Ethnically Concentrated Area of Poverty (R/ECAP). Most QCTs and R/ECAPs overlap. A QCT is defined as census tracts where 50 percent of households have incomes below 60 percent of the area median income or that have a poverty rate of 25 percent or more. Given this definition, it is evident that these areas need support; we can offer our services to promote affordable housing development and preservation. Promoting economic diversity in housing is consistent with Freddie Mac’s charter mission to provide liquidity, stability and affordability to the US housing market, and our community mission to enable social and economic mobility and promote sustainable communities.

A great deal of academic research has been conducted to better understand the role of economic diversity in community development. Per research from Harvard University’s Equality of Opportunity Project, the ZIP code where one grows up has a significant, and perhaps disproportionate, impact on a person’s life outcome, and the outcomes of that person’s descendants.<sup>131</sup> Therefore, with our mission to increase the supply of affordable housing and preserve existing affordable housing, we also need to consider how we can promote diverse, vibrant, and healthy communities, using housing as the anchor. In so doing, we will seek to create or reinforce opportunities that will encourage economic and social mobility through Residential Economic Diversity.

Additionally, many states and localities have made deliberate efforts to promote RED through LIHTC QAPs and inclusionary zoning. Various laws, regulations, and federal programs have sought to address RED and economic mobility in different ways, from The Fair Housing Act of 1968 and CRA, to HUD programs including Housing Choice Voucher Program Section 8, HOPE VI, and Choice Neighborhoods.

Although we are hopeful and excited to further this mission, there are a few challenges that we foresee may extend beyond the capacities of a financial institution to solve. With respect to affordable housing development and RED, the following five challenges are especially important:

1. High property development costs
2. Limited land availability
3. The availability of state and local efforts to prioritize RED, particularly in high-cost locations
4. Public willingness to accept initiatives
5. Lingering effects of prior public policy and redevelopment decisions

While these are significant challenges, the Urban Institute suggests many interconnected ways to further RED. These include enforcement to combat discrimination, education on diverse neighborhoods, affordable housing development, and new incentives to encourage stability and long-term growth.<sup>132</sup> To this point, we have focused our efforts under our first Underserved Markets Plan on loan purchase activity in high opportunity areas, research that furthers RED, and the development and implementation of our Mission Map that allows industry stakeholders to easily identify high opportunity areas (among other Duty to Serve geographies) and properties within those areas that are in need of preservation. We have also developed our Impact Bond platform that can match investment capital to loans in high opportunity areas.

In this Plan cycle, we intend to focus on ~~two~~ housing related efforts that will ~~both~~ create more opportunities for renters ~~over time, and complement research, public policy, and federal and local efforts through the~~

~~Purchase of~~ loans on properties that support RED.

- ~~1. Conduct and publish research on recent upzoning ordinances~~

Freddie Mac can contribute to the progression toward diverse, vibrant, and sustainable neighborhoods through ~~these this work RED initiatives, each of which has a distinct value to offer to the market. This value is magnified when all activities are considered together with each other and the important work they will enable.~~

**OBJECTIVE A: PURCHASE LOANS ON PROPERTIES THAT SUPPORT RESIDENTIAL ECONOMIC DIVERSITY IN HIGH OPPORTUNITY AREAS**

Evaluation Area	Year	Incomes Targeted	Extra Credit
Purchase	1, 2 and 3	VLI, LI, MI	Yes

Since 2016, and particularly over the past four years under Duty to Serve, Freddie Mac has been a consistent provider and supporter of financing for affordable housing properties in high opportunity areas. As described above, we have grown our TAH business considerably over the past 13 years since Duty to Serve was first described in HERA, with a dramatic increase in the past few years for high opportunity areas, as a result of a mature suite of product offerings and favorable market factors. Although the market is constantly changing, we have maintained a constant presence in supporting RED. In this Plan cycle, we will continue to maximize the impact of high opportunity loan purchases through our product offerings and leveraging our lender network.

**Baseline**

In setting our baseline, we counted distinct units with affordability restrictions (restricted units) on which we purchased loans during the year in question through our retail seller/servicer networks or via TAH negotiated transactions on individual mortgages. Over the past three years our loan purchases in high opportunity areas have been as follows:

Year	2018	2019	2020	Three-Year Avg.
Total Loan Amount	\$1.1B	\$1.3B	\$1.5B	\$1.3B
Restricted Units	3,647	4,733	3,866	4,082
Properties	39	49	39	42

We are using our 2018-2020 three-year average actual volume of 4,082 units as the baseline for our 2022-2024 Plan. We exceeded our prior targets by 101 percent on average over the past three years, having provided substantial liquidity to the market.

## Market Challenges

The overall shortage of available units in high opportunity areas within the affordable housing market has put supply constraints on the amount of units available for low-income renters. Approximately 17 million people live in these areas, and nearly 800,000 earn at or below 60 percent of the area median income (AMI).<sup>133</sup> Since these areas are highly sought after, their population and housing demand increases faster than supply can keep up. As a result, rents increase, the supply of affordable housing shrinks, and access to areas of opportunity is further limited. This results in a need for deliberate focus on creating and preserving affordable housing in areas of high opportunity.

A relative shortage of subsidy available in the market only exacerbates the existing supply challenges of affordable units overall, making the preservation of these affordable units vital. This shortage of subsidy is compounded by the increasing number of affordable units reaching the end of their LIHTC compliance or extended use periods, which means that they could be subject to conversion to market rate unless they get new tax credits, which is a limited subsidy.

These factors, combined with the geographic specificity of this objective, increase the difficulty of maintaining a strong level of loan purchases year in and year out.

## 2022-2024 Targets

Given our many years of success purchasing loans with LIHTC and Section 8 debt, we are in a very strong position in the market. However, the market for affordable housing in high opportunity areas is limited both by geography and development opportunity, which is often constrained by zoning that does not allow for multifamily properties in many areas and high land costs. The number of properties seeking financing in these areas is also limited and unpredictable. This is reflected in our prior activity in from 2018-2020 in these areas. Our targets in this Plan cycle are greater than our loan purchase volume in two of these three years, and represent a 5-10 percent increase over our baseline. This is an aggressive commitment in a limited market.

Our strategy to meet these targets includes both pursuing the financing of existing Duty to Serve qualifying properties, as well as new affordable housing being built in these areas. For the latter, we will leverage our forward commitment loan offerings, that allow us to provide construction take-out financing, particularly for properties with state and local support. Because these are forward commitments, we do not count loans purchased under these commitments until the property is complete and reaches stable occupancy. As such, construction loan commitments do not result in loan purchases until two or more years until after the commitment is made.

In setting our targets, we will count distinct units on which we purchase loans during the year in question through our retail seller/servicer network or via TAH negotiated transactions on individual mortgages, and these targets will also be inclusive of loans receiving LIHTC, Section 8, 515, or state and local program support. In support of these targets we will also work closely with both our lender network and, where appropriate, local program administrators, and we will conduct our own outreach to market stakeholders in order to increase opportunities to support more properties in High Opportunity Areas.

Year	2022	2023	2024
<b>Target</b>	4,100 Restricted Units	4,200 Restricted Units	4,300 Restricted Units



To achieve these targets, we will further promote and leverage the Mission Map ([missionmap.freddie.mac.com](http://missionmap.freddie.mac.com)) and our LIHTC and Section 8 Prospector tools to our lender network. These tools, which we developed under our 2018-2021 Duty to Serve Plan, were designed in part to make clear the properties that are available in Duty to Serve geographies, including high opportunity areas. We will also publicize select transactions in high opportunity areas and our desire to fund these loans in update emails to our lender network and on regular calls with our lenders.

## Market Impacts

Creating and preserving affordable housing in high opportunity areas is difficult, as older properties are often attractive candidates for conversion to market rate housing, and the cost of new construction is prohibitively expensive to allow for 100 percent affordable properties. By providing financing for affordable housing in high opportunity areas with the competitive advantage given by our product set and our risk distribution methods, we are enabling developers and localities to further RED and promote affordability in some of the areas where it is hardest to do so.

Given the numerous obstacles that currently limit the development of affordable housing in high opportunity areas, our success in making loan purchases will not only have a significant impact on the communities we support and the market generally. These purchases will also provide case studies for states and localities to leverage as they prioritize future development needs and determine how best to apply LIHTCs and their various subsidies to maximum benefit. Successful developments and successful loan purchases will also demonstrate to states and localities that do not currently prioritize RED that doing so can be both economically and socially beneficial, and that there are replicable models for achieving these benefits.

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### **OBJECTIVE B: PUBLISH RESEARCH ANALYZING RECENTLY IMPLEMENTED UPZONING PROGRAMS AND IMPLICATIONS FOR INCREASED HOUSING AND RESIDENT OPPORTUNITY**

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	3	VLI, LI, MI	Yes

Upzoning—or the elimination of single-family zoning—has gained traction in recent years with prominent implementations in Minneapolis, Oregon, and California. The specifics of each implementation differ and have their limits. For example, in Minneapolis, single-family zoning has been replaced with a maximum of three units per site while in California, the maximum is four units. Upzoning can be a valuable tool in addressing the affordability crisis by increasing density and increasing the number of units—especially in high opportunity areas—but it has yet to be tested at scale. In this paper we intend to study these three prominent examples of upzoning, compare and contrast the requirements, and examine the potential for impact in the near term and over time, especially in high opportunity areas.

### Baseline

Freddie Mac's 2021 Duty to Serve Plan included research on zoning in high opportunity areas. However, we have not studied these upzoning implementations. There has been research on the impacts of upzoning in Chicago by Urban Affairs Review, though a comparative analysis of multiple cities/states with upzoning requirements has not been done, particularly inclusive of Duty to Serve high opportunity areas.

## Market Challenges

Because these upzoning regulations are new, we are not likely to have significant data available to measure impact thus far. Additionally, depending on the markets, data sources and data quality may vary, particularly when examining highly localized areas.

## Actions

### Year 3 – 2024

In this paper, we will use a combination of regulatory analysis, data analysis and geospatial analysis to analyze three prominent upzoning regulations and whether they align with other important factors such as access to opportunity.

We will assess criteria for implementation, geographic reach, and potential to further residential economic diversity and affordable housing in their respective markets.

We will also seek to identify the potential near- and long-term impacts of these regulations in terms of (1) opportunity to increase supply based on the geography and existing housing stock, (2) the development and financing mechanisms in place or required to support the realization of these impacts, and (3) zoning policy alignment and the impact upzoning has on low-to-moderate income renters specifically and in high opportunity areas.

We will publish this paper on our web site and promote it to our network and through our media channels.

## Market Impact

Our analysis of these upzoning regulations will provide a valuable and critical assessment of these regulations and their potential to impact supply and opportunity for renters to increase their social and economic mobility. As more jurisdictions consider methods to increase density and affordable housing, the lessons learned from our comparative and impact analysis can be invaluable for their planning efforts. We will also analyze zoning policy alignment to determine the true effects upzoning and potentially other zoning policies have on low-to-moderate income renters and high opportunity areas. We anticipate that in this work we will identify aspects of these regulations that are replicable and can further affordability and some aspects that additional localities may choose to address differently in order to achieve their respective objectives.

As upzoning is an emerging trend, early research such as this can help lay the foundation for best practices and increased adoption over time. This can in turn lead to potential development opportunities and new practices in the market, as well as loan purchase activities for Freddie Mac.

**OBJECTIVE CB: PUBLISH RESEARCH ASSESSING ALTERNATIVE METHODS OF IDENTIFYING HIGH OPPORTUNITY AREAS**

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	1	VLI, LI, MI	Not applicable

High opportunity areas are defined in Duty to Serve as areas designated either by individual states’ Qualified Allocation Plans (QAPs) or by HUD as Difficult to Develop Areas (DDAs). Both designations are subject to meeting additional criteria established by FHFA in its Duty to Serve evaluation guidance. Both components of these definitions are used as part of the LIHTC allocation process. Properties located in a DDA can get a 30 percent basis boost on qualified costs. Additionally, High Opportunity designations in LIHTC QAPs are important because they impact the incentives and priorities surrounding where LIHTC properties are built. Each state decides how to measure high opportunity and subsequently where these designations are located.

Although this flexibility allows each state to designate opportunity based on its individual needs and helps guide capital allocation via Duty to Serve, the variety of definitions, and the binary nature of these designations, may omit important market areas that would still enrich the lives of many low-income renters and provide greater access to rental housing. Often, moving to one of these high opportunity areas may be out of reach due to limited affordable rental housing stock, the prevalence of single-family zoning and market rents that may exceed the limits of Housing Choice Vouchers.

However, moving to an area of *greater* opportunity than one’s current community, even if not one of the FHFA-defined high opportunity areas may be both beneficial and more feasible for low-income renters. Identifying markets with both greater access to opportunity – and greater availability of rental housing – could enable policy-makers and capital providers to consider additional ways to further social and economic mobility at greater scale, thus complementing existing efforts to increase access to FHFA-defined high opportunity areas.

For the first four years of Duty to Serve, we have had – and will continue to have during this plan cycle – a strong commitment to supporting affordable housing in FHFA defined high opportunity areas and furthering access to opportunity. However, there are additional markets in the country that also provide opportunity for renters outside of those designated by FHFA. Our research will explore areas outside of DTS designated high opportunity areas that also create economic and social mobility for renters.

**Baseline**

Freddie Mac has conducted prior research on different definitions of high opportunity. In the paper titled, “Affordable Housing in High Opportunity Areas: An Overview of Demographic and Housing Characteristics,” we compare three prominent definitions of high opportunity and analyze demographics of FHFA-defined high opportunity areas. And in our more recent white paper titled, “Zoned Out: What Options do Renters Have to Access High Opportunity Areas?,”<sup>134</sup> we found that substantially more of the land in high opportunity areas is zoned for low density, single-family residential housing as compared with land outside of high opportunity areas. We also found that these High Opportunity Areas had far fewer affordable rental units, as well as fewer rent-restricted units (LIHTC and Section 8). Other organizations, such as Harvard’s Opportunity Insights and Enterprise Community Partners have studied opportunity features and areas. We will consider and leverage their work, as applicable, in our effort to identify an approach to defining high opportunity areas that may be more inclusive of, and accessible for, renters.

## Market Challenges

The high costs in high opportunity areas coincides with limited rental stock, limited availability of Section 8 vouchers, and high rents. In many high opportunity areas, the value of the voucher is lower than market rent, making it economically impossible for voucher holders to secure housing in these areas<sup>1</sup>. If a voucher covers less than market rent, landlords would have to accept a below market rent for the voucher to be used, which is a disincentive financially. Considering additional methods of defining high opportunity areas could increase opportunities for renters to access areas that further social and economic mobility.

## Actions

### Year 1 - 2022

In this paper we will analyze existing research and investigate opportunity-related data and affordability data to consider how a more renter focused approach to understanding high opportunity areas could increase opportunity for renters to access social and economic mobility. Our research will:

1. Identify criteria to be considered in a renter-focused high opportunity definition, leveraging economic mobility data from Harvard University's Opportunity Insights .
2. Compare the existing Duty to Serve definition of high opportunity with a renter-focused approach at opportunity to analyze overlaps and gaps.
3. Assess the effectiveness of a renter-focused approach at allowing low-income renters for more efficient access to greater opportunity, considering factors such as the relationship of opportunities provided by a market with the availability of housing affordable to very low, low, and moderate income renters through subsidized rents or housing choice vouchers.

We will publish this paper on our web site and promote it to our network and through our media channels.

## Market Impact

Where people live impacts *how* they live. For low-income renters, whose options might normally be limited to low-cost areas with fewer features that lead to opportunity, being able to rent in area of high opportunity would improve life outcomes. While we have a strong commitment to providing liquidity to areas of Residential Economic Diversity and furthering opportunity as shown in our 2018-2021 DTS Plan and in this current Plan cycle, we also want to maximize the impact of our loans in other areas as well.

This research would complement our existing efforts to further access to FHFA-defined high opportunity areas and suggest ideas for preserving affordable rental housing both with and without public subsidy. By analyzing and potentially developing a more renter-focused approach to understanding high opportunity areas – and combining it with the existing definition of high opportunity areas – we will be able to examine how a modified approach could further social and economic mobility for renters. We anticipate that it will also inform our loan offering development to preserve at-risk LIHTC properties described in Activity1, Objective B. Additional measures of high opportunity areas could also be leveraged by policymakers, developers, and impact-minded investors to focus capital at greater scale toward improving the lives of more renters.

## Activity 6 – Comparable State and Local Affordable Housing Programs: Statutory Activity

Federal subsidies such as LIHTC and Section 8 play an important role in combating the growing affordability crisis renters face across the nation, yet these subsidies only help about 25 percent of low-income eligible households.<sup>135</sup> Nationwide, innumerable state and local programs seek to further affordable housing and/or other public benefits. With increasing affordability challenges and relative shortage of federal subsidy available, the importance of state and local resources to support affordable housing is more critical than ever.

In addition to subordinate debt, many state agencies offer tax credit incentives, affordable housing programs, and community development programs in order to preserve and further affordable housing for low-income and underserved renters. Per analysis from NCSHA in the 2019 State HFA factbook, there are 18 state agencies with their own tax credits, 12 of which have a required-use agreement with a federal tax credit such as LIHTC.<sup>136</sup> As the supply gap of affordable and available units continues to grow, so too does the need to maximize the impact of all available state and local subsidies to further affordable units across underserved communities.

### OBJECTIVE A: PURCHASE LOANS WITH STATE AND LOCAL PROGRAMS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	1, 2 and 3	VLI, LI, MI	Not applicable

State and local programs and tax credit incentives are essential to improving affordability for low to moderate income renters. As we have grown our LIHTC and Section 8 business considerably over the past several years, we have seen how important leveraging state and local programs is as well. In many cases this is done without major federal programs to address locality-specific needs. Recognizing the importance of these programs, we are setting specific purchase targets for properties supported by state and local programs.

#### Baseline

We have not set a purchase target within Duty to Serve for loans with state and local programs before, but we have a history of purchasing loans with state and local subsidies through our Targeted Affordable line of business.

Year	2018	2019	2020	Three-Year Avg.
State and Local Supported Units	16,918	33,334	43,033	31,095

On average, we purchased loans supporting 31,095 units with state and local subsidies over the past three years.

## Market Challenges

In addition to the general market challenges for affordable housing preservation listed above, states and localities have faced additional financing challenges due to the widespread support needed for several services due to COVID-19. States and localities have had to devote capital and resources to a variety of different programs during the COVID-19 pandemic. This could limit the amount of allocation available for affordable housing preservation.

## 2022-2024 Targets

Given our many years of success of purchasing loans with state and local subsidies, we are in a very strong position in the market. Freddie Mac is also experienced in working with localities to provide financing for long-term housing with rental assistance and services supporting persons who formerly experienced homelessness (Permanent Supportive Housing) in markets across the country. During this plan cycle, supportive housing and Rental Assistance Demonstration units that are supported by state and local programs will be counted under the state and local purchase target.

Although we have experience and success purchasing loans with state and local programs, growth cannot persist in perpetuity – especially without crowding out other capital providers. We operate within a broad allocation of our business as defined in the FHFA Conservator Scorecard to ensure both that there is sufficient liquidity to the market and that there is sufficient room for other capital providers to have adequate market share and reach. In setting our targets, we are seeking to maintain an extremely strong portion of our business devoted to Duty to Serve generally and state and local programs in particular, while upholding safety and soundness standards for the benefit of the market overall.

In setting our targets, we will count distinct units on which we purchase loans during the year in question through our retail seller/servicer network or via TAH negotiated transactions on individual mortgages.

Year	2022	2023	2024
<b>Target</b>	44,000 units	40,000 units	<u>43,100</u> <del>46,000</del> units

In support of these targets we will work closely with both our lender network and, where appropriate, local program administrators, and we will conduct our own outreach to market stakeholders in order to increase opportunities to support more state and local programs. We will also explore a variety of actionable steps to help finance more permanent supportive housing and Public Housing properties undergoing rehabilitation through the Rental Assistance Demonstration (RAD) program or HUD’s Section 18 program. Units financed in association with these programs will be captured under this state and local programs purchase target [only when there are qualifying state and local programs involved with the transaction beyond the administration of the RAD program by the public housing authority.](#)

Given that the type of state and local programs will be numerous and different, we expect that we will continue to engage with localities on a regular basis to both complete transactions and identify opportunities to replicate successes.

## Market Impact

State and local programs and tax credit incentives are vital to the preservation of affordable housing in harder-to-reach areas of the country and are often specialized for the needs of low-to-moderate-income renters in a given state or locality. States that have a high concentration of low-to-moderate-income renters or have a shortage of federal subsidy available greatly benefit from state or locally sourced funding and tax credit incentives, and these programs can often help fill the gap where federal subsidy may be insufficient or unavailable. Through setting a purchase target specifically aimed at financing properties with state and local programs, we are furthering the preservation and affordability of properties in states and localities that might otherwise have a shortage of supportive financing.

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## Activity 7 – Develop Loan Offerings to Finance the Rehabilitation of Affordable Rental Housing

Safe, decent, affordable housing is a basic need. Nationally there is a profound shortage of affordable housing, and much of the existing affordable housing stock needs rehabilitation or is at risk of conversion to market rate. While major public programs such as LIHTC and Section 8 typically ensure a reasonable level of quality, outside of these programs there is less assurance, and without new LIHTC, capital sources for rehabilitation are limited.

Public housing has suffered considerably from underfunding and resulting disrepair. The U.S. Government Accountability Office study estimates that \$70 billion is required to address the backlog of maintenance in the existing public housing rental supply alone.<sup>137</sup> Affordable property without public subsidy and regulatory agreements – Naturally Occurring Affordable Housing (NOAH) – are often older and may have varying levels of deferred maintenance as well. Thirty-nine percent of renter households live in units built prior to 1970, which are significantly more likely to have material issues relative to new rental units.

To address the need for rehabilitation, we intend to expand the eligibility criteria for our Preservation Rehabilitation loan offering and develop a loan offering to provide bridge financing for properties committing to undergo rehabilitation with our Preservation Rehabilitation loan. These two objectives will lay the foundation to support properties that qualify for multiple regulatory and statutory activities defined in the Duty to Serve Regulation.

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### OBJECTIVE A: EXPAND PRESERVATION REHAB LOAN OFFERING

Evaluation Area	Year	Incomes Targeted	Extra Credit
Product	1	VLI, LI, MI	Not Applicable

#### Baseline

Today, Freddie Mac offers a Preservation Rehabilitation loan that provides liquidity for financing on properties receiving new LIHTCs to support rehabilitation and to preserve long-term affordability. However, there are additional opportunities to support rehabilitation on properties not receiving new tax credits that are not eligible for our existing loan offering. Examples of this include public housing, Section 8 Project-Based Rental Assistance, and various state and local programs. We intend to expand our Preservation Rehabilitation loan offering eligibility criteria to support these properties engaging in substantial rehabilitation even if they are not receiving new tax credits.

#### Market Challenges

For properties without LIHTC, it can be challenging to find funding sources to support necessary rehabilitation—both short term capital (as described in Objective B below) and long-term capital. Without LIHTC, borrowers have to turn to private capital sources, which typically would have yield requirements that would not support continued affordability. Expanding our Preservation Rehab loan criteria can help fill this market gap.



## Actions

Freddie Mac aims to increase access to liquidity to rehabilitate properties not receiving new LIHTC by expanding the eligibility criteria under our Preservation Rehabilitation loan offering.

### Year 1 – 2022

1. Identify additional public programs that could be included in our Preservation Rehabilitation loan offering
2. Identify credit parameters necessary to include to provide Preservation Rehabilitation loans to these properties not receiving new LIHTC
3. Update Preservation Rehabilitation loan term sheet to include additional eligible public programs and associated credit parameters
4. Publish term sheet on our website and share with our Optigo lender network

## Market Impact

It is not enough to preserve the long-term affordability of rental housing. We must also find ways to preserve and improve the quality of these rental homes. However, rehabilitation of affordable housing subject to public rent and income restrictions is frequently dependent upon new LIHTC, which is a limited resource. Expansion of our Preservation Rehabilitation loan offering will provide much-needed liquidity for housing not receiving new LIHTC. Purchases under this loan offering will be counted under the appropriate loan purchase category: Activity 1 Objective A: LIHTC loan purchases, Activity 2 Objective B: Section 8 loan purchases, Activity 5 Objective A: Residential Economic Diversity loan purchases, or Activity 6 Objective A: State and Local loan purchases.

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### OBJECTIVE B: DEVELOP “BRIDGE TO REHAB” LOAN OFFERING

Evaluation Area	Year	Incomes Targeted	Extra Credit
Product	1	VLI, LI	Not applicable

## Baseline

As described above in Activity 6 Objective A, Freddie Mac currently offers a Preservation Rehabilitation loan for properties currently receiving new LIHTC and undergoing substantial rehabilitation. The minimum loan term for our Preservation Rehabilitation loan is 15 years—in line with the LIHTC compliance period. We do not currently offer a shorter term loan designed to support developers seeking to acquire properties and reposition them for rehabilitation without new tax credits.

## Market Challenges

Current owners of older properties may not be able to commit to necessary rehabilitation without LIHTC and may instead sell these properties to new owners. Today there is limited access to the necessary short-term financing for these owners to prepare to rehabilitate and preserve their properties. Developing our “Bridge to Rehab” loan criteria can help fill this market gap.

## Actions

Freddie Mac aims to provide short-term financing to enable owners to prepare for rehabilitation loans to improve the quality of affordable, decent, safe and sanitary housing. To do this, we plan to develop a “Bridge to Rehab” loan offering to allow the new owner to acquire the property to preserve its affordability and commit to rehabilitation under our Preservation Rehabilitation offering.

### Year 1 – 2022

1. Identify additional public programs that could be included in our Bridge to Rehab loan offering
2. Identify credit parameters necessary to include to provide Bridge to Rehab loans to these properties not receiving new LIHTC
3. Create Bridge to Rehab loan term sheet to include additional eligible public programs and associated credit parameters
4. Publish term sheet on our website and share with our Optigo lender network

## Market Impact

This offering will increase liquidity for the rehabilitation of properties not receiving new LIHTC by providing necessary short-term debt. This offering will increase the ability of borrowers to acquire and rehabilitate older properties, keep them affordable, and improve the living conditions for tenants across the country. Purchases under this loan offering will be counted under the appropriate loan purchase category: Activity 1 Objective A: LIHTC loan purchases, Activity 2 Objective B: Section 8 loan purchases, Activity 5 Objective A: Residential Economic Diversity loan purchases, or Activity 6 Objective A: State and Local loan purchases.

## Activity 8 - Sustainability and Resiliency: Additional Activity

Affordable multifamily housing is increasingly vulnerable to natural disasters, extreme weather conditions and environmental hazards.. Most low-income individuals live in rental housing, and nearly half of all renters in the United States are cost-burdened,<sup>138</sup> leaving renters in disaster-prone areas at greater risk of incurring property damage, financial hardship, loss of life and other health impacts. Natural disaster risk exacerbate existing social and racial inequalities in health. In 2018, as part of the Fourth National Climate Assessment, the United States federal government conducted an analysis of health impacts experienced as a result of natural disasters. The research in this assessment indicated that extreme weather events and temperatures can further existing health problems, lead to heart disease, produce stress and debilitate mental health. Lack of potable water after a hurricane, for example, can impact the food security of a low-income, vulnerable population already living in a food desert and cause lasting negative effects.<sup>139</sup>

It has become increasingly apparent that more attention needs to be paid to climate matters, particularly with respect to multifamily housing. In this Plan cycle, we intend to continue to expand upon our research from prior years on efficiency and resiliency and look deeper into climate and climate-related policy implications for affordable multifamily housing and very low-, low-, and moderate-income renters, identify standards that allow us to assess properties for resiliency and explore opportunities to implement or encourage multifamily owners to meet those standards where applicable.

### OBJECTIVE A: ADDRESS RESILIENCY THROUGH ANALYSIS ON PUBLIC INCENTIVE PROGRAMS/POLICIES AND LOAN OFFERING DEVELOPMENT

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	1, 2	VLI, LI, MI	Not Applicable
Loan Product	3	VLI, LI, MI	Not Applicable

Over the past several years, there has been a growing focus on climate risk from regulators, investors, rating agencies and other market participants. Increased natural disasters resulting from climate change are putting properties at risk, and these disasters can leave properties without power and can lead to significant damage. These damages can be costly to borrowers, leading to rising rents and other negative impacts on tenants.

In addition to a growing focus on climate risk, there has also been increased market attention aimed at strategies to further efficiency and resiliency in multifamily housing and consider climate impacts. For the purpose of our outreach objective, we are defining resiliency as the ability for a multifamily property or infrastructure to absorb or avoid damage from a natural disaster by means of design, maintenance, or restoration. In addition to retrofits, green building practices and natural disaster mitigation techniques, often under-analyzed aspects of furthering resiliency are found in public climate incentives and climate policies. Climate-related programs and policies at the state, local, and federal level can motivate private capital to finance resilient housing, which in turn improves multifamily housing stock, the environment, and the health of very low-, low-, and moderate-income renters in underserved communities across the country. However, these programs can vary, with each state setting its own priorities. While it is important to address local and regional needs, it is also important to understand the implications of these policies on a national level particularly with respect to the multifamily housing market. With an increase in policies mandating retrofits and efficiency upgrades, the market needs to create innovative products to ensure borrowers have access to necessary funds for these improvements.

Freddie Mac can play an integral role in solving these challenges through offering new financing options that will incentivize borrowers to make needed resiliency improvements at their properties, as well as setting resiliency standards. Before we create this program, we will perform impactful outreach including research surveying the prominent and varied climate-related programs and policies in states' Qualified Allocation Plans and consider the implications to very low, low-, and moderate-income renters and communities as well as on the market overall. This will allow us to discover what the needs of the market are and how we can best tailor our framework and product to borrowers' needs with tenant benefits in mind.

We intend to have two areas of focus in this Plan:

1. Research climate resiliency incentives through research on LIHTC QAPs.
2. Identify, and implement where applicable, climate resiliency standards.

## Baseline

In 2021, we published a report on the disparate impacts from climate-related disasters on low-income communities and how greater intersection of public and private efforts is needed. This research provides a foundation for our deeper look at resiliency incentives in LIHTC QAPs, which will help us better understand resiliency incentives directly for affordable housing. This research will lay a foundation for our work to identify, and implement where applicable, climate resiliency standards.

## Market Challenges

Climate-related resiliency programs, policies, and standards vary across the country. There are currently no nationally accepted standards for resiliency-focused financing and there is no national program available for all borrowers today. Analysis of LIHTC QAPs can help to close this gap as we seek to identify commonalities across identified efforts and incentives.

Additionally, we have found that there is significant variability in resiliency assessments, which makes it difficult for developers to understand and implement impactful measures across their portfolios. In order to develop a successful loan offering, we will need to identify standards.

## Action Items

In 2022, we will examine select climate-related resiliency policies and programs across states and localities with a specific focus on state LIHTC Qualified Allocation Plans that affect affordable multifamily housing and publish a paper on our findings. The findings from this paper will inform our climate resiliency standards development in 2023.

### Year 1 – 2022

Examine select climate-related resiliency policies and programs across states and localities with a specific focus on state LIHTC Qualified Allocation Plans that affect affordable multifamily housing to:

1. Identify commonalities and emerging standards – as well as regional or state specific considerations.
2. Assess the implications of these on affordable multifamily housing and the surrounding communities.
3. Analyze how these identified practices and standards may impact low- and moderate-income renters.

We will publish this paper on our web site and promote it to our network and through our media channels.

## Year 2 – 2023

To encourage borrowers to make resiliency improvements at their properties we plan to identify standards by which to assess climate resiliency at multifamily properties. We will do this in four stages:

1. Conduct outreach with market stakeholders such as engineering firms, borrowers, etc. to understand identify resiliency measures and establish a resiliency standard.
2. Identify climate resiliency standards.

## Year 3 - 2024

Continue efforts to support the development and finalization of an industry-wide resilience standard. Support borrowers' efforts to make resiliency, electrification and other climate-related improvements at their properties with new credit parameters that support the use of third-party subordinate debt for these purposes. We will do this in three stages:

1. Develop new credit parameters that support the use of third-party subordinate debt
2. Publish the new credit parameters through publication on our website and/or inclusion on relevant loan term sheets
3. Market the new credit parameters and their applicability to loan offerings to our Optigo® lender network

Loan purchases made after product adoption will be counted under appropriate activities, including Activity 1 Objective A: LIHTC loan purchases, Activity 2 Objective A: Section 8 Loan Purchases, and Activity 6 Objective A: State and Local Programs Purchases.

Having identified standards, we will publish these standards in a term sheet that explains how they can be leveraged in applicable loan offerings. To encourage borrowers to make resiliency improvements at their properties we will implement climate resiliency standards as applicable through loan products.

1. Market standards and their applicability to loan offerings to our Optigo® lender network

Loan purchases made after product adoption will be counted under appropriate activities, including Activity 1 Objective A: LIHTC loan purchases, Activity 2 Objective A: Section 8 Loan Purchases, and Activity 6 Objective A: State and Local Programs Purchases.

## Market Impact

Because of the range of needs and approaches in states across the country, there is a need in the market for a comprehensive report on climate and resiliency measures incentivized through state programs – particularly in LIHTC QAPs. Through our research, Freddie Mac will be able to increase awareness of key resiliency measures and commonalities around which the industry may coalesce around. As a result of our research, Freddie Mac will be able to present a clear view that can inform the market and can be leveraged by developers, communities, and policymakers alike as they seek to further resilient and equitable housing.

Our research will also inform the development of our resiliency-focused standards which can help protect properties from natural disasters and preserve affordability. Freddie Mac will encourage owners of multifamily properties to meet the standards, especially in areas vulnerable to the effects of climate change, which tend to be in historically underserved communities. This work will support owners as they make capital improvements that enhance resiliency to natural disasters and promote sustainability. Encouraging borrowers to make resiliency improvements through our resiliency-focused loan standards can lead to less damage and help preserve affordability.

Separately, Freddie Mac's efforts to encourage owners of multifamily properties to leverage the credit parameters it will establish will aid properties in areas vulnerable to the effects of climate change, which tend to be in historically underserved communities. This work to support federal, state and local programs that provide subordinate debt to address resiliency, electrification and other climate-related concerns will support owners as they make capital improvements that enhance resiliency to natural disasters and promote sustainability. Encouraging and enabling borrowers to make resiliency improvements through our offerings can lead to less damage in face of natural disasters and help preserve affordability.

In addition, Freddie Mac's efforts to provide clear credit parameters that allow for the use of third party subordinate debt will better enable borrowers to leverage new funding streams provided through the Inflation Reduction Act and state and local programs to make resilience, electrification or other climate-related improvements to their properties.

# Activity 9 – Financing of Energy- and/or Water-Efficiency Improvements on Single-Family Properties: Regulatory Activity

Freddie Mac will continue to serve a leading role in bringing the market for financing for energy- and water-efficient single-family homes to maturity. Our strategic approach, which builds on our achievements during the first Plan cycle, includes efforts to create the required infrastructure, enhance industry awareness and capabilities, and increase purchases of loans that support homes with energy-efficient features to accelerate growth and the flow of liquidity in this market.

- Create an execution for securitizing energy-efficiency mortgages on single-family homes (Green Bond).
- Automate the capture of a standardized energy-efficiency dataset.
- Purchase GreenCHOICE Mortgages® that meet Duty to Serve requirements.
- Conduct outreach and education
  - to generate awareness of and interest in our Green Bond and
  - to inform industry participants of how to implement the energy-efficiency dataset and the importance of capturing standardized data related to energy-efficiency home mortgages.

## OBJECTIVE A: DEVELOP AUTOMATION AND INDUSTRY STANDARDS TO SUPPORT LOAN PURCHASES ON ENERGY-EFFICIENT FIRST-LIEN PROPERTIES

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	1 and 2	VLI, LI, MI	Not applicable
Loan Purchase	3	VLI, LI, MI	Not applicable

Interest in sustainability continues to grow with households seeking energy-efficient homes that reduce usage of natural resources and utility costs, state governments setting energy-efficiency requirements for homes, and lenders considering ways to participate. An industry-standard dataset for capturing a variety of property-level information on a home’s energy-efficiency is essential to understanding the value of energy-efficient home features, increasing lender confidence in offering mortgage financing options, and growing the energy-efficiency market. Also essential are automated processes that make capturing, measuring, and reporting on that data faster, easier, and more efficient. According to a report published by Rocky Mountain Institute, home energy data systems and tools are available to integrate with automated mortgage underwriting and appraisal processes, which can help streamline adoption of energy efficiency data.<sup>140</sup>

Through data collection, we can provide transparency to the market on mortgages securing energy- and water-efficient properties that will enable expansion of the Green Bond market. Green Bonds are becoming a key element in the development and growth of fixed-income investment instruments as a means of increasing liquidity in the energy-efficiency market. Green Bonds experienced rapid growth in 2020, with the market heading toward \$1 trillion, according to data from the Climate Bonds Initiative and Bloomberg.<sup>141</sup>

During the first Duty to Serve Plan cycle, Freddie Mac introduced GreenCHOICE Mortgages® to provide an affordable mortgage option for financing energy- and/or water-efficiency home improvements for borrowers looking to lower their utility costs and increase home comfort, particularly for homebuyers and homeowners with very low-, low-, and moderate-incomes. GreenCHOICE is an alternative to using unsecured loans and credit-card financing, which typically are used for home improvements and generally carry higher interest rates and shorter loan terms than first-lien mortgage financing, resulting in higher monthly payments. GreenCHOICE Mortgages also allows for the proceeds from a refinance transaction to pay off existing debt used to finance energy home improvements, giving homeowners the flexibility to take advantage of today's near-historically low interest rates and obtain a more affordable option for refinancing the costs of energy-efficiency improvements. As a result, homeowners can improve their homes' energy efficiency, affordability, and value for years to come.

In addition, we published research<sup>142</sup> on the relationship of energy-efficient homes to property values and loan performance, in response to industry feedback. Our research used more recent and a wider scope of datasets than previously available and provided objective analysis. Our findings allowed us to make fact-based credit policy decisions previously not possible because we had lacked information and data about valuation and mortgage performance that could provide a level of comfort in our understanding of the risk of these mortgages. Specifically, we expanded loan-to-value limits on GreenCHOICE transactions and allowed the payment of existing debts on energy-efficiency home improvements as no-cash out refinances. As a result, we expanded access to credit for energy-efficiency home improvements and helped homeowners consolidate and reduce their debt burdens.

We also provided leadership in developing energy-efficiency business terms to be included in a future release of the joint-GSE Uniform Appraisal Dataset (UAD). The UAD project team – including Freddie Mac, Fannie Mae, FHFA, and stakeholders from across the industry – chose 23 business terms pertaining to energy efficiency that appraisers will use in performing home appraisals to capture information on homes' energy-efficient features in a consistent manner. We then gathered industry feedback to confirm their usefulness, gain industry buy-in, and help ensure that stakeholders industrywide will be able to collect, measure, and report on the property-level energy-efficiency data effectively. By aligning our actions to the joint-GSE Uniform Mortgage Data Program project, we are ensuring broader standardization of data. The new dataset and appraisal report eventually will replace the existing forms.

However, implementation of the UAD is years away. Before the GSEs establish a mandatory effective date for the redesigned UAD and appraisal report in collaboration with FHFA, work must be completed on numerous systems, including but not limited to, appraiser vendor systems, the joint-GSE Uniform Collateral Data Portal® and Freddie Mac's Loan Collateral Advisor®. Additional updates also must be made to the Mortgage Industry Standards Maintenance Organization's (MISMO's) reference model, which provides a common language for exchanging information across the mortgage finance industry.

To make progress toward implementing the data standards in the meantime, Freddie Mac worked with the Appraisal Institute to incorporate them in their Residential Green and Energy Efficient Addendum (AIRGEEA) and expanded the valuation guidance in our Single-Family Seller/Service Guide for properties with solar panels, energy-efficiency improvements, and/or water-efficiency improvements. This encourages appraisers to use the AIRGEEA and gain experience in using the dataset in advance of industrywide rollout.

During this Plan cycle, Freddie Mac will continue to increase our long-standing commitment to facilitate financing of energy- and/or water-efficient homes as well as energy- and water-efficient home construction and improvements that help reduce the environmental impact of housing and increase housing affordability.

We will build on our expertise in capital markets to expand Single-Family Green mortgage-backed securities (Green MBS). In addition to Green MBS backed by mortgages on existing homes, we anticipate securitizing mortgages on newly constructed homes during this Plan cycle. Because GreenCHOICE loans will be used to back many of our Green MBS, lenders will be encouraged to finance more properties that promote affordability for low- and moderate-income households. We are a leader in offering investors new and innovative ways to invest in the U.S. housing market. For example, on the Multifamily side of our business, we have been securitizing our Green Advantage® loans since 2019 as a means of increasing liquidity for the energy-efficiency market and shifting risk away from taxpayers. We launched Green Advantage in 2016. With our GreenCHOICE Mortgages in



effect since May 2019, our Single-Family Green Bond will serve the same purposes. Our Single-Family Green Bonds are part of the company's environmental, social, and governance (ESG) strategy to reduce climate-related risk and housing costs to enhance affordability and resilience. To that end, we plan to build out the data infrastructure to support deliveries of mortgages securing energy-efficient properties and the energy-savings validations required under the Duty to Serve rule.

Furthermore, we will enhance our systems to automate capturing, measuring, and reporting on appraisal data on the energy-efficiency home improvement type and the amount of energy or water efficiency expected. Freddie Mac will undertake enhancements to our lender-facing applications, including our Loan Advisor suite, to incorporate the energy-efficiency dataset and to allow the underwriting system to factor the energy-efficiency improvements into underwriting considerations where applicable. Furthermore, we will promote the changes being implemented to help ensure that industry participants are aware of and adopt the new dataset. This major undertaking originally was planned for the first Duty to Serve Plan cycle. However, the industry's priorities have shifted because of the coronavirus pandemic and historically low interest rates. Freddie Mac has been focusing on fulfilling our mission: providing liquidity, stability, and affordability to help minimize disruption to the housing market. We turned our resources to revising our servicing and origination policies to help borrowers affected by the pandemic and handling the influx of loan purchase volume resulting from the low interest-rate environment.

As we gain the capacity to identify transaction-level energy-efficiency data in mortgages that lenders deliver to us, we will add a loan purchase target for GreenCHOICE Mortgages while maintaining safety and soundness in the final year of the Duty to Serve Plan.

## Baseline

Freddie Mac has extensive experience in designing and implementing MBS platforms and operating in the capital markets. We issued a Single-Family Green MBS that will help inform our overall Green Bond program and the framework for Freddie Mac's Single-Family Green MBS. To date, our Green MBS have been backed by loans on existing homes.

Freddie Mac purchases first-lien loans for homes with energy-efficient features but can identify a loan only as an "energy-efficient mortgage." We do not have technology in place to capture energy-efficiency loan data at the property level that would allow us to determine whether a loan meets the 15 percent energy-reduction standard; specifically, the Duty to Serve final rule requires the GSE to provide credible projections that improvements will reduce energy or water consumption by the homeowner, tenant, or property by at least 15 percent and utility savings generated over the improvement's expected life will exceed the cost of installation. Because we do not have an efficient, automated way to identify whether loans meet the requirements stated in the Duty to Serve final rule, our baseline for loan purchases is zero loans.

## 2024 Target

Our Single-Family purchase target for Plan Year 3 is set forth in the following table. We will continue to deploy various tactics to increase lender adoption and usage of our GreenCHOICE Mortgages offering.

Projected volume does not take into account potential market reactions to the low interest-rate environment or the coronavirus pandemic. In addition, any delay in implementing the planned system updates and rolling out the dataset will affect our ability to meet our target. Furthermore, the complexities of lenders' internal processes affect the rate of adopting new or updated mortgage offerings, even when lenders understand the value of offerings and are anxious to incorporate them into their businesses.

## Single-Family First-Lien Loan Purchase Target – Loans Secured by Energy-efficient Properties

Year 3 – 2024

200-500 loans

### Challenges

Freddie Mac will address the following specific challenges through our actions under this objective.

#### **Identification of loans for the Green Bond and Duty to Serve loan purchase credit**

Freddie Mac lacks an automated process to catalog the energy-efficiency improvements, expected utility cost savings, and amount of energy efficiency generated in relation to the energy-efficiency loans that we buy from lenders. Currently, collecting this information involves a manual, time-consuming process. This inhibits our ability to support disclosures for future Green Bonds and to qualify loans for Duty to Serve loan purchase credit.

#### **Ability to tie loans to a complete dataset to enable loan performance monitoring**

Numerous data points must be used to identify home energy-efficiency features and to provide transparency into how a property's efficiency compares to that of other homes on the market. Without this identification, ongoing performance monitoring as it relates to efficiency on each applicable loan will not be possible.

Also, several vendors manage data on home energy-efficiency assessments. Therefore, multiple registries and databases must be queried to validate that the home received an assessment. Automation will be required to make this activity faster and more efficient.

#### **Lack of standardization limiting growth in the energy-efficiency market**

The home energy-efficiency market is still a niche market. Any new standards and processes developed to support new data and related validation will take time for lenders to implement, especially as lenders evaluate overall cost to implement relative to the size of the market.

The current lack of data standardization and automated data collection limit scalability and understanding of the value of energy-efficient home features. This also is a barrier to providing complete and consistent disclosures, as required for Green Bond issuances. It will take a unified and uniform approach to data collection to bring the industry forward in this regard. This requires coordination across the GSEs, lenders, investors, appraisers, and other key industry players to address process barriers to help implement and unlock the full potential green mortgage data.

#### **Industry awareness of appropriate energy-efficiency data elements and their meaning**

Lenders and appraisers generally will be unfamiliar with the new energy-efficiency dataset. They will need to know how to capture and report on it where they indicate that the mortgage proceeds support energy efficiency on a subject property.

## Actions

### Year 1 – 2022

1. Develop the framework for a Single-Family Green Bond in alignment with ICMA Green Bond principles.
2. Establish a process to support the impact reporting of Single-Family Green Bond issuances.
3. Socialize our Single-Family Green Bond framework with investors in MBS.
4. Regularly issue Green MBS in the capital market.

### Year 2 – 2023

Freddie Mac will implement the technology enhancements needed to support an energy-efficiency dataset and raise industry awareness of the enhancements.

1. Implement an energy-efficiency dataset in Freddie Mac's lender-facing applications through a technology release.
2. Issue at least one notice to lenders of upcoming system enhancements to incorporate an energy-efficiency dataset.
3. Create lender training on how to submit and report on the energy-efficiency dataset.
4. Create a marketing campaign targeted at appraisers, builders, and real estate professionals on the energy-efficiency data and how it enhances property valuation.

### Year 3 – 2024

1. Purchase 200-500 loans on energy-efficient properties to increase liquidity in this market.

## Market Impacts

Our efforts will drive standardization and automation that will help transform the energy-efficiency market and expand affordable lending for improvements that lead to utility cost savings.

To move forward, it is important to raise the visibility of home energy usage and to spur demand for energy-efficient homes and home improvements. By encouraging the use of nationally standardized data for home energy cost estimates, we will supply lenders with a means to initiate conversations with borrowers and enable real estate professionals to identify homes more easily as having a higher cost of ownership because of their energy usage. The U.S. Department of Energy National Renewable Energy Laboratory's (NREL's) Home Energy Cost Estimator tool generates energy-specific cost estimates that could be integrated with automated valuation models and automated underwriting systems.<sup>143</sup>

Implementing an energy-efficiency dataset and automating its collection will begin an industrywide paradigm shift. It will standardize collection of data across the industry and help make more property-level data available going forward. This will improve the accuracy of appraising and underwriting homes with energy-efficient features as well as increase understanding of how those features contribute to property values and loan performance. It also creates the possibility to update underwriting policies in a safe and sound manner to allow more homebuyers and homeowners in underserved communities to finance home energy efficiencies that lower the cost of owning their homes and increase home values. In addition, lenders will gain confidence in financing energy-efficient homes and home improvements that can make homes more affordable over time, which will lead to an increase in market liquidity.

Additionally, updating our systems and giving lenders an automated process for entering the energy-efficiency data points and related information will facilitate the capture, measurement, and reporting of data, energy assessments, ratings, and certifications. This will enable us to identify those mortgages that meet the requirements of the Duty to Serve final rule, which requires that qualifying mortgages secure properties for which improvements will reduce energy and/or water consumption by at least 15 percent and utility savings generated over the improvement's expected life will exceed the cost of installation. Knowing the savings amounts in addition to the number of loans will allow for deeper understanding of the benefits of energy-efficiency improvements to homeowners and the environment. This knowledge may motivate more lenders to offer energy-efficiency mortgage products, more homebuyers and homeowners to finance energy-efficiency improvements with mortgages, and more opportunity for Freddie Mac to purchase the loans and increase market liquidity.

The automation also is vital to implementing the International Capital Markets Association's Green Bond Principles (GBP) in designing our Single-Family Green Bond framework. Although the GBP are voluntary, they outline best practices for issuing Green Bonds and promote transparency, disclosure, and integrity within the Green Bond market. By implementing the GBP, we will advance the standards as well as provide the insights that the investment community requires to feel comfortable with the quality of the loans backing our Green Bonds.

A successful Green Bond program will allow Freddie Mac to reduce taxpayer risk, contribute to the visibility and growth of energy-efficiency financing options, and purchase more energy-efficiency loans to help more households increase the affordability, comfort, and resale values of their homes.

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## Activity 10 – Support for Shared Equity Programs for Affordable Housing Preservation: Regulatory Activity

Shared equity programs are an effective means for providing income-eligible households with attainable and sustainable homeownership opportunities, especially in higher-cost locales. The shared equity homeownership model brings home prices within reach and enables wealth building through the ownership cycle, while ensuring that homes remain affordable when resold to subsequent buyers over the long term. This model has enabled a growing number of minority households to achieve homeownership; between 2013 and 2018, minority households composed 43 percent of shared equity homeowners, up from 13 percent between 1985 and 2000. Sixty percent of shared equity homeowners go on to purchase market-rate homes using their earned equity.<sup>144</sup>

Shared equity programs, however, often have unique structures, documentation for originating loans under their programs, and definitions of success; the lack of standardization presents operational challenges to lenders. In addition, the potential loan origination volume from shared equity programs is small, which further affects lender participation. Yet lender participation is vital for shared equity programs to scale.

Freddie Mac increased our support for shared equity programs during the first Duty to Serve Plan cycle. We introduced new and enhanced product offerings into our Single-Family Seller/Servicer Guide, including providing explicit guidance for underwriting and appraising the shared equity properties that supports the Duty to Serve rule for mortgages secured by homes in community land trusts (CLTs) and with income-based deed restrictions.

We also worked with the industry to promote and improve standardization across shared equity programs during the first Duty to Serve Plan cycle to help increase lender participation and lay the foundation for bringing the model to scale. We will build on our progress during this Plan cycle by streamlining our requirements for lenders reviewing CLTs that have received certification from the Florida CLT Training and Certification Program, which we developed in collaboration with the Florida Housing Coalition, to provide technical assistance to CLT programs. Moreover, our collaborations to create a CLT appraisal curriculum and to gauge the shared equity market, with a focus on CLTs, will help lower obstacles that industry participants have said inhibit lending and lender participation.

During the 2022-2024 Plan cycle, Freddie Mac will pursue the following objectives to increase liquidity and expand the distribution of capital in this market in support of shared equity homeownership:

- Purchase loans originated under shared equity programs.
- Facilitate mortgage lending and lender participation in the shared equity homeownership market.
  - Implement operational efficiencies for lending on homes in community land trust programs that have completed a certification program.
  - Support industry adoption of the standardized model legal documentation for income-based deed-restricted programs.
  - Develop a CLT appraisal curriculum for appraisers.
  - Perform a census of CLT programs in an attempt to size the market opportunity for lenders.
  - Create a database of active CLT programs nationwide that enables lenders to identify where CLTs have homes in their inventory available for sale.

**OBJECTIVE A: INCREASE LOAN PURCHASES OF SHARED EQUITY MORTGAGES**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Purchase</b>	<b>1, 2 and 3</b>	<b>VLI, LI, MI</b>	<b>Not Applicable</b>

Freddie Mac saw gradual adoption of the product flexibilities that we introduced during the first Duty to Serve Plan cycle to promote shared equity homeownership and greater lender interest in the market. As a result, we realized incremental loan purchase increases and reasonable market growth. This progress laid the foundation on which we set our loan purchase targets.

Freddie Mac will purchase loans secured by properties under shared equity programs to expand affordable homeownership opportunities and boost the flow of liquidity into this market. Given the small number of homes that become available for sale each year and of lenders participating in the market, fulfilling this objective will be difficult.

Freddie Mac's policies support two types of shared equity homeownership: community land trusts and income-based deed-restricted properties. Based on the limited data available, around 12,000 homes are in CLT inventories and 72,000 homes in deed-restricted programs nationwide. The Lincoln Institute of Land Policy found that less than 3 percent of shared equity homeowners move each year on average, compared to about 7 percent of all homeowners.<sup>145</sup> With low resale rates, opportunities to buy loans will be few. Increasing the number of homes in these programs depends on adding to inventories, which is a function of funding availability.

The difficulty in sizing the market and identifying which programs have available inventory that will need to be financed, low origination volumes, time and effort to originate shared equity mortgages, and limited opportunity to sell the loans into the secondary market have deterred many lenders from participating in this market. In addition, lenders have told us that their ability to adopt new or enhanced products and the speed to market depends on business priorities and the need for resources, systems updates, new internal policies, and training. Lenders also have said that the processes associated with specialty mortgage offerings must be as efficient and similar to traditional mortgage transactions as feasible to increase the likelihood of adoption. The process can take a year or – especially for specialty products like those that support shared equity homeownership – even longer. Once implemented, it takes additional time before the lender uses the product and delivers the loans to us. In addition, appraisers trained in the valuation methodology for shared equity properties are needed to support lending in the market.

**Baseline**

Given how recently we introduced the eligibility requirements for shared equity mortgages, we have only a two-year history on which to base our 2022-2024 loan purchase targets. We purchased 41 loans and 52 loans in 2019 and 2020, respectively, for a baseline of 47 loans.

<b>Freddie Mac Single-Family Loan Purchase Volume – Shared Equity</b>		
<b>Year</b>	<b>2019</b>	<b>2020</b>
<b>Income-Qualifying Loan Count (A two-year average of this loan count was used to establish the baseline)</b>	41	52
<b>Baseline</b>	47	

## 2022-2024 Targets

Our Single-Family purchase targets for Plan Years 2022-2024 are set forth in the following table. We will continue to deploy various tactics to increase operational efficiency and standardization in the market and expand lender adoption of the product flexibilities previously introduced under Duty to Serve to help create more homeownership opportunities for very low-, low- and moderate-income households. Given the newness of the flexibilities, lenders' current priorities, and the shared equity homeownership market's small size, we expect modest growth in loan count.

The shared equity homeownership market is very small in terms of production opportunity, and the transactions are complex, given the resale restrictions. In addition, we had anticipated that regulated entities may be interested in supporting this market to satisfy their Community Reinvestment Act (CRA) obligations. However, we found that the geographic distribution of shared equity programs tends not to align with lenders' CRA assessment areas; and when it does, lenders tend to meet their obligations with financial support or other community development efforts, rather than incurring the operational costs of originating shared equity loans. Besides promoting our product to regulated entities as a way to help meet CRA obligations, we have promoted it to non-regulated entities as a niche product providing incremental business opportunities and bolstering their standing in their communities.

Projected volume does not take into account potential market reactions to the interest-rate environment, the coronavirus pandemic, or other market disruption. It also does not take into account the possibility of slower-than-expected product adoption. Lenders' business priorities and the complexities of their internal processes affect the rate of adopting new or updated mortgage offerings, even when lenders understand the value of offerings and are anxious to incorporate them into their businesses.

Single-Family Loan Purchase Targets – Shared Equity		
Year 1 – 2022	Year 2 – 2023	Year 3 – 2024
115-130 loans	125-145 loans	150-200 loans

## Market Opportunity and Impact

We estimate that we will provide more than \$70 million in liquidity over the Plan cycle to finance homes purchased through shared equity programs. As a result, affordable homeownership and wealth-building opportunities will be possible for more income-eligible households. Research<sup>146</sup> and our own experience show that the shared equity model is especially effective in helping to increase homeownership opportunities for first-time, minority, and low- and moderate-income homebuyers.

Being able to sell loans into the secondary market will reduce lenders' risk and costs and provide them with much-needed liquidity and capital. By streamlining our processes and standardizing documentation, we will assist lenders in adopting and using our offerings once they have the capacity to do so. In addition, we will increase our engagement with lenders already active in this market as well as strive to bring others into it to expand participation in financing homes under shared equity programs and to increase awareness, adoption, and usage of our offerings. Ultimately, these efforts will lead to market growth.

The appraisal curriculum that we will develop in collaboration with the Appraisal Institute under Objective B will help fill a gap in the industry. It will equip appraisers to appraise CLT homes effectively, enabling them to complete higher-quality appraisals efficiently. The training and information will be made available where it is most needed, while taking pandemic-related health and safety measures into account. Through our outreach efforts, we will make appraisers and lenders aware of the availability and benefits of the curriculum and of CLT homeownership and encourage enrollment. Lenders will gain greater access to qualified appraisers and more confidence in the appraisals. CLT homebuyers and homeowners will benefit from appraisals that accurately

reflect the value of their homes, which will help maximize the wealth-building opportunity. Also, because more trained appraisers will be available and appraisals will take less time and effort, the cost of CLT home appraisals may be reduced.

Also, the first-of-its kind census of shared equity programs with a focus on CLTs that we will complete in collaboration with Grounded Solutions Network will provide industry participants with data that currently is unavailable. There is no comprehensive directory of CLTs. The results of the census and the directory of programs, their structures, and expected growth will equip lenders with information they need to understand the size of the opportunity and make informed decisions on supporting the market. Having such insights will encourage more lenders to participate in the shared equity homeownership market. In addition, the database of active CLTs nationwide that we will build, maintain, and make available on-line will give lenders a tool for identifying homes in CLTs' inventories that are coming onto the market and connecting with those CLTs to offer mortgage financing options.

Our continuing and extensive outreach efforts will help raise awareness and adoption of our offerings and boost loan sales to Freddie Mac. This work may include actively engaging with lenders, delivering webinars, participating in industry events, and increasing awareness and understanding through web content, e-mail to customers, and social media posts.

Meeting this objective would be difficult under any circumstances, but more so because of lenders' focus on responding to the coronavirus pandemic and high refinance volumes. We cannot predict the impact of the coronavirus pandemic or other market factors, such as interest rates.

Because of the relatively small size of the market, any increase in origination volume for loans secured by homes in shared equity homeownership programs will be significant in terms of market impact and will encourage lending in the market.

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**OBJECTIVE B: DESIGN NEW PRODUCT FLEXIBILITIES TO FACILITATE THE ORIGINATION OF SHARED EQUITY MORTGAGES**

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Product</b>	<b>1 and 2</b>	<b>VLI, LI, MI</b>	<b>Not Applicable</b>

The shared equity homeownership market is very small in terms of loan origination opportunity, and the transactions are complex, given the resale restrictions. The three prevalent models of shared equity – or income-based resale-restricted – homeownership are community land trusts (CLTs), deed-restricted programs, and limited-equity cooperatives.<sup>147</sup> Freddie Mac's offerings support financing for homes in CLTs and deed-restricted programs. The limited data available suggest that, nationwide, an estimated 12,000 homes are in inventory across 225 CLTs and an estimated 72,000 units are in inventory under deed-restricted programs. Based on a sampling of homeowners, the Lincoln Institute of Land Policy found that less than 3 percent of shared equity homeowners move each year on average, compared to about 7 percent of all homeowners.<sup>148</sup> With low resale rates, increasing the number of homes available through shared equity programs depends on the adding to inventories, which is a function of funding availability.

In addition, shared equity program structures and providers' operations and legal documentation vary by program, based on individual market needs. Because of this, shared equity transactions are not widely understood by lenders and many have opted out of this market.



Also, market participants told us that a lack of appraisers with an understanding of how to appraise CLT properties is a barrier to financing CLT homes. Lenders stated that appraisers often turn down assignments to appraise CLT homes, making it difficult to obtain an appraisal. We heard from appraisers that they are unfamiliar with appraising CLT homes; therefore, they often either refuse the assignment or add a pricing premium to the appraisal to account for the additional time and effort that they expect to spend on completing an opinion of value. During the first Plan cycle, we generated more support for financing of properties under shared equity homeownership programs and increased standardization. We met an identified market need for additional product offerings to support the financing of properties under shared equity homeownership programs. We also introduced policy updates, in response to industry feedback, to streamline processes and accelerate adoption and performed extensive outreach to promote the changes and benefits. Still, lender implementation of our products has been slower than expected. Adoption of specialty mortgage offerings like those for financing shared equity homeownership opportunities can take at least a year under typical circumstances; however, many lenders have suspended or limited their specialty programs as they focus attention and resources on responding to needs stemming from the coronavirus pandemic and serving the large number of customers wanting to take advantage of interest rates at or near historic lows.

Moreover, to help advance the standardization needed to grow the shared equity homeownership market, we collaborated with the Florida Housing Coalition to build the robust Florida Community Land Trust Training and Certification Program; Florida is among the top three states with the most CLTs. The Florida Housing Coalition is a pioneer in promoting an interactive, hands-on approach to program operations, administration, and structure, while giving program providers confidence that their programs meet secondary mortgage market eligibility requirements. The certification program was launched in August 2019. Training was scheduled to begin in person in early 2020, with nine of Florida's 20 CLTs enrolled; however, the start was delayed until late 2020 because sessions had to be modified for on-line delivery as a result of the coronavirus pandemic. Achieving certification will enhance a CLT's capacity to create and preserve affordable homeownership opportunities for years to come. It conveys best practices for the industry and for non-profit operations as well as promotes the standardization of key documents and procedures. It also provides technical assistance on requirements for loans sold to the secondary mortgage market, including documentation needed to comply with Freddie Mac's CLT eligibility requirements.

We will build on these achievements to further promote product adoption and industry growth. Taking the next step with the CLT Certification Program, we will streamline the lender's process for originating CLT mortgages where the CLT has completed the certification program; those CLTs already have proven their eligibility. We also will provide lenders with an additional channel for selling these loans to us.

To support the larger market, we will allow similar flexibility for lenders by honoring other certification programs that ensure the CLT meets Freddie Mac requirements.

We also will introduce standardized documents related to deed-restricted properties that can be used across shared equity homeownership programs industrywide. Shared equity program providers may be hesitant to adopt this standardization out of concern for losing an aspect of their unique identities and autonomy. Also, incorporating the new documents into their businesses will take time and resources that could be in short supply. To facilitate adoption, we will work with Grounded Solutions Network – a national non-profit membership organization of CLTs, inclusionary housing programs, and non-profits that support long-term affordable housing – to educate program stewards and contractors.

In addition, we will work with an appraisal trade organization to develop and deliver a comprehensive curriculum for appraisers on appraising CLT homes. The curriculum will cover the CLT model of homeownership, the CLT ground lease, GSE appraisal guidance, and product parameters to further support the CLT ownership model.

In collaboration with Grounded Solutions Network, we will complete a census of non-profit shared equity homeownership programs that meet the Duty to Serve definition of shared equity homeownership, which includes community land trusts, certain Habitat for Humanity affiliates, and community development corporations (CDCs). The census will provide a snapshot of the scale of the Duty to Serve-eligible shared equity homeownership market.

To help address lenders' feedback that they need easily accessible, up-to-date information on CLT programs, we will create and maintain a database that offers a view into CLT programs nationwide, including which ones have inventory being introduced into the market, and enables lenders to connect with program stewards. Lenders want to know the areas that CLTs serve, whether they support single-family homeownership, and the potential number of units that can be financed to gain confidence in supporting CLT financing. Because such information is not readily available, the effort to identify CLT programs and gather detailed information about them is very resource intensive. Lenders may not have or want to expend the necessary resources. Our CLT database will be available to lenders through Freddie Mac's web site.

## Baseline

Freddie Mac supports the financing of shared equity homeownership through our Community Land Trust Mortgage and flexibilities in our Seller/Service Guide for underwriting income-based deed-restricted mortgages on properties tied to Duty to Serve-eligible programs.

There are no industry-standard model documents to support income-based deed-restricted programs.

Certification through the Florida CLT Certification Program ensures that the CLT program and the CLT ground lease meet Freddie Mac's eligibility requirements. Nevertheless, Freddie Mac policy calls for lenders to qualify the CLT program provider and validate that the ground lease meets our requirements, regardless of whether the provider is CLT certified.

The current execution for our CLT Mortgage is cash only.

The current publicly available directory of CLT is dated and does not provide details into the program structure and information on the number of homes in inventory and the number of homes that will be introduced in the market.

Some independent, geography-based efforts are under way in the market to educate appraisers on CLT property valuation but no nationwide curriculum exists.

## Market Challenges

Freddie Mac will address the following specific challenges through our actions under this objective.

### **Lack of standardization in shared equity program structure and documentation**

The lack of uniformity across shared equity programs has kept the market fragmented as well as inhibited growth and lender participation. While all shared equity programs have the same objective to maintain housing affordability, they frequently differ in terms of structure, operating processes and procedures, and legal instruments, which often contain proprietary language specific to a program. This presents challenges for lenders when trying to evaluate whether programs meet eligibility requirements. Processing and underwriting shared equity transactions is time consuming and labor intensive and requires specialized knowledge.

Lenders interested in Freddie Mac's CLT Mortgage have inquired about a guarantor execution; for many, it is a prerequisite for adoption.

### **Impediments to CLT appraisals and valuations**

Few appraisers have the experience or CLT program knowledge to appraise CLT homes efficiently and accurately. In addition, there are a small number of CLT comparable sales available in markets nationally, CLT comparable sales may not be physically near the property being appraised, and the market may lack leasehold properties against which to develop a value for the leasehold. Therefore, finding experienced appraisers may be

difficult and completing appraisals on CLT properties may take the appraiser additional time, research, and justification to determine an acceptable opinion of value. As a result, there may be a time lag in obtaining CLT appraisals and they may cost more than standard appraisals, placing a greater burden for the very low-, low-, and moderate-income homebuyers that CLT programs serve.

### **Lack of data on the size of the shared equity market, including community land trusts**

Limited data is available to accurately quantify the shared equity market or the CLT market segment. Lenders are hesitant to enter a market unless they understand the size of the origination opportunity within their lending footprint.

## **Actions**

### **Year 1 – 2022**

1. Publish a policy update to our Single-Family Seller/Service Guide to allow lenders to accept the Florida CLT Certification as confirmation that a CLT meets Freddie Mac's eligibility requirements in lieu of reviewing the CLT provider and its ground lease when originating mortgages on homes in the program. Provide representation and warranty relief to lenders on the ground lease review based on the CLT's certification. Develop and execute a marketing campaign to create awareness of the certification program and acceptance of certifications among lenders. Aim to have four additional CLTs participate in and become certified through the Florida Housing Coalition CLT certification program.
2. Deploy a model template to shared equity program providers for income-based deed-restricted properties to facilitate standardization of the language that is used to support resale restrictions across applicable shared equity programs. Collaborate with Grounded Solutions Network to promote adoption of the model template for income-based deed-restricted programs by program practitioners.
  - Raise awareness among program practitioners through direct e-mail outreach and an online course on how to use the model documents and the benefits of using them. Also conduct outreach to consultants that advise program practitioners on best practices for their programs.
  - Provide technical assistance to program staff and contractors to promote adoption and implementation of the model documents and establish a help desk to provide one-on-one assistance.
3. Provide guidance to Freddie Mac sellers on the model documents by making collateral materials available as well as publicizing the guidance on our Single-Family web site and via email to our Lender News subscribers.
4. Publish an update to our Seller/Service Guide to add a guarantor execution option for the delivery of CLT Mortgages to Freddie Mac.
5. Work in partnership with at least one trade organization to develop best practices and a comprehensive training curriculum on CLT valuations for appraisers. Conduct at least four training sessions virtually and/or in person in markets that have a concentration of community land trusts. Promote the learning through various channels (for example, Freddie Mac's web site, industry forums, the appraisal industry's trade organization, advisory board meetings, Freddie Mac Single-Family Lender News, targeted e-mail, and social media).
6. In collaboration with Grounded Solution Network, conduct a census of non-profit shared equity homeownership programs that meet the Duty to Serve definition for shared equity homeownership, with a focus on CLTs.

- Identify programs, collect data, and develop a survey instrument. Program-level data to be collected may include program type, tenure type, target population (AMI), geographic footprint, legal document type, affordability term, unit count, number of resales, number of refinance transactions, expected units to be added in the next 12 months, and demographics of the population served.
- Administer the survey to the identified programs to capture data from program stewards.
- Analyze and categorize the data. Create an updated shared equity program directory, including CLTs.

## Year 2 – 2023

1. Report on the survey findings on Grounded Solutions Network’s and Freddie Mac’s web sites. Promote the findings through a marketing campaign, which may include, for example, hosting a webinar to socialize the findings; training lenders on navigating the directory, while highlighting our offering and related resources; publishing articles and blog posts on our web site; and featuring items in Lender News.
2. Expand awareness, deepen understanding, and promote adoption of the model documents used to support resale restrictions. Conduct a marketing campaign, which may include social media, webinars, industry forums, a promotional video, articles on Freddie Mac’s web site, and information on training resources for program practitioners.
3. Conduct at least two appraisal training sessions virtually and/or in person in markets that have a concentration of community land trusts. Promote the learning through various channels (for example, Freddie Mac’s web site, industry forums, the appraisal industry’s trade organization, advisory board meetings, Freddie Mac Single-Family Lender News, targeted e-mail, and social media).
4. Publish at least one policy update to our Single-Family Seller/Service Guide to expand flexibilities introduced in Year 1 to allow lenders to accept CLT certifications bestowed through CLT programs besides the Florida program that ensure the CLTs meet Freddie Mac’s requirements. Allow lenders to receive representation and warranty relief for mortgages on properties in certified CLTs’ inventories.
5. Create and maintain a database of active CLT programs nationwide that enables lenders to identify those with homes available for sale. Make the database accessible to lenders via Freddie Mac’s web site. Develop and execute a marketing campaign to create awareness of the CLT database among Freddie Mac lenders and training on the use of the database, which may include promotions in Single-Family Lender News, delivering webinars, and posting pre-recorded tutorials on our web site.

## Market Impact

Our efforts will help drive consistency, operational efficiency, and transaction cost savings, data, and professional skill building needed to increase lender participation, market liquidity, and support for long-term affordable homeownership. The streamlined process that allows lenders to skip the program review and receive representation and warranty relief from the CLT ground lease review for certified CLTs when originating community land trust mortgages will save time and money, encourage lenders to adopt CLT Mortgage, and increase lenders’ confidence in supporting the shared equity market. As more lenders adopt our community land trust offering, homebuyers and homeowners will gain financing options, resulting in greater access to credit and sustainable homeownership opportunities. With the Florida CLT Certification Program in our Seller/Service Guide, awareness of it will greatly expand. Allowing the same flexibility with CLTs that receive certification from other comparable programs if and when they become available will help extend the benefits of the streamlined process nationwide.

More CLTs may choose to participate, further fueling standardization, lender participation, and market growth.

The use of model templates and uniform legal documents will lead to standardization that will increase efficiency for lenders and program providers as well as certainty for lenders reviewing the programs. This standardization also will contribute to reducing the industry fragmentation that has inhibited growth. However, helping program providers see the benefits of standardization and overcoming their hesitation to adopt model legal documents will take time. Freddie Mac will collaborate with Grounded Solutions Network to promote and provide technical assistance in adoption, which will help lower a barrier to growth and may increase lenders' willingness to finance homes under shared equity programs.

Expanding the execution options for CLT Mortgages also will enable more lenders to participate in the shared equity market and sell the loans to Freddie Mac, thereby increasing liquidity and access to credit for this form of homeownership.

The appraisal curriculum will help fill a gap in the industry. It will equip appraisers to appraise CLT homes effectively, enabling them to complete higher-quality appraisals efficiently. The training and information will be made available where it is most needed, while taking pandemic-related health and safety measures into account. Through our outreach efforts, we will make appraisers and lenders aware of the availability and benefits of the curriculum and of CLT homeownership and encourage enrollment. Lenders will gain greater access to qualified appraisers and more confidence in the appraisals. CLT homebuyers and homeowners will benefit from appraisals that accurately reflect the value of their homes, which will help maximize the wealth-building opportunity. Also, because more trained appraisers will be available and appraisals will take less time and effort, the cost of CLT home appraisals may be reduced.

The census of shared equity programs with a focus on CLTs will provide industry participants with data that is currently unavailable. The results of the census and the directory of programs, their structures, and expected growth will equip lenders with information they need to understand the size of the opportunity and make informed decisions on supporting the market. Having such insights will encourage more lenders to participate in the shared equity homeownership market.

With a readily accessible database of active CLT programs, lenders will gain insight into the CLT market and be able to connect with CLT programs that have inventory in the market. Working in collaboration with CLT program providers, lenders could offer affordable mortgage solutions to potential homebuyers who likely would be unable to become homeowners without the benefit of shared equity programs. This would increase market participation and liquidity as well as enable more people to build wealth through homeownership.

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- <sup>3</sup> <https://www.cpexecutive.com/post/why-manufactured-housing-is-the-new-affordable-housing/>
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- <sup>10</sup> Datacomp/JLT estimates that there may be as many as 40,000 total communities, but those outside of their dataset are likely privately held, not marketed, not financed, and are outside the universe of properties requiring financing. Therefore, we assume that the current market of MHCs is no more than 37,897 communities, per data we have received directly from Datacomp/JLT.
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- <sup>14</sup> [https://mf.freddiemac.com/docs/dts\\_mhroc\\_report.pdf](https://mf.freddiemac.com/docs/dts_mhroc_report.pdf)
- <sup>15</sup> "Manufactured-Home Lending to American Indians in Indian Country Remains Highly Concentrated"; Federal Reserve Bank of Minneapolis; Kevin Johnson and Richard M. Todd; December 1, 2017; <https://www.minneapolisfed.org/article/2017/the-market-for-manufactured-home-loans-to-american-indian-and-alaska-native-borrowers-in-indian-country-remains-highly-concentrated>
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- <sup>117</sup> In 2013, the University of North Carolina published a study that presents a conclusion about improved performance of energy efficiency mortgages. *available at* [http://www.imt.org/uploads/resources/files/IMT\\_UNC\\_HomeEEMortgageRisksfinal.pdf](http://www.imt.org/uploads/resources/files/IMT_UNC_HomeEEMortgageRisksfinal.pdf). It also highlights the study's limitations with regard to the endogeneity issue that borrowers who own energy efficient homes may be more financially able than those who don't. The study identifies a specific market need for future studies: Panel data that track the borrower's income and market conditions, which was not available for the study researchers.
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