FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2024

ACTIVITY:

1 - Activity 3: Manufactured Housing Communities with Certain Pad Lease Protections: Regulatory Activity

OBJECTIVE:

Objective A: Purchase Loans that Institute Duty to Serve Tenant Pad Lease Protections

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

☒ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☐ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Freddie Mac is proposing a modification to its 2024 manufactured housing tenant pad lease protection loans target, increasing it to 17,100 units, which is a 55.5% increase in our target. This change further strengthens our commitment to the manufactured housing market and our efforts to scale the broad adoption of Duty to Serve tenant protections.

Freddie Mac's decision to pioneer this market with a requirement that all transactions (excluding non-profit, government or Resident Owned Communities) include Duty to Serve tenant protections has resulted in the purchase volume related to this objective to be generally equivalent to our overall volume in the MHC space. We voluntarily established this requirement after setting our targets for the 2022-2025 plan. As a result of the change, we have been able to accelerate the extension of Duty to Serve tenant protections as a broad market standard even beyond our own offering and loan purchases. We know of at least one large MHC operator that has adopted the protections portfolio-wide, even when a property does not have an Enterprise-backed loan. This helps reduce complexity and ease the pathway toward any potential GSE refinance.

Given our successful effort to scale this product, we believe it is appropriate to increase our tenant pad lease protection goal for 2024. Our proposed modification increases our target to 17,100 units. We calculate this target in a manner that is consistent with our other modifications. We use a three-year average (2021-2023) of

Freddie Mac's MHC loans with tenant protections, adjusting 2021 and 2022 to current market conditions as seen in 2023. In 2023, our total unit volume was down approximately -31.8% and -35.5% from 2021 and 2022, respectively. We have observed that the 2023 figure is a closer representation of current market conditions. Adjusting unit counts in 2021 and 2022 by the total unit count declines normalizes those years in line with 2023, allowing us to set targets based on presently observed market conditions. We also remove the target associated with properties as we believe the number of pads is the best way to demonstrate our impact through this objective.

	2021	2022	2023	3-Year Average
Qualifying Pads	13,843	19,785	28,994	20,874
Adjusted Qualifying Pads	9,447 (~68.2% of actual volume)	12,762 (~64.5% of actual volume)	28,994	**17,068**

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
Total Loan Amount	$88 million	$71.6 million
Properties	8	14
# of Qualifying Pads*	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
Target	Lesser of 110 properties or 11,000 pads	Lesser of 105 properties or 10,500 pads	~~Lesser of 110 properties or 11,000~~ 17,100 pads

Market Impact

Freddie Mac intends to continue our role of providing liquidity in these hard-to-serve markets though 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.

Revised Underserved Market Plan Modification Request Template

FREDDIE MAC

RURAL HOUSING

2024

ACTIVITY:

1 – Support for High-Needs Rural Regions: Regulatory Activity

OBJECTIVE:

A – Purchase Single-Family Loans in High-Needs Rural Regions

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Resize the 2024 target for loan purchases in high-needs rural regions (HNRR).

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Freddie Mac proposes resizing our 2024 target loan purchase volume in HNRR based on changed market conditions. The modified target reflects a more realistic goal, based on current origination volume, the market environment, forecasts, and feedback from lenders.

Freddie Mac's original purchase targets were aggressive relative to housing market forecasts in early 2022. Since then, the economic environment and continuing housing affordability challenges have driven down loan originations in HNRR overall, with refinance loan volume particularly affected by the rapid rise in interest rates. Duty to Serve-qualified loan volume in 2024 through June in HNRR declined 52% from the same period in 2022, with refinances down 71%; Freddie Mac's overall single-family loan volume was down 63%.

Freddie Mac has been working to accelerate loan purchases in HNRR. For example:

- We are engaging with lenders that operate in high-needs rural regions to encourage them to adopt and use our offerings and to sell loans to Freddie Mac. We also offer webinars for direct sellers and aggregators on our products and underwriting.
- We are reaching out to small lenders in rural markets to help expand our direct and indirect delivery channels.
- We are deploying an integrated, targeted marketing effort to promote mortgage products that help address housing challenges in high-needs rural regions, including our standard manufactured housing solutions, CHOICEHome®, GreenCHOICE Mortgages®, and CHOICERenovation® and CHOICEReno eXPress®.
- We are analyzing loan data to identify opportunities for additional targeted and individualized outreach to lenders.

Our year-to-date loan purchase volume in HNRR is greater than during the same period last year, but has consistently lagged our tracking benchmarks and is expected to fall well short of the 2024 target. Our efforts cannot overcome market headwinds.

Among them: the interest rate environment. The rapid rise and continued volatility of interest rates discourages many homeowners from refinancing their home mortgages. With the large numbers of homeowners who refinanced in the last few years, comparatively few see benefit in refinancing now. For every percentage point that the mortgage rate exceeds the rate at which a home was bought, the likelihood of the homeowner putting the home on the market decreases by more than 18%, according to a recent FHFA report.[1] At the end of January 2024, 78% of mortgaged homes had a rate of 5% or less at origination; 88% had rates of 6% or less.[2] This lock-in effect compounds the already severe housing supply shortage, which drives up home prices.

According to the St. Louis Federal Reserve, the median existing home price was almost $427,000 at the end of June 2024; the median new home price was more than $417,000. Economists at Realtor.com lowered their 2024 forecast at the end of Q2 to 4.1 million home sales – the second-lowest annual total since 2012.[3]

Freddie Mac researchers found that increases in house prices and interest rates exacerbated the affordability challenges. Using February 2023 through June 2024 as an example:

- Interest rates rose 0.7%.
- The affordability ratio, defined as the ratio between maximum house price a typical household can afford and the median home value in the area,[4] declined in HNRR by 19%. Nationally, the decline was 16%.

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[1] Federal Housing Finance Agency; "Working Paper 24-03: The Lock-In Effect of Rising Mortgage Rates"; Ross M. Batzer, Jonah R. Coste, William M. Doerner, and Michael J. Seiler; March 18, 2024 - https://www.fhfa.gov/research/papers/wp2403

[2] Freddie Mac calculations using the National Mortgage Database (NMDB). Includes single-family owner-occupied, mortgage originated since 1990 and active as of January 2024, both purchase and refinance. "At origination" refers to when purchased or refinanced.

[3] Realtor.com; "Economic Forecast 2024 Midyear Update"; Danielle Hale, Sabrina Speianu, Jiayi Xu, Hannah Jones, Ralph McLaughlin, Joel Berner; August 14, 2024 - https://www.realtor.com/research/2024-national-housing-forecast-midyear-update/

[4] The affordability ratio measures whether an area is affordable to the typical household living in that area based on the maximum house price they can afford and the median home value in the area. A ratio greater than one indicates a more affordable area, whereas a ratio less than one represents a less affordable area. The maximum house price a household can afford is calculated based on the assumption that the monthly mortgage payment is no more than 31% of monthly household income (HUD median family income), a 3% down payment, and the prevailing 30-year fixed-rate mortgage (Freddie Mac Primary Mortgage Market Survey® average rates for February 2023 (6.62%) and June 2024 (6.97%)). The median home value is from Freddie Mac's Home Value Explorer.

Many lenders have told us they are holding loans in portfolio so that they can extend credit to borrowers who fall outside of the Enterprises' credit box.

Home prices continue to climb in part based on the housing supply gap, which has widened as more people are working remotely and choosing to move to rural areas. Labor and materials shortages have expanded the time and costs of building new and repairing or renovating existing homes. Therefore, construction activity has remained too low to help narrow the gap. Further constraining supply in rural areas is the lower-than-average resale rate. Rural homeowners tend to stay in their homes longer and are more likely to age in place. Keeping even more people in their current homes is the mortgage rate lock-in effect.

Inflation rates have further dampened prospects for the rural housing market. Many households may have less money to put toward a home purchase or refinance closing costs, given the higher costs of living.

Given all of these circumstances, we will resize our HNRR loan purchase target for 2024.

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~~on~~ 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
Loan Purchase	**1, 2 and 3**	**VLI, LI, MI**	**Yes – HNRR**

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~~ through ~~2021~~ 2022 as a result of the historically low interest-rate environment. Using the ~~2021~~ 2023 reference files provided by FHFA,[1]~~,~~ refinance volume accounted for approximately ~~40~~45 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 ~~70~~71 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	**~~2018~~2019**	**~~2019~~2020**	**~~2020~~2021**	**~~2021~~2022**	**~~2022~~2023**
Income-Qualifying Loan Count **(A 5-year average of this loan count was used to establish the baseline)**	~~10,557~~11,505	~~11,509~~19,633	~~19,628~~27,802	~~27,807~~18,255	~~18,270~~10,003
Baseline	~~17,554~~17,440				

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 ~~are not expected to~~will not 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.[2]

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.[3] 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	~~14,750-16,000~~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 $~~1.8~~5 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~~ing~~ 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.

[1] Overall qualifying loan volume is based on FHFA's 2023 reference files for Rural Areas Data and Areas of Concentrated Poverty on FHFA's web site: https://www.fhfa.gov/DataTools/Downloads/Pages/Duty-to-Serve-Eligibility-Data.aspx.

[2] U.S. Economic, Housing and Mortgage Market Outlook, August 2024 - https://www.freddiemac.com/research/forecast/20240820-us-economy-continues-remain-strong

[3] National Association of REALTORS, Housing Affordability Index - https://www.nar.realtor/research-and-statistics/housing-statistics/housing-affordability-index

Revised Underserved Market Plan Modification Request Template

FREDDIE MAC

RURAL HOUSING

2024

ACTIVITY:

2 – Support for High-Needs Rural Populations: Regulatory Activity

OBJECTIVE:

A – Facilitate Conventional Lending to Members of Federally Recognized Native Tribes in Tribal Areas

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

- ☒ *The current Plan year*
- ☐ *Future Plan year(s)*

Resize the 2024 target for loan purchases in high-needs rural populations.

JUSTIFICATION FOR PROPOSED MODIFICATION:

- ☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*
- ☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*
- ☐ *N/A – Proposed modifications only address future Plan year(s).*

Freddie Mac proposes resizing our 2024 target loan purchase volume for high-needs rural populations based on market conditions and unforeseen complexities that slowed lender uptake of the HeritageOne℠ term of business (TOB) and delivery of HeritageOne loans to Freddie Mac. The modified target reflects a more realistic goal, based on progress made to date in identifying and clearing roadblocks as HeritageOne is adopted and operationalized in the market.

Since HeritageOne was introduced in October 2023, interest and inflation rates have been elevated, reducing housing affordability and increasing the cost of living. Many potential homebuyers are postponing homeownership as a result.

In addition, as lenders have been adopting the TOB and going through the processes of launching the product, some circumstances have arisen that were not anticipated during product development that have slowed progress in some cases.

Lenders have started to originate HeritageOne loans and several loans have been making their way through our pipeline. However, in some cases, the borrower's income exceeds Duty to Serve limits. We have bought no HUD Section 184 loans or conventional mortgage loans made to members of federally recognized tribes in tribal areas year-to-date.

We are working with lenders, tribal organizations, government agencies, and our internal business partners to smooth the path as quickly as possible and speed up HeritageOne loan purchases. We also continue to promote HeritageOne through lender engagement, conferences, webinars, and on-line channels and have plans for additional events throughout the year. However, it is unlikely that we will meet the high-needs rural populations loan purchase objective by year-end.

Given these circumstances, we will resize our 2024 purchase target for loans to high-needs rural populations.

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.[1] 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).[2] 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.[3]

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.

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

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

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~~ did 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~~ did not acknowledge the participation of tribal governments and the Bureau of Indian Affairs.

Lenders delivered ~~two~~ zero HUD Section 184 loans to us in 2019, one in ~~between 2018 and~~ 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 t~~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.~~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, ~~L~~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
~~15-50~~0-10 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[4], “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 ~~15-50~~ 0-10 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.

[1]http://nni.arizona.edu/application/files/6514/8642/4513/Accessing_Capital_and_Credit_in_Native_Communities__A_Data_Review.pdf

[2] https://www.huduser.gov/portal/sites/default/files/pdf/HNAIHousingNeeds.pdf

[3] Native Nations Institute, Access to Capital and Credit in Native Communities, https://nni.arizona.edu/application/files/8914/6386/8578/Accessing_Capital_and_Credit_in_Native_Communities.pdf (2016)

[4] HAC, "Exploring the Challenges Opportunities and for Mortgage Finance in Indian Country", April 2018, https://ruralhome.org/wp-content/uploads/storage/documents/publications/rrreports/rrr-native-american-mortgage-white-paper.pdf

Revised Underserved Market Plan Modification Request Template

FREDDIE MAC

RURAL HOUSING

2024

ACTIVITY:

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

OBJECTIVE:

A – Provide Liquidity to Small Financial Institutions Serving Rural Areas

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Resize the 2024 target for loan purchases from small financial institutions (SFIs) serving rural areas.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Freddie Mac proposes resizing our 2024 target loan purchase volume from SFIs serving rural areas based on changed market conditions. The modified target reflects a more realistic goal, based on current origination volume, the market environment, forecasts, and feedback from lenders.

Freddie Mac's original purchase targets were aggressive relative to housing market forecasts in early 2022. Since then, the economic environment and continuing housing affordability challenges have driven down loan originations from SFIs in rural areas, with refinance loan volume particularly affected by the rapid rise in interest rates. Duty to Serve-qualified loan volume in 2024 through June under this objective declined 31% from the same period in 2022, the same percentage as Freddie Mac's single-family purchase-money loan volume overall.

Freddie Mac has been working to accelerate loan purchases from SFIs in rural areas. For example:

- We are engaging with lenders that operate in high-needs rural regions to encourage them to adopt and use our offerings and to sell loans to Freddie Mac. We also offer webinars for direct sellers and aggregators on our products and underwriting.
- We are reaching out to small lenders in rural markets to help expand our direct and indirect delivery channels.
- We are deploying an integrated, targeted marketing effort to promote mortgage products that help address housing challenges in high-needs rural regions, including our standard manufactured housing solutions, CHOICEHome®, GreenCHOICE Mortgages®, and CHOICERenovation® and CHOICEReno eXPress®.
- We are analyzing loan data to identify opportunities for additional targeted and individualized outreach to lenders.

Our year-to-date loan purchase volume from SFIs in rural areas is greater than during the same period last year, but has consistently lagged our tracking benchmarks and is expected to fall well short of the 2024 target. Our efforts cannot overcome market headwinds.

Among them: the interest rate environment. The rapid rise and continued volatility of interest rates discourages many homeowners from refinancing their home mortgages. With the large numbers of homeowners who refinanced in the last few years, comparatively few see benefit in refinancing now. For every percentage point that the mortgage rate exceeds the rate at which a home was bought, the likelihood of the homeowner putting the home on the market decreases by more than 18%, according to a recent FHFA report.[1] At the end of January 2024, 78% of mortgaged homes had a rate of 5% or less at origination; 88% had rates of 6% or less.[2] This lock-in effect compounds the already severe housing supply shortage, which drives up home prices.

According to the St. Louis Federal Reserve, the median existing home price was almost $427,000 at the end of June 2024; the median new home price was more than $417,000.

Freddie Mac researchers found that increases in house prices and interest rates exacerbated the affordability challenges. Using February 2023 through June 2024 as an example:

- Interest rates rose 0.7%.
- The affordability ratio, defined as the ratio between maximum house price a typical household can afford and the median home value in the area,[3] declined in high-needs rural regions by 19%. Nationally, the decline was 16%.

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[1] Federal Housing Finance Agency; "Working Paper 24-03: The Lock-In Effect of Rising Mortgage Rates"; Ross M. Batzer, Jonah R. Coste, William M. Doerner, and Michael J. Seiler; March 18, 2024 - https://www.fhfa.gov/research/papers/wp2403

[2] Freddie Mac calculations using the National Mortgage Database (NMDB). Includes single-family owner-occupied, mortgage originated since 1990 and active as of January 2024, both purchase and refinance. "At origination" refers to when purchased or refinanced.

[3] The affordability ratio measures whether an area is affordable to the typical household living in that area based on the maximum house price they can afford and the median home value in the area. A ratio greater than one indicates a more affordable area, whereas a ratio less than one represents a less affordable area. The maximum house price a household can afford is calculated based on the assumption that the monthly mortgage payment is no more than 31% of monthly household income (HUD median family income), a 3% down payment, and the prevailing 30-year fixed-rate mortgage (Freddie Mac Primary Mortgage Market Survey® average rates for February 2023 (6.62%) and June 2024 (6.97%)). The median home value is from Freddie Mac's Home Value Explorer.

Many lenders have told us they are holding loans in portfolio so that they can extend credit to borrowers who fall outside of the Enterprises' credit box. Economists at Realtor.com lowered their 2024 forecast at the end of Q2 to 4.1 million home sales – the second-lowest annual total since 2012.[4]

Home prices continue to climb in part based on the housing supply gap, which has widened as more people are working remotely and choosing to move to rural areas. Labor and materials shortages have expanded the time and costs of building new and repairing or renovating existing homes. Therefore, construction activity has remained too low to help narrow the gap. Further constraining supply in rural areas is the lower-than-average resale rate. Rural homeowners tend to stay in their homes longer and are more likely to age in place. Keeping even more people in their current homes is the mortgage rate lock-in effect.

Inflation has further dampened prospects for the rural housing market. Many households have less money to put toward a home purchase or refinance closing costs, given the higher costs of living.

Another pressure: The continuing loss of eligible lenders through closures, mergers, and acquisitions reduces opportunities to purchase loans from SFIs. Comparing the 2022 SFI file to the 2025 file, the pool shrank by 1,530 lenders – more than 18%.

Given all of these circumstances, we will resize our rural SFI loan purchase target for 2024.

[4] Realtor.com; "Economic Forecast 2024 Midyear Update"; Danielle Hale, Sabrina Speianu, Jiayi Xu, Hannah Jones, Ralph McLaughlin, Joel Berner; August 14, 2024 - https://www.realtor.com/research/2024-national-housing-forecast-midyear-update/

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.

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	**~~2018~~2019**	**~~2019~~2020**	**~~2020~~2021**	**~~2021~~2022**	**~~2022~~2023**
Income-Qualifying Loan Count **(A 5-year average was used to establish the baseline)**	~~2,242~~2,387	~~2,391~~3,048	~~3,048~~3,408	~~3.410~~2,518	~~2,524~~1,937
Baseline	~~2,723~~2,660				

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.[1]

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.[2] 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	~~2,420-2,500~~ 1,800-1,900 loans

Market Opportunity and Impact

We estimate that we will provide ~~an average of more than $340 million~~ 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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[1] U.S. Economic, Housing and Mortgage Market Outlook, August 2024 - https://www.freddiemac.com/research/forecast/20240820-us-economy-continues-remain-strong
[2] National Association of REALTORS, Housing Affordability Index - https://www.nar.realtor/research-and-statistics/housing-statistics/housing-affordability-index

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2024

ACTIVITY:

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

OBJECTIVE:

A: Provide Liquidity And Stability Through LIHTC Loan Purchases

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Freddie Mac is proposing a modification to its 2024 LIHTC debt loan purchases target, reducing it from 56,000 units to 39,000 units. In 2023, Freddie Mac modified its LIHTC debt purchase target due to a significant reduction in the size of the multifamily market. Since that time, the Mortgage Bankers Association has further revised downward its estimates of the multifamily originations market for 2023 and now estimates a total of $246 billion in originations for that year, which is approximately half the size of the market in both 2021 and 2022.

Although there is not yet a reliable estimate of market size for 2024, market conditions in the first half of the year closely reflected what we saw in 2023. As a result, Freddie Mac continues to see a constrained market for LIHTC debt transactions, and we were slightly behind our 2023 pace in the first half of the year.

Freddie Mac funded 14,879 LIHTC Debt units as of Q2 against our 56,000-unit 2024 target. In 2023, we funded 15,188 LIHTC Debt units as of the end of Q2. Our baseline for our 2022-2024 plan is 51,496 units. In 2023, we modified our 55,000-unit target to 34,100 and ultimately funded 43,127 units.

Without a modification based on market conditions, we project that we will likely partially complete our objective.

The constrained market in the first half of the year was driven by several market factors, but primarily the interest rate environment. The 10-year Treasury rate in Q2 was 4.44%, which is 207 bps above the 2010-2019 average 10-year Treasury rate. The 10-year rate has also been increasingly volatile in 2024, particularly in April and May when inter-monthly swings were 33 bps and 66 bps, respectively. Another factor affecting the market is property prices, which peaked during the second quarter of 2022 and have since declined -18.7% in the past seven quarters. While higher rates and lower valuations will create some difficulties in completing transactions, the increased volatility in interest rates makes it more challenging for deals to materialize given the uncertainty of both buyers, and sellers as to when rates are going to stabilize. This has led to lower transaction volume in the market, as many participants wait on the sidelines for more certain market conditions.

In addition, a substantial number of Freddie Mac's LIHTC Debt transactions are the result of conversions of forward commitments from prior years. Freddie Mac saw a drop in the number of conversions from 2023 to 2024, which is the result of a comparatively lower volume of forward commitments established in prior years that were slated for conversion in 2024. Freddie Mac has also seen a reduction in large portfolio acquisitions, which had been a contributor to elevated volume in past years.

Given these factors, we believe it is appropriate to modify our LIHTC debt purchase goal for 2024. Our proposed modification increases our target relative to our modified 2023 target as we acknowledge that the rate environment and overall market conditions have improved into the second half of the year. Even so, LIHTC debt transactions take time to bring under application, quote and underwrite. As a result, improving market conditions in the second half of 2024 will not be immediately reflected in our purchase volume.

The proposed modification to 39,000 units is calculated by rounding up from a three-year average (2021-2023) of Freddie Mac's LIHTC Debt unit counts, adjusting 2021 and 2022 to current market conditions as seen in 2023. In 2023, our total unit volume was down approximately -31.8% and -35.5% from 2021 and 2022, respectively. Adjusting unit counts in 2021 and 2022 by the total unit count declines normalizes those years in line with 2023 volumes, allowing us to set a reasonable target for 2024 that closely approximates current market conditions.

	2021	2022	2023	3-Year Average
Total Units	52,390 units	58,880 units	43,127 units	51,466 units
Adjusted Total Units	35,753 units (~68.2% of actual volume)	37,979 (~64.5% of actual volume)	43,127 units	**38,953 units**

We anticipate that this reduced goal, coupled with our continued focus on high quality transactions, will enable us to effectively support affordable housing development while managing risks associated with the current market. The intention of the target is to set a standard for the supply of appropriate levels of liquidity based on the current market environment, allowing Freddie Mac to maintain its focus on high-quality transactions that align to our safety and soundness mandate.

OBJECTIVE A: PROVIDE LIQUIDITY AND STABILITY THROUGH LIHTC LOAN PURCHASES

PURCHASES

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

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
LIHTC Units	41,926	54,302	58,259
Historical Total Freddie Mac Multifamily Volume in Units	865,526	809,080	802,953
% of Total Freddie Mac Multifamily Units	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.
Total Loan Amount	$3.8B	$4.8B	$6.5B	$5B
LIHTC Units	41,926	54,302	58,259	51,496

Properties	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.114F[i] 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**
Target	54,000 LIHTC Units	34,100 LIHTC Units	39,000 ~~56,000~~ LIHTC Units

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Market Impacts

Freddie Mac intends to continue our role as the leader in purchasing loans on LIHTC properties though 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.

[i] https://shelterforce.org/2020/11/18/lihtc-preservation-and-the-need-for-rental-assistance/

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2024

ACTIVITY:

2 – Section 8: Statutory Activity

OBJECTIVE:

A - Provide Liquidity and Stability through Section 8 Loan Purchases

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Freddie Mac is proposing a modification to its 2024 Section 8 debt loan purchases target, reducing it from 27,300 units to 22,600 units. In 2023, Freddie Mac modified its Section 8 debt purchase target due to a significant reduction in the size of the multifamily market. Since that time, the Mortgage Bankers Association has further revised downward its estimates of the multifamily originations market for 2023 and now estimates a total of $246 billion in originations for that year, which is approximately half the size of the market in both 2021 and 2022.

Although there is not yet a reliable estimate of market size for 2024, market conditions in the first half of the year closely reflected what we saw in 2023. As a result, Freddie Mac continues to see a constrained market for Section 8 transactions, and we were slightly behind our 2023 pace in the first half of the year.

Freddie Mac has funded 9,149 Section 8 units as of Q2 against our 27,300-unit 2024 target. This puts us behind our pace in 2023 when we had funded 11,215 units as of Q2. Our baseline is 27,001 units. In 2023, we modified our 27,200-unit target down to 20,400 and ultimately funded 27,849 units. Although market conditions justified the modification at the time, we continued working toward the original target through year end.

Without a modification based on market conditions, we project that we may only partially complete our objective.

The constrained market in the first half of the year was driven by several market factors, but primarily the interest rate environment. The current 10-year Treasury rate in Q2 was 4.44%, which is 207 bps above the 2010-2019 average 10-year Treasury rate. The 10-year rate has also been increasingly volatile in 2024, particularly in April and May when inter-monthly swings were 33 bps and 66 bps, respectively. Another factor affecting the market is property prices, which peaked during the second quarter of 2022 and have since declined -18.7% in the past seven quarters. While higher rates and lower valuations will create some difficulties in completing transactions, the increased volatility in interest rates makes it more challenging for deals to materialize given the uncertainty of both buyers, and sellers as to when rates are going to stabilize. This has led to lower transaction volume in the market, as many participants wait on the sidelines for more certain market conditions.

Given these factors, we believe it is appropriate to modify our Section 8 purchase goal for 2024. Our proposed modification increases our target relative to our modified 2023 target as we acknowledge that the rate environment and overall market conditions have improved in the second half of the year. Even so, Section 8 transactions take time to bring under application, quote and underwrite. As a result, improving market conditions in the second half of 2024 will not be immediately reflected in our purchase volume.

The proposed modification to 22,600 units is calculated rounding up from a three-year average (2021-2023) of Freddie Mac's Section 8-unit counts, adjusting 2021 and 2022 to current market conditions as seen in 2023. In 2023, our total unit volume was down approximately -32% and -35% from 2021 and 2022, respectively. Adjusting unit counts in 2021 and 2022 by the total unit count declines normalizes those years in line with 2023 volumes, allowing us to set a reasonable target for 2024 that closely approximates current market conditions.

	2021	2022	2023	3-Year Average
Total Units	27,279 units	32,629 units	27,849 units	29,252 units
Adjusted Total Units	18,616 units (~68.2% of actual volume)	21,046 (~64.5% of actual volume)	27,849 units	**22,504 units**

Activity 2 — Section 8: Statutory Activity

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

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

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**
Section 8 Units	27,241	26,332	27,430
Historical Total Freddie Mac Multifamily Volume in Units	865,526	809,080	802,953
% of Total Freddie Mac Multifamily Volume	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**
Section 8 Units	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**
Target	27,100 Section 8 units	20,400 Section 8 units	~~27,300~~22,600 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.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2024

ACTIVITY:

4- Financing of Small Multifamily Rental Properties: Regulatory Activity

OBJECTIVE:

A - Purchase/Guarantee Loans for 5-50 Unit Multifamily Properties from Small Financial Institutions

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Freddie Mac is proposing a modification to its 2024 5-50 Unit Multifamily Properties from Small Financial Institutions purchases target, rightsizing it from the lesser of $600MM or 4 transactions, to the lesser of $100MM or 1 transaction.

Market conditions have led to Freddie Mac requesting infeasibility for the goal both in 2022 when we completed no transactions and in 2023 when we completed just one transaction.

Three factors have constrained our ability to complete these transactions in 2024. First, the overall market has reduced in size. The Mortgage Bankers Association has further revised downward its estimates of the multifamily originations market for 2023 and now estimates a total of $246 billion in originations for that year, which is approximately half the size of the market in both 2021 and 2022. Although there is not yet a reliable estimate of market size for 2024, market conditions in the first half of the year closely reflected what we saw in 2023.

Second and relatedly, the higher interest rate environment and market volatility have made the timing and economics of 5–50-unit capital markets executions with SFIs uniquely challenging. As we have noted in our reporting, comparatively higher rates significantly limit the economic viability of the executions. The 10-year Treasury rate in Q2 was 4.44%, which is 207 bps above the 2010-2019 average 10-year Treasury rate. The 10-

year rate has also been increasingly volatile in 2024, particularly in April and May when inter-monthly swings were 33 bps and 66 bps, respectively.

Third, the LIBOR to SOFR transition occurred mid-Plan cycle and has limited our ability to transact. Five to 50-unit properties are most commonly financed using hybrid loans, which include a floating-rate period. The most common index used industry wide, and consequently for the vast majority of these loans, is Term SOFR. Freddie Mac uses Average SOFR as its benchmark. To address this challenge, this year we worked with FHFA to allow for potential transactions involving seasoned loans indexed to Term SOFR. This is allowing us to strengthen our pipeline, but we anticipate the full benefits of this new capability will not be realized until 2025. Our outreach efforts have led to an improvement in the number of SFIs in our customer database that may lead to potential future transactions.

In addition to these market challenges, which are outside our control, many SFIs presently lack the ability to aggregate 5 to 50- unit loans to a level necessary for a traditional Q-Deal transaction. We are now developing product innovations to address this issue and have included it as an objective in our 2025-2027 Plan.

Given these factors, we believe it is appropriate to modify our 5-50 Unit Multifamily Properties from Small Financial Institutions purchase goal for 2024. The proposed modification to the lesser of 1 transaction or $100 million is calculated by rounding up from the three-year average of our most recent performance between 2021 and 2023.

Year	Volume
2021	$244MM, 1 Transaction
2022	No Transactions
2023	$26MM, 1 Transaction
3-Year Average	$90MM, 1 Transaction

A rightsized target that aligns with the current market environment sets an achievable goal for our efforts to extend liquidity through our capital markets executions in support of 5 to 50-unit multifamily properties. This work along with our continued outreach to SFIs and new innovations we are bringing to market will also allow us to lay a foundation for more volume in future years.

Without a modification based on market conditions, we project that we will likely partially complete our objective.

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

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

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
2018	$418MM, 1 Transaction
2019	$835MM, 4 Transactions
2020	$446MM, 2 Transactions
Three-Year Average	$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 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 1~~4~~ Transaction~~s~~ or $100~~600~~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.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2024

ACTIVITY:

5 – Support for Residential Economic Diversity: Additional Activity

OBJECTIVE:

B: Publish Research Analyzing Recently Implemented Upzoning Programs and Implications for Increased Housing and Resident Opportunity

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

When our Duty to Serve Plan was drafted three years ago, Freddie Mac proposed research analyzing recently implemented upzoning programs. Freddie Mac seeks a modification to remove this objective from the plan as the research gap we sought to address has already been filled.

At the time of drafting, we saw a lack of comparative analysis of multiple cities/states with upzoning requirements and we set out to address this gap. As we began work on this objective, we noted several newly published and high-quality papers that provide the information we were seeking to obtain in our proposed research. Given that the research conducted on this topic to date meets the market need, we intend to remove this activity from our plan. Notwithstanding that, we will look for opportunities to promote the research already completed by experts in the field.

Additional comparative research on upzoning is not necessary given recently published research from leading experts that meets the current market need and addresses the gap we identified.

A key example of this research is the work by Christina Stacy and a team of 6 additional researchers at Urban Institute. In 2023, they published an examination of 180 upzoning and downzoning policies implemented in a sample of more than 1,000 municipalities in eight U.S. metropolitan regions. This work found that “reforms that loosen restrictions are associated with a statistically significant 0.8% increase in housing supply within three to nine years of reform passage, accounting for new and existing stock." Further, they find that "[t]his increase occurs predominantly for units at the higher end of the rent price distribution; we find no statistically significant evidence that additional lower-cost units became available or moderated in cost in the years following reforms." See: Land-use reforms and housing costs: Does allowing for increased density lead to greater affordability?

Separately, in her 2024 Columbia University doctoral thesis, Jennifer Davis examines how upzoning unfolds in three different contexts (Austin, TX; Newton, MA; and New York, NY), exploring how local context shapes the extent to which upzoning will reach these objectives. See: Upzoning: Promises, Perils and Possibilities

In addition, in their 2023 paper, Jacob Krimmel and Betty Wang examined the effects of Seattle's upzoning policies combined with affordable housing mandates, offering insights into how such policies can influence housing markets and affordability. See: Upzoning With Strings Attached: Evidence from Seattle's Affordable Housing Mandate"

These papers are examples of the substantial body of research that has grown significantly in the past three years. We feel this work achieves our initially stated goal, and we therefore seek to remove this objective from our plan through a modification.

~~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.~~

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2024

ACTIVITY:

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

OBJECTIVE:

A: Purchase Loans with State and Local Programs

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Freddie Mac is proposing a modification to its 2024 State and Local programs target, reducing it from 46,000 units to 43,100 units. In 2023, Freddie Mac modified its State and Local programs target due to a significant reduction in the size of the multifamily market. Since that time, the Mortgage Bankers Association has further revised downward its estimates of the multifamily originations market for 2023 and now estimates a total of $246 billion in originations for that year, which is approximately half the size of the market in both 2021 and 2022.

Although there is not yet a reliable estimate of market size for 2024, market conditions in the first half of the year closely reflected what we saw in 2023. As a result, Freddie Mac continues to see a constrained market for State and Local programs transactions, and we were slightly behind our 2023 pace in the first half of the year.

Freddie Mac funded 16,609 State and Local units as of Q2 against our 46,000-unit 2024 target. In 2023, we funded 21,470 State and Local units as of the end of Q2. In 2023, we modified our 45,000-unit target to 40,000 and ultimately funded 55,587 units. Without a modification in 2024, based on market conditions, we project that we may only partially complete our objective.

In providing our baseline in the Plan, we noted that on average, we purchased loans supporting 31,095 units with state and local subsidies from 2018 to 2020.

The constrained market in the first half of the year was driven by several market factors, but primarily the interest rate environment. The 10-year Treasury rate in Q2 was 4.44%, which is 207 bps above the 2010-2019 average 10-year Treasury rate. The 10-year rate has also been increasingly volatile in 2024, particularly in April and May when inter-monthly swings were 33 bps and 66 bps, respectively. Another factor affecting the market is property prices, which peaked during the second quarter of 2022 and have since declined -18.7% in the past seven quarters. While higher rates and lower valuations will create some difficulties in completing transactions, the increased volatility in interest rates makes it more challenging for deals to materialize given the uncertainty of both buyers, and sellers as to when rates are going to stabilize. This has led to lower transaction volume in the market, as many participants wait on the sidelines for more certain market conditions.

Given these factors, we believe it is appropriate to modify our State and Local goal for 2024. Our proposed modification increases our target relative to our modified 2023 target as we acknowledge that the rate environment and overall market conditions have improved in the second half of the year. Even so, State and Local transactions take time to bring under application, quote and underwrite. As a result, improving market conditions in the second half of 2024 will not be immediately reflected in our purchase volume.

The proposed modification to 43,100 units is calculated by rounding up from a three-year average (2021-2023) of Freddie Mac's Section 8-unit counts, adjusting 2021 and 2022 to current market conditions as seen in 2023. In 2023, our total unit volume was down approximately -31.8% and -35.5% from 2021 and 2022, respectively. Adjusting unit counts in 2021 and 2022 by the total unit count declines normalizes those years in line with 2023 volumes, allowing us to set a reasonable target for 2024 that closely approximates current market conditions.

	2021	2022	2023	3-Year Average
Total Units	51,174 units	59,816 units	55,750 units	55,580 units
Adjusted Total Units	34,923 units (~68.2% of actual volume)	38,583 (~64.5% of actual volume)	55,750 units	**43,085 units**

Freddie Mac is also making an edit to the objective to clarify that units associated with Public Housing properties undergoing rehabilitation through the Rental Assistance Demonstration (RAD) program or HUD's Section 8 program will be counted against the target only when there are qualifying state and local programs involved with the property beyond the administration of the federal programs by the local public housing authority. This edit responds to new guidance from FHFA.

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

Target	44,000 units	40,000 units	~~46,000~~43,100 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.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2024

ACTIVITY:

8 - Sustainability and Resiliency: Additional Activity

OBJECTIVE:

A - Address Resiliency Through Analysis on Public Incentive Programs/Policies and Loan Offering Development

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

In 2024, Freddie Mac's Duty to Serve Plan indicates that we will publish and market a term sheet that would encourage resilience improvements. The term sheet would explain how borrowers can leverage newly developed climate resiliency standards at multifamily properties through our existing product set. In 2023, we modified this goal to move our product target to 2024 based on delays in the development of an industry-standard for resilience. Into 2024, the development of a standard, which we are engaged in along with ASTM, has continued but is not yet final. As a result, we seek to modify our 2024 product goal to reflect innovations we are able to bring to the market in support of resilience and electrification this year. The modified target will bring forward a product that allows borrowers to leverage 3rd party climate-related subordinate debt tied to newly available federal funds through the Inflation Reduction Act (IRA) and through state and local programs, which were not available when we drafted our targets three years ago.

To date, Freddie Mac's work related to the development of climate resilience standards remains ongoing Throughout the year, Freddie Mac has continued to work with industry stakeholders to refine a resilience scope and created a process to implement this scope, as applicable. Freddie Mac Multifamily is participating in the development of the broader ASTM Standard for Property Resilience Assessment. We already leverage well-established industry standards created by ASTM in the loan origination due diligence process and believe the ASTM resilience standard will be the most viable pathway for a scalable standard that can be broadly adopted by the industry. As a result, we do not intend to publish a resiliency term sheet in 2024 as the work around standard development is still ongoing.

Freddie Mac is looking to maximize the impact of emerging third-party climate-related financing, which we believe can be paired with Freddie Mac debt. Funds from the IRA and through state and local programs, for example, have not yet entered the market at scale, but we are preparing now by updating our credit policy to accommodate third-party debt that supports decarbonization, renewable energy and resilience. This will lay the foundation for use of IRA and state and local funds alongside Freddie Mac's existing product set, helping scale the decarbonization, renewable energy and resilience goals of the legislation.

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,[i] 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.[ii]

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

~~Having~~ Continue efforts to support the development and finalization of ~~identified~~ an industry-wide resilience standard. ~~ds, we will publish these standards in a term sheet that explains how they can be leveraged in applicable loan offerings.~~ ~~To encourage~~Support borrowers' efforts to~~to~~ make resiliency, electrification and other climate-related~~y~~ 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: ~~we will implement climate resiliency standards as applicable through loan products.~~

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. ~~1.~~3. Market ~~standards~~ 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.

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.

Separately, Freddie Mac's efforts to ~~will~~ encourage owners of multifamily properties to leverage the credit parameters it will establish ~~meet the standards, especially~~ will aid~~in~~ 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 ~~resiliency-focused loan standards~~ offerings can lead ~~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.

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[i] https://www.jchs.harvard.edu/blog/more-than-a-third-of-american-households-were-cost-burdened-last-year

[ii] https://nca2018.globalchange.gov/chapter/14