Freddie Mac **Duty to Serve** Proposed Plan

As submitted to FHFA
May 6, 2017

Freddie Mac
We make home possible®

Executive Summary

Since Congress chartered us in 1970, Freddie Mac's mission has been to provide liquidity, stability and affordability to all corners of the U.S. housing market. Supporting affordable housing and access to credit is an integral part of what we do.

In 2008, Congress called on Freddie Mac to provide leadership by developing loan products and flexible underwriting guidelines to serve those families that have been hardest to reach. Working with the Federal Housing Finance Agency (FHFA) under the Duty to Serve rule, we have now been asked to responsibly improve the distribution of investment capital to serve very low-, low- and moderate-income families within three historically underserved markets— manufactured housing, rural housing and affordable housing preservation.

The Duty to Serve rule is an important extension of our efforts to reach more families in underserved markets across the country. These efforts include our work to meet our affordable housing goals and our contributions to national affordable housing funds.

Duty to Serve presents an opportunity—one that Freddie Mac welcomes—to lead the entire mortgage industry in developing effective solutions to some of society's most persistent housing problems.

Our ultimate goal is clear: We look forward to helping more American families with their housing needs.

Our Community Mission

Freddie Mac is committed to undertaking Duty to Serve in the spirit of our broader community mission, which includes our efforts to stabilize communities, prevent foreclosures, responsibly expand credit, educate future borrowers, counsel current borrowers and support affordable rental housing.

During the past several years, our commitment to ensuring sustainable liquidity in support of our community mission has grown deeper. In fact, we are more effectively delivering on it each year with efforts that responsibly increase access to credit for more homebuyers and fund affordable rental housing across the nation.[1].1 For example, Freddie Mac purchased nearly 1.7 million Single-Family home loans in 2016. On the multifamily front, we were the nation's top lender for the second year in a row in 2016, and about 90 percent of our multifamily business supported working families earning at or below 100 percent of their area median income.

Two examples from our Single-Family and Multifamily business areas, respectively, underscore our community mission work:

In 2016, Freddie Mac purchased more than 268,000 mortgages of first-time homebuyers, representing 42 percent of our owner-occupied, purchase money mortgages. We focused our efforts on meeting the needs of first-time and underserved homebuyers through responsible offerings and a heightened focus on broadening access to credit. Additionally, we continue to engage nonprofit organizations, lenders and housing professionals in educational and outreach initiatives designed to inform and prepare homebuyers and homeowners for building and maintaining better credit, making sound financial decisions and understanding the steps to successful long- term homeownership.

In rural areas, manufactured housing communities (MHC) are the prevalent form of affordable and easily accessible housing for many very low- and low-income households. Since starting our MHC program in 2014, we have become one of the top sources of funds. By providing $2.1 billion to MHCs, we are making housing available for more than 53,000 families in more than 265 communities across 31 states. Nearly 20 percent of our MHC loans are made in underserved rural areas. We intend to continue to grow our MHC offering through creative problem-solving that focuses on rural communities while effectively managing associated risks. We hope to provide financing for communities in all 50 states over the next few years.

Our Duty to Serve Underserved Markets Plan reflects a continuation of our efforts to facilitate the financing of housing for very-low-, low- and moderate-income families. Our plan also affirmatively demonstrates that we are focusing our efforts on some of the more difficult to serve areas - where we believe, over time, we can provide liquidity, stability and affordability to these deserving, but underserved, markets. While we acknowledge that there will be challenges to meeting the housing needs of these markets, going forward, we will seek to be even more innovative and creative in our efforts to responsibly increase access to homeownership and quality rental opportunities.

As a result, we are delivering a multi-pronged plan of action. In addition to loan purchases in various segments of these markets, we plan to engage in community and local outreach activities, increase homebuyer education, increase industry technical expertise, develop new offerings, and conduct and publish market research. One of the cornerstones of our plan is our intention to work with the many dedicated organizations that are deeply knowledgeable about these markets. In other words, we will not go it alone; we will leverage partnerships with public, private and governmental entities. We believe that collaboration is a key ingredient to successfully fulfilling Duty to Serve's statutory requirements.

Addressing Challenges in Order to Support Our Duty to Serve Commitment

The focus of Duty to Serve is on underserved markets, or segments thereof, where normal commercial and traditional activities by the government-sponsored enterprises (GSEs) are only partially serving the marketplace today. Increasing our involvement in the many ways specified in the Duty to Serve regulation will lead to a range of activities. Preliminary research indicates that these activities will have an impact that individually ranges from potentially large to probably quite modest, and that the "degree of difficulty" of implementation will similarly range all the way up to quite challenging.

Consequently, as we developed our plan, we took into account a number of such challenges. First, to ensure sustainability and also safety and soundness, we must engage in extensive research and data collection with industry participants and other stakeholders. Second, the business model of the GSEs in conservatorship is now almost totally to securitize loans into the capital markets, as the investments portfolio, which historically permanently held certain mortgage loans, is increasingly unavailable for such a purpose under mandated requirements to reduce it. We, therefore, anticipate working with market participants and the FHFA, especially during the first few years of the plan, to meet the challenge of being able to securitize in the ordinary course of business the loans we will purchase under the Duty to Serve.

Meeting our plan's goals is a top priority. We have been thoughtful and deliberate in selecting the activities we plan to support, and we believe our plan is balanced and reasonable. We are, however, realistic that we and industry stakeholders will learn what is possible, implementable and impactful as we go through the early years of the plan, and so we anticipate being flexible and may modify our plans accordingly in order to better serve borrowers, taxpayers, renters and the markets in general.

Summary of Our Underserved Markets Plan

Manufactured Housing

Our activities and objectives related to manufactured housing will be multi-faceted, supporting manufactured housing titled as real property and as chattel, as well as resident-owned manufactured housing communities. In addition, we will be exploring opportunities for the comprehensive set of tenant protections identified in the Duty to Serve final rule.

While we have programs in place to purchase loans on manufactured homes titled as real property, there is a need for additional resources that include enhanced product offerings, additional homebuyer education specific to manufactured housing titled as real property and technical training for lenders and appraisers to increase financing of manufactured homes titled as real property. Additionally, we plan to address the challenges facing the chattel market by conducting thorough data-gathering and analysis prior to developing and initiating a chattel pilot program. We also intend to focus on standardization and consumer protections in the chattel market.

Rural Housing

The rural areas we will be serving are socially, economically and geographically diverse but they face many similar challenges. In order to support this market, over the next three years, we intend to work directly with appraisers, lenders, nonprofits, housing finance agencies, small financial institutions and title companies by:

- launching research projects,
- enhancing product offerings,
- providing homebuyer education and technical training,
- collaborating with the U.S. Department of Agriculture and the U.S. Department of Housing and Urban

Development,

- re-engaging in the LIHTC equity market, subject to FHFA approval, and
- exploring opportunities in the single-family rental market to increase access to credit, provide liquidity and promote more affordable housing options in rural areas.

In addition to engaging in these proactive activities, our single-family business plans to increase its purchase of mortgage loans in certain high-needs rural regions each Plan year to increase liquidity in these submarkets. Furthermore, our multifamily business intends to develop a product that leverages Low Income Housing Tax Credits equity investment in order to help meet the affordable rental needs of low-income families that are members of Indian tribes in Indian areas as well as agricultural workers in designated rural areas.

Affordable Housing Preservation

Freddie Mac will expand its strong support for affordable housing preservation through loan purchases, new offerings and new partnerships that will channel private capital to the communities that need it most. Our efforts to serve renters are particularly focused on several vital federal programs, such as low-income housing tax credits (LIHTCs), the Section 8 program, Rental Assistance Demonstration (RAD) and Section 515 loans from the U.S. Department of Agriculture (USDA).

We anticipate providing liquidity to small financial institutions that are best positioned to serve their communities. In turn, they will be able to provide more financing to small, unsubsidized, multifamily properties. We also plan to work with them to make inroads in energy-efficient financing. In addition, we plan to focus on shared equity programs that are administered by community land trusts, other nonprofit organizations, or State or local governments. During our outreach and discussions with shared equity program sponsors, we continually heard that shared equity structures are not widely understood by lenders and other market participants; thus, one of our activities will be to increase awareness of such programs.

Conclusion

Freddie Mac strongly believes that “a decent home and a suitable living environment,” in the words of the Housing Act of 1949, is a vital component of strong, healthy and sustainable communities, and a critical gateway to opportunity and family mobility. As housing prices continue to rise, as homebuyer and renter demographics continue to change, and as the supply of affordable single-family and multifamily housing continues to be inadequate to meet the needs of many lower- and moderate-income families, Freddie Mac’s mission becomes ever more important. In spite of—indeed, perhaps because of—the challenges outlined above, continuing to carry out our community mission becomes increasingly vital.

The Duty to Serve final rule builds upon what are already the most comprehensive affordable housing requirements in the financial services industry. The challenges of providing a stable supply of affordable homes are as numerous as they are complex. Among them is the availability and distribution of affordable mortgage financing.

Freddie Mac is proud to take a leadership role in overcoming those challenges and serving these important markets. We will seek experienced partners and pioneering solutions to some of society’s most intractable housing problems. Moreover, in everything we do, we will emphasize responsible lending practices.

We welcome your input on the activities outlined in this plan. Any feedback must be sent to FHFA at https://www.fhfa.gov/duty-to-serve. Copies of your comments may also be sent to www.freddiemac.com/dutytoserve.

Duty to Serve

Underserved Markets Plan
3-Year Activities and Objectives

(By Evaluation Area and Year)

Manufactured Housing

Activities and Objectives	EVALUATION AREA: Loan Purchase	EVALUATION AREA: Loan Product	EVALUATION AREA: Outreach	EVALUATION AREA: Investment	PLAN YEAR: Year 1 (2018)	PLAN YEAR: Year 2 (2019)	PLAN YEAR: Year 3 (2020)
Activity 1 – Manufactured Housing Titled as Real Property: Regulatory Activity							
Objective A: Increase Single-Family Purchase Share of Manufactured Housing Titled as Real Property	✓				✓	✓	✓
Objective B: Complete A Review of Offerings and Underwriting Parameters		✓			✓	✓	✓
Objective C: Increase Homebuyer Education			✓		✓	✓	✓
Objective D: Develop best practices and partner with market participants to address challenges			✓		✓	✓	✓
Activity 2 – Chattel: Regulatory Activity							
Objective A: Research the Chattel Market		✓			✓	✓	
Objective B: Develop Initiative Guidelines for Chattel Pilot and Initiate Pilot		✓				✓	
Objective C: Increase Homebuyer Education			✓			✓	✓
Activity 3 – Manufactured Housing Communities Owned by a Governmental Entity, Nonprofit Organization, or Residents: Regulatory Activity							
Objective A: Promote Understanding of the Resident-Owned Communities Market			✓		✓	✓	
Objective B: Develop A New Offering for Resident-Owned Communities		✓			✓	✓	✓
Objective C: Purchase Resident-Owned Community Loans	✓						✓
Activity 4 – Manufactured Housing Communities with Certain Pad Lease Protections: Regulatory Activity							
Objective A: Conduct Tenant Protection Survey			✓		✓		
Objective B: Develop Pilot Offering for Borrowers That Institute Duty to Serve Tenant Protections		✓				✓	✓

Duty to Serve

Underserved Markets Plan
3-Year Activities and Objectives

(By Evaluation Area and Year)

Rural Housing

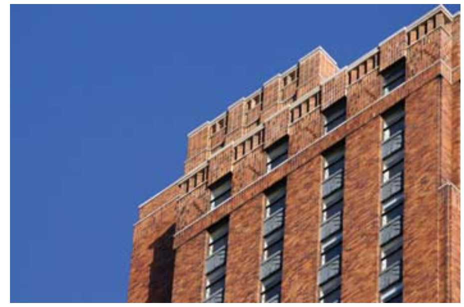
	EVALUATION AREA				PLAN YEAR		
Activities and Objectives	**Loan Purchase**	**Loan Product**	**Outreach**	**Investment**	**Year 1 (2018)**	**Year 2 (2019)**	**Year 3 (2020)**
Activity 1 –High-Needs Rural Regions: Regulatory Activity							
Objective A: Increase Single-Family Purchase Loan Share in High -Needs Rural Regions	✓				✓	✓	✓
Objective B: Complete a Review of Offerings and Underwriting Parameters		✓			✓	✓	✓
Objective C: Increase Future Homebuyer Education and Resources			✓		✓	✓	✓
Objective D: Increase Industry Technical Expertise			✓		✓	✓	✓
Objective E: Develop Means to Provide Capital to Entities That Build or Renovate Affordable Housing Stock		✓			✓	✓	
Objective F: Research Use of LIHTC in Support of High-Needs Rural Regions			✓		✓	✓	
Objective G: Develop A Loan Offering to Work with USDA Section 515 Properties		✓			✓	✓	
Objective H: Purchase Loans on USDA Section 515 Properties	✓						✓
Objective I: Research USDA Programs			✓			✓	✓
Objective J: Develop LIHTC Equity Investment Offering		✓			✓		
Objective K: Engage in LIHTC Equity Investment				✓		✓	✓
Activity 2 – High-Needs Rural Populations: Regulatory Activity							
Objective A: Increase Homebuyer Education and Resources for Members of a Federally Recognized Indian Tribe in Indian Areas			✓			✓	✓
Objective B: Increase Technical Expertise in Indian Areas			✓		✓	✓	✓

Freddie Mac's Duty to Serve Underserved Markets Plan must receive a non-objection from FHFA before becoming effective. The Objectives in the proposed and final Plan may be subject to change based on factors including public input, FHFA comments, compliance with Freddie Mac's Charter Act, safety and soundness considerations, and market or economic conditions

	EVALUATION AREA				PLAN YEAR		
Activities and Objectives	**Loan Purchase**	**Loan Product**	**Outreach**	**Investment**	**Year 1 (2018)**	**Year 2 (2019)**	**Year 3 (2020)**
Objective C: Research Use of LIHTC in Support of High-Needs Rural Populations			✓		✓	✓	
Objective D: Develop LIHTC Equity Investment Offering		✓			✓		
Objective E: Engage in LIHTC Equity Investment				✓		✓	✓
Activity 3 – Financing by Small Financial Institutions of Rural Housing: Regulatory Activity							
Objective A: Increase Rural Purchase Share from Small Financial Institutions	✓				✓	✓	✓
Activity 4 –Small Multifamily Rental Properties in Rural Areas: Regulatory Activity							
Objective A: Develop Rural Mapping Service	✓				✓	✓	
Objective B: Explore Small Balance Loan (SBL) Pilot Offering			✓		✓	✓	
Objective B: Explore Small Balance Loan (SBL) Pilot Offering		✓					✓
Objective C: Develop Offering to Work with USDA Section 515 Properties		✓			✓	✓	
Objective D: Purchase Loans on USDA Section 515 Properties	✓						✓
Objective E: Research USDA Programs			✓			✓	✓
Activity 5 – Single Family Rental (SFR) in Rural Markets: Additional Activity							
Objective A: Research and Develop Pilot Offering That Supports Single Family Rental Housing			✓		✓		
Objective A: Research and Develop Pilot Offering That Supports Single Family Rental Housing		✓				✓	✓

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

Affordable Housing Preservation



	EVALUATION AREA				PLAN YEAR		
Activities and Objectives	**Loan Purchase**	**Loan Product**	**Outreach**	**Investment**	**Year 1 (2018)**	**Year 2 (2019)**	**Year 3 (2020)**
Activity 1 – Low Income Housing Tax Credits (Debt): Statutory Activity							
Objective A: Provide Liquidity and Stability Through LIHTC Loan Purchases	✓				✓	✓	✓
Objective B: Develop an Offering with a More Efficient Origination Path for LIHTC Preservation		✓			✓	✓	
Objective C: Develop an Offering to Close Capital Gaps for LIHTC Transactions		✓			✓	✓	
Activity 2 – Section 8: Statutory Activity							
Objective A: Provide Liquidity and Stability Through Section 8 Loan Purchases	✓				✓	✓	✓
Objective B: Develop an Offering with a More Efficient Origination Path for Section 8 Preservation		✓			✓	✓	
Objective C: Develop an Offering to Close Capital Gaps for Section 8 Transactions		✓			✓	✓	
Activity 3 –HUD Rental Assistance Demonstration Program: Regulatory Activity							
Objective A: Provide Liquidity and Stability Through RAD Loan Purchases	✓				✓	✓	✓
Objective B: Develop a New Offering to Close Capital Gaps for RAD Transactions		✓			✓	✓	
Activity 4 – Section 515: Statutory Activity							
Objective A: Develop a New Offering for USDA Section 515 Preservation		✓			✓	✓	
Objective B: Purchase Loans on USDA 515 Properties	✓						✓
Activity 5 –Financing of Small Multifamily Rental Properties: Regulatory Activity							
Objective A: Develop a New Offering for Small Balance Loan Pool Securitization		✓			✓	✓	

Duty to Serve
AffordableHousingPreservation

	EVALUATION AREA				PLAN YEAR		
Activities and Objectives	**Loan Purchase**	**Loan Product**	**Outreach**	**Investment**	**Year 1 (2018)**	**Year 2 (2019)**	**Year 3 (2020)**
Objective B: Develop a New Offering for Small Balance Loan Pool Credit Enhancement		✓			✓	✓	
Objective C: Develop a New Offering for Small Balance Loan PC Securitization		✓				✓	✓
Objective D: Purchase/Guaranty Seasoned Small Balance Loans from Small Financial Institutions	✓						✓
Activity 6 – Energy or Water Efficiency Improvements on Multifamily Rental Properties: Regulatory Activity							
Objective A: Publish an Annual Study of Energy and Water Efficiency Through the Green Advantage Program			✓		✓	✓	✓
Activity 7 – Energy or Water Efficiency Improvements on Single-Family, First Lien Properties: Regulatory Activity							
Objective A: Provide The Market with Broad Empirical Information About the Impact of Energy Efficiency on Property Values and Loan Performance		✓			✓		
Objective A: Provide The Market with Broad Empirical Information About the Impact of Energy Efficiency on Property Values and Loan Performance			✓			✓	✓
Objective B: Develop Valuation Data Collection Guidelines That Factor in Energy-Efficient Property Features		✓			✓		✓
Objective B: Develop Valuation Data Collection Guidelines That Factor in Energy-Efficient Property Features			✓			✓	
Objective C: Develop Additional Product Flexibilities to Support Energy Efficiency		✓			✓	✓	
Objective D: Develop Loan Purchase Tracking Capabilities		✓			✓		
Activity 8 –Shared Equity Programs for Affordable Housing Preservation: Regulatory Activity							
Objective A: Invest in Research and Development of a Shared Appreciation Funding Model				✓	✓		
Objective B: Increase Market Awareness of Shared Equity Programs			✓		✓	✓	✓
Objective C: Develop Comprehensive Underwriting Guidelines to Facilitate Origination of Loans Under Shared Equity Programs		✓			✓	✓	

Table of Contents

Manufactured Housing

Strategic Priorities Statement

Manufactured housing provides an important source of affordable housing for millions of families. Freddie Mac has consistently provided financing for manufactured homes titled as real estate and is a leading provider of financing for manufactured home communities (MHCs). We look to continue our strong support for these markets, and improve upon that support, particularly as it relates to Duty to Serve. We will do so through thoughtful leadership, leveraging our experience, building new partnerships, and addressing important challenges highlighted in our outreach — such as titling, consumer and tenant protection, servicing and loss mitigation, access to specialized financing, appraisals, lender reluctance to enter the market, and a general need for more robust information.

While we have programs in place to purchase loans on manufactured homes titled as real property, there is a need for additional resources that include enhanced product offerings, additional homebuyer education specific to manufactured housing titled as real property, and technical training for lenders and appraisers to increase financing of manufactured homes titled as real property. Additionally, we plan to address the challenges facing the chattel market by conducting thorough data-gathering and analysis prior to developing and initiating a chattel pilot. We also intend to support standardization and consumer protections in the chattel market.

To provide liquidity to the specific subset of the manufactured housing community market identified in the Duty to Serve regulation, we must develop a broader understanding of the current state and growth potential of the market for manufactured housing communities owned by a governmental entity, nonprofit organization or residents, as well as manufactured housing communities with certain pad lease protections. Today there is a general lack of sufficient data about these communities, which limits our ability to scale offerings, loan purchases and attract additional capital. As we promote a broader understanding of this segment of the market, we also intend to pilot offerings with the potential to help it to grow and seek to purchase loans under these offerings.

Freddie Mac's strategy is intended to respond to the public input we received regarding market needs, while enabling us to make informed decisions about an appropriate level of purchases within the bounds of safety and soundness. We intend to be sensitive at all times to concerns that our activities in this defined subset of the market do not lead to market distortion.

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

1. Support Manufactured Housing titled as real property
    a. Increase future homebuyer access to education and resources;
    b. Increase technical assistance to market participants;
    c. Develop additional product features to further meet the needs of the market; and
    d. Increase purchases of loans secured by manufactured homes titled as real property
2. Support Manufactured Housing titled as personal property
    a. Promote a greater understanding of the market through research;
    b. Develop a chattel pilot offering; and
    c. Develop homebuyer education in support of chattel financing
3. Support the Resident Owned Community market
    a. Promote a greater understanding of the market through research;
    b. Develop a pilot offering to serve the financing needs of ROCs; and
    c. Purchase loans on ROCs
4. Explore opportunities for Duty to Serve qualifying tenant protections;
    a. Conduct and publish a 50 state survey of tenant protections; and
    b. Develop a pilot offering for borrowers who implement qualifying tenant protections

Market Context

Overview

Freddie Mac recognizes that manufactured housing is a critical source of affordable housing, especially in non-metropolitan areas. According to the Corporation for Enterprise Development (CFED), 12 percent of low-income households live in manufactured housing.[2] Manufactured homeowners typically have lower median incomes and overall household net worth than owners of site-built homes.[3] Manufactured housing is prevalent in rural areas, especially in southern and western states.[4] Currently, more than 90 percent of manufactured homes are located in suburban and rural areas.[5] In rural areas, 43 percent of such homes are located in manufactured home communities (MHCs) and 57 percent are located on privately-owned land.[6] In 2010, more than 17 million Americans lived in 6.9 million manufactured homes.[7]

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

Reporting on manufactured housing in the U.S., the Consumer Financial Protection Bureau (CFPB) indicates that chattel financing will typically cost a homeowner more through higher interest rates and shorter loan terms while providing fewer consumer protections.[8] However, the majority of new manufactured home purchasers elect to title them as personal property and rely on chattel financing. According to the Census Bureau, new manufactured housing titled as chattel increased from 67 percent in 2009 to 80 percent in 2015.[9]

Through our research and public outreach, Freddie Mac understands that this disparity is explained by:

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

Many market participants are actively working and investing in the manufactured housing market to provide resources and educate homebuyers about appraisals and borrowing options as well as advancements in manufactured housing construction. However, data from the Home Mortgage Disclosure Act (HMDA) indicates that only five lenders provided over 50 percent of the financing for manufactured homes titled as real property and personal property in 2014 and 2015.

As noted above, close to half of all manufactured homes are located in MHCs. Accordingly, financing these MHCs is also an important part of serving this market. Datacomp/JLT, the authoritative data source for the MHC market, tracks 37,897 MHCs serving people of all ages.[10] Among these, many may not be in a suitable condition to finance in a safe and sound manner due to a number of reasons, including their physical condition, concentration of pre-HUD code homes, sponsorship, and safety issues. In addition, a portion of these MHCs may be too small for the GSEs to finance cost-effectively.

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

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

Geographically, MHCs are heavily concentrated in several states. A quarter of the MHCs are in Florida and California, while 18% are in Michigan, Texas and Arizona. In all, 61% of all MHCs are in 10 states.[11]

Current Freddie Mac Support to Manufactured Housing and MHCs

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

Despite market fluctuations, we remain a purchaser and securitizer of loans for manufactured homes titled as real property. Our manufactured housing program finances loans to very low-, low- and moderate-income borrowers at a higher rate than our overall business.

We currently purchase a variety of manufactured housing residential loans, including fixed-rate mortgages, 7/1 and 10/1 Adjustable Rate Mortgages (ARMs) and our Home Possible mortgages.

In July 2014, Freddie Mac's Multifamily Business launched its MHC program, purchasing its first MHC loan in October of that year. Since starting this program, we have become one of the top sources of funds for MHCs. In total, we have provided $2.1 billion in financing, making housing available for more than 53,000 families in more than 265 MHCs across 31 states, with a sizable portion of our purchases in non-metro and rural areas.

In addition to our existing offerings and efforts to support the manufactured housing market, we formed the Manufactured Housing Industry Taskforce (MHIT) in 2016, and invited industry participants and experts to work with us. The MHIT includes lenders (both originators of homes titled as real property and personal property), housing counseling agencies, representatives of manufactured housing trade organizations, housing finance agencies, builders of manufactured housing, a non-profit that supports development of resident-owned communities, and a manufactured housing community owner. Since its inception, MHIT has been an invaluable resource and we will continue leveraging the combined knowledge and expertise of the group to better understand the market and develop solutions to the challenges identified below.

Challenges and Needs

In Freddie Mac's public outreach, we repeatedly heard concerns from a wide range of market participants about the limited number of active lenders providing loans to manufactured housing buyers. These market participants encouraged us to expand the secondary market in order to bring standardized products that include consumer protections and to provide additional liquidity. From our outreach, including through FHFA's public listening sessions, we have gained a deeper understanding of the current challenges facing this market and the unique needs that must be met in order to serve it successfully.

1. *Limited supply of manufactured homes*

   The production of manufactured housing has significantly declined since its peak in the 1990s. Although it is beginning to rebound, the low volume of new manufactured housing continues to limit market growth. In addition to the low volume of new units, there is also a limited number of units available for resale due to financing issues on older units, title constraints and declining values on chattel-financed homes.

2. *Specialization and limited size of Duty to Serve identified MHC market*

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

   - Communities owned by a nonprofit, government instrumentality, or by the majority of its residents; and
   - Communities that have a combination of specific tenant protections.

   Datacomp/JLT does not currently track the ownership structures of MHCs and there are no other definitive data sources. Based on our outreach, we understand that there are likely no more than 1,000 resident-owned communities, and only a few nonprofits and instrumentalities that operate MHCs. Of these, not all are suitable for financing due to their condition and/or size, with a portion containing fewer than 25 homes and some with fewer than five.

   Moreover, our outreach and research efforts have not revealed any states that require all of the tenant protections identified in the rule, nor have surveys of leases among communities for which we have purchased loans revealed any communities that currently include the full complement of protections. Assuming that approximately 1,000 MHCs are eligible for Duty to Serve credit, that equals roughly 2.5 percent of the total financeable MHC market.

   Communities in this segment of the market generally require specialized financing. This specialization, combined with the very small market size, makes it difficult to attract private capital at scale.

3. *Limited number of manufactured housing lenders*

Due at least in part to relaxed underwriting credit standards and less stringent requirements for supporting loan documentation, the manufactured housing industry experienced a crisis in the late 1990s. The poor quality of the originated loans led to a large number of distressed loans with high rates of delinquencies, defaults and, eventually, repossessions. This led to a collapse in the secondary market for manufactured housing real property loans. Even today, many lenders are reluctant to provide manufactured housing mortgage financing and the secondary market remains constrained.

4. *Appraisals of manufactured housing*

Appraising manufactured housing as real property is a challenge due to the limited amount of comparable data in the multiple listing service used by real estate professionals, the variety of secondary market and lender requirements concerning the comparable property's distance from the subject property, and the timeframe between sales of comparable properties. In addition, appraisal guidelines currently do not account for energy- efficient upgrades, which can lead to under-valuation of the home and over-estimation of the borrower's cost burden. These challenges can impede a borrower's ability to obtain a mortgage loan, which in turn creates an incentive for borrowers to rely on chattel financing.

There are additional challenges when appraising manufactured housing titled as chattel. Although there are no consistent standards, and while lenders may set their own appraisal standards, manufactured housing titled as chattel is typically appraised according to the National Automotive Dealer Association guidelines. These guidelines allow for numerous adjustments, which result in a broad variance of values. The guidelines also do not take location into consideration during valuation, which can lead to higher depreciation rates in comparison to manufactured housing titled as real property.

According to a Consumers Union study, the appreciation rate of manufactured housing financed through mortgage loans is in line with the appreciation rate of site-built housing.[12] In contrast, chattel-financed manufactured housing may depreciate in value.[13]

5. *Titling manufactured housing as real property*

Titling manufactured housing as real property can be challenging for lenders because laws concerning manufactured housing vary by state. State ordinances also vary on converting title from personal property to real property, which may act as a disincentive for borrowers to complete such conversions.

6. *Lack of mortgage financing products*

During our public outreach into manufactured housing finance, participants frequently indicated that the market needed new secondary market offerings, enhancements to existing offerings, flexible underwriting, more purchase volume, pricing adjustments, low closing costs and shorter processing times.

7. *Lack of defined standards, borrower education, and data for analysis*

Many market participants expressed the need for research, technical assistance and best practices for appraising and titling homes, along with loan product assessment and testing to evaluate potential enhancements to underwriting guidelines. In addition, we frequently heard of the need for additional outreach by the GSEs to educate borrowers about both manufactured housing generally and mortgage financing availability.

In addition, the market lacks comprehensive data on chattel financing. The available HMDA information shows that, due at least in part to the limited secondary market for manufactured housing loans, over 70 percent of chattel loans are held in lenders' portfolios, compared to only 16 percent of mortgages on site-built homes.[14] Analysis of the HMDA data is limited as HMDA does not require institutions to distinguish chattel financing versus financing of homes titled as real property.

8. *Lack of private mortgage insurance*

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

Statutory and Regulatory Activities Considered but not Included

Not applicable.

Activities and Objectives

Activity 1 – Manufactured Homes Titled as Real Property: Regulatory Activity

Freddie Mac's strategic approach to increasing liquidity and expanding the distribution of capital in the manufactured housing market includes four objectives targeted to manufactured housing titled as real property. During the Plan Term, Freddie Mac intends to pursue the following objectives:

1. Increase Freddie Mac's purchase of loans secured by manufactured homes titled as real property;
2. Review current primary market loan products to determine how we can better meet the needs of the market;
3. Increase future homebuyer access to education and resources; and
4. Develop best practices and provide technical assistance to the market.

OBJECTIVE A: INCREASE SINGLE-FAMILY PURCHASE LOAN SHARE OF MANUFACTURED HOUSING TITLED AS REAL PROPERTY

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Purchase	1, 2 and 3	Varies	Very Low Income ("VLI"), Low Income ("LI"), and Moderate Income ("MI")

Freddie Mac plans to use a variety of tactics to increase its manufactured housing real property loan purchases, including a significant amount of outreach, investment and technical training, as well as adding new seller/servicers and enhancements to its existing secondary market offerings. We believe that an incremental and strategic approach will allow Freddie Mac to increase its share of manufactured housing loans to reflect more closely the overall market.

Baseline

Table 1 reflects Freddie Mac's share of purchases of manufactured housing as a percent of all Freddie Mac loans funded from 2013 through 2016. As demonstrated below, while there is some volatility in the share and purchase counts of manufactured housing year over year, in general, the trend reflects a diminishing share. Accordingly, it is appropriate to rely on the most recent year's share of loan purchases to establish the baseline for our targets. We are establishing our baseline for performance in these markets as the 2016 share of purchases: 0.32 percent of all Freddie Mac loans funded. The 2016 share of purchases is the baseline for all three years of the Plan Term. However, in the event that there is a material deviation between our 2016 and 2017 market share, we will update our Plan to use 2017 market share as our baseline.

Table 1 Freddie Mac Manufactured Housing (MH) Market Volume and Share[15]				
Year	**2013**	**2014**	**2015**	**2016**
Total Loan Count - All Owner Occupied MH Real Property Purchases	6,575	4,271	4,665	4,647
Share of all Owner Occupied MH Real Property Purchases **(as a percent of all Freddie Mac loans funded)**	0.38%	0.41%	0.34%	0.32%

Target

In Table 2, we are establishing our targets as a percent of all Freddie Mac loans funded using 2016 purchase share as the baseline. Due to the declining trend of purchase share in 2015 and 2016, we intend to maintain our share of purchases using 2016 as the baseline and will gradually increase our share year over year as our activities in the market take root. Beginning in 2019, we will aim to increase our purchase share but continue to use 2016 as the baseline. We believe that because the total loan count has been fairly steady over the last two years in this challenging market, the growth of our purchases in this market relative to our overall purchases is the appropriate metric for setting our targets.

Our purchase targets over the Plan Term are set forth in Table 2. Given the declining trend in our purchase share, we believe that maintenance of our current share will be meaningful to the market in year one, and any increase over that baseline will have a commensurate increasing impact on the market. We have set these targets based on the most current and available data. We propose the following concept scores be applied to the following range of targets for each year of the Plan.

Table 2 – Manufactured Housing - Concept Scores Relative to Targeted Range - Cumulatively			
Concept Score	**2018**	**2019**	**2020**
Target/Score of 30	Maintain 2016 baseline 0% - 1.99%	2% - 3.99%	4% - 5.99%
Score of 40	2% - 4%	4% - 6%	6% - 8%
Score of 50	> 4%	> 6%	> 8%

Freddie Mac's forecast for 2018, relative to 2016, includes higher interest rates, higher consumer prices and a 25 percent[16] decrease in single-family origination volume. Projected volume for the first year of the plan considers that not all activities intended to promote growth will have been implemented.

To increase our loan share, Freddie Mac will initially focus its efforts on supporting experienced real property lenders in the market and work to expand opportunities for financing through training and education. Using 2016 purchase share as a baseline will ensure we realistically grow our share to maintain prior levels and gradually increase our purchase share as we implement activities that we envision would further increase market growth and purchase opportunities.

Market Opportunity and Impact

If we are successful in increasing the share of manufactured housing loans titled as real property that we purchase, we will increase liquidity for lenders to make additional loans in two underserved markets: manufactured housing and rural areas. Because of the relatively small size of the market, any increase in origination volume for loans secured by manufactured housing titled as real property will be significant in terms of market impact and encourage lending and standardization in the market.

OBJECTIVE B: COMPLETE A REVIEW OF OFFERINGS AND UNDERWRITING PARAMETERS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	1, 2 and 3	50	VLI, LI, and MI

During our public outreach, we frequently heard that the manufactured housing market needs additional financing options and underwriting flexibility related to borrower qualification, appraisal guidance, property use restrictions, land ownership designations, and product parameters to further support the expense of siting and installing the home. We also received feedback on the ongoing issue of available comparable sales in the market. In response, Freddie Mac intends to undertake a comprehensive review of our existing product offerings to determine how we can enhance our underwriting parameters to better serve manufactured housing titled as real property.

In addition, because a significant amount of manufactured housing is sited in rural areas, the challenges borrowers face in obtaining financing in rural areas tend to be similar or may overlap with those related to the financing of manufactured homes. Accordingly, where possible we intend to promote further lender standardization by making product changes that lenders can leverage broadly, for both the rural and manufactured housing markets. Based on our review, we will seek to establish additional opportunities for lenders to increase their loan production.

As we look for ways to increase production of loans, we intend to look beyond our existing product offerings. We will collaborate with industry participants to develop new best practices for lenders financing real property, including best practices related to underwriting, certificate of title and appraisal standards. Based on the results of the review and the needs of the market, we intend to make enhancements and underwriting changes consistent with prudent underwriting and safety and soundness.

Specific Actions

Year	Action
2018	▪ Evaluate and assess the barriers of existing program policies in the Seller/Servicer Guide or negotiated terms of business (TOBs) to determine the policies that need to be adjusted and begin adjusting policies, where appropriate, to provide product changes in support of additional appraisal guidance on acceptable manufactured housing collateral and underwriting flexibility related to property use restrictions and land ownership ▪ Conduct research using available manufactured housing property databases to support growth and understanding of manufactured housing collateral valuation performance ▪ Complete assessment of all Freddie Mac manufactured housing and renovation product offerings to determine product changes necessary to support financing for the renovation or replacement of older manufactured homes and submit findings to Freddie Mac management
2019	▪ Conclude research using available manufactured housing property databases to assess impact on valuation methodology. Based on research, determine whether additional valuation capabilities can be provided to lenders. Recommend adjustments to underwriting criteria/model as appropriate. ▪ Provide product changes via the Seller/Servicer Guide or TOBs to lenders to incent conventional financing for efficient siting and installation of a new manufactured home. ▪ Provide additional underwriting flexibilities to support all approved seller/servicer housing finance agencies' financing of manufactured homes. ▪ Provide underwriting flexibilities to lenders for borrowers with prior financial hardships via Loan Product Advisor®. ▪ Work with at least one lender to develop and launch a pilot to address borrowers with non-traditional credit profiles.
2020	▪ Provide additional product flexibility to lenders via the Seller/Servicer Guide or TOBs related to the required borrower funds for closing

Market Opportunity and Impact

Freddie Mac plans to follow a strategic and progressive schedule in conducting its review so that incremental enhancements of product offerings and underwriting guidelines can be efficiently and effectively launched and adopted by the market. We believe the schedule proposed is reasonable given our current strategic focus on manufactured housing and the significant level of effort already underway.

While somewhat dependent on the results of our research and review, we expect that enhancements will cumulatively have a significant impact on manufactured housing titled as real property by providing increased flexibility in underwriting and increased affordability for very low-, low-, and moderate-income borrowers. This objective is designed to address the need we heard for enhancements to our existing offerings, flexible underwriting, pricing adjustments, lower closing costs and shorter processing times. We expect that, if successful, these improvements will also result in increased purchase volume.

OBJECTIVE C: INCREASE HOMEBUYER ACCESS TO EDUCATION AND RESOURCES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Outreach	1, 2 and 3	50	VLI, LI, and MI

During our outreach, we repeatedly heard that the manufactured housing market requires focused homebuyer education to address consumer questions about the unique aspects of manufactured housing, the benefits of an energy-efficient manufactured home, and general homebuyer education. Freddie Mac intends to address this need by developing a more expansive homebuyer education curriculum that specifically addresses manufactured housing, expanding existing outreach activities to a larger geographic area, promoting homeownership with partners through homebuyer fairs and providing a more comprehensive homebuyer education platform that includes credit counseling along with pre-purchase and post-purchase education. Through borrower education, we hope to help manufactured housing consumers build and maintain better credit, and understand the steps to sustainable homeownership.

Freddie Mac strongly supports the benefits of homebuyer education and providing educational tools for consumers. We believe that well-informed and well-prepared homebuyers are more likely to enjoy successful and sustainable homeownership. Freddie Mac has extensive experience with homebuyer education and housing counseling. We provide education and counseling through our 14 Borrower Help Centers and the national Freddie Mac Borrower Help Network.

Freddie Mac also recently partnered with Next Step® and eHome America on a pilot to provide educational information to prospective buyers of manufactured homes in Kentucky, including information about the availability of down payment assistance programs, the benefits of energy-efficient homes and credit rebuilding services via housing counseling agencies. The pilot also aims to expand the number of local lenders who originate energy efficient manufactured homes that are titled as real property.

Freddie Mac plans to expand our outreach beyond the state of Kentucky by partnering with nonprofits, housing finance agencies and community development financial institutions (CDFIs) that provide homebuyer education and credit counseling to grow capacity and serve very low-, low-, and moderate-income homebuyers. We also plan to track education outcomes and use the information obtained to adjust the curriculum in the future. We believe the schedule proposed is reasonable and incorporates sufficient flexibility for us to learn from initial program feedback and make course corrections, if necessary.

Specific Actions

Year	Action
2018	▪ Expand beyond the state of Kentucky, to at least one additional state, our existing homebuyer education pilot that specifically addresses manufactured housing titled as real property and the benefits of energy efficiency by adding at least one additional lender. The target will be to provide education to at least an additional 200 consumers ▪ Provide additional information on Freddie Mac's website to support manufactured housing content for potential homebuyers
2019	▪ Expand to at least one additional state our homebuyer education pilot that specifically addresses manufactured housing titled as real property and the benefits of energy efficiency. We will add at least one additional lender to the pilot. The target will be to provide education to at least an additional 200 consumers ▪ Hold one to two homebuyer fairs that include a discussion of the value and benefits of manufactured housing ▪ Conduct consumer surveys on homebuyer education curriculum at six to twelve Next Steps education training sessions
2020	▪ Expand to at least one additional state our homebuyer education pilot that specifically addresses manufactured housing titled as real property and the benefits of energy efficiency. We will add at least one additional lender to the pilot. The target will be to provide education to at least an additional 200 consumers ▪ Use survey results to adjust homebuyer education curriculum, as applicable ▪ Hold one to two homebuyer fairs that include a discussion of the value and benefits of manufactured housing

Market Opportunity and Impact

This objective addresses the need for information about financing options and homeownership developed specifically for potential manufactured homeowners. It will not be without challenges. We anticipate that some borrowers may require credit rebuilding in addition to pre- and post-purchase counseling. In addition, as we expand the homebuyer education curriculum to additional states, tracking training outcomes will be challenging. However, we believe that a successful education program will have a significant positive impact on manufactured housing titled as real property by increasing the number of mortgage-ready borrowers and educating borrowers on financing options that may be available. Furthermore, the market will be positively affected by the homebuyers' education curriculum that emphasizes manufactured housing, energy efficiency education and the increased availability of education and counseling services. Educating potential borrowers also generally addresses safety and soundness concerns, as we believe that educated borrowers are likely to be more successful homeowners.

OBJECTIVE D: DEVELOP BEST PRACTICES AND PARTNER WITH MARKET PARTICIPANTS TO ADDRESS CHALLENGES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Outreach	1, 2 and 3	50	VLI, LI, and MI

Freddie Mac heard through our public outreach and market research that appraising manufactured housing can be very difficult. In addition, industry participants have expressed a need for training around state law variations in titling requirements and laws around converting personal property to real property. We intend to work with industry leaders to develop best practices addressing both of these areas and work toward standardization. As this work is ongoing, we will provide training to appraisers and lenders to advance the market's understanding of the unique requirements around manufactured home appraisals and titling.

Specific Actions

Year	Action
2018	▪ Conduct outreach quarterly to evaluate and assess the opportunities and barriers to financing manufactured housing titled as real estate to assist with product design and establish best practices. Targeted outreach may include the MHIT, lenders, Freddie Mac Customer Advisory Councils or other applicable market participants ▪ Participate in one to three manufactured housing industry conferences, in order to provide Freddie Mac updates on products, processes and gather market feedback
2019	▪ Continue outreach quarterly and assess the opportunities and barriers to financing manufactured housing titled as real estate to assist with product design and establish best practices. Targeted outreach may include the MHIT, lenders or other applicable market participants ▪ Develop best practices for lenders related to underwriting, appraisal and settlement criteria obtained from outreach activities. Publish summary online by year end ▪ Publish one to two fact sheets on underwriting and product features ▪ Provide ongoing manufactured housing training to lenders on best practices and product features via an on-demand webinar and/or scheduled quarterly webinars ▪ Conduct survey with at least three lenders on the manufactured housing lender curriculum to gather feedback on effectiveness ▪ Participate in one to three manufactured housing industry conferences, in order to provide Freddie Mac updates on products, processes and gather market feedback
2020	▪ Continue outreach quarterly and assess the opportunities and barriers to financing manufactured housing titled as real estate to assist with product design and establish best practices. Targeted outreach may include the MHIT, lenders or other applicable market participants ▪ Continue manufactured housing training to lenders on best practices and product features to lenders via an on-demand webinar and/or scheduled quarterly webinars ▪ Use lender survey results to make any necessary adjustments to manufactured housing lender curriculum by year end ▪ Participate in 1-3 manufactured housing industry conferences, in order to provide Freddie Mac updates on products, processes and gather market feedback

Market Opportunity and Impact

In developing this Objective, Freddie Mac took into consideration public comments related to the technical challenges of appraising and titling manufactured housing as real property. Industry participants consistently identified these issues as two of the top barriers to originating loans for manufactured homes titled as real property. The appraisal community is challenged by low loan volumes, which impede its ability to locate adequate comparable sales. Appraisers also face a lack of sales information and property specifics in the listing services. Additional challenges include state law variations related to titling of units as real property or personal property and converting title from personal property to real property. Given our secondary market presence, Freddie Mac believes that we can gather best practices and share our findings among a wide range of market participants.

The technical training outreach activities will have a substantial impact in the manufactured housing market. If we are successful, this objective will provide the market with standardized best practices that can further encourage lenders to extend conventional financing on manufactured homes and increase the volume of manufactured homes titled as real property. By providing additional support and guidance to industry professionals, they will be better positioned to offer additional services to this underserved market, thereby increasing liquidity.

Activity 2 – Chattel: Regulatory Activity

As discussed above, the manufactured housing industry has seen a continuous and significant increase in chattel financing throughout the last several years. It is unsurprising, then, that we consistently heard a call for GSE support of chattel financing during our outreach. Freddie Mac does not currently purchase loans for manufactured housing titled as personal property. We do not have the requisite systems in place to purchase chattel, nor do we have historical data on chattel loan performance that would allow us to make determinations about whether the purchases of these loans can be made in a safe and sound manner. We appreciate FHFA's efforts to assist us in our information gathering through the Duty to Serve Chattel Pilot Request for Information (RFI). We will review and consider the thoughtful comments received under that RFI as we develop our internal capability to serve this market.

Considering our lack of experience with chattel loans and being mindful of safety and soundness concerns, Freddie Mac intends to take a systematic and incremental approach to review before entering the chattel market. We are firmly committed to understanding this market better and working toward the development of a pilot program to test our findings and to apply what we learn. During the Plan Term, Freddie Mac intends to engage in the following objectives in support of chattel:

1. Engage in research and due diligence on the chattel market;
2. Develop a chattel loan pilot;
3. Initiate a pilot for chattel, subject to receipt of FHFA approval; and
4. Develop homebuyer education related to chattel financing.

OBJECTIVE A: RESEARCH THE CHATTEL MARKET

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	1 and 2	50	VLI, LI, and MI

By partnering with well-established industry participants, Freddie Mac plans to conduct extensive research on the chattel loan market to guide the development of the chattel pilot parameters. Our understanding is that information about the chattel market is currently fragmented and not widely available. With an eye toward future secondary market activity, we plan to focus on gathering information related to performance data, current underwriting parameters, risk offset or credit enhancement options, servicing practices, and consumer protections.

In 2017, Freddie Mac will be issuing an RFI and follow up with a Request for Proposal (RFP) to find a partner, or partners, to provide data and analytical support to assist in the development of our chattel pilot program. The RFI will help us identify the organizations in the marketplace that have the interest and capability to contract with Freddie Mac to develop responsible underwriting parameters and other appropriate requirements for a chattel pilot program based on loan level data and subsequent loan performance. This will allow us to develop sufficient safeguards around any chattel pilot, along with the analytics necessary to track the performance of the chattel loan pilot program. We believe this is a crucial first step. Without this foundational work, we cannot serve the market effectively.

Given the work that will be involved in obtaining and synthesizing data, Freddie Mac intends to expend significant resources to gather and analyze the results of our research. We will also continue to leverage our MHIT to conduct our research.

We expect that we will have garnered sufficient information by year two to develop guidelines for a chattel pilot. Freddie Mac will complete sufficient research to ensure we can enter the chattel market in a safe and sound manner. We intend to continue our research and outreach in year three to refine the pilot program, as appropriate.

Specific Actions

Year	Action
2018	▪ To help inform pilot design and construct, Freddie Mac will conduct research on chattel performance and chattel loan life cycle and complete the initial analysis by year end. Research to include, but not limited to, an evaluation of loan performance, current underwriting models, credit enhancements, loan servicing practices including servicing compensation, disposition activities, pricing and securitization. Memorialize findings in memorandum to Freddie Mac management ▪ Convene the MHIT bi-annually and conduct outreach to other market participants, including two to four lenders, to gather information that can assist with our research of chattel financing and performance
2019	▪ Publish on our website research based on chattel performance and loan practices analysis ▪ Continue market outreach, including convening the MHIT, to obtain feedback on chattel pilot development

Market Opportunity and Impact

As FHFA noted in the Duty to Serve rule, there is a significant lack of information on chattel loans, especially relating to loan performance. The results of our research will inform our next steps, including how a pilot should be structured. Notwithstanding the difficulty involved in starting from a baseline of zero purchases, we believe that one year is a reasonable timeframe to conduct research and start the development of pilot requirements, given Freddie Mac's commitment to better understand this market.

The secondary market for manufactured housing chattel loans is currently very limited. Our success in meeting this objective will have a significant impact on the market. First, we understand that a lack of widely available information is a key challenge. We intend to address this by publishing notable findings from our research. Second, our ability to provide liquidity to this market in a safe and sound manner hinges on gaining a greater understanding of it.

OBJECTIVE B: DEVELOP INITIATIVE GUIDELINES FOR CHATTEL PILOT AND INITIATE CHATTEL PILOT

Evaluation Area	*Year*	*Concept Score*	*Incomes Targeted*
Loan Product	2	50	VLI, LI, and MI

Based on the results of our research and outreach, Freddie Mac will develop the capability for a chattel loan pilot. We intend to launch such a pilot effort in year two of the Plan, subject to FHFA approval. We recognize that the launch date, in year two, may be dependent on whether FHFA determines that the chattel pilot is a "new product."

The parameters for the chattel pilot will depend upon our research and outreach described in Objective A. The scope of the pilot could include purchasing an existing portfolio of loans.

Specific Actions

Year	Action
2019	▪ Complete policy parameters to support chattel pilot program (which could include but is not limited to underwriting, credit enhancements, delivery criteria, documentation, securitization, servicing, and disposition requirements). ▪ Implement chattel pilot with select counterparties; subject to receipt of FHFA approval

Market Opportunity and Impact

Freddie Mac frequently uses pilots to test potential offerings and markets prior to a broad roll-out. In our experience, pilots are an efficient and effective tool that permit us to adjust features quickly on a small scale in response to feedback. There is currently a limited secondary market for chattel-financed manufactured housing loans. The results of a pilot program will have a significant impact on manufactured housing titled as personal property because the pilot can assist in the development of a more robust secondary market. The success of the pilot program – even if it does not result in a significant volume of loans purchased – will be in the form of lessons learned. These lessons will be invaluable as we continue to create solutions to increase liquidity in this market.

Assuming timely regulatory and Conservator approval, we believe the timeframe is reasonable, given the current outreach efforts and Freddie Mac's high level of commitment.

OBJECTIVE C: INCREASE HOMEBUYER ACCESS TO EDUCATION

Evaluation Area	*Year*	*Concept Score*	*Incomes Targeted*
Outreach	2 and 3	50	VLI, LI, and MI

If Freddie Mac's research supports the development of a pilot program, we plan to develop a homebuyer education curriculum that emphasizes the benefits of manufactured housing, including a discussion on chattel financing that is focused on the underwriting parameters of Freddie Mac's Chattel Pilot. The objective will target the manufactured housing market titled as personal property. The goal of this objective is to expand on our existing homebuyer education curriculum to focus on pre-purchase education that delves into the unique characteristics of chattel-financed manufactured housing loans along with the benefits of purchasing energy-efficient manufactured homes.

Specific Actions

Year	Action
2019	▪ Expand our homebuyer education pilot that showcases the benefits of manufactured housing and energy efficiency to include chattel financing by year end in the states where the curriculum has been implemented ▪ Conduct consumer surveys on homebuyer education curriculum at two to four training sessions
2020	▪ Continue homebuyer education, including chattel lending and energy efficiency. ▪ Conduct consumer surveys on homebuyer education curriculum at two to four training sessions. Use survey results to inform future changes to the curriculum and counseling efforts

Market Opportunity and Impact

Freddie Mac has extensive experience with education; our successful CreditSmart program is available in five languages and has been taught for over 15 years. In addition, Freddie Mac has successfully opened 14 Borrower Help Centers to provide credit counseling and homebuyer education. We intend to leverage our experience and solicit feedback from industry leaders on effective content for a homebuyer education program and the hurdles manufactured home buyers face. We also plan to track training outcomes and use the information obtained to adjust the program in the future.

This objective addresses potential manufactured homeowners' need for information on financing options and homeownership. Unlike other homebuyer education programs we have developed in the past, this program will be focused on chattel financing along with the benefits of purchasing energy-efficient units. Accordingly, development of the curriculum will require research and time.

Activity 3 - Manufactured Housing Communities Owned by a Governmental Entity, Nonprofit Organization, or Residents: Regulatory Activity

Among communities owned by governmental entities, nonprofits, or residents, the clear interest based on our outreach is to focus our efforts in support of resident-owned communities (ROCs). During this three-year plan, we intend to support ROCs, although we will continue to monitor needs and opportunities for communities owned by governmental entities or nonprofits. ROCs are typically created when investor-owned MHCs are bought by their residents. Although there are no formal data tracking the incidence of conversions from investor-owned to ROCs across the entire market, our outreach to lenders suggests that perhaps up to 25 communities are converted each year. We have also learned that there are some communities being sold back to traditional MHC sponsors/investors, although the exact numbers are not known.

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

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

Although many MHCs are sold annually (the exact number of which is unclear), these seven factors presumably align in only a small minority of these cases. Additionally, state policy can have an effect on the conversion to resident ownership. According to CFED, only 10 states currently encourage resident ownership through pre-sale notices or tax incentives.[17] While there are rough estimates of the size of the ROC, nonprofit and instrumentality-owned MHC market, there is not a clear and uniform definition of a ROC, nor is there a universal set of standards for community governance models. In order to provide liquidity to the ROC market and develop a sustainable, replicable infrastructure, we must first more fully understand the market's needs, challenges and opportunities. We will then promote that understanding along two separate but equally necessary paths: to the residents so they have a greater understanding of their opportunities; and to the market as a whole, in order to attract additional private capital support. Simultaneously, we will seek to develop and test new loan offerings in support of ROCs, building towards loan purchases.

Ultimately, we intend to address the challenges and needs of the ROC market during the Plan Term through the following objectives:

1. Promote understanding of the ROC market;
2. Develop a new offering for ROCs; and
3. Purchase ROC loans.

OBJECTIVE A: PROMOTE UNDERSTANDING OF THE RESIDENT-OWNED COMMUNITIES MARKET

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Outreach	1 and 2	50	Affordable[18]

To begin understanding the scope and variety of MHC ownership structures, Freddie Mac will commission data-gathering across the known MHC market. This will enable us to define the size of the MHC market generally and better understand what is needed to help it grow. In year two of the Plan, we will publish a report summarizing these findings, in which we will identify best practices and standards around which the market can scale and attract further capital. Based on the utility of these findings and the lessons we learn from our first survey, we will assess how we might improve the survey and/or report in order to best benefit the market. We will look to continue this survey on an annual basis. In both the data gathering and analysis, we plan to work with leading industry partners.

Specific Actions

Year	**Action**
2018	▪ Commission research on ROC market size, ownership structures of MHCs and market needs. This includes designing a survey to be completed by MHCs and analyzing survey results
2019	▪ Publish report on survey results and begin to identify best practices

Market Opportunity and Impact

As we understand it today, the market for ROCs is limited, and there is no comprehensive and broad view of the existing variety of ROCs, their governing structures, and their unique financing and technical assistance requirements that need to be met for increased market participation. Developing such a comprehensive understanding is particularly challenging because the data sources are limited and obtaining foundational data will require surveying the breadth of MHCs.
Our research and analysis, and the publication of what we learn, will have a meaningful impact on this market. It will result in a broader understanding of the market; set a foundation for attracting more capital into the market; and help bring standards and more technical assistance to these communities. It will also help us and the market generally to leverage or create innovative financing models for ROCs. Each of these is fundamental to providing long-term liquidity to the ROC market in a safe and sound manner.

OBJECTIVE B: DEVELOP A NEW OFFERING FOR RESIDENT-OWNED COMMUNITIES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1, 2 and 3	50	Affordable

As discussed above, Freddie Mac frequently uses pilots to learn about markets prior to a broad roll-out. In our experience, pilots are an efficient and effective tool that permits us to adjust features quickly on a small scale in response to feedback. Accordingly, in year one of our Plan, we intend to work with ROC industry partners to best understand their needs and challenges in order to develop a pilot offering with guidelines that will specifically work for these communities. In year two of our Plan, we intend to continue to refine the offering and pursue pilot transactions. In year three of our Plan, we will publish the findings from our pilot and, depending on the results, seek industry guidance on what is required for this market to develop.

Specific Action

Year	Action
2018	▪ Publish a product term sheet for pilot product and distribute to one or more lenders engaged in the pilot ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Borrower and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization ▪ Engage one or more lenders to test and refine the pilot offering, which may include loan purchases
2019	▪ Engage in pilot transactions based on the published term sheet. Update term sheet based on pilot transactions and market acceptance of the product ▪ Ensure that updated term sheet covers most common transaction challenges during the pilot while allowing for transaction customization as needed based on market and borrower
2020	▪ Publish lessons learned from our pilot and, depending on the results, seek guidance on what is required for this market to develop

Market Opportunity and Impact

Today, financing for ROCs is generally provided by CDFIs or banks using specialized products. These loans have limited secondary market outlets, which is one of many factors contributing to the relatively small size of this market. Although we have completed what we believe to be the only two ROC transactions performed by a GSE, we have done so on a case-by-case basis, leveraging current policies. As a result, we have learned first-hand the challenges of financing ROCs.

These lessons will help inform our development efforts. We believe our timeline for this Objective is reasonable given our experience with ROCs to date, the needs of the market, and the potential for refinement over time, and the benefit of sharing our experience with the market generally.

Developing an offering specific to ROCs will be a critical step in providing tailored financing solutions to this market that can be replicated. This is a very difficult task given the following factors:

- The limited number of ROCs;
- The specialized nature of the financing required;
- The need for technical assistance to both form the properly structured ownership organization and operate the property over the long term; and
- The need for sufficient equity or equity-like financing to enable lending to be done in a safe and sound manner.

We believe this offering has the potential to both provide an outlet for current ROC financing providers and establish standards to enable other MHC financing providers, such as Freddie Mac's existing Multifamily seller/servicers, to enter and further develop this market.

The volume under such an offering is likely to be minimal in the near and mid-term relative to the total MHC market and is directly related to the availability of technical assistance to the borrowers from industry experts. However, we believe that the opportunity it creates has the potential for significant long-term benefit for ROCs.

OBJECTIVE C: PURCHASE RESIDENT-OWNED COMMUNITY LOANS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Purchase	3	Varies	Affordable

As a result of our ROC offering described above and study in years one and two of this plan, we intend to measure ROC loan purchases in year three.

Baseline

We have purchased two ROC loans since the inception of our MHC program in 2014 for a total of approximately $5.4 million. To our knowledge, we are the only GSE to have purchased ROC loans.

Target

The ROC market, as described above, is relatively small, with perhaps up to 25 conversions per year. Additionally, there are other secondary market capital providers today in the form of life insurance companies and mission-driven banks, though their participation is somewhat limited. Therefore, we believe that supporting roughly 10 percent of this market, translated as the lesser of two transactions or $5 million, is a meaningful impact in our first year of deliberate ROC loan purchases, and we will make this our target. We believe this target warrants a concept score of 30. If we are able to exceed this target, we propose that our concept scores should increase as follows:

Year	2020
Target/Concept Score of 30	The lesser of two transactions or $5 million
Concept Score of 40	The lesser of three transactions or $7.5 million
Concept Score of 50	The lesser of four transactions or $10 million

As we gain experience in the ROC market, we may revise these targets, if appropriate, given market conditions and the results of our pilot efforts described above.

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

During the public listening sessions and consistently throughout our outreach, we have heard from advocacy groups that tenant protections are key to creating a stable tenant base which, in turn, creates stability in the market.

In 2015, Freddie Mac commissioned a study of state tenant protections laws in the top 11 states in which we purchase MHC loans.[19] This study reviewed both laws specifically related to MHCs and laws generally applicable to tenant protections. The resulting data revealed that none of these 11 states has the necessary combination of tenant protections for eligibility under the Duty to Serve regulation.

We also reviewed a representative sample of leases from our top 10 MHC owner/operators whose properties contain the most home sites. In the course of our review, we did not discover the requisite combination of tenant protections. Accordingly, we believe it is unlikely that an active market of properties with these tenant protections currently exists.

We intend to work to provide a broader market understanding of the gaps between what the market currently offers for tenant protections and what is identified in the Duty to Serve regulation, and explore ways that that gap may be closed over time through the following objectives:

1. Conduct a 50-state tenant protection survey, and
2. Develop a pilot offering for borrowers that institute Duty to Serve tenant protections.

OBJECTIVE A: CONDUCT TENANT PROTECTION SURVEY

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Outreach	1	50	Affordable

In year one of our plan, we intend to commission a 50-state survey of state MHC tenant protection laws. This is a natural progression of the work that we began in anticipation of the Duty to Serve regulation. As a service to the market, and to encourage awareness, we will publish a report summarizing state-by-state tenant protections laws and the gaps between those laws and the Duty to Serve regulation's tenant protections.

Specific Actions

Year	Actions
2018	▪ Conduct 50-state survey and publish results ▪ Study will identify gaps between state tenant protections and Duty to Serve tenant protections

Market Opportunity and Impact

Based on our research to date, we have not found evidence of a market for the full suite of Duty to Serve-compliant tenant protections. Additionally, we do not have a broad understanding of the gaps between current tenant protections in the states and those identified in the Duty to Serve regulation.

We believe that expanding the scope of our recently-completed 11-state survey to cover all 50 states is an important first step in developing and growing the market for MHCs with Duty to Serve tenant protections. Publishing the results of our survey will give borrowers, states and the general public a better sense of the protections that are offered and those that need to be implemented in order to meet the full complement recommended through the Duty to Serve regulation. Armed with the results of our survey, we believe that borrowers and states will be better positioned to close the gap in protections, which will enable the formation of a market form MHCs with Duty to Serve tenant protections over time.

OBJECTIVE B: DEVELOP PILOT OFFERING FOR BORROWERS THAT INSTITUTE DUTY TO SERVE TENANT PROTECTIONS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	2 and 3	50	Affordable

Freddie Mac will work with industry experts and MHC owners to develop a pilot offering that recognizes borrowers who adopt the full complement of Duty to Serve-compliant tenant protections through state law, voluntary adjustments to their leases, or a combination of both. The development of the pilot's terms will be largely dependent upon the results of our 50-state survey and our work with industry experts and MHC owners. We also plan to publish lessons learned from our pilot and, depending on these results, seek market guidance on what is required for this market to develop.

Specific Actions

Year	**Action**
2019	▪ Publish a term sheet for a pilot offering that recognizes borrowers who adopt the full complement of Duty to Serve -compliant tenant protections through state law, voluntary adjustments to their leases or a combination of the two, and distribute to one or more lenders engaged in the pilot ▪ Publish a product term sheet and internal policy guidelines for a pilot offering Term sheet will contain at least the following elements: ▪ Product overview and loan purpose ▪ Borrower and/or property eligibility requirements ▪ Loan-to-Value limits ▪ Debt Coverage limits ▪ Allowable lengths of loan term ▪ Allowable lengths of amortization ▪ Engage one or more lenders to test and refine the pilot offering, which may include loan purchases
2020	▪ Publish lessons learned from our pilot and, depending on these results, seek market guidance on what is required for this market to develop

Market Opportunity and Impact

Once we complete the 50-state survey of tenant protections discussed above, we will have a better understanding of the gap between current market practice and the market potential for Duty to Serve-compliant tenant protections.
In order to determine market interest and potential, we believe it would be beneficial to test market appetite with a pilot offering to recognize borrowers who adopt all Duty to Serve-compliant tenant protections. This pilot is a foundational activity that we believe is required in order to advance the future development and growth of a market that adopts these tenant protections over time. If we are correct that a market for MHCs with the full complement of Duty to Serve-compliant tenant protections does not yet exist, the development of a pilot offering will have a meaningful impact on this market. Success will be in the form of the lessons learned and shared with the market, not necessarily in resulting purchases.

Strategic Priorities Statement

Affordable rural housing is essential to the stability, economic development and viability of rural communities. Through outreach and the FHFA Duty to Serve public listening sessions, Freddie Mac understands that significant challenges exist to supporting affordable rural housing. We repeatedly heard about limited access to financial services, challenging appraisals, poor infrastructure, overcrowding, a prevalence of sub-standard housing, and higher than average poverty rates. Almost by definition, there is limited demand for multifamily housing in areas of deconcentrated populations where renters are more often served by single-family rental properties.

While the challenges are great and important to understand, we see opportunities to provide liquidity and capital for very low-, low-, and moderate-income households in rural areas over time. Our approach will include significant efforts to increase our understanding of the market, align with experienced strategic partners to increase our impact, leverage technical expertise from industry participants, provide well-researched product enhancements to meet the needs of the market in a safe and sound manner, and maintain or increase the share of quality loans we purchase. Freddie Mac will approach the challenges through both single-family and multifamily initiatives.

Our outreach also underscored that private stakeholders' and federal agencies' interests frequently align with Freddie Mac's strategic priorities in the rural market. We believe partnerships with these entities will allow us to better implement products and services that will be beneficial to this market. Strengthening these partnerships will not only help the market coalesce around a common definition of rural housing, but will also likely result in financing options that will help maintain housing affordability in these areas. Finally, we see opportunities to engage in Low-Income Housing Tax Credit (LIHTC) equity investments, which will allow us to further invest in areas where debt is not the prevalent source of financing, and explore the single-family rental market to improve affordable housing options for rural renters.

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

1. Expand our research to better understand the rural market as defined by FHFA and enrich the national conversation by sharing information about the opportunities and underlying challenges involved in supporting the housing needs of rural communities nationwide;
2. Increase our outreach to provide comprehensive homebuyer education to consumers and technical training for industry professionals;
3. Increase financing for both rural homebuyers and rental housing developers;
4. Collaborate with the USDA to provide third-party financing for various programs;
5. Re-engage in the LIHTC equity market; and
6. Explore opportunities to support the single-family rental market.

Freddie Mac's strategy is to be responsive to market needs, while remaining mindful of the appropriate levels of purchases and investments to ensure safety and soundness.

Market Context

Overview

Today, “rural areas” encompass over 90 percent of the country’s landmass, but they are home to less than a quarter of the population.[20] While rural areas are socially, economically and geographically diverse, they face many common challenges. In many rural areas, industries that historically drove the economy — including manufacturing, timber and agriculture — are shrinking. The population is aging as the younger generation leaves in search of job opportunities.[21] As a result, rural areas have disproportionately high rates of unemployment, under-employment and poverty.

According to the 2010 U.S. Census, 42 percent of homes in rural areas were owned “free and clear” versus only 27 percent in urban and suburban areas.[22] This may be in part because homes are less expensive overall[23] or because older populations may have had more time to pay off prior mortgages or transfer equity from another property. However, there remains an overall need to provide affordable housing due, in part, to poor economic conditions. This, in turn, can lead to borrowers with poor credit histories who lack available assets for down payments.[24]

There are approximately 7.1 million renter-occupied units in rural communities, comprising 28.4 percent of the rural and small town housing stock. The physical composition of rural rental housing differs from rental characteristics nationally. Rural renters are most likely to live in single-family homes or in small multifamily structures rather than large buildings or apartment complexes. Among rural renters, 49 percent live in one-unit, single-family rental homes, while 17 percent live in 2-4 unit rentals, 16 percent in 5-49 unit multifamily properties, and 3 percent in 50 or more unit properties. The remainder live in manufactured housing rental units.[25] Quick facts about the high-needs rural regions are listed in the Table below.[26]

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

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

Middle Appalachia Region

The Middle Appalachia region includes 238 counties in Kentucky, North Carolina, Ohio, Tennessee, Virginia and West Virginia. This region is rich in natural resources; it has relied on coal mining and timber for employment for over a century.[27] This has recently shifted, and the main industries are now education and health care.[28] In this region, it is not uncommon for families to live on land that has been in the family for generations.[29] Manufactured housing is very common, but the units may be old and in substandard condition.[30]

The Middle Appalachian region’s total population is less than nine million, with a majority (55 percent) living in rural areas.[31] Like many other rural areas, Middle Appalachia is experiencing an aging population and an exodus by the younger workforce. Although a high percentage (73 percent) of households own their homes compared to the national average, the value of the homes is low.[32] Persistently low property values have impeded household asset accumulation.

Lower Mississippi Delta Region

The Lower Mississippi Delta region includes 219 counties in parts of Mississippi, Louisiana, Arkansas, Tennessee, Kentucky and Illinois. The region encompasses a 200-mile plain that includes over 90,000 miles of rivers and streams and has some of the richest soil in the country. Notwithstanding its richness in natural resources, the region is home to some of the poorest populations in the country.[33] Its residents have suffered through devastating natural and man-made disasters, including three hurricanes since the mid-2000s and the Gulf of Mexico oil spill in 2010, which have caused massive property destruction and stalled segments of the economy.

The Lower Mississippi Delta region has a population of slightly less than nine million, with more than half of the residents living in rural areas. According to the 2010 U.S. Census, the population only grew by one percent from 2000 to 2010. This region also experiences a large degree of out-migration, with the younger workforce moving to the urban centers for job opportunities. In the rural areas of the region, just over 75 percent of residents have a high school diploma and only a little over 14 percent have a bachelor's degree or higher; a lack of education reduces the opportunities for people to obtain higher-paying jobs. Homeownership rates in this region are high (70.9 percent), and ownership is sought after as a means of stability, investment and asset accumulation.

Colonias

Colonias are located in parts of Arizona, California, New Mexico and Texas along the U.S.-Mexico border.[34] The U.S. Department of Housing and Urban Development (HUD) has designated 86 colonias in Arizona; 1,800 in Texas; 142 in New Mexico; and 15 in California. Although these colonias are classified as one group, they have significant differences both socially and economically. They vary widely in size, population, infrastructure and housing quality. Some colonias have as few as 40 lots while others have more than 300 lots. However, many share a lack of basic infrastructure, such as potable water and sewage systems.

Colonias residents often live in substandard housing.[35] They continue to live there for a multitude of reasons, including a desire to remain close to relatives, the security of a familiar culture and limited ability to move into other areas of the country. Many of these communities developed because housing was not provided by the agriculture industry that hired residents as seasonal and migrant workers.[36] In addition, land owners in Texas were historically given the legal right to split plots of land into smaller lots without providing the infrastructure to support housing.[37]

Approximately 1.7 million people live in the rural border colonias. The majority of the population is foreign-born residents and nearly two-thirds of the adults are U.S. citizens.[38] The residents typically work in manufacturing, government and agricultural jobs outside of the colonias.

A significant portion of residents in colonias have historically been subjected to predatory contract-for-deed (CFDs) arrangements. Under this type of contract, the borrower pays a developer directly for housing but, unlike with a mortgage, the title to the property is not placed in the borrower's name until the entire contract price is paid in full. The CFD industry has historically been rife with abuse. The contracts typically have high interest rates, allow for foreclosure with one late payment and are not recorded in the land records, leaving borrowers with few remedies in case of default. In 1995, Texas passed the Colonia Fair Land Sales Act, which required deeds to be recorded. Since its passage, the majority of developers use a recorded deed with a prescribed foreclosure process. However, approximately 6,500 unrecorded CFDs remain, according to an estimate.[39] The total number of CFDs, including both recorded and unrecorded deeds, is still extremely high due to the difficulty of converting CFDs to regular deeds. As a result, clouded deeds may be a challenge to providing secondary market financing in the colonias.

Federally Recognized Indian Tribe Populations

There are 337 federally-recognized Native American tribes primarily located in the Southwest and the Plains, and 229 federally-recognized Alaskan native villages. There are approximately 326 Native American reservations. Historically, there were approximately 1,000 Native American tribes living on more than two billion acres.[40] These populations have declined significantly, and as of 1997, only 54 million acres remain under tribal control. There are currently over two million persons who identify as Native American, but only 23 percent live on Native American lands.[41] Each tribe has a unique culture and history, which makes generalizing about this market difficult. However, through the Housing Assistance

Council's (HAC) research, we have learned that Native American tribes living in rural areas generally face substandard housing, lower education levels and persistent poverty.

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

As in other rural areas, there is a larger percentage of owner-occupied housing; approximately 70 percent of homes in Indian areas are owner-occupied. The majority are single-family homes, including manufactured homes. According to the National Congress of American Indians, up to 40 percent of housing located on reservations is considered substandard, and up to one-third is considered overcrowded due to high levels of poverty and the lack of affordable rental housing. In addition, less than half are connected to a public sewage system.[42]

Agricultural Worker Population

The agricultural industry in the U.S. is a multibillion dollar industry that requires more than two million farmworkers annually to harvest crops.[43] Agricultural workers are considered a high-needs population due to evidence of persistently lower income levels and higher rates of residence in substandard housing. Its 25 percent poverty rate is almost twice the national average of 13.4 percent.[44]

Agricultural workers often rely on seasonal or temporary work, requiring them to move from location to location to maintain employment, which can make owning a home impractical. While agricultural workers today move less often than in past decades, many continue to live in poverty.[45] Given their reliance on short-term employment, as well as employment instability and low wages, agricultural workers are frequently renters instead of homeowners.

Freddie Mac Current Support

Freddie Mac offers a variety of loan products that support rural borrowers. Freddie Mac's Home Possible Advantage program provides flexible underwriting and low down payment requirements, and allows borrowers to obtain their down payment funds from a variety of sources. In addition, Home Possible Advantage can be combined with a USDA Section 502 single-family leveraged second loan, which can be beneficial to rural households. This program provides assistance with down payments and permits total loan-to-value ratios up to 105 percent. Additionally, we recently offered guidance to assist with rural property valuations. We recognize, however, that more work remains to be done.

In addition to single-family loan products, Freddie Mac has loan products that are designed for multifamily borrowers as well. However, our multifamily presence in rural areas has historically been limited. Our ability to serve rural areas is constrained by the lack of commercial properties to finance, as well as a lack of data on the specific needs of borrowers in this market and programs to support. Even so, Freddie Mac has increased our activities in rural markets over the past several years consistent with our community mission and beyond the scope of Duty to Serve. From 2014-2016, we provided $2.6 billion of financing in support of more than 47,000 households living in more than 365 properties in rural areas.[46] During that period, we roughly doubled our annual purchase activity. We believe that the objectives detailed below will provide the specialized loan products and investment necessary to more effectively support rural markets effectively.

Challenges and Needs

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

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

1. *Lack of Affordable Housing and High Cost Burdens*

   Households in rural areas experience a high housing "cost burden," which is defined as housing costs that exceed 30 percent of a family's income. This is one of the most significant barriers to homeownership.[47] Our outreach suggests that this may be due to a combination of four factors: low employment; poor economic conditions that can lead to weaker credit; lack of housing stock due to construction costs; and lack of access to financial services. Many rural areas do not have adequate access to financial services because they are often very remote and have low populations. The comments we received suggested the lack of financial services leads to higher borrowing costs and higher interest rates. Additionally, a significant portion of the population may have poor credit and a higher percentage of owners have high-cost loans in comparison to non-rural areas. High-cost loans result in decreased asset accumulation, higher default rates, and an increased cost burden of ownership.

2. *Persistent Poverty*

   Approximately 16.3 percent of the rural population lives in poverty.[48] As of 2016, there are currently 353 counties in the United States seen as having persistent poverty; 85 percent of these are located outside metropolitan areas.[49] In 2012, while the national median household income was $51,914, the rural median household income was $41,962; 30 percent of rural household incomes are below $25,000.[50] According to the Duty to Serve rule, a county has persistent poverty if 20 percent or more of its population has been living in poverty for the past 30 years.

3. *Substandard/Overcrowded Housing*

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

4. *Declining Employment*

   The unemployment rate is higher in rural areas than the national average.[51] The limited growth of traditional rural industries — manufacturing, timber and agriculture — have led to limited employment opportunities. An inconsistent employment history may make it difficult or impossible to access credit.

5. *Lack of Access to Lenders*

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

6. *Appraisals*

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

7. *Proposed Federal Budget Cuts*

   Recent federal budget proposals include significantly reduced funding for existing programs offered by the USDA and the Department of Treasury that support affordable housing. If approved, these cuts could hinder some of our activities and partnerships.

Additional Challenges Facing Middle Appalachia and Lower Mississippi Delta

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

Additional Challenges Facing Colonias

Colonias continue to make basic infrastructure improvements and build better quality housing; however, a significant amount of work still needs to be done to address the challenges faced by the residents of these communities. The level of education in the colonias lags behind the national average; only 75 percent of residents graduated from high school versus 84 percent nationally. This lowers their opportunities to secure higher-paying jobs and could decrease the possibility of obtaining a mortgage. Additionally, a significant portion of the population has limited English proficiency and limited access to financial services. In addition, the poverty rate is high; 23.8 percent live below the poverty line. Eight counties in Texas are among the poorest counties in the country.[52] This region also experiences housing-related issues due to the limited presence of financial services, home overcrowding and high housing cost burdens. A large percentage of households pay more than 30 percent of their income towards housing costs.

Additional Challenges Facing Native American Populations

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

Access to financial services is especially critical for this population, as only 145 communities have financial institutions. Moreover, only 50 percent of the population can easily access ATMs and six percent have to travel more than 100 miles to reach a bank.[53]

Additional Challenges Facing Agricultural Workers

Agricultural workers face many challenges common to rural areas generally and experience hardships including poverty, substandard housing, lower educational levels and overcrowding. A critical challenge in creating liquidity for the mortgage market for agricultural workers is that data on the population are scarce. Furthermore, although agricultural workers currently are less mobile than they have been historically and may be more likely to stay in one area for longer periods of time, they remain more likely to rent rather than own. As we discussed above, there is limited rental housing in rural areas.

Statutory & Regulatory Activities Considered but not Included

Not applicable.

Activities and Objectives

Activity 1 – High-Needs Rural Regions: Regulatory Activity

The high-needs rural regions include Middle Appalachia, the Lower Mississippi Delta, colonias and rural tracts located in persistent poverty counties, but not included in one of these other three categories. These regions are diverse in their landscapes as well as the economies that support them and their residents. As discussed in more detail above, they share common challenges, notwithstanding their unique characteristics.

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

1. Increase single-family purchase volume in high-needs rural regions;
2. Review loan products and underwriting parameters;
3. Increase future homebuyer access to education and resources;
4. Increase technical expertise for lenders and appraisers on product guidelines and acceptable collateral in the market;

5. Develop means to provide capital to entities that build or renovate affordable housing stock, subject to compliance with Freddie Mac's Charter Act;
6. Research of the use of LIHTC;
7. Develop a LIHTC equity investment offering;
8. Engage in LIHTC equity investment, subject to receipt of FHFA approval; and
9. Partner with the USDA to:
   a. Develop a loan product focused on preservation of USDA Section 515 loans;
   b. Purchase mortgages on properties with USDA Section 515 subordinate debt; and
   c. Research possible support for additional third party financing opportunities with USDA loan programs.

OBJECTIVE A: INCREASE SINGLE-FAMILY PURCHASE LOAN SHARE IN HIGH-NEEDS RURAL REGIONS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Purchase	1, 2 and 3	Varies	VLI, LI, and MI

Freddie Mac intends to increase its purchase of single-family mortgage loans in certain high-needs rural regions each Plan year to increase liquidity in these markets. For purposes of this Objective, we are focusing specifically on the following high-needs rural regions: (i) persistent poverty counties; (ii) the Lower Mississippi Delta, (iii) Middle Appalachia; and (iv) colonias in the following Texas counties: El Paso, Cameron, Hidalgo, Starr, Webb and Maverick. We will focus our efforts to increase purchase volume in colonias in the state of Texas, as it has both the largest number of colonias and the largest relative colonia population. This combination increases the likelihood that our activities will have impact and yield purchase volume.[54] We have limited the target areas in the colonias for this Objective in order to ensure that we can appropriately deploy resources to support our plans. Over time, we intend to extend our efforts to additional colonias in other states.

Baseline

Table 1 reflects our share of purchases as a percent of all Freddie Mac loans funded in the above-described high-needs rural regions from 2013 to 2016. As demonstrated, even as loan purchase volume increased in the most recent three years, our loan share of these high-needs rural regions generally declined. Accordingly, it is appropriate to rely on the most recent year's share of loan purchases as the baseline for our targets. We are establishing our baseline for performance in these markets as the 2016 share of purchases: 4.97 percent of all Freddie Mac loans funded. The 2016 share of purchases is the baseline for all three years of the Plan Term. However, in the event that there is a material deviation between our 2016 and 2017 shares, we will update our Plan to use 2017 share as our baseline.

Table 1- Freddie Mac Market Share[55] in High-Needs Rural Regions				
Year	**2013**	**2014**	**2015**	**2016**
Total Loan Count - all Owner Occupied Purchases in High-Needs Rural Regions	96,023	58,466	71,899	73,199
Share of all Owner Occupied Purchases in High-Needs Rural Regions **(as a percent of all Freddie Mac loans funded)**	5.52%	5.65%	5.23%	4.97%

Target

In 2016, Freddie Mac's purchases of loans from the above described high-needs rural regions represented almost five percent of all Freddie Mac loans funded. However, our purchase share from high-needs regions has been decreasing for the past two years. As we deploy a variety of tactics, including expanding our lender footprint, conducting outreach and providing technical training, we anticipate that our purchase share will gradually increase, consistent with safety and soundness standards.

Our purchase targets over the Plan Term are set forth in Table 2. Given the declining trend in our purchase share, we believe that maintenance of our current share will be meaningful to the market in year one, and any increase over that baseline will have a commensurate increasing impact on the market. We have set these targets based on the most current and available data. We propose the following concept scores be applied to the following range of targets for each year of the Plan:

Table 2 – High- Needs Rural Regions Purchase Targets - Cumulatively

Concept Score	2018	2019	2020
Target/Score of 30	Maintain 2016 baseline 0% - .99%	2.0% – 2.99%	3.0% - 5.99%
Score of 40	1.0% - 2.0%	3.0% - 5.0%	6.0% - 7.0%
Score of 50	>2.0%	> 5.0%	>7.0%

We anticipate meeting these targets by expanding on our existing resources and our lending footprint in the high-needs rural regions. The targets take into consideration that our purchase share in the regions has declined in recent years relative to our overall purchases. Further, Freddie Mac's forecast for 2018 relative to 2016 includes higher interest rates, higher consumer prices and a 25 percent[56] decrease in single-family origination volume. Projected volume for the first year of the Plan takes into account that not all of the activities intended to promote growth will have been implemented. Using 2016 purchase share as a benchmark will ensure that we realistically grow our share to maintain prior levels and gradually increase our purchase share as we implement activities that we envision would further increase market growth and purchase opportunities.

Market Opportunity and Impact

Meeting this objective will be difficult due to the large geographic scope, the high level of need in each region and the unique challenges that face individual regions. Furthermore, our ability to meet this objective may be somewhat dependent upon our ability to meet our other objectives for this activity as well as the capacity of our existing seller/servicers to increase purchase activity. In addition, it will take time to add seller/servicers to serve the area and begin originating new production.

However, Freddie Mac plans to engage with lenders that are already active in this market and seeks to increase the purchase of both new and seasoned rural housing loan originations. We also intend to expand our outreach to increase support of small financial institutions, including CDFIs and housing finance agencies. This will provide access to capital and further capacity building which, in turn, can help grow loan volume and serve very low-, low- and moderate-income homebuyers. Accordingly, notwithstanding the challenges, we believe the targets we have set are reasonable.

Because lending activity in high-needs rural regions can be limited due to the limited number of lenders in certain regions, increasing our footprint with community-based lenders that are more in tune with the needs of their communities will have a significant impact on their ability to provide more lending to very low-, low- and moderate-income buyers.

OBJECTIVE B: COMPLETE A REVIEW OF LOAN OFFERINGS AND UNDERWRITING PARAMETERS

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1, 2 and 3	50	VLI, LI, MI

During our public outreach, we heard that the high-need rural regions require additional underwriting flexibility that takes into consideration the varied borrower profiles that are in these regions. In response, Freddie Mac intends to undertake a comprehensive review of our current loan products and underwriting parameters to determine how we can enhance our offerings to better serve high-needs regions.

Freddie Mac plans to review borrower-qualifying criteria, such as credit sources and down-payment options, to determine whether and how we can enhance our offerings. In making any product adjustments to qualifying criteria, we intend to provide further underwriting automation to promote lender confidence in making loans to very low-, low-, and moderate-income borrowers who are in high-needs rural regions. We also plan to research ways to enhance current product requirements and methodologies to address the challenge of finding similar and recent comparable sales to support rural valuations. Freddie Mac intends to look beyond our current products to innovations from other industry participants. Through collaboration and partnerships, we plan to leverage new and existing innovations to provide scale and standardization.

Based on the results of the review and the needs of the market, we intend to make loan product enhancements and underwriting changes that are consistent with prudent underwriting and safety and soundness. We believe that a strategic incremental enhancement of the product line that supports the rural underserved markets will increase liquidity for high-needs rural regions.

Specific Actions

Year	**Action**
2018	▪ Provide underwriting flexibilities to facilitate borrower's participation in self-help programs via negotiated terms of business (TOB) or Seller/Servicer Guide updates ▪ Conduct research using available rural housing property databases to support growth and understanding of collateral valuation of rural properties, focusing on potential for additional valuation capabilities. Preliminary findings will be provided to Freddie Mac management

2019	▪ Complete assessment of all Freddie Mac product offerings to determine product changes necessary to support the renovation of aging housing stock in high needs rural regions. Develop recommendations based on results of assessment. Assessment may result in a pilot with at least one lender to determine operational capabilities and product design ▪ Conclude research on available rural housing property databases to assess impact on valuation methodology; submit memo on research conclusions to Freddie Mac management and adjust underwriting criteria/model as appropriate ▪ Provide underwriting flexibilities to lenders for borrowers with prior financial hardships via Loan Product Advisor® ▪ Work with at least one lender to develop and launch a pilot to address borrowers with non-traditional credit profiles
2020	▪ Provide additional product flexibility to lenders via the Seller/Servicer Guide or TOBs related to required borrower funds for closing

Market Opportunity and Impact

Freddie Mac plans to follow a strategic and progressive schedule in conducting its review so that incremental product enhancements and underwriting guidelines can be efficiently and effectively launched and subsequently adopted by the market. We believe the schedule proposed is reasonable given our current strategic focus on rural housing market challenges and the significant level of effort already underway.

While dependent upon the results of our research and review, we expect that the product enhancements will cumulatively have a significant impact on high-needs rural regions because they will increase access to credit for very low-, low- and moderate-income borrowers. This objective is designed to address the need for product enhancements, more flexible underwriting, reliable data and shorter processing times. We expect that, if successful, this objective may also result in increased purchase volume.

Sharing what we learn through our research will help us develop partnerships with relevant parties and encourage innovative solutions to the challenges facing these regions.

OBJECTIVE C: INCREASE FUTURE HOMEBUYER ACCESS TO EDUCATION AND RESOURCES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Outreach	1, 2 and 3	50	VLI, LI, MI

Freddie Mac heard many public comments requesting a comprehensive approach to homebuyer education to strengthen and increase the pool of potential borrowers. Specifically, there is a demand for pre-purchase financial education for potential borrowers, as well as continued education about responsible homeownership. In response, Freddie Mac intends to develop a curriculum, beginning with pre-purchase homebuyer education and also including post-purchase counseling and credit rebuilding.

Freddie Mac will expand its existing homebuyer education curriculum to address area-specific challenges, such as the use of contracts-for-deeds in the colonias, promotion of estate planning to create clear title for future generations, and technical training for education providers in specific areas. We intend to partner with nonprofits, housing finance agencies and CDFIs to conduct outreach regarding borrower needs in these regions. Based on the high demand for such a program, we anticipate that a comprehensive educational curriculum will have a meaningful positive impact in the high-needs rural regions.

Specific Actions

Year	Action
2018	▪ Conduct research and outreach to assess additional areas (beyond McComb, MS) to target expansion of homebuyer education and resources. Assessment is to include the location and availability of small or regional lending institutions, non-profit organizations and CDFIs providing housing support in the regions ▪ Upon completion of assessment, Freddie Mac will provide further capacity building to one to two mission-oriented organizations in these regions that are active in affordable housing by establishing additional partnerships with nonprofits, housing finance agencies or CDFIs that provide homebuyer education, housing counseling, individual development accounts and related resources that are relevant to very-low or low-income homebuyers or homeowners
2019	▪ In at least two additional high-needs rural regions, partner with one to two additional mission-oriented organizations by providing capacity building and support to carry out affordable housing activities that benefit very low-, low- to moderate-income persons ▪ Hold at least two homebuyer fairs – one in the Lower Mississippi Delta and one in a Colonia -- to focus on homebuyer education ▪ Conduct consumer surveys on homebuyer education curriculum at six to twelve training sessions via our Borrower Help Centers or partners in high-needs rural regions
2020	▪ In at least two additional high-needs rural regions, partner with one to two additional mission-oriented organizations by providing capacity building and support to carry out affordable housing activities that benefit very low-, low- to moderate-income persons. ▪ Hold at least two homebuyer fairs in different high-needs rural regions with a focus on homebuyer education ▪ Conduct consumer surveys on homebuyer education curriculum at six to twelve training sessions via our Borrower Help Centers or partners in high-needs rural regions ▪ Use survey results to adjust homebuyer education curriculum, as applicable

Market Opportunity and Impact

Freddie Mac has extensive experience with homebuyer education; our successful CreditSmart program is available in five languages and has been available for over 15 years. In addition, Freddie Mac provides outreach, education and counseling through our Borrower Help Centers and the national Freddie Mac Borrower Help Network. We recently opened a new Borrower Help Center in McComb, Mississippi in partnership with the D&E Power Group, a HUD-approved housing counseling agency. We intend to continue expanding our footprint in high-needs rural regions by partnering with local nonprofits, housing finance agencies and CDFIs. We will leverage our homebuyer education experience and solicit feedback from industry leaders on effective content that addresses the regional needs of individual homebuyer education programs. We also plan to track training outcomes and use the information obtained to adjust our program in the future. We believe the schedule proposed is reasonable and incorporates sufficient flexibility for us to learn from initial program feedback and make course corrections.

This objective addresses the need for information about financing options and homeownership. It will not be without challenges. We anticipate that many borrowers in the high-needs rural regions will require credit rebuilding in addition to pre- and post-purchase counseling. Depending on our ability to partner with local nonprofits, providing training and tracking outcomes in these geographically isolated regions may be difficult. However, we believe that a successful education program will have a significant positive impact on high-needs rural regions by increasing the number of mortgage-ready borrowers and educating them on financing options that may be available.

OBJECTIVE D: INCREASE INDUSTRY TECHNICAL EXPERTISE

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Outreach	1, 2 and 3	50	VLI, LI, MI

In an effort to address challenges associated with rural lending and to provide education for both lenders and appraisers, Freddie Mac plans to increase technical training on appraisals and develop process standardization. Our intent is to encourage appraiser and lender participation in the high-needs rural regions. We will partner with rural industry experts to gain a greater understanding of specific appraisal and lender challenges, which will allow us to develop guidance on best practices related to appraisals and lending parameters. In addition, Freddie Mac will expand training and outreach regarding Freddie Mac products and other related programs in the market that would benefit potential very low-, low-, and moderate-income borrowers in the high-needs rural regions.

Specific Actions

Year	Action
2018	▪ Conduct quarterly outreach with market participants to understand the opportunities, barriers to financing and challenges that are specific to residents in the various geographies of the high-needs rural regions. Outreach activities will include two to four meetings with lenders serving the high-needs rural regions, or our Affordable Housing Advisory Committee and industry convenings on rural housing ▪ Develop curriculum for appraisers and lenders on rural appraisals and acceptable collateral as it relates to rural properties
2019	▪ Continue quarterly outreach with market participants to understand the opportunities, barriers to financing and challenges specific to residents in the various geographies of the high-needs rural regions. Outreach activities will include two to four meetings with lenders serving the high-needs rural regions, or our Affordable Housing Advisory Committee and industry convenings on rural housing ▪ Assess the results of 2018 outreach and begin to develop best practices on lending in high-needs rural regions ▪ Test curriculum on rural appraisals with at least one lender and one appraiser or appraisal management company
2020	▪ Continue quarterly outreach with market participants to understand the opportunities, barriers to financing and challenges specific to residents in the various geographies of the high-needs rural regions. Outreach activities will include two to four meetings with lenders serving the high-needs rural regions, or our Affordable Housing Advisory Committee and industry convenings on rural housing ▪ Finalize rural appraisal curriculum and release as part of a rural tutorial series, to include focus on product features that can be leveraged, appraisal best practices and rural property scenarios. Roll out broadly to lenders and announce availability on website ▪ Monitor and assess rural tutorial series, and adjust as appropriate

Market Opportunity and Impact

A predominant challenge facing high-needs rural regions is the difficulty in appraising rural properties. Additionally, market participants, including lenders and housing professionals, may not have access to, or awareness of, all the product and program features available to high-needs rural borrowers. We intend to help close that gap, providing technical assistance to create a holistic perspective of the tools available to further financing activity in the high-needs rural regions. At every stage, we will work closely with industry experts; accordingly, we view the timeline we have proposed as reasonable. While our Plan is to promote appraisal standardization, as applicable, we may find that each region requires its own best practices. If that is the case, the process will take additional time and we will amend our Plan accordingly.

We believe this Objective has the potential to have a substantial impact on high-needs rural regions if we can successfully encourage processes that would improve appraisal uncertainty through publication and dissemination or rural appraisal guidance.

OBJECTIVE E: DEVELOP MEANS TO PROVIDE CAPITAL TO ENTITIES THAT BUILD OR RENOVATE AFFORDABLE HOUSING STOCK

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 2	50	VLI, LI, and MI

To maximize the effectiveness and efficiency of our loan purchase and outreach activities, Freddie Mac intends to develop and deploy a safe and sound loan product that will support the high-needs rural regions. We have made modest investments in high- needs rural regions to expand homebuyer education and develop institutional resources to establish a foundation for our outreach activities. We plan to expand on these efforts with a more deliberate focus on entities that also have capabilities to build or renovate housing stock in high-needs regions of persistent poverty, as affordable housing stock is in particularly short supply in these areas.

Freddie Mac will research the ability to deploy risk-tolerant, low-cost and flexible capital to enhance our market presence, and to build institutional relationships to accelerate the growth of well-performing institutions in rural communities. To achieve our goal of expanding the preservation and new supply of affordable rural homes, Freddie Mac will research and develop loan products that may include loan guarantees for CDFIs, and other financial institutions whose mission it is to promote affordable housing to very-low, low- and moderate-income households.

We appreciate the difficulty of this task. In the first two years of the Plan, we will focus on developing a pilot and the institutional relationships that will enable us to deploy capital safely and soundly via loan guarantees or using such method that our research indicates is appropriate. This process will entail getting any required approvals from FHFA to proceed as well as ensuring compliance with Freddie Mac's Charter Act.

Year	Action
2018	▪ Research existing financing models provided by investors of affordable housing activities to help inform product design. ▪ Leverage research to design a product that can provide financing of affordable housing activities to facilitate an increase of affordable housing stock in high-needs rural regions. Select at least one entity to test product capabilities.
2019	▪ If testing proves viable, implement a pilot program to support increased housing stock in rural areas with at least one entity.

Market Opportunity and Impact

Construction and preservation of affordable housing in rural markets are critical to market growth. Once affordable housing is sold or paid off through maturing mortgages, it is unlikely the homes will be replaced due to the lack of development and capacity to build in rural areas. Creating access to low-cost and patient capital through longer term financing is essential. Supporting organizations that develop affordable housing stock in high-needs rural regions would have a significant impact on market growth, incentivize other market participants to do like-minded activities and provide additional opportunities for us to increase our purchase activity

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OBJECTIVE F: RESEARCH USE OF LIHTC IN SUPPORT OF HIGH-NEEDS RURAL REGIONS

Evaluation Area	*Years*	*Proposed Concept Score*	*Incomes Targeted*
Outreach	1 and 2	50	VLI and LI

LIHTCs are the subsidy most commonly used to finance affordable rental housing. They may be particularly important for multifamily housing for high-needs rural regions, where debt financing is limited outside of highly specialized USDA and HUD programs, and second to equity as the chief source of funding. Despite the importance of LIHTC equity, there is not currently sufficient understanding of how the LIHTC may be used to support these high-needs areas. Freddie Mac plans to partner with leading rural LIHTC market participants and experts to publish a research paper focused on the use of LIHTCs in supporting the high-needs rural regions.

Specific Actions

Year	Action
2018	▪ Conduct outreach by partnering with one or more rural developers and/or lenders who have expertise in rural markets and LIHTC ▪ Gather research data that shows how LIHTCs are used in high needs rural regions today and the possible gaps in the market
2019	▪ Publish research findings

Market Opportunity and Impact

There is currently limited data about the prevalence of LIHTCs in support of high-needs rural regions. While we understand anecdotally that the market for multifamily properties supporting the high-needs rural regions is small, we believe this data may reveal opportunities for multifamily support. We intend to leverage our analytical capabilities and relationships with

LIHTC syndicators and market experts to provide the rural housing industry and LIHTC investors with a baseline understanding of the ways tax credits are being used in both the debt and equity arenas. Our outreach in years one and two will allow us to further define our other Objectives in support of rural housing. The results of our research will be foundational to a determination of the extent to which Freddie Mac can leverage LIHTCs for the high-needs rural regions in a safe and sound manner.

OBJECTIVE G: DEVELOP A LOAN OFFERING TO WORK WITH USDA SECTION 515 PROPERTIES

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	1 and 2	50	VLI, LI

USDA's Section 515 program is vital for the preservation of highly affordable rural multifamily housing. It provides rental assistance to ensure that tenants spend no more than 30 percent of their incomes on rent. HAC's analysis shows that the USDA has 13,830 multifamily properties with more than 416,000 units still encumbered by Section 515 debt.[57] HAC has identified the following number of units that will exit the 515 program by 2040 based on their loan maturity dates.[58]

Years	**2017 – 2027**	**2028-2032**	**2033-2040**
Annual Unit Loss	1,800 units	16,000 units	22,600 units
Cumulative Units per Period	18,000 units	64,000 units	158,200 units
Cumulative Units Lost	**18,000 units**	**82,000 units**	**240,200 units**

As these units exit the Section 515 program, affordable housing is lost in rural areas. Owners will no longer be able to access the rental assistance that enables them to preserve rents that are affordable to very low-income residents while maintaining their properties. This phenomenon is often described as the "maturing mortgage crisis."

We have repeatedly heard from advocacy groups that the USDA's annual budget is insufficient to preserve the existing units as they reach maturity. Therefore, the introduction of private capital is necessary to recapitalize and preserve these properties and maintain this important housing stock for rural communities.

In year one of our Plan, we intend to develop a loan product that can bring private capital to support maturing Section 515 properties. In year two we will assess the product, refine as necessary, and publish a report of lessons learned.

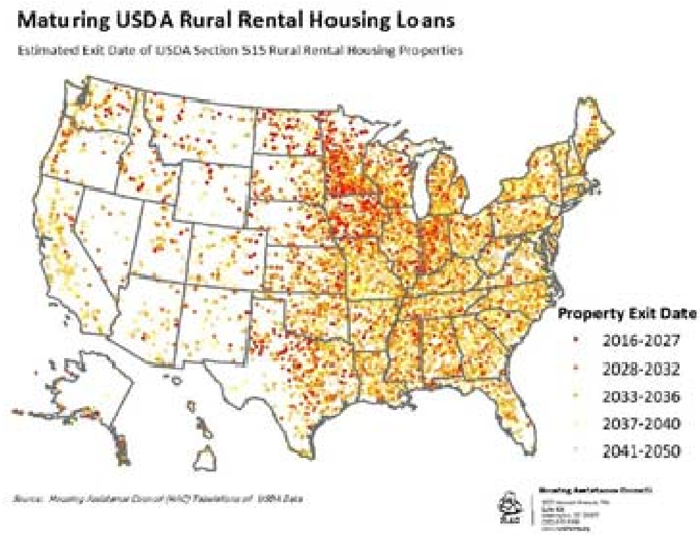
Specific Actions

Year	**Action**
2018	▪ Publish an official product sheet on our website that identifies the product and the acceptable terms. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Borrower and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization

2019	▪ Publish a summary report of lessons learned from the first two years of this offering

Market Opportunity and Impact

Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources used in conjunction with the 515 program. This is due to the tightly integrated requirements between USDA programs, which can pose a challenge when including additional private capital. We have heard consistently in our outreach at conferences with various market participants, and with rural borrowers directly, that bringing additional private capital to support the USDA Section 515 portfolio will be integral to averting the maturing mortgage crisis and providing liquidity to the underserved rural housing market. An analysis of current USDA Section 515 portfolio data, leads us to believe our actions will be highly beneficial to these high-needs areas.[59]



Admittedly, creating products presents its own set of challenges. From our outreach and previous experience with the USDA, we are aware that the Section 515 product has not been designed to allow private capital as a permanent financing source. Aligning the USDA and Freddie Mac processes with borrowers' expectations will be important when introducing a new private source of capital to a market that has historically been largely focused around USDA debt or guaranty.

We also are aware that USDA's priorities are tied to federal political priorities, which can vary over time. When dealing with the USDA Section 515 program specifically, it will be important to manage risk against this program's annual subsidy budget. The subsidy is integral to maintaining the affordability of these properties. Despite these issues, we believe we can work together to help rural renters, communities, and markets and relieve the pressure from the "maturing mortgage crisis." We will follow a staged approach in the development of this loan product, which will afford us sufficient flexibility to adjust as we see the results of our initial efforts and to ensure any safety and soundness considerations are ameliorated. Success in this objective will likely have a significant impact on high-needs rural markets by relieving the pressure on the 515 program.

OBJECTIVE H: PURCHASE LOANS ON USDA SECTION 515 PROPERTIES

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Purchase	3	Varies	VLI and LI

In year three of the Plan Term, we intend to begin purchasing loans on properties with USDA Section 515 program debt and four percent LIHTCs in order to provide liquidity and stability, help avert the maturing mortgage crisis, and preserve affordability in the high-needs rural regions.

Baseline

We last purchased a loan on a 515 property in 2010, so do not have a recent relevant baseline of experience. This is to be expected, as the vast majority of transactions involving Section 515 properties use other USDA programs, such as the Section 538 Guaranteed Rural Rental Housing Program or the Preservation and Rehabilitation Program (MPR).

Target

Due the nature of these deals, which are highly complex and slow to develop, it is likely that our volume will increase slowly. Also, over the next few months, we plan to determine the actual market size of USDA Section 515 maturing properties in high-needs rural regions to determine an accurate target. In the meantime, we propose the following targets based on the percentage of projected units lost in the high-needs rural regions sub-markets.

Year	**2020**
Target/30 Concept Score	5% of annual units lost
40 Concept Score	10% of annual units lost
50 Concept Score	20% of annual units lost

OBJECTIVE I: RESEARCH USDA PROGRAMS

Evaluation Area	*Years*	*Proposed Concept Score*	*Incomes Targeted*
Outreach	2 and 3	50	VLI, LI, and MI

We recognize that our product for USDA Section 515 loans with four percent LIHTCs will support a subset of all USDA programs. Therefore, in year two, we intend to complete a research study to determine whether other USDA programs that serve the high-needs rural regions could benefit further from our financing efforts. We intend for this research to address the impact a third-party financing source could make on the overall market and will include USDA Section 515 loans without 4 percent LIHTCs and the USDA 538 Guaranteed Rural Rental Housing Program, among others.

Specific Actions

Year	Action
2019	▪ Complete research on USDA programs, with a specific focus on support for high-needs rural regions. Research will include the identification of relevant USDA programs, their applicability in support of high needs rural regions, and eligibility for third-party financing to be applied. ▪ Provide FHFA with an Executive Summary of research conducted ▪ Research will require partnerships with current USDA lenders and the USDA to identify the appropriate approach for third party lenders.
2020	▪ Publish findings on relevant USDA programs with a focus on if third party financing can be applied better serve the high needs rural regions.

Market Opportunity and Impact

This research is a necessary foundation to the development of a product or products that will complement our work with the USDA Section 515 program and thereby provide a more comprehensive offering for properties that are not appropriately served by our current product set. It will also provide us with a better understanding of USDA programs and additional challenges that need to be addressed before a third-party financing product can be introduced in a safe and sound manner. We believe that the publication of the results of our research will help address an information gap that currently exists and also may encourage private capital innovation.

OBJECTIVE J: DEVELOP LIHTC EQUITY INVESTMENT OFFERING

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1	50	VLI and LI

Contingent on receiving FHFA Conservator approval to re-enter the LIHTC equity market, Freddie Mac anticipates building relationships with experienced LIHTC syndicators who work with established developers on affordable housing in high-needs rural regions and re-engaging in LIHTC equity investment. Throughout year one of our Plan, as described in Objective F above, we will research the LIHTC market, focusing on investment opportunities to support high-needs rural regions. We will concurrently begin to develop the necessary internal infrastructure to invest in LIHTC equity, including hiring experienced staff to introduce our LIHTC equity investment product offering.

Specific Actions

Year	Action
2018	▪ Partner with at least one experienced LIHTC syndicator that focuses on high-needs rural regions. Partnership will be evidenced by an investment agreement. ▪ Set up internal infrastructure to enable future LIHTC work

Market Opportunity and Impact

During our public outreach, we repeatedly heard that the LIHTC equity market is already reacting to the possibility of near-term federal tax reform. As discussed in more detail in Objective K, there is demand for Freddie Mac to act as a counter-cyclical, stabilizing entity in this market. By focusing some of our investment capital in these areas, Freddie Mac will introduce more competition across the country and, therefore, improve LIHTC pricing. The higher the LIHTC pricing, the greater the amount of equity in the financing stack. This decreases pressure on rents because the borrower needs less income to service the debt. Ultimately, support for LIHTC equity will make properties more affordable. We propose to re-enter this market deliberately in accordance with safety and soundness standards.

OBJECTIVE K: ENGAGE IN LIHTC EQUITY INVESTMENT

Evaluation Area	*Years*	*Proposed Concept Score*	*Incomes Targeted*
Investment	2 and 3	Varies	VLI and LI

The LIHTC is perhaps the most important resource for creating affordable housing in the U.S. today. Created by the Tax

Reform Act of 1986, the LIHTC program gives state and local LIHTC-allocating agencies the equivalent of nearly $8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. By providing an incentive for private sector investment, the LIHTC has financed nearly three million housing units for low-income households, with approximately 100,000 units added to the inventory each year.

The possibility that corporate tax reform will lead to a reduction from 35 percent to 20 -25 percent in the next year or two has led to great uncertainty in how to price LIHTC investments. The LIHTC industry accounting leader Novogradac estimates that a reduction from 35 percent to 20 percent would reduce the investor equity price per credit by up to $0.17 on the dollar, which could have a material impact on the amount of equity available and therefore the number of units created or preserved each year. Novogradac estimates that the reduction of as much as $2.2 billion or more in annual LIHTC equity would likely occur under various tax reform proposals, which would equate to as many as 16,000 fewer units per year.

As 2017 progresses, we are seeing more and more examples of large scale LIHTC market disruption. On March 15, 2017, the California Tax Credit Allocation Committee (TCAC) passed a resolution allowing developers to exchange their 2016 nine percent LIHTC allocation for 2017 LIHTCs. Given delays in finding equity investors, developers found it impossible to close in time to complete construction by the end of 2018 (LIHTC deals must be "placed in service"- meaning 100 percent construction completion and receipt of the certificate of occupancy- by the end of the second year after receiving a LIHTC allocation.)

In the Midwest, the Ohio Housing Finance Agency (OHFA) had to increase the allocation of LIHTC to deals awarded in 2016 because developers were not getting sufficient equity pricing to allow the deals to be economically feasible. Unfortunately, the additional credits had to come from the 2017 allocation, thus reducing the 2017 pool by approximately 12 percent. Both examples illustrate how fewer LIHTC assisted units are likely to be built, ultimately hurting low- income families across the country.

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

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

Therefore, by focusing some of our investment capital in these areas, Freddie Mac will introduce more competition into the rural marketplace and improve LIHTC pricing. The higher the LIHTC pricing, the lower the need for a portion of the rent to pay for debt service; thus, increased LIHTC equity pricing makes properties more affordable.

Baseline

Freddie Mac has not been permitted to invest in LIHTC equity for many years, so our baseline of recent experience is $0 of investments.

Target

The size of the LIHTC equity market in high-needs rural regions is currently unknown. Before the Plan Term begins and throughout years one and two, we will work to better understand this market and the level of investment we can responsibly provide over time. Therefore, we intend to seek a plan amendment at the end of year two to establish a suitable baseline and concept score framework for LIHTC equity investments to support high-needs rural regions. In the meantime, we will set our initial target at the lesser of one transaction or five percent of the LIHTC equity market in Middle Appalachia and the Lower Mississippi Delta, assuming this market size can be discerned. We believe this is a reasonable target for our first year of deliberate LIHTC equity investment. Over time we anticipate that we could increase our market share to up to 15 percent if market conditions warrant it.

In our first two years of deliberate LIHTC equity investment (2019 -2020), we believe that one transaction or a five percent LIHTC equity market share is a meaningful contribution to the market, and warrants a concept score of 30. If we are able to achieve a larger market share, we believe our concept score should increase as follows:

Year	2020
Target/Concept Score of 30	The lesser of 1 transaction or 5% Market Share
Concept Score of 40	The lesser of 2 transactions or 10% Market Share
Concept Score of 50	The lesser of 3 transactions or 15% Market Share

Activity 2 – High-Needs Rural Populations: Regulatory Activity

High-needs rural populations include federally recognized Indian tribes located in Indian 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 substantially higher poverty rates than the national average and extremely limited access to financial services.[60] Additionally, 40 percent of the housing is substandard[61] and almost one-third of homes are overcrowded.[62] Approximately 26 percent of the Native American population is living in areas close to Indian areas and may be interested in living in Indian areas if they could obtain mortgage financing.[63]

Freddie Mac's strategic approach to serving high-needs rural populations includes partnering with local nonprofits to provide homebuyer education, and providing technical expertise to lenders and appraisers serving Indian areas. During the Plan Term, Freddie Mac intends to engage in the following objectives:

1) Increase access to education and resources for Native Americans in Indian areas that are planning to buy homes;
2) Provide technical expertise to appraisers and lenders serving Native Americans in Indian areas;
3) Research the use of LIHTC;
4) Develop a LIHTC equity investment offering; and
5) Engage in LIHTC equity investment, subject to receipt of FHFA approval.

OBJECTIVE A: INCREASE HOMEBUYER ACCESS TO EDUCATION AND RESOURCES FOR MEMBERS OF A FEDERALLY RECOGNIZED INDIAN TRIBE IN INDIAN AREAS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Outreach	1, 2 and 3	50	VLI, LI, and MI

Freddie Mac strongly supports responsible lending, homebuyer education and counseling. We believe that well-informed and well-prepared homebuyers are more likely to enjoy successful and sustainable homeownership. We support 14 Borrower Help Centers to provide comprehensive education that includes credit counseling and homebuyer education.

During our outreach, we heard requests for a comprehensive approach to homebuyer education. Particularly in Indian areas, where land titling can be complex and the cultural approach to land ownership may be distinct from traditional mortgage practices, we heard a need for additional assistance for potential borrowers, both pre- and post-purchase. Freddie Mac intends to address this need by developing a comprehensive set of best practices for nonprofits, lenders and appraisers that will include education on credit counseling and home ownership in Indian areas.

We intend to partner with nonprofit, housing finance agencies and CDFIs to expand our efforts and serve very low-, low- and moderate-income homebuyers. Freddie Mac will partner with experienced nonprofits, housing finance agencies and CDFIs to hold homebuyer fairs to expand outreach and education. In addition, we will complete homebuyer surveys to monitor the education platforms and make adjustments as needed. Through borrower education, we hope to help Native Americans build and maintain credit, and understand the steps to sustainable homeownership.

Specific Actions

Year	Action
2018	▪ Participate in quarterly Center for Indian Country Development (CICD) committee meetings and quarterly CICD homebuyer readiness subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas.
2019	▪ Establish one to three additional partnerships with nonprofits, housing finance agencies and CDFIs that provide homebuyer education, housing counseling and other resources relevant to potential Native American homebuyers in Indian areas. ▪ Evaluate and launch homebuyer education and housing counseling in one Indian area to determine level of need ▪ Conduct consumer surveys on our homebuyer education curriculum at two to four training sessions leveraging our Borrower Help Center(s) or partners in an Indian area ▪ Participate in quarterly CICD committee meetings and quarterly CICD homebuyer readiness subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas
2020	▪ Participate in quarterly CICD committee meetings and quarterly CICD homebuyer readiness subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas ▪ Hold at least one homebuyer fair in an Indian area to educate consumers on available products, programs and resources ▪ Continue homebuyer education and housing counseling in the Indian area selected in 2019 ▪ Continue to conduct consumer surveys on our homebuyer education curriculum at two to four training sessions leveraging our Borrower Help Center(s) or partners in an Indian area ▪ Assess survey results and adjust homebuyer education curriculum as appropriate ▪ Expand homebuyer education and housing counseling to at least one additional Indian area

Market Opportunity and Impact

Freddie Mac has extensive experience with homebuyer education; our successful CreditSmart program is available in five languages and has been taught for over 15 years. In addition, Freddie Mac provides outreach, education and counseling through our network of 14 Borrower Help Centers and the national Freddie Mac Borrower Help Network. We intend to leverage our experience and solicit feedback from industry leaders on effective content for the homebuyer education program. We also plan to track training outcomes and use the information obtained to adjust the program in the future. We believe the schedule proposed is reasonable; it incorporates time for us to learn more about the specific needs of the target population, and gives sufficient flexibility for us to learn from initial program feedback to make course corrections.

This objective addresses the need for information about financing options and homeownership developed specifically for members of Indian tribes. We anticipate that the homebuyers' needs will range from homebuyer education and resources to help them qualify for a mortgage in Indian areas to credit rebuilding and pre- and post-purchase counseling. We believe that a successful education program will be a significant positive development for this high-needs rural population because it is expected to increase the number of home-ready borrowers and educate borrowers on financing options that may be available. Given the prevalence of very low-, low- and moderate-income families living in Indian areas, we believe targeting homebuyer education to these areas will be helpful.

OBJECTIVE B: INCREASE TECHNICAL EXPERTISE IN INDIAN AREAS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Outreach	1, 2 and 3	50	VLI, LI, and MI

Freddie Mac will engage in efforts to train lenders and appraisers on the unique aspects of lending in Indian areas, such as title searches, deed restrictions and default processes. In addition, Freddie Mac will encourage standardization of title search processes with government entities. Doing so will bring efficiency to title searches and expedite the lending process, which should benefit all parties involved in the process. In addition, Freddie Mac will provide training and outreach on its mortgage products that may be useful by Native Americans in Indian areas.

Specific Actions

Year	**Action**
2018	▪ Evaluate and assess by year end the opportunities and barriers to lending with through outreach to one to five lenders, nonprofit organizations and governmental entities. ▪ Conduct outreach to one to two market participants, at least biannually, to assist with research on the development of mechanisms to better track conventional purchase volume for financing related to members of a federally recognized Indian tribe in Indian areas. ▪ Participate in quarterly CICD committee meetings and quarterly CICD lending products subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas and need for technical support.
2019	▪ Provide broad-based product and program support to lenders, through industry conferences, website material, and Freddie Mac training programs. ▪ Depending on results of outreach in 2018, by year end, begin implementation of infrastructure changes that allow us to identify federally recognized Indian tribe members in order to track purchasing activity. ▪ Participate in quarterly CICD committee meetings and quarterly CICD lending products subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas. ▪ Leverage outreach with partners established in 2018 to develop best practices for lending to Native Americans in Indian areas to be shared with lenders.. Publish best practices for lending to Native Americans in Indian areas on Freddie Mac's website.

2020	▪ Continue outreach efforts with broad based product and program support, leveraging industry conferences, website material, and Freddie Mac training programs. ▪ Participate in quarterly CICD committee meetings and quarterly CICD lending products subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas. ▪ Monitor and assess the impact of usage and effectiveness of best practices via ongoing outreach to lenders to obtain feedback. Make adjustments to best practices as appropriate.

Market Opportunity and Impact

Providing technical assistance and increasing Freddie Mac presence in these areas to promote products and services will have modest, but meaningful results. These markets are new to Freddie Mac, and developing a consistent presence in these markets will take time.

OBJECTIVE C: RESEARCH USE OF LIHTC IN SUPPORT OF HIGH-NEEDS RURAL POPULATIONS

Evaluation Area	*Years*	*Proposed Concept Score*	*Incomes Targeted*
Outreach	1 and 2	50	VLI, and LI

LIHTCs are the most commonly used subsidy for affordable rental housing. They are particularly important for multifamily housing for high-needs rural populations, where debt financing is limited outside of highly specialized USDA and HUD programs, and second only to equity as the chief source of funding. Despite the importance of LIHTC equity, there is not sufficient market understanding of the use of LIHTCs to support these high-needs populations. Freddie Mac plans to partner with leading rural LIHTCs market participants and experts to publish a research paper focused on the use of LIHTCs in supporting the high-needs populations.

Specific Actions

Year	Action
2018	▪ Conduct outreach by partnering with one or more rural developers and/or lenders who have expertise in rural markets and LIHTC. ▪ Gather research data that shows how LIHTCs are used in high-needs rural regions today and the possible gaps in the market. Research will include the identification of relevant USDA programs, their applicability in support of high-needs rural populations, and eligibility for third-party financing to be applied.
2019	▪ Publish research findings.

Market Opportunity and Impact

There is currently limited data about the prevalence of LIHTCs in support of high-needs rural populations. While we understand anecdotally that the market for multifamily properties supporting these populations is very small, we believe this data may reveal opportunities for multifamily lending. We intend to provide rural housing stakeholders and investors with a baseline understanding of how the LIHTC is being used in both the debt and equity arenas. Our outreach in years one and two will further define our objectives during the remainder of the Plan Term.

OBJECTIVE D: DEVELOP LIHTC EQUITY INVESTMENT OFFERING

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1	50	VLI, and LI

Freddie Mac intends to develop a product that leverages LIHTC equity investment, subject to receipt of FHFA approval, in order to help meet the affordable rental housing needs of low-income families that are members of Indian tribes in Indian areas, as well as agricultural workers in designated rural areas. According to a 2017 Urban Institute study, "during the past two decades, although improvements have been made, the overcrowding and physical housing problems of American Indians and Alaska Natives (AIANs) living on reservations and other tribal areas remain strikingly more severe than those of other Americans. Particular circumstances of tribal areas--remoteness, lack of infrastructure, and complex legal and other constraints related to land ownership--make it extremely difficult to improve housing conditions in those areas."[64] Also, according to the HAC, 52 percent of housing units recently surveyed were overcrowded, which is nearly 10 times higher than the national average. Despite these challenges, the LIHTC program has been effective in producing new affordable units for these underserved populations, particularly in states that set aside tax credits specifically for multifamily properties.

Specific Actions

Year	Action
2018	▪ Partner with at least one experienced LIHTC syndicator that focuses on high-needs rural populations. Partnership will be evidenced by an investment agreement ▪ Set up internal infrastructure to enable future LIHTC work

Contingent on receiving FHFA Conservator approval to re-enter the LIHTC equity market, Freddie Mac anticipates building relationships with experienced LIHTC syndicators that work with established developers that focus on these populations in their affordable housing development businesses. In addition, Freddie Mac will provide direct equity investments in properties where the developer is a Freddie Mac client or the developer has a relationship with one of our existing financing partners. Throughout year one of our Plan, we will research the LIHTC market with a focus on investment opportunities to support high-needs populations as mentioned in Objective C. We will also hire experienced staff, develop internal capacity and controls and introduce our LIHTC equity investment product offering. Ultimately, we will begin investing in order to better understand the market while making a direct impact.

Market Opportunity and Impact

By focusing some of its investment capital in these areas, Freddie Mac will introduce more competition in these particular rural marketplaces across the country and improve LIHTC pricing to the properties. The higher the LIHTC pricing, the greater amount of equity in the financing stack, which decreases pressure on rents, because the borrower needs less income to service the debt. Ultimately, support for LIHTC equity will make properties more affordable. We will develop our LIHTC equity investment capabilities and product in accordance with safety and soundness.

OBJECTIVE E: ENGAGE IN LIHTC EQUITY INVESTMENT

Evaluation Area	*Years*	*Proposed Concept Score*	*Incomes Targeted*
Investment	2 and 3	Varies	VLI, and LI

In years two and three, we intend to measure LIHTC equity investments in support of high-needs rural populations relative to market opportunity, subject to receipt of FHFA approval.

Baseline

Freddie Mac has not been permitted to make LIHTC equity investments for many years, so our baseline of recent experience is $0 of investments.

Target

Today, the size of the LIHTC equity market in rural areas with high-needs populations is unknown. Before the Plan Term begins and throughout year one we will work to better understand this market and the level of investment we can responsibly provide over time. Therefore, we intend to seek a Plan amendment at the end of year two to establish a suitable baseline and concept score framework for LIHTC investments to support high-needs populations. In the meantime, we will set our initial target at the lesser of one transaction or five percent of the LIHTC equity market on Native American lands or for agricultural workers consistent with Duty to Serve specifications and assuming this market size can be discerned. We believe this is a reasonable target for our first year of deliberate LIHTC equity investment. Over time we anticipate that we could increase our market share to up to 15 percent if market conditions warrant it.

In our first two years of deliberate LIHTC equity investment (2019-2020), one transaction or a 5 percent LIHTC equity market share is a meaningful contribution to the market and warrants a concept score of 30. If we are able to achieve a larger market share, we believe our concept score should increase as follows:

Year	**2019 and 2020**
Target/Concept Score of 30	The lesser of 1 transaction or 5 percent Market Share
Concept Score of 40	The lesser of 2 transactions or 10 percent Market Share
Concept Score of 50	The lesser of 3 transactions or 15 percent Market Share

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. During the FHFA listening sessions and our public outreach, we heard that, 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 Term, Freddie Mac intends to increase its purchase volume of loans on rural housing made by small financial institutions.

OBJECTIVE A: INCREASE RURAL PURCHASE SHARE FROM SMALL FINANCIAL INSTITUTIONS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Purchase	1, 2 and 3	Varies	VLI, LI, and MI

Freddie Mac intends to increase its purchases of rural housing loans made by small financial institutions with assets of less than $304 million in order to generate liquidity and expand the distribution of capital. We plan to engage more deeply with small financial institutions that are already approved Freddie Mac Seller/Servicers and increase the purchase of both new and seasoned 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 via an aggregator. We believe that our incremental and strategic approach will increase our purchase share.

Baseline

Table 1 below reflects Freddie Mac's actual purchase volume of mortgages in rural areas from banks and credit unions that we were able to identify as having an asset size of less than $304 million. In the future, Freddie Mac will enhance our reporting capabilities in this segment to reflect all lenders that meet the small financial institution definition.

Table 1 also demonstrates the corresponding share of that market as a percentage of all Freddie Mac loans funded. For purposes of establishing a baseline for this Objective, we will rely on our 2016 loan purchase share: 0.80 percent of all Freddie Mac loans funded. The 2016 share of purchases is the baseline for all three years of the Plan Term. However, in the event that there is a material deviation between our 2016 and 2017 shares, we will update our Plan to use 2017 share as our baseline.

Table 1 - Freddie Mac Market Volume[65]				
Year	**2013**	**2014**	**2015**	**2016**
Total Loan Count - All Owner Occupied Purchase Volume from Small Financial Institutions	13,908	6,852	10,288	11,781
Share of all Owner Occupied Purchase Volume from Small Financial Institutions **(as a percent of all Freddie Mac loans funded)**	0.80%	0.66%	0.75%	0.80%

Target

Freddie Mac's purchase share of mortgages in rural areas from small financial institutions has been increasing since 2014 and was boosted by refinance volumes in prior years. Although we anticipate a decline in refinance volume over time, we will aim to maintain our purchase share as a percent of all Freddie Mac loans funded in the initial Plan year and then gradually increase our share over the subsequent Plan years. We intend to use a variety of tactics, including outreach to small financial institutions, offering technical training and providing toolkits that enable them to lend confidently to very low-, low- and moderate -income homebuyers.

Our purchase targets over the Plan Term are set forth in Table 2. We believe that maintenance of our current share will be meaningful to the market in year one, and any increase over that baseline will have a commensurate increasing impact on the market. We have set these targets based on the most current and available data. We propose the following concept scores be applied to the following range of targets for each year of the Plan.

Table 2 – Small Financial Institutions in Rural Areas - Concept Scores Relative to Targeted Range – Cumulatively			
Concept Score	**2018**	**2019**	**2020**
Target/Score of 30	Maintain 2016 share of purchases 0% - 0.99%	2.0% – 2.99%	3.0% – 5.99%
Score of 40	1.0% - 2.0%	3.0% - 5.0%	6.0% - 7.0%
Score of 50	>2.0%	> 5.0%	>7.0%

Freddie Mac's purchase share targets for 2018 and 2019 reflects a modest increase in share relative to 2016, as the outlook includes higher interest rates, higher consumer prices and a 25 percent decrease in single-family origination volume. It should be noted that Freddie Mac's purchase share from small financial institutions is somewhat volatile, and with additional focus on these institutions, we expect additional purchase and growth opportunities. Additionally, projected volume for the first year of the plan takes into account that not all of the activities that could assist with growth will have been implemented. When we are able to readily identify additional lenders that meet the definition, we will adjust our baseline and targets as appropriate.

Market Opportunity and Impact

Freddie Mac believes that deliberately increasing our engagement with small financial institutions to provide liquidity will notably improve access to credit in rural markets because we have heard that these lenders are limited in resources, available products and outreach capacity. As we seek to meet this Objective, we will be mindful of public comments that recommend we support the endeavors of these institutions by purchasing seasoned portfolios and new loans. We will balance our purchases, as appropriate.

Freddie Mac's increased market share will benefit these markets by increasing the availability of affordable financing, including Freddie Mac's Home Possible and Home Possible Advantage mortgages. We anticipate that this Objective will be very challenging due to the varied operational systems used by small financial institutions; different missions and levels of financing; distinct financial products offered; and the large number of geographic areas served.

Freddie Mac believes its commitment to outreach and support for seller/servicers with experience and good track records in rural areas will expand this market in a safe and sound manner.

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

Freddie Mac currently provides financing to properties with five-to-fifty units over various business areas based on the FHFA definition of rural housing. Through the Duty to Serve listening sessions and our outreach, we have developed partnerships and relationships with multiple groups in the rural housing community. We intend to leverage the expertise of these organizations, as well as our seller/ servicer network and customers who have previously been successful in originating business in these areas. We are not, however, limited to these partnerships. In fact, we hope to expand our network during the Plan term.

Freddie Mac's strategic approach to increasing liquidity and expanding the distribution of capital for small multifamily rural properties includes the following objectives.

1) Develop a rural mapping tool
2) Research and develop a Small Balance Loan pilot program
3) Partner with the USDA to:
    a. Develop a loan product focused on preservation of USDA Section 515 loans;
    b. Purchase mortgages on properties with Section 515 subordinate debt; and
    c. Research possible support for additional third party financing opportunities with USDA loan programs

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OBJECTIVE A: DEVELOP RURAL MAPPING SERVICE

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	1 and 2	50	VLI, LI, and MI

As mentioned above, there are many definitions of "rural" for purposes of defining the market, which creates market confusion. The FHFA definition takes significant steps to solve this problem. We intend to build upon this foundation. In order to scope the market consistently and allow market participants and our network of seller/servicers to better support this market, Freddie Mac intends to create a multifamily-focused rural property mapping service.

Specific Actions

Year	**Action**
2018	▪ Develop interactive mapping tool to identify rural areas and high-needs census tracts for limited public use. ▪ Steps to achieve this include: o Identify appropriate channel to produce tool o Organize data in order for use in mapping tool o Test mapping tool in beta form prior to formal release o Solicit market feedback
2019	▪ Adjust tool in response to market feedback

Market Opportunity and Impact

During our outreach in rural areas, we repeatedly heard that the lack of a consistent definition of "rural" was a barrier to the creation of a secondary market. Multiple definitions with different purposes added an unnecessary level of complexity to structuring efficient and effective financing for multifamily properties. While the Duty to Serve rule provides a clear definition around which the industry can now standardize, stakeholders will need tools to be able to easily and quickly identify whether a property falls within that definition. We propose developing such a tool and making it available to the industry. We believe this tool will provide the market with an understanding of the parameters and promote better channeling of rural housing financing. Such a tool will also set a foundation for our Small Balance Loan pilot, described in Objective B.

We expect that development of a rural mapping tool will require multiple collaboration sessions to identify stakeholder needs and incorporate them into our requirements. In order for it to be effective, the tool must be easy to use. We expect that such a tool will have multiple uses. Given the current lack of standardization around rural housing and the need for data and information, we believe that an effective rural properties mapping tool is a necessary baseline for other activities because it will decrease barriers to financing and allow for the better focusing of private capital in rural areas.

OBJECTIVE B: EXPLORE SMALL BALANCE LOAN (SBL) PILOT OFFERING

Evaluation Area	***Year(s)***	***Proposed Concept Score***	***Incomes Targeted***
Outreach	1 and 2	50	VLI, LI, and MI
Loan Product	3	50	VLI, LI, and MI

Through our current research, we expect that we can provide additional benefits by deliberately marketing to owners of rural housing properties, particularly those that would be seeking small balance loans. To that end, Freddie Mac intends to research opportunities for small balance lending in rural areas and, based on our results, develop a pilot product. Assuming success of the pilot, we will look to publish a term sheet and a summary report of lessons learned.

Specific Actions

Year	**Action**
2018	▪ Evaluate and assess the opportunities and barriers with one or more organizations which may include lenders, and governmental entities.
2019	▪ Publish a summary report of lessons learned for this offering ▪ Draft sample product sheet and engage one or more lenders to gain preliminary market feedback.
2020	▪ Assuming research supports the activity, publish and distribute an official product term sheet for use in a pilot. The product term sheet will identify the product, its intended purpose, and the acceptable terms. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-value limits o Debt coverage limits o Allowable lengths of loan term o Allowable lengths of amortization ▪ Engage one or more lenders to test the pilot offering

Market Opportunity and Impact

A pilot plan will provide the rural five-to-fifty unit property market with a private capital source that is tailored to its needs and requirements. The pilot will ensure that we have accounted for variations in this specialized market so that we can make the largest impact possible. It is our hope that we will provide the rural small property housing industry with a product that is both cost-effective and efficient in order to build sustainable communities and provide stability and liquidity to this deserving market. Our research will ensure that any pilot we develop to serve this submarket is conducted in a safe and sound manner.

OBJECTIVE C: DEVELOP OFFERING TO WORK WITH USDA SECTION 515 PROPERTIES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 2	50	VLI and LI

As noted above, USDA's Section 515 program is a key source of affordable housing in rural areas. Additionally, rural multifamily properties tend to be relatively small. Among rural renters living in properties of greater than four units, 66 percent live in properties of 20 units or less.

Rural Housing Units by Multifamily Building Size per HAC Rural Data Portal		
5 to 9 Units	719,869	41%
10 to 19 Units	441,231	25%
20 Units or More	610,983	34%
Total MF Housing Units	1,772,083	

A significant percentage of rural multifamily housing units are encumbered by USDA Section 515 loans. The Section 515 portfolio has total debt outstanding of $10 billion to $11 billion. Approximately 13,830 properties, totaling 420,000 units, are currently in the program. This equates to 24 percent of all rural multifamily units, and 69 percent of rural multifamily units in properties of more than 20 units. With its allotted funds, the Section 515 program is able to preserve affordability for 300-600 units per year across 100-200 properties. The average size of each property is 30 units.

In year one of our Plan, we intend to develop a loan product that can bring private capital to support USDA Section 515 properties. In year two, we will assess the product, refine as necessary and publish a report of lessons learned and market feedback.

Specific Actions

Year	**Action**
2018	▪ Publish an official product sheet available on our website that identifies the product and the acceptable terms. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-value limits o Debt coverage limits o Allowable lengths of loan term o Allowable lengths of amortization ▪ Engage one or more lenders to offer this product
2019	▪ Publish a summary report of lessons learned from the first year of this offering

Market Opportunity and Impact

Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources used in conjunction with USDA's Section 515 program. This is due to the tightly integrated requirements between USDA programs, which can pose a challenge when bringing in additional private capital. We have heard consistently in our outreach at conferences and with various market participants, and with rural borrowers directly, that bringing additional private capital to support the USDA Section 515 portfolio will be an integral part to resolving the maturing mortgage crisis and will provide liquidity to the underserved rural housing market. Based on our discussions with USDA and rural developers, we have learned that USDA Section 515 properties have approximately 30 units, on average, and incorporate four percent tax credits. Therefore, the introduction of private capital is necessary to recapitalize and preserve small multifamily properties and maintain this important housing stock for rural communities.

Admittedly, creating products presents its own set of challenges. From our outreach and previous experience with the USDA, we are aware that its Section 515 product has not been designed to allow private capital as a permanent financing source. Aligning the USDA and Freddie Mac processes with borrowers' expectations will be important when introducing a new private source of capital to a market that has historically been largely focused around USDA debt or guaranty.

We also are aware that USDA's priorities are tied to federal priorities, which can vary over time. Finally, when dealing with the USDA Section 515 program specifically, it will be important to manage risk against the annual budget for this rental subsidy program. The subsidy is integral to maintaining affordability at these properties.

Despite these challenges, we believe we can work together to help people, communities, and the market and relieve the pressure from the maturing mortgage crisis. Given these challenges, success in this objective will likely have a significant impact on small multifamily properties in rural markets because it will extend rental affordability and help to alleviate the maturing mortgage crisis.

OBJECTIVE D: PURCHASE LOANS ON USDA SECTION 515 PROPERTIES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Purchase	3	Varies	VLI and LI

In year three of the Plan Term, we intend to begin purchasing loans on five-to-fifty unit properties with USDA Section 515 debt and four percent LIHTCs in order to provide liquidity and stability to the rural housing market and relief from the maturing mortgage crisis while preserving affordability for small rural properties.

Baseline

We last purchased a loan on a Section 515 property in 2010, so we do not have a recent relevant baseline of experience. This is to be expected because the vast majority of transactions involving Section 515 properties use other USDA programs, such as the Section 538 Guaranteed Rural Rental Housing Program or the Preservation and Rehabilitation Program (MPR).[66]

Target

Due the nature of these deals, which are highly complex and slow to develop, it is likely that our volume will increase slowly. Also, over the next few months, we plan to determine the actual market size of USDA Section 515 maturing five-to-fifty unit properties to determine an accurate target. In the meantime, we propose the following target based on the percentage of units lost in the five-to fifty unit properties sub-market.

Year	2020
Target/30 Concept Score	5% of annual units lost
40 Concept Score	10% of annual units lost
50 Concept Score	20% of annual units lost

OBJECTIVE E: RESEARCH USDA PROGRAMS

Evaluation Area	*Years*	*Proposed Concept Score*	*Incomes Targeted*
Outreach	2 and 3	50	VLI, LI, and MI

We recognize that our product for USDA Section 515 loans with four percent LIHTCs will only support a subset of all USDA programs. Therefore, in year two, we intend to complete a research study to determine which USDA programs could benefit from Freddie Mac financing while serving small rural properties. We intend for this research to address the impact that a third-party financing source could make on the overall market. This includes USDA Section 515 loans without four percent tax credits and the USDA's Section 538 Guaranteed Rural Rental Housing Program.

Specific Actions

Year	Action
2019	▪ Complete research on USDA programs, with a specific focus on support for high-needs rural populations. Research will include identification of relevant USDA programs, their applicability in support of high needs rural populations, and eligibility for third-party financing to be applied. ▪ Provide FHFA with an Executive Summary of research conducted ▪ We intend to partner with current USDA lenders and the USDA to identify the appropriate approach for third party lenders.
2020	▪ Publish findings on relevant USDA programs with a focus on if third party financing can be applied better serve the small multifamily rural properties

Market Opportunity and Impact

This research is a necessary foundation to the development of a product or products that will complement our work with the USDA Section 515 program and thereby provide a more comprehensive offering for properties that are not appropriately served by our current product set. It will also provide us with a better understanding of USDA programs and additional challenges that need to be addressed before a third-party financing product can be introduced in a safe and sound manner. We believe that the publication of the results of our outreach will help address an information gap that currently exists and also may encourage private capital innovation.

Activity 5 – Single-Family Rental in Rural Markets: Additional Activity

Based on our research of the rural market, forty-nine percent of rural renters live in single family rental (SFR) homes. This important segment of the rental rural market is not specifically defined in the Duty to Serve regulation. However, it is a significant way in which renters reside in rural areas. Under current financing models, SFR renters are largely unserved by the GSEs. We believe it is our mission to serve all renters in all areas of the market. We believe we are well situated to provide financing to this market due to our expertise in managing credit risk and strict property and borrower requirements, which leads to decent affordable housing for its tenants. Our intent is to provide liquidity, stability, and affordability to properties that provide affordable housing to the rural rental market. Therefore, in order to more fully support the rural market, Freddie Mac is proposing to support Single Family Rentals in rural markets as an additional activity.

While the size of the single-family rental market has increased in the years after the economic downturn of the past decade, it has always been a large portion of the market. Pre-recession data, from 1985-2005, show that single-family rentals have consistently made up 10-12 million units, or 30-35 percent, of the renter market share. Since 2005, this sector has been the fastest growing segment of rental occupied households, adding an additional four million single-family rental units or up 35 percent in the 10 years ending 2015, according to the American Community Survey.

As the SFR market continues to mature and segment itself, several distinct stratifications of market participants have emerged. The most sophisticated of these participants are the large, institutional investors that have entered the SFR business and have established a new institutional asset class that does not replicate the apartment industry or flip houses. However, the institutional participants make up only a small percentage of the total SFR market. Based on discussions with market participants and other research, we believe it is appropriate to view the broad SFR participants as follows:

- Institutional participants:
    - Typically own portfolios of 1,000+ single-family rentals
    - Estimated total population of 25 investors
    - Estimated to hold approximately ~200,000 properties
    - Estimated value of market share of SFR is ~$30 billion (1-2 percent of total market)
- Middle-Tier participants:
    - Typically own portfolios of 11 – 1,000 single-family rentals
    - Estimated total population of ~77,000 investors
    - Estimated to hold approximately ~1.8 million SFR properties
    - Estimated value of market share is ~$300 billion (10 percent of total market)
- Smaller participants:
    - Typically own portfolios of 1 – 10 single-family rentals
    - Estimated total population of ~8 million investors
    - Estimated to hold approximately ~13 million SFR properties
    - Estimated value of market share is ~$2.5 trillion (85 percent-90 percent of total market)

With respect to SFRs generally, we see the opportunity to provide standardization and liquidity to the middle-tier of the market. We intend to do this in such a way that we can promote affordability relative to the broader market in which homes are located, as well as improve available rental options. In years one through three of our Plan, we intend to explore how to serve rural areas through this activity.

OBJECTIVE A: RESEARCH AND DEVELOP PILOT OFFERING THAT SUPPORTS SINGLE-FAMILY RENTAL HOUSING

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Outreach	1	50	VLI, LI, and MI
Loan Product	2 and 3	50	VLI, LI, and MI

In year one of our Plan, we intend to perform market research and outreach to better understand the nature of, and opportunity for, SFRs in rural areas. We will publish a report of our market analysis in 2018. We will also leverage this report in our product development efforts in years two and three of our Plan.

In year two of our Plan we intend to develop pilot offering terms for SFR portfolios that include SFRs in rural areas, and will look to execute a pilot transaction. In order to support rural SFRs in a safe and sound manner, it will be important to avoid concentration risk. Therefore, we will look for portfolios that we purchase or guaranty to have geographic diversity, which will also enable stronger standardization across this type of asset class, and enable better terms for rural borrowers and choices and conditions for rural renters.

In year three of our Plan we will assess the terms and our attempts at a pilot transaction to determine if refinements need to be made or a formal product offering is viable and advisable.

Specific Action

Year	**Action**
2018	▪ Publish report on SFR market with focus on rural areas
2019	▪ Document pilot offering terms in a product term sheet to share with one or more SFR market participants and explore a pilot transaction ▪ Pilot terms will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization
2020	▪ Provide FHFA with a summary report of observations from the pilot activities

Market Opportunity and Impact

In rural areas, multifamily properties are not necessarily the preferred rental option, as populations tend to be deconcentrated, and the housing stock leans heavily towards single-family homes. SFRs are an important source of rental housing, but the market is still in a stage of fragmentation and emerging standardization. In the mid-tier market, there are approximately 77,000 different investors who have portfolios of more than 10 SFRS, for a total of 1.8 million properties. With so many investors obtaining financing from different sources, the variations in financing, operating performance, and servicing standards can be great, and likely detrimental to the renters themselves. Based on the above, and our discussions with SFR lenders, we understand that by becoming involved in the SFR market, we can provide standardization and liquidity, reduce financing costs for SFRs, increase and/or preserve affordability, and improve the housing options available to rural renters today.

Given the market fragmentation, the number of renters unserved by the GSEs today, the difficulty in developing new offerings to support this market, we believe this Objective will significantly benefit rural renters.

Strategic Priorities Statement

Freddie Mac is the nation's leading provider of financing for affordable rental housing. In 2016, we financed more than $6.3 billion in loans on multifamily properties with regulatory agreements or other features that preserve long term affordability, and we introduced several new offerings to provide greater liquidity in the affordable rental housing market. Freddie Mac also plays a critical role in financing affordable homeownership for America's families. In 2016, we financed
$22.5 billion and $26.3 billion in single-family purchase and refinance loans, respectively, to low-income borrowers. Through our enhanced mortgage offerings, continued policy adjustments to keep up with evolving market needs and sustainable underwriting flexibilities, we have expanded access to credit for a significant number of borrowers.

Despite these successes, discussions with borrowers and other market participants, as well as our experience, reveal headwinds in the near future, from rising interest rates to reduced Low-Income Housing Tax Credit (LIHTC) equity pricing to the potential reduction in vital public subsidies for affordable rental housing. These upcoming challenges make our support even more important to this market. We see opportunities to continue our support and expand our capabilities for affordable housing preservation for both multifamily and single-family markets.

Multifamily

We will look to support both subsidized and unsubsidized affordable housing and promote residential economic diversity through the following strategic priorities:

1. Continue to provide stability through loan purchases on properties receiving federal subsidies, such as LIHTCs, Section 8 or the U.S. Department of Housing and Urban Development's Rental Assistance Demonstration (RAD),
2. Innovate with new offerings to reduce financing costs and close capital gaps to at least partially offset the reduction in LIHTC equity and federal and local subsidy necessary for long-term affordable properties,
3. Provide liquidity to small financial institutions, which are a key source of financing for smaller, unsubsidized affordable housing properties,
4. Continue to promote energy and water efficiency to reduce tenant utility bills and promote affordability, and
5. Identify ways to support USDA Section 515 program to preserve long-term affordability for rural renters.

Single-Family

We will look to leverage our experience and existing capabilities in designing activities to support energy efficiency and shared equity. Based on the input we have received from a wide range of industry participants, setting industry standards for these market segments is a key component for long-term growth. As such, our activities are grounded in the following strategic priorities:

1. Achieve long-term sustainable growth by laying out market infrastructure and developing standards for financing,
2. Provide the market with data and underwriting guidance that can be leveraged across market participants,
3. Enhance consumer awareness about financing options and lender awareness about Freddie Mac product flexibilities,
4. Minimize operational complexity and incorporate automation, where feasible, and
5. Leverage pilots to test new product features and underwriting flexibilities.

Market Context

Overview

By many accounts, the single-family and multifamily housing markets have been recovering over the past several years. The rental market has grown consistently, reaching record levels. Single-family home prices have stabilized since the precipitous decline that affected many homeowners in the last decade. Home prices in many of the most affected areas are back to pre-2008 levels and, in several high-cost areas, have increased to new highs. Though the improvement of home prices has helped the market recover, it also has introduced affordability challenges by pricing out potential eligible borrowers.

With the turnaround and growth in the single-family and multifamily markets, other factors have exacerbated affordability challenges. Although the unemployment rate has improved, incomes have not risen at the same rate as the cost of housing. This is especially true in low- and moderate- income households, many of which have not fully recovered from the crisis and are still dealing with high levels of debt and credit blemishes or hardships caused by the financial crisis.

Rent affordability is an issue affecting a growing number of households and the new supply of affordable rental housing has not kept pace with the demand for units. According to the Joint Center for Housing Studies at Harvard University, 27 percent of all renters are severely “rent burdened,” which means they are spending more than half of their incomes on rent. This compares to 20 percent of renters in 2000, and only 12 percent of renters in 1960.[67]

According to research from the National Housing Trust, “for every new affordable apartment created, two are lost due to deterioration, abandonment or conversion to more expensive housing.”[68] Nationally, there are still only 7.3 million affordable rental units to serve 11.2 million households living on very low incomes.[69]

Affordable rental housing shortages disproportionately affect the lowest-income earners when looking at all households with incomes of less than the area median income (AMI). According to the National Low Income Housing Coalition (NLIHC), only 35 affordable units exist for every 100 households making up to 30 percent of AMI. The problem is even worse for people making up to 15 percent of AMI, where only 17 affordable units exist for every 100 households. The gap between demand and availability of project-based Section 8 housing has been exacerbated by the shrinking housing supply; in the past 10 years, more than 46,000 units have been lost to demolition or expired Section 8 contracts.[70]

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

This affordability crisis is more pronounced in high-cost cities and in highly underserved populations or geographic areas.

Recent housing studies and market data show that housing cost burden — defined as housing costs that are higher than 30 percent of a family’s income — is among the most significant barriers to homeownership.[71] HUD estimates that 12 million households pay more than 50 percent of their annual income for housing. Housing cost burden presents significant barriers to homeownership, including saving for the down payment and paying down other debt obligations or, for homeowners, building a financial safety net through savings.

Even though house prices are going up and the number of households suffering from housing cost burden has been on the rise, the demand for housing and the appeal of homeownership remains strong. The Redfin Housing Demand Index increased 15.1 percent to a seasonally-adjusted level of 124 in December 2016, the highest level recorded since Redfin started measuring demand in January 2013.[72]

Affordable housing stock, especially for first-time homebuyers, remains limited. In its latest “State of the Nation’s Housing” report, the Joint Center for Housing Studies reported that, “according to Zillow, inventories of metro area homes in both the bottom- and middle-value tiers shrank by more than 38 percent in 2010–2015, while those in the top tier fell by 31 percent. In 2014–2015 alone, bottom- and middle-tier inventories were each down nine percent, while top-tier inventories declined by three percent. As a result, less than 20 percent of existing homes for sale in some of the nation’s largest metros—including Dallas, Denver, Nashville, Phoenix, and Raleigh—were in the most affordable value tier for their areas.”[73]

Current Freddie Mac Support to Affordable Housing Preservation

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

For the multifamily market, Freddie Mac offers a broad suite of products that support subsidized and unsubsidized affordable housing in a manner that is consistent with and sometimes beyond the scope of Duty to Serve. In fact, nearly 90% of the rental units we finance overall are affordable to households making very low, low and moderate incomes in markets across the country. We are the market leader in multifamily financing overall in Targeted Affordable housing and in specific programs, such as RAD. In fact, we have doubled the size of our Targeted Affordable platform and purchased a record number of loans in 2015 and 2016, supporting numerous federal and local programs. We have demonstrated further leadership in multifamily energy efficiency. We launched our Green Advantage suite of products in August 2016 and, in the remaining five months of that year, purchased nearly $3.3 billion of loans supporting energy and water efficiency improvements. We also have focused our attention since 2015 on providing liquidity to small financial institutions, testing methods to enable such institutions to increase their lending capacity.

In the single-family market, Freddie Mac currently has a range of products that are consistent with affordable housing preservation. Freddie Mac believes that reducing home utility costs places families in a better financial situation, and we are committed to supporting the energy efficiency market with the objective of helping to preserve affordability. Although not well-known among lenders, Freddie Mac currently provides flexibilities to support the financing of energy efficiency improvements through its existing products.[74]. Freddie Mac also purchases mortgages secured by properties with resale restrictions. And, in June 2016, Freddie Mac updated its requirements to purchase mortgages secured by properties with income-based resale restrictions that survive foreclosure.[75]. The updated requirements also provided additional flexibility as it relates to collateral valuation to help address existing market needs. In addition, Freddie Mac purchases mortgages originated under shared appreciation loan programs if specific requirements are met pursuant to the Single-Family Seller/Servicer Guide (Guide). Freddie Mac also has been working with select lenders to test features associated with inclusionary housing programs that offer flexibility, and we intend to use these results to inform future product design.

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

Challenges and Needs

Affordable Rental Housing Preservation

Affordable rental housing is difficult to build and operate based on rental income alone. Construction costs, land costs, and interest rates, as well as ongoing operations and maintenance drive the need for certain levels of regular rental income, which generally cannot be supported by rents that would be affordable to very low- and low-income renters without some form of subsidy. This is especially true for those making even less, where unsubsidized rents affordable to those making 30 percent of AMI, for example, could not support the operation of a safe and decent property. Therefore, new supply and long-term preservation are often dependent upon federal or local subsidies in order to keep rents at levels affordable to very low-income renters, particularly in high-opportunity areas.

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

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

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

Despite the success of federal programs such as LIHTC, Section 8 and RAD, these programs have not kept pace with the growing need for affordable housing. In the near future, it appears that it will become more difficult to close the gap, particularly through federal and local subsidy programs, for at least three reasons:

- The effect of likely federal tax reform on LIHTC equity pricing,
- Rising interest rates, and
- The likelihood of reduced federal subsidies such as Community Development Block Grants (CDBGs) and HOME funds.

With the potential for U.S. federal tax reform, there is a risk that these programs will create and preserve fewer units per year. The equity investor price per tax credit has already been reduced since late 2016 based on current uncertainty in the federal tax reform; this reduces the funds available for properties which, in turn, reduces the number of affordable units created or preserved per year, as discussed below. As a result, our support of subsidized affordable rental housing in the form of LIHTC, Section 8 and RAD increases in both importance and difficulty. Simultaneously, we see rising interest rates further constraining the amount of debt a property can support and, consequently, the number of affordable units that can be preserved.

Furthermore, current budget proposals project a decrease in federal subsidies, such as HOME funds and CDBGs, that provide vital sources of subordinate financing.[76] Without these funds, fewer affordable housing transactions will be economically viable, or they will require more tax credits to maintain viability. This will result in a concentration of tax credits in fewer properties, and a further reduction in the number of long-term affordable units that can be created or preserved.

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

The unsubsidized affordable rental housing market, commonly known as naturally occurring affordable housing and workforce housing, is not formally or nationally defined at this time, though there have been various estimates of its size. It generally consists of B and C class (also known as one and two star) properties at risk of deterioration, demolition or conversion to market rents. The Urban Land Institute estimates there are three million units of unsubsidized housing available that are affordable nationwide to people making 60% to 100% of AMI,[77] while CoStar estimates there are 5.6 million units in one and two star properties.[78]

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

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

We see opportunities to address these challenges and meet the market's needs for both subsidized and unsubsidized affordable rental housing through both loan purchases and research and the development of new products.

Preserving Single-Family Affordable Housing

Energy Efficiency

New renewable energy technologies have created new ways to reduce housing costs, primarily through utility savings, and through energy efficiency home improvements. According to the Department of Energy, heating and cooling costs are the largest utility expense for most U.S. homes. In fact, they account for more than half of energy use in a typical home.[79] Since utility expenses are a factor of overall housing costs, a reduction of energy expenses is a direct reduction of housing costs. However, utility expenses are typically not factored into traditional underwriting methods, and thus the value of energy efficiency home features has not been consistently accounted for in first-lien financing.

The market for home energy efficiency has gained momentum, with several market participants pioneering new financing options, yet the residential energy efficiency market remains relatively small. During our outreach and research into this market, we learned that while there are a number of challenges and needs, the most significant challenge is the lack of standardization. Lack of standardization makes it difficult for lenders and investors to support the market in any scalable way. It also makes research challenging when it comes to assessing risks and/or the impact of property values of energy-efficient homes.[80]

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

1. **Products:** Transactional ease is a key factor for lenders to provide first-lien energy efficiency products. The complexity of mortgage underwriting guidelines, coupled with paperwork and longer settlement timelines, puts first-lien mortgage financing at a disadvantage in comparison to unsecured financing options where the underwriting, approval and funds disbursement timelines are simpler and shorter.
2. **Securitization:** Given the fragmented energy efficiency industry, financing programs vary significantly, which means securitization can be economically unfeasible. In 2014, a report issued by the Coalition of Green Capital says the "lack of standard documents, processes and program structures is one of the oft-cited barriers in the clean energy finance sector."[81]
3. **Data and research**: In general, the market needs more energy efficiency-specific performance data to properly assess risks, model performance of properties with energy efficiency features and design appropriate underwriting guidelines. On a longer-term basis, the data collected must be standardized to allow for more streamlined and broad-based modeling.
4. **Market education and outreach:** Through our research and market outreach, we learned that the average consumer has limited awareness of the benefits of incorporating energy-efficient features into a home. We also found that consumers who are knowledgeable about the potential value of investing in energy efficiency home features may not have access to comprehensive information about financing options to facilitate such improvements.

Shared Equity

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

Over the past year, Freddie Mac has been conducting outreach into shared equity programs to better understand this market and identify opportunities to facilitate a secondary market to preserve affordable housing under the rule. A key challenge Freddie Mac will need to overcome is the lack of standardization among existing shared equity programs. Each organization develops highly customized programs based on its unique geographic needs, existing partnerships, available budgets and funding mechanisms. This siloed development process creates loan products that, individually and in the aggregate, generate a small number of loans. The variety of program structures creates challenges when it comes to determining appropriate underwriting requirements and designing property valuation guidance. The need to scale production and increase funding available to program sponsors are additional growth barriers inhibiting this market.

In addition, shared equity homeownership programs are not widely understood by lenders and other market participants. Lenders that may be familiar with shared equity program structures have shied away from originating loans given their non-traditional structures. As a result, investors have shown little interest in purchasing these loans. All of these challenges, together, have contributed to a lack of a secondary market for shared equity mortgages.

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

Statutory & Regulatory Activities Considered but not Included

Not applicable.

Activities and Objectives

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

LIHTCs is the number one subsidy currently available for new affordable rental housing units, and is tightly connected to many other federal and local subsidy programs. In our analysis of the National Housing Preservation Database (NHPD), which was assembled jointly by the Public and Affordable Housing Research Corporation (PAHRC) and the National Low Income Housing Coalition (NLIHC), we identified just under 33,000 properties with an active LIHTC subsidy and about 2.2 million total assisted units under this program. We compared these figures against data from HUD, which showed there are about 33,500 properties with nearly 2.28 million LIHTC assisted units.[82]

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

	Active Properties	**Assisted Units**
NHPD Estimate of LIHTC	**32,825**	**2,215,687**
HUD Estimate of LIHTC	33,513	2,276,843

Freddie Mac currently supports the LIHTC program by providing debt financing on properties with tax credits. This market is largely driven by LIHTC equity investment, however, as that is where the chief benefit lies. Therefore, to understand the breadth and direction of the market and our role in it on the debt side, we must look at the market for LIHTC equity.

As recently as 2015, total LIHTC equity investment in affordable rental housing was approximately $13 billion — $10 billion from nine percent credits, and $3 billion from four percent credits. As noted above, we have heard consistently through our outreach at conferences and with borrowers, and have seen in our transaction experiences, that the increased likelihood of federal tax reform has prompted tax credit investors to reconsider their investments and reduce their pricing. Novogradac estimates that a reduction in the corporate tax rate from 35 percent to 20 percent would reduce the investor equity price per credit by up to $0.17 on the dollar, which could have a material impact on the amount of equity available, and therefore on the number of units created or preserved each year. Novogradac further estimates that a reduction of as much as $2.2 billion or more in annual LIHTC equity investment would occur under various tax reform proposals, which would equate to as many as 16,000 fewer units per year created or preserved.[83] Additionally, since late 2016, we have observed that some investors are, at least temporarily, exiting the LIHTC equity market, which would further reduce the equity available.

This reduction of about 20 percent in LIHTC equity per year (which equates to, roughly, a 20 percent reduction in units created or preserved annually) does not factor in potential increases in interest rates. Increased rates would further depress the number of units that can be created or preserved each year by as much as five percent because the increased debt costs cannot be supported without either higher rents or greater subsidies. We figure the impact of both increased interest rates and decreased LIHTC equity investments results in a total reduction of 25 percent of units created or preserved as affordable thorough the LIHTC program per year.

Additionally, recent HUD budget proposals suggest a reduction in, if not a complete cut to, funding for the HOME program and CDBGs.[84] These two sources of funds are found in approximately 30 percent of new LIHTC transactions. A reduction in funding for these programs means that each transaction would require more tax credits to compensate for unavailable subordinate debt funds. This would further reduce the total number of units created or preserved as affordable as more tax credits would need to be applied to fewer properties. While these impacts still need to be studied, we estimate a further reduction of approximately 10 percent in units leading to a total reduction of 35 percent in units created or preserved as affordable per year.

Challenges in the LIHTC equity market underscore the importance of our role in continuing to provide liquidity and stability in providing debt financing, as well as the increased emphasis on filling gaps left by reduced equity investments with other forms of debt.

To support the LIHTC program through debt financing, Freddie Mac proposes the following:[85]

1. Provide liquidity and stability through LIHTC loan purchases,
2. Develop a new offering with a more efficient origination path for LIHTC preservation, and
3. Develop a new offering to close the capital gap for LIHTC transactions.

OBJECTIVE A: PROVIDE LIQUIDITY AND STABILITY THROUGH LIHTC LOAN PURCHASES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Purchase	1, 2 and 3	50	VLI, LI, and MI

During the entire Plan Term, we intend to play a vital role in providing liquidity, stability and affordability in the LIHTC debt market through a focus on loan purchases. The market context described above is important because debt financing will be materially more difficult given the reduced equity and higher interest rates, and we expect to see noticeably fewer transactions as a result.

Baseline

Between 2014 and 2016, we were very active in purchasing LIHTC loans, with 2015 and 2016 being atypically high years in purchase volume. This high volume was in large part because LIHTC equity pricing was at an all-time high and interest rates were at historic lows, the combination of which stretched LIHTC equity further and allowed properties to support more debt.

Because LIHTC is the number one affordable rental housing subsidy, it is found on a significant portion of affordable housing transactions, including those also associated with Section 8 and RAD. These federal housing programs were designed to work most efficiently when used in concert and this is, in fact, the case. Therefore, we believe it is important to recognize this association and measure ourselves against this standard. Accordingly, the numbers below, as well as our baseline and projections, will include LIHTC transactions that also have Section 8 or RAD associations. The chart below shows our support for LIHTC debt over the last three years.

Year	**2014**	**2015**	**2016**
Loan Size	$1.5B	$2.2B	$2.0B
Units	13,256	22,939	26,903
Loans	85	155	197

We propose using, as our baseline, an average of our prior three years of loan purchases adjusted downward by 35 percent to account for the estimated and assumed total market reduction of 35 percent, described above. This equates to roughly 13,500 units or 90 transactions.

Target

Providing financing for 13,500 units or 90 transactions annually will have a meaningful impact on the market, especially in light of the market headwinds discussed throughout and in light of the fact that this number of transactions is greater than the number we financed as recently as 2014. Therefore, we believe providing financing for the lesser of 13,500 units or 90 transactions is a reasonable and meaningful target and should earn a Concept Score of 30. If we exceed the baseline, our score should increase roughly in accordance with each five percent interval over the baseline, as shown here:

Year	2018	2019	2020
Target/Score of 30	13,500 Units or 90 Transactions	13,500 Units or 90 Transactions	13,500 Units or 90 Transactions
Concept Score of 40	14,250 Units or 95 Transactions	14,250 Units or 95 Transactions	14,250 Units or 95 Transactions
Concept Score of 50	14,750 Units or 100 Transactions	14,750 Units or 100 Transactions	14,750 Units or 100 Transactions

Our baseline and targets will be consistent across all three years, but may be adjusted upward or downward annually based on market conditions, such as market reactions to tax changes.

We anticipate that we will reach these goals by leveraging our seller/servicer network and core products, as well as innovating to reduce financing costs, increase efficiency and bring in new investors and/or partners to support transactions. These innovations are described in Objectives B and C.

Market Opportunity and Impact

As discussed above, the disruption already present in the LIHTC equity market has had a material impact on the funding available for transactions and the likelihood of reduced funding for properties through the HOME program and CDBG programs has the potential to concentrate available LIHTCs on fewer properties because more tax credits will be required per transaction in order to compensate.

Continuing to provide debt financing and increasing that support relative to the smaller market for LIHTC transactions is critical for the creation and preservation for affordable rental housing, especially as other investors leave the market. Recognizing the critical role the GSEs may play in providing a source of stability during this period of market turmoil, we will be mindful of our status in conservatorship and ensure that our purchase volume is consistent with safety and soundness.

Additionally, we anticipate that a portion of the loans we purchase, particularly for mixed-income properties in high-opportunity areas, have the potential to support residential economic diversity as defined in Duty to Serve.

OBJECTIVE B: DEVELOP A NEW OFFERING WITH A MORE EFFICIENT ORIGINATION PATH FOR LIHTC PRESERVATION

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 2	50	VLI, LI, and MI

In year one of our plan, we intend to release a new offering to streamline the origination and underwriting process for subsidized affordable rental housing transactions that are not pursuing new tax credits. Such transactions would include properties with Section 8 Housing Assistance Payments (HAP) contracts or existing LIHTCs in year 11 or later—the importance of which was emphasized in our outreach efforts. We intend to do this in such a way that it does not affect safety and soundness. Consistent with our current practice, each loan will be underwritten by Freddie Mac and risks will be appropriately assessed and mitigated.

In year two of our plan, we intend to assess this offering and refine it as necessary given market feedback.

Specific Actions

Year	Action
2018	▪ Publish an official product term sheet on our website that identifies the product and the acceptable terms. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization ▪ Provide one to three training sessions via webinar or in person as appropriate for the audience
2019	▪ Provide FHFA with a Product Status Report that will include the following: o Number of transactions o Number of seller/servicer participants o Observations regarding product adoption

Market Opportunity and Impact

Typical debt offerings tend to be costly and time-consuming for these simpler, smaller transactions, because such offerings require the same level of due diligence as highly complex affordable rental housing transactions. The time and cost often make it harder to preserve these properties as affordable. We anticipate reducing financing costs per deal which could, in turn, reduce the rents required to operate the property and, therefore, reduce the amount of subsidy required per property. This will stretch federal funding further and preserve the long-term affordability of the property well into its extended use period. This offering, particularly in a rising rate environment where a reduction in financing costs can offset an increase in rates, will have a significant impact on the affordable rental housing market.

OBJECTIVE C: DEVELOP A NEW OFFERING TO CLOSE CAPITAL GAPS FOR LIHTC TRANSACTIONS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	1 and 2	50	VLI, LI, and MI

In year one of our plan, we intend to introduce a pilot offering designed to give investors the opportunity to promote affordable housing preservation by closing funding gaps left by the reduction in available LIHTC equity. This offering will be structured in such a way that risk from closing the capital gap will be distributed away from Freddie Mac and the U.S. taxpayer to mission-focused investors, thereby promoting safety and soundness.

In year two of our plan, we will review the offering and determine if any changes are required and if the offering should be made more broadly available. If the offering is ready for broad availability, we will publish an official product term sheet and provide training and marketing materials to the applicable seller/servicers.

Specific Actions

Year	Action
2018	▪ Develop pilot offering term sheet and distribute to one or more TAH seller/servicers involved in the pilot. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization
2019	▪ Review product offering and, if applicable, publish an official product term sheet on our website that identifies the product and acceptable terms. ▪ Provide one to three training sessions via webinar or in person training sessions as appropriate for the audience.

Market Opportunity and Impact

Where the benefit of federal subsidies is reduced or absent, or where LIHTC properties are late in their compliance period, the importance of private mission-focused capital is increased. This capital comes from banks meeting their Community Reinvestment Act (CRA) needs as well as local foundations or local institutions that have a desire to support affordable housing in their communities. We have learned through our outreach efforts that there are not currently enough efficient means for investors to channel their capital directly to properties and promote affordable housing preservation at a meaningful scale, particularly for highly mission-focused investors. We anticipate that this offering will enable mission-focused capital to reach greater scale over time.

We also have heard in our outreach efforts that investor yield expectations are an additional barrier to leveraging mission-focused capital. Today, mission-focused investors tend to expect yields that are similar to the ones achieved by traditional investors. Yet, in many cases, it is difficult to meet these yield expectations while allowing borrowers to preserve affordability. This is particularly true for properties that do not receive federal or local subsidies. This theme has been especially prevalent in our dialogues with nonprofits and other mission-focused developers of unsubsidized affordable housing.

Given these challenges, there is a particularly high degree of difficulty associated with achieving the goal of attracting mission-focused investors who have typical market yield expectations while simultaneously allowing rents to remain affordable. It will require Freddie Mac to consolidate a network of investors, many of whom will have specific geographic or mission restrictions as well as different yield expectations and risk appetites. It will take time to identify and consolidate these investors and to build momentum around pilot deals to attract more investors and demonstrate the material benefits of the program.

We anticipate that we will complete few transactions in year one of our plan as we focus on the product infrastructure. By putting such infrastructure in place, we will be laying the foundation that allows the mission-focused investment market to scale up over time. In year two of our plan, we intend to assess this offering and revise the parameters, if necessary, based on what we learn from the first year.

Additionally, we anticipate that this offering will enable residential economic diversity, particularly in high-opportunity areas by allowing capital to flow more efficiently and cost effectively in general, particularly in high-opportunity areas.

We view this as a substantially difficult activity with a high potential impact of enabling more affordable units to be created or preserved, reducing reliance on federal subsidies and channeling new capital to support affordable housing. Therefore, we propose that this objective receive a concept score of 50.

Activity 2 – Section 8: Statutory Activity

Project-based Section 8 is an important federal program connected to a substantial number of affordable housing units nationwide. In our analysis of the NHPD, we identified about 18,000 properties with an active project-based Section 8 subsidy supporting almost 1.27 million units. Figures on the total number of properties from other sources, most of which come from HUD's website, range from 14,700 to 17,000; total assisted unit figures typically range from 1.1 million to 1.28 million.

	Active Properties	Assisted Units
NHPD Estimate of Section 8	**18,031**[86]	**1,268,879**
Low estimate of outside sources	14,746	1,125,377
High estimate of outside sources	16,697	1,275,000

Section 8 HAP contracts are frequently combined with LIHTC equity. Section 8 subsidies are present on both properties with existing LIHTCs and properties receiving new LIHTCs. As such, the market for Section 8 properties in a given year is tied to the market for tax credits. Where there is fluctuation in the LIHTC market, there will be fluctuation in the Section 8 market. As with LIHTC debt, it is vital that we continue to purchase loans in order to support this key federal program.

To support Section 8 properties, we propose the following objectives:[87]

1. Provide liquidity and stability through Section 8 loan purchases,
2. Develop a new offering with a more efficient origination path for Section 8 housing preservation, and
3. Develop a new offering to close the capital gap for Section 8 transactions.

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

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Purchase	1, 2 and 3	50	VLI, LI, and MI

Throughout the entire plan term, we intend to play a key role in providing liquidity, stability and affordability in the Section 8 market through a focus on loan purchases. Because Section 8 is so closely tied to LIHTCs, we understand from our outreach and experience that the same assumptions about reduced LIHTC equity and reduced creation or preservation of units applies to Section 8, particularly when new LIHTCs are used. The market context described above is important because debt financing will be materially more difficult given reduced equity and higher interest rates. We expect to see noticeably fewer transactions involving Section 8 subsidies as a result.

Baseline

Between 2014 and 2016, we were very active in purchasing project-based Section 8 loans, with 2015 and 2016 being atypically, record years in purchase volume. That was because LIHTC equity pricing was at an all-time high and interest rates were at historical lows, the combination of which stretched LIHTC equity further and allowed properties to support more debt.

The table below shows Freddie Mac's support for Section 8 over the last three years.

Year	2014	2015	2016
Loan Size	$640.0MM	$1.3B	$1.45B
Units	9,574	19,029	19,749
Loans	51	127	127

Approximately half of all Section 8 transactions that we finance also rely on LIHTCs or RAD subsidies. In a market that will likely be more constrained than in recent years, efficiently pairing subsidies will be even more important. Therefore, we believe it is important to recognize this association as the way the market works most efficiently and measure ourselves against this standard.

We propose using as our baseline an average of our prior three years of Section 8 units (with or without LIHTCs on the property), adjusted downward by 35 percent to account for a total market reduction of 35 percent. This equates to a baseline of 10,500 units.

We see this as a potentially aggressive purchase baseline because 2015 and 2016 were record-setting years for loan purchases, and not typical of historical purchase volume.

Target

Providing financing for 10,500 units annually would have a very meaningful impact on the market, especially in light of the market headwinds and the fact that this number is still greater than the number of units we financed as recently as 2014. Therefore, we believe that providing financing for the lesser of 10,500 units or 90 transactions is a reasonable and meaningful target and should earn a Concept Score of 30. If we exceed the baseline, our score should increase roughly in accordance with each five percent interval over the baseline, as shown here:

Concept Score	2018	2019	2020
Target/Score of 30	10,500 Units or 65 Transactions	10,500 Units or 65 Transactions	10,500 Units or 65 Transactions
Concept Score of 40	11,000 Units or 70 Transactions	11,000 Units or 70 Transactions	11,000 Units or 70 Transactions
Concept Score of 50	11,500 Units or 75 Transactions	11,500 Units or 75 Transactions	11,500 Units or 75 Transactions

Our baseline and targets will be consistent across all three years, but may be adjusted upward or downward annually based on market conditions, such as market reactions to tax changes.

We anticipate reaching these goals by leveraging our seller/servicer network and core products as well as innovating to reduce financing costs, increase efficiency and bring in new investors and/or partners. These innovations are described in Objectives B and C.

Market Opportunity and Impact

The disruption already present in the LIHTC equity market has had a material impact on the funding available for Section 8 transactions because reduced LIHTC equity directly relates to reduced funding availability. Additionally, the likelihood of reduced funding channeled to properties from HOME and CDBGs has the potential to concentrate available LIHTCs in fewer deals because more tax credits will be required per deal in order to compensate for reduced soft debt funds and would remove a form of subsidy from Section 8 deals that do not use LIHTCs.

Continuing to provide a consistent source of debt financing and increasing that support relative to the smaller market for Section 8 transactions is critical for the creation and preservation of affordable rental housing, particularly in a market where other sources of funds are reduced. We believe that the purchase targets are consistent with safety and soundness.

OBJECTIVE B: DEVELOP A NEW OFFERING WITH A MORE EFFICIENT ORIGINATION PATH FOR SECTION 8 PRESERVATION

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	1 and 2	50	VLI, LI, and MI

In year one of our plan, we intend to release a new offering to streamline the origination and underwriting process for subsidized affordable housing transactions that are not pursuing new LIHTCs. Such transactions would include properties with Section 8 HAP contracts or existing LIHTC in year 11 or later—the importance of which was emphasized in our outreach efforts. We intend to do this in such a way that does not affect our safety and soundness. Consistent with our current practice, each loan will be underwritten by Freddie Mac and risks will be appropriately assessed and mitigated.

In year two of our plan, we intend to assess this offering and refine it as necessary given market feedback.

Specific Actions

Year	**Action**
2018	▪ Publish an official product term sheet on our website that identifies the product and the acceptable terms. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization ▪ Provide one to three training sessions via webinar or in person as appropriate for the audience.
2019	▪ Provide FHFA with a Product Status Report that will include the following: o Number of transactions o Number of seller/servicer participants o Observations regarding product adoption

Market Opportunity and Impact

Typical debt offerings tend to be costly and time consuming for these simpler, smaller transactions, because such offerings require the same level of due diligence as highly complex affordable housing transactions. The time and cost often make it harder to preserve these properties as affordable. We anticipate reducing financing costs per deal, which could, in turn, reduce the rents required to operate the property and, therefore, reduce the amount of subsidy required per property. This will thereby stretch federal funding further and preserve the long-term affordability of the property well into its extended use period. This offering, particularly in a rising rate environment where a reduction in financing costs can offset an increase in rates, will be significant to the market.

OBJECTIVE C: DEVELOP A NEW OFFERING TO CLOSE CAPITAL GAPS FOR SECTION 8 TRANSACTIONS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	1 and 2	50	VLI, LI, and MI

In year one of our plan, we intend to introduce a pilot offering designed to give investors the opportunity to promote affordable housing preservation through Section 8 properties by closing funding gaps left by the reduction in available LIHTC equity. This offering will be structured in such a way that risk will be distributed away from Freddie Mac and the U.S. taxpayer to mission-focused investors, thereby promoting safety and soundness.

In year two of our plan, we will review the offering and determine if any changes are required and if the offering should be made more broadly available. If the offering is ready for broad availability, we will publish an official product term sheet and provide training and marketing materials to the applicable seller/servicers.

Specific Actions

Year	**Action**
2018	▪ Develop pilot offering term sheet and distribute to one or more TAH seller/servicers involved in the pilot. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization
2019	▪ Review product offering and, if applicable, publish an official product term sheet on our website that identifies the product and acceptable terms. ▪ Provide one to three training sessions via webinar or in person training sessions as appropriate for the audience.

Market Opportunity and Impact

Where the benefit of federal subsidies is reduced or absent, or where LIHTC properties are late in their compliance period, the importance of private mission-focused capital is increased. This capital comes from banks meeting their Community Reinvestment Act (CRA) needs as well as local foundations or local institutions that have a desire to support affordable housing in their communities. We have learned through our outreach efforts that there are not currently enough efficient means for investors to channel their capital directly to properties and promote affordable housing preservation on a meaningful scale, particularly for highly mission-focused investors. We anticipate that this offering will enable mission-focused capital to reach greater scale over time.

We also have heard in our outreach efforts that investor yield expectations are an additional barrier to leveraging mission-focused capital. Today, mission-focused investors tend to expect yields that are similar to those achieved by traditional investors. Yet, in many cases, it is difficult to meet these yield expectations while allowing borrowers to preserve affordability. This is particularly true for properties that do not receive federal or local subsidies. This theme has been especially prevalent in our dialogues with nonprofits and other mission-focused developers of unsubsidized affordable housing.

Given these challenges, there is a particularly high degree of difficulty associated with achieving the goal of attracting mission-focused investors who have typical market yield expectations while simultaneously allowing rents to remain affordable. Meeting these challenges will require Freddie Mac to consolidate a network of investors, many of whom will have specific geographic or mission restrictions as well as different yield expectations and risk appetites. It will take time to identify and consolidate these investors and to build momentum around pilot deals to attract more investors and demonstrate the material benefits of the program.

We anticipate that we will complete few transactions in year one of our plan as we focus on the product infrastructure. By putting such infrastructure in place, we will be laying the foundation that allows the mission-focused investment market to scale up over time. In year two of our plan, we intend to assess this offering and revise the parameters, if necessary, based on what we learn from the first year.

Additionally, we anticipate that this offering will enable residential economic diversity, particularly in high-opportunity areas by allowing capital to flow more efficiently and cost effectively in general, particularly in high-opportunity areas.

We view this as a substantially difficult activity with a high potential impact of enabling more affordable units to be created or preserved, reducing reliance on federal subsidies and channeling new capital to support affordable housing.

Activity 3 – HUD Rental Assistance Demonstration Program: Regulatory Activity

HUD's Rental Assistance Demonstration (RAD) was established in 2011 to help convert at-risk public housing properties into project-based vouchers or rental assistance contracts under the Section 8 program. The net effect is to convert public housing projects into privately financed, government-subsidized properties using the Section 8 program. The goal is to preserve long-term affordability and renovate and improve obsolete affordable rental housing stock. This voluntary conversion gives public housing authorities more flexibility to access private and public funding sources. The majority of RAD transactions require LIHTC equity and/or soft subordinate debt in order to support the property rehabilitation.

RAD has two components. Component 1 focuses on converting and rehabilitating public housing properties, as described above. Component 2 addresses a different set of properties through the conversion of Section 8 Moderate Rehabilitation, Rent Supplement and Rental Assistance Payment properties. Freddie Mac is active in both components of the RAD program.

RAD sets a cap on the total number of units eligible for conversion. Congress initially authorized HUD to convert 60,000 units under RAD after a pilot of 12,000 units. In 2015, this cap was raised to 185,000 units for Component 1, which focuses on public housing properties. However, this cap has been fully subscribed and additional properties have been placed on a waitlist. Importantly, additional units cannot be converted under Component 1 without congressional authorization. At this time, it is not clear if and when the cap will be raised.

Although Component 2 does not have a cap, conversions are constrained by the availability of Section 8 Tenant Protection Vouchers, which are partially tied to congressional authorization.[88]

In addition to the potential market-dampening effect of the cap on Component 1, many of the major cities with interest in RAD, and where rehab can be done in a manner that is cost-neutral to HUD, have already taken advantage of it. Generally, forthcoming conversions will need to rely on other subsidies, which are not consistently available. Therefore, future RAD transactions will be increasingly hard to put together and execute.

Freddie Mac also anticipates that the market for Component 2 conversions will diminish over time as more of the properties eligible for conversion are completed. The vast majority of Rent Supplement and Rental Assistance properties have already been converted.[89]

Freddie Mac has been committed to supporting RAD since its inception and has become the top RAD lender. Even in this shrinking RAD market, we look to continue our support and seek opportunities where we can leverage capital to greater effect in the following ways:[90]

1) Provide liquidity and stability through RAD loan purchases, and
2) Develop a new offering to close the capital gap for RAD transactions.

OBJECTIVE A: PROVIDE LIQUIDITY AND STABILITY THROUGH RAD LOAN PURCHASES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Purchase	1, 2 and 3	50	VLI, LI, and MI

Freddie Mac has been an important source of debt financing for RAD transactions; this support has included involvement in the largest, most innovative RAD portfolios, namely those in El Paso, Texas and San Francisco, California. From 2014 through 2016, we purchased a total of $267.8 million of RAD loans supporting 3,965 units across 20 properties. That is an annual average of $89 million of loans supporting 1,300 units across seven properties. The table below shows our support for RAD over the most recent three years.

Year	**2014**	**2015**	**2016**
Loan Size	$63.8MM	$125.5MM	$78.5MM
Units	719	2,021	1,225
Loans	3	12	5

The substantial number of units preserved under our RAD involvement are the materially contributed to by these large portfolios. Based on our outreach through conferences, discussions with market participants as well as our experience, we expect to see significantly fewer RAD units converted going forward as the pace for conversions slows for several reasons:

1. Major cities such as El Paso and San Francisco with cost-neutral rehabilitations have received their awards and Freddie Mac financing has been applied,
2. Property portfolios pursuing RAD will be smaller, with fewer units and a greater need for soft debt,
3. The majority of RAD transactions require tax credits and/or soft debt. Given the assumed 35 percent reduction in the LIHTC market, we anticipate RAD will be similarly affected,
4. A significant portion of Component 2 properties has already been converted, and
5. The cap for Component 1 units has not yet been raised.

Given the importance of RAD in improving the living conditions of so many people in public housing, combined with the challenges it will face in the coming years, it is important that Freddie Mac continue to provide liquidity and stability. Consistent with safety and soundness concerns, our support will be relative to the likely size of the market.

Baseline

Based on these factors, we anticipate that RAD will impact significantly fewer units per year over the next three years as larger public housing authorities (PHAs) complete their conversions and attention shifts to smaller PHAs. In fact, we have already begun to see this reduction after a peak in 2015. Therefore, we set our baseline and targets as shown in the table below:

Year	2018	2019	2020
Baseline	550 Units or 3 Transactions	250 Units or 2 Transactions	250 Units or 2 Transactions

Target

Providing financing for 550 units in 2018, and 250 units thereafter would have a meaningful impact on the RAD market as it shrinks over the coming years, especially in light of the market headwinds discussed throughout and the nature of the RAD transactions we are likely to see. Therefore, we believe providing financing for the lesser of 550 units or three transactions in 2018, and the lesser of 250 units or 2 transactions in 2019 and 2020, constitutes a reasonable and meaningful target and should earn a Concept Score of 30. If we exceed the baseline, our score should increase in accordance with each five percent interval over the baseline, as shown here:

Concept Score	2018	2019	2020
Target/Score of 30	550 Units or 3 Transactions	250 Units or 2 Transactions	250 Units or 2 Transactions
Concept Score of 40	575 Units or 4 Transactions	265 Units or 3 Transactions	265 Units or 3 Transactions
Concept Score of 50	600 Units or 5 Transactions	275 Units or 4 Transactions	275 Units or 4 Transactions

Our baseline and targets may be adjusted upward or downward annually based on market conditions, such as market reactions to tax changes or the raising of the cap for Component 1 units that can be converted.

We anticipate reaching these goals by leveraging our seller/servicer network and core products as well as innovating to bring in new investors and/or partners. These innovations are described below in Objectives B.

Market Opportunity and Impact

From our outreach and experience, we recognize that there are significant challenges affecting RAD, as described above. Additionally, the major portfolios have already been converted and the industry is moving to support transactions that require greater subsidies and more financial parties. We expect that there will be significantly fewer transactions to support RAD and that these will be more complex and difficult to complete. Continued availability of Freddie Mac debt financing for RAD will be especially important for those transactions that can assemble the necessary equity and subordinate debt.

OBJECTIVE B: DEVELOP A NEW OFFERING TO CLOSE CAPITAL GAPS FOR RAD TRANSACTIONS

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 2	50	VLI, LI, and MI

As with Section 8 and LIHTC debt above, in year one of our plan we intend to introduce a pilot offering that allows investors to promote affordable housing preservation through a Freddie Mac execution designed to close funding gaps left by reduced LIHTC equity and allow borrowers to leverage their equity for greater effect. In year two of our plan, we will review the offering, determine if any changes are required and if the offering should be made more broadly available. If the offering is ready for broad availability, we will publish an official product term sheet and provide training and marketing materials to the applicable seller/servicers.

Specific Actions

Year	Action
2018	▪ Develop pilot offering term sheet and distribute to at least one TAH seller/servicers involved in the pilot transaction. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization
2019	▪ Review product offering and, if applicable, publish an official product term sheet on our website that identifies the product and acceptable terms. ▪ Provide one to three training sessions via webinar or in person training sessions as appropriate for the audience.

Market Opportunity and Impact

We have heard in our outreach that because the upcoming public housing portfolios pursuing RAD will be smaller and in greater need of subordinate debt, providing the mechanism to more efficiently channel subordinate capital to RAD portfolios will be especially important. Doing this in such a way that it is paired with our current senior debt offerings will increase its impact. This efficiency can reduce the time and effort necessary to complete more challenging transactions. The offering will be designed consistent with safety and soundness.

There is a particularly high degree of difficulty in attracting mission-focused investors to RAD transactions. It will require us to consolidate a network of investors, many of whom will have specific geographic or mission restrictions on their investments, as well as different yield expectations and risk appetites. It will take time to do this and to build momentum around pilot deals to attract more investors and demonstrate the material benefits of the program.

Due to the substantial difficulty of this activity, and the high potential impact of (1) enabling more affordable units to be preserved through RAD than would have been preserved otherwise, (2) maximizing the impact of limited federal subsidies, and (3) channeling new capital to support RAD, we propose that this objective receive a concept score of 50.

Activity 4 – Section 515: Statutory Activity

USDA's Section 515 program is vital for the preservation of highly affordable rural multifamily housing. It provides rental assistance to ensure that tenants pay no more than 30 percent of their income toward rent. According to an analysis by the Housing Assistance Council (HAC), the USDA has financed approximately 13,830 multifamily properties with over 416,000 units through the Section 515 program.[91] As of early 2016, there were approximately 13,830 properties with 416,000 units still in the program. HAC has determined that the following number of units will exit the 515 program by 2040 based on their loan maturity dates:[92]

YEARS	2017 – 2027	2028-2032	2033-2040
ANNUAL UNIT LOSS	1,800 units	16,000 units	22,600 units
CUMULATIVE UNITS LOST PER PERIOD	18,000 units	64,000 units	158,200 units
CUMULATIVE UNITS LOST	**18,000 units**	**82,000 units**	**240,200 units**

When these units exit the program, affordable housing is lost in rural areas because owners will no longer be able to access the rental assistance that enable them to preserve rents at affordable levels to residents making very low income for their area while maintaining the property. This is often referred to as the "maturing mortgage crisis." We have repeatedly heard from advocacy groups that USDA's annual budget is not sufficient to preserve this number of properties at the rate at which they would exit the program. Therefore, the introduction of private capital is necessary to recapitalize and preserve these properties and maintain this important housing stock for rural communities. In order to provide support to the USDA Section 515 program, we intend to do the following:

1. Develop an offering focused on the preservation of properties in the USDA Section 515 program, and
2. Purchase loans on properties in the USDA Section 515 program.

OBJECTIVE A: DEVELOP A NEW OFFERING FOR USDA SECTION 515 PRESERVATION

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 2	50	VLI, LI

As noted above, USDA's Section 515 program is a key source of affordable housing in rural areas. In year one of our plan, we intend to develop a loan product that can bring private capital to support Section 515 properties. In year two, we will assess the product, refine as necessary, and publish a summary report of lessons learned.

Specific Actions

Year	Action
2018	▪ Publish an official product sheet on our website that identifies the product and the acceptable terms. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization ▪ Provide one to three training sessions via webinar or in person as appropriate for the audience
2019	▪ Publish a summary report of lessons learned from the first year of this offering

Market Opportunity and Impact

Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs, which could pose a challenge to overcome during this process. We have heard consistently in our outreach at conferences with various market participants, and with rural borrowers directly, that bringing additional private capital to support the USDA's Section 515 portfolio will be an integral part to resolving the maturing mortgage crisis and will provide liquidity to the underserved rural housing market.

We understand from our outreach that the USDA Section 515 program was not designed to allow private capital as a permanent financing source. Aligning USDA and borrowers' expectations will be important when introducing a new capital source to a market that has historically been focused around USDA debt or guaranty. We also are aware that USDA priorities are tied to federal priorities, which can vary over time. Finally, a major obstacle of the Section 515 program specifically will be managing risk against the annual budget for the USDA's Section 521 rental subsidy program. This subsidy is integral to maintaining the properties' affordability.

Despite the challenges, we believe we can work together to benefit the people, communities and market as a whole by relieving the pressure from the maturing mortgage crisis. Given these challenges, success in this objective will likely have a significant impact on the high-needs rural markets because it will relieve the pressure on the USDA's Section 515 program.

OBJECTIVE B: PURCHASE LOANS ON USDA 515 PROPERTIES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Purchase	3	Varies	VLI and LI

In year three of the plan term, we intend to begin purchasing loans on properties with USDA Section 515 debt and four percent tax credits in order to provide liquidity and stability to the rural housing market; to provide relief from the maturing mortgage crisis; and to preserve the affordability of small properties.

Baseline

We last purchased a loan on a Section 515 property in 2010, so our baseline of recent experience is zero transactions. This is to be expected because the vast majority of transactions involving USDA's Section 515 properties use other USDA programs, such as Section 538 or the preservation and rehabilitation program (MPR) program.

Target

Due the nature of these deals, which are highly complex and slow to develop, it is likely that our volume will increase slowly. Also, over the next few months, we plan to determine the actual market size of maturing USDA Section 515 properties to determine an accurate target. In the meantime, we propose the following target based on the percentage of units lost.

Year	2020
Target/30 Concept Score	5% of annual units lost
40 Concept Score	10% of annual units lost
50 Concept Score	20% of annual units lost

Activity 5 – Financing of Small Multifamily Rental Properties: Regulatory Activity

Small financial institutions, community banks and CDFIs serve an important role in supporting communities across the country, as well as providing financing for projects that are smaller or locally important. Many of the multifamily loans originated by these financial institutions are focused on these smaller projects. Buildings with five to 49 units account for more than one-third of the rental housing in the U.S.[93] Generally, rents in these smaller multifamily projects tend to be lower than those in larger buildings, especially the new Class A supply constructed in recent years.[94]

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

Regulators recommend that banks maintain commercial real estate (CRE) loan levels on their balance sheets within certain metrics[95]. The two primary metrics that regulators focus on are:

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

Banks with CRE concentrations above these levels may be targeted for more supervisory analysis and/or may be limited in their ability to underwrite new loans, thus decreasing the availability of capital for small multifamily properties. For example, our review of the outcome of banks' CRE exposure indicated a correlation between these suggested thresholds and bank solvency.[96]. A 2013 report from the Office of the Comptroller of the Currency and the Federal Reserve found that 23 percent of banks that exceeded guided levels for both CRE and construction and development loans failed during the three-year economic downturn, compared with less than one percent of banks that stayed below those levels.[97]

To enable small financial institutions to provide greater community benefit, particularly through five to 50 unit properties, we intend to increase access to liquidity through a full suite of seasoned loan securitizations and guaranty offerings. Our planned products and purchases include:

1. Develop a new offering for small balance loan pool (SBL) securitization,
2. Develop a new offering for SBL pool credit enhancement,
3. Develop a new offering for SBL participation certificate (PC) securitizations, and
4. Purchase or guaranty SBLs from small financial institutions.

OBJECTIVE A: DEVELOP A NEW OFFERING FOR SMALL BALANCE LOAN POOL SECURITIZATION

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 2	50	VLI, LI, and MI

In year one of our plan, we will introduce a formal product for seasoned SBL pool purchases and securitizations for small financial institutions. This product will provide a standardized securitization mechanism for Freddie Mac to work with a larger group of small financial institutions seeking balance sheet relief. This will allow them to recycle capital back into new multifamily lending, thereby increasing liquidity for this market.

Since 2015 we have tested four seasoned SBL pool deals with institutions of different sizes, three of which meet Duty to Serve criteria. We have generally worked within a deliberate set of underlying loan parameters. We will look to leverage these prior deals and the parameters used for them to develop formal standards.

In year two of our plan, we will assess the product and make any necessary revisions based on market feedback.

Specific Actions

Year	Action
2018	▪ Develop and implement internal credit policy for seasoned SBL pool purchase and securitization ▪ Publish an official product term sheet on our website that identifies the product and the acceptable terms. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization
2019	▪ Provide FHFA with a Product Status Report that will include the following: o Number of transactions o Number of seller/servicer participants o Observations regarding product adoption

Market Opportunity and Impact

Creating a standardized securitization offering deploys the tools of the capital markets typically used by larger institutions to allow smaller institutions to support their local communities. We understand from our discussions with small financial institutions that this offering will alleviate the CRE regulatory requirements described above while enabling small institutions to lend more and support more people. The offering will be designed consistent with safety and soundness. A standardized securitization product will encourage stability and liquidity by giving originators and investors clarity and consistency. This will have a significant impact on the market.

OBJECTIVE B: DEVELOP A NEW OFFERING FOR SMALL BALANCE LOAN POOL CREDIT ENHANCEMENT

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 2	50	VLI, LI, and MI

In some situations, such as in a rising interest rate environment, small financial institutions may prefer to rely on a Freddie Mac credit enhancement structure instead of a securitization. We plan to introduce a non-securitized alternative offering that employs credit tranching where Freddie Mac would guaranty the underlying small multifamily loans while the bank continues to hold the loans on its balance sheet. This supports small financial institutions that are seeking relief from heavy commercial real estate exposure.

Therefore, in year one of our plan, we will develop a credit enhancement product that enables Freddie Mac to wrap small balance loans on banks' balance sheets. This product is expected to be well received by small financial institutions that lack the in-house capital markets expertise required for securitizations.

In year two of our plan, we will assess the product and make any revisions based on market feedback.

Specific Actions

Year	Action
2018	▪ Develop and implement internal credit policy for seasoned SBL pool credit enhancement. ▪ Publish an official product term sheet on our website that identifies the product and the acceptable terms. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization
2019	▪ Provide FHFA with a Product Status Report that will include the following: o Number of transactions o Number of seller/servicer participants o Observations regarding product adoption

Market Opportunity and Impact

In a rising rate environment, banks will need a way to free balance sheet capital without selling loans to investors at a loss. We understand from our discussions with small financial institutions that providing a credit enhancement offering would accomplish this, by allowing smaller financial institutions to access the tools of the capital markets used by larger institutions, for the benefit of their local communities. The offering will be designed consistent with safety and soundness. This is foundational for market growth and increases the ability of small financial institutions to support more people and communities in any rate environment.

OBJECTIVE C: DEVELOP A NEW OFFERING FOR SMALL BALANCE LOAN PC SECURITIZATION

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	2 and 3	50	VLI, LI, and MI

Not all small financial institutions have the capital markets capacity to engage in a securitization. They are, however, familiar with, and experienced in PC securitizations. This is a third tool that can provide liquidity to small financial institutions. Freddie Mac offers PCs for our conventional and Target Affordable loans, but has not issued them in this capacity with parameters in alignment with the seasoned SBL pool market. As such, it will take some time to develop this offering.

Therefore, in year two of our plan, we will develop a new PC securitization product for small financial institutions. We anticipate that this offering will take a greater amount of time to develop than the securitization and credit enhancement offerings described above.

In year three, we will assess this product and refine as necessary based on market feedback.

Specific Actions

Year	Action
2019	▪ Develop and implement internal credit policy for seasoned SBL pool credit enhancement. ▪ Publish an official product term sheet on our website that identifies the product and the acceptable terms. ▪ Term sheet will contain at least the following elements: o Product overview and loan purpose o Sponsor and/or property eligibility requirements o Loan-to-Value limits o Debt Coverage limits o Allowable lengths of loan term o Allowable lengths of amortization
2020	▪ Provide FHFA with a Product Status Report that will include the following: o Number of transactions o Number of seller/servicer participants o Observations regarding product adoption.

Market Opportunity and Impact

A new SBL-specific PC offering will allow Freddie Mac to securitize SBL pools much more cost effectively and provide access to liquidity for more financial institutions. Because a PC execution is familiar to many small financial institutions, we understand from our outreach that those that lack capital markets capacity will likely find it more adoptable than Freddie Mac's other securitization options.

A PC offering will round out a comprehensive suite of executions to meet the needs of small financial institutions which will allow them to support more people and communities. This is foundational for market growth and long-term stability.

OBJECTIVE D: PURCHASE/GUARANTY SEASONED SMALL BALANCE LOANS FROM SMALL FINANCIAL INSTITUTIONS

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Purchase	3	50	VLI, LI, MI

Freddie Mac's Structured Targeted Affordable Housing group has begun to develop the capacity to support the seasoned SBL pool business. As described above, we intend to leverage that capacity into formal product offerings available to small financial institutions that meet the Duty to Serve criteria.[98]

Assuming the successful adoption of our offerings described in Objectives A-C above, Freddie Mac intends to meet a loan purchase or securitization objective for year three of the plan term based on market conditions and our experience in years one and two.

Baseline

In setting our baseline and target, we must consider the nature of the SBL seasoned pool business model. 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. In the seasoned pool business model, a bank makes loans at an interest rate based on the Treasury or LIBOR index as of the date of the loan and aggregates those loans on their balance sheet for 12 months.

Because we would purchase, securitize, or guaranty 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 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. Accordingly, our purchase volume will be impacted by, among other things, the actual or expected rise or fall in interest rates over time.

In 2015 and 2016 we securitized three sample DTS qualifying SBL pools for approximately $1 billion. These transactions were executed in a favorable interest rate environment. At the time of writing, and in the coming years, there is likelihood of a rising rate environment, which would reduce the amount of seasoned SBL purchase or guaranty volume we can do. Therefore, we believe a suitable baseline in such an environment would be the lesser of one transaction or $100MM. This would have a meaningful impact in the market under such conditions as we would be providing liquidity where liquidity would not be readily available.

Target

As we more fully engage in the SBL seasoned pool market with small financial institutions during the first two years of our plan, we will seek to further refine specific loan purchase or securitization targets for year three. In the meantime, we believe the target of the lesser of one transaction or $100MM is a reasonable and meaningful level of support for the market and a reasonable representation of market opportunity. If we exceed this target, we would expect our concept score to increase according to the table below:

Year	**2020**
Target/Concept Score of 30	The lesser of one transaction or $100MM
Concept Score of 40	The lesser of two transactions or $200MM
Concept Score of 50	The lesser of three transactions or $300MM

Market Opportunity and Impact

Small financial institutions, community banks and CDFIs are an important source of financing for small affordable rental housing across the country. These institutions are generally constrained in their lending abilities, however, for the reasons described above. We recognize from our discussions with small financial institutions that by purchasing or guarantying loans from them, we can free up space on their balance sheet, increase their ability to lend more, and therefore preserve more affordable housing in support of more people and communities. Through securitizing or guarantying pools of loans as described above, we can do this in a safe and sound manner, without exposing Freddie Mac to undue risk.

Activity 6 – Energy or Water Efficiency Improvements on Multifamily Rental Properties: Regulatory Activity

In 2016, Freddie Mac released its Green Advantage suite of energy and water efficiency financing offerings, which are focused on helping borrowers improve properties and reduce energy or water consumption by at least 15 percent. Prior to the suite's launch, we understood that general market interest in financing to support energy or water efficiency improvements existed, and the market saw opportunities for savings, particularly in older and more affordable properties. However, there were several challenges that limited market adoption:

1. Energy or water efficiency were not consistently top priorities for borrowers,
2. Timing for energy analysis did not align with deal timelines, and
3. Energy usage data, particularly for tenants, was not readily available in the majority of markets.

In designing our Green Advantage program, we focused on ways we could reduce these challenges and develop broadly adoptable offerings.

To address questions of borrower priorities and timing, we took three actions:

1. Established simple criteria for properties that would be a good fit for Green Advantage so seller/servicers and borrowers would have a clear understanding of the properties that would be candidates for green improvements;
2. Worked with energy efficiency consultants to design our Green Assessment, which can be completed within two weeks and helps borrowers make decisions about improvements early on; and
3. Decided to pay for the Green Assessment (up to $3,500) as long as the borrower obtains a Freddie Mac loan (whether or not it is a Green loan) so the borrower does not have to decide if it is worth considering green improvements.

As a result of these efforts and our collaboration with industry partners, we purchased approximately $3.3 billion of loans across 28,000 units under Green Advantage in the first five months of the program, and we have an active pipeline of several billion dollars of loans continually forthcoming. Clearly, the program has achieved broad market acceptance.

We expect to see continued interest in the program, and we intend to leverage the information we collect both through our Green Assessments and through our annual property energy and water consumption benchmarking requirements[99] for the benefit of the broader market by producing an annual study of energy and water efficiency through the Green Advantage program.

OBJECTIVE A: PUBLISH AN ANNUAL STUDY OF ENERGY AND WATER EFFICIENCY THROUGH THE GREEN ADVANTAGE PROGRAM

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Outreach	1, 2 and 3	50	VLI, LI, and MI

In developing Green Advantage, and through subsequent conversations with various organizations and advocates, we have found strong interest in the data we collect and the types and benefits of improvements borrowers are making. This data and analysis of efficiency measures on multifamily properties will likely strengthen the market for energy and water efficiency improvements and support efforts beyond the GSEs specific programs.

Therefore, in all three years of the plan term, we intend to publish a report on the Green Advantage program based on the loans we have purchased, the energy and/or water efficiency improvements planned and made, the costs of those improvements, the projected savings and the savings realized thus far. We intend to work with market participants such as energy-efficiency stakeholders, appraisers and property owners to inform our analysis and reporting.

In the early years of this report, we will focus more on the measures selected by borrowers and the projected savings. By year three, we will begin to see actual savings based on our benchmarking data collection. In later years, our reports will analyze this information, which will provide valuable insights on the likely savings for different efficiency measures in the context of multifamily properties, which should serve as industry benchmarks.

Specific Actions

Year	Action
2018	▪ Publish a report identifying and analyzing energy and water efficiency measures selected through Freddie Mac Green Advantage loans.
2019	▪ Publish a report identifying and analyzing energy and water efficiency measures selected through Freddie Mac Green Advantage loans.
2020	▪ Publish a report identifying and analyzing energy and water efficiency measures selected through Freddie Mac Green Advantage loans.

Market Opportunity and Impact

We anticipate that the publication of much-needed data and analysis about energy and water efficiency will have broad market benefits. This analysis will provide an understanding of the pragmatic steps necessary to improve the efficiency of multifamily housing stock as well as the benefits of doing so. Industry groups have consistently requested the ability to leverage this data.

Our analysis of Green Advantage data will increase the market's understanding of energy efficiency improvements and help to inform borrowers' property improvement decisions related to their efforts to reduce expenses and increase or preserve affordability. The data should also benefit appraisers as they develop valuations and other market participants as they seek to create more efficient, cost effective buildings. In so doing, we are laying the groundwork for future innovations in energy and water efficiency tied to applications on multifamily properties.

Activity 7 – Energy or Water Efficiency Improvements on Single-Family, First Lien Properties: Regulatory Activity

Freddie Mac is committed to supporting the energy efficiency market as part of its goal to preserve home affordability. Through our outreach, we have found that lenders have limited awareness of Freddie Mac's flexibilities to finance energy efficiency improvements, summarized here:

- Freddie Mac will purchase a mortgage on a property that is being retrofitted, refurbished or improved with energy efficiency features if an escrow account is established.
- On manually underwritten loans, lenders can use energy efficiency features as a compensating factor for higher debt-to-income ratios.
- Freddie Mac's Home Possible mortgages offer eligible borrowers a low down payment option with flexible underwriting features, which can be combined with other Freddie Mac provisions that support energy renovations and retrofits in purchase or refinance transactions.
- Freddie Mac's cash-out refinance allows borrowers to obtain funds that can be used to make energy-efficient improvements, pay off existing unsecured debt obligations related to energy efficiency improvements or pay off property assessed clean energy (PACE) loans. Freddie Mac also offers a no cash-out refinance option that allows payoff of PACE loans with the proceeds from the refinance transaction.[100]

Through our outreach, we found that a number of challenges still face this nascent market. Freddie Mac's objectives focus on laying the foundation for the growth of first-lien financing for energy efficiency improvements beyond current offerings. In addition, we plan to address the limited consumer awareness and lack of standardization, both of which have prevented this market from growing further. Freddie Mac intends to engage in the following objectives during the plan term:

1. Conduct research and publish our findings to provide the market with broad empirical information on the impact of energy efficiency improvements on property values and loan performance,
2. Increase secondary market activity through standardization of data and property valuation guidance,
3. Increase lender awareness of Freddie Mac product features and adjust our products to further meet the market's

needs, and

4. Improve loan purchase tracking capabilities and test potential product features through pilots.

OBJECTIVE A: PROVIDE THE MARKET WITH BROAD EMPIRICAL INFORMATION ABOUT THE IMPACT OF ENERGY EFFICIENCY ON PROPERTY VALUES AND LOAN PERFORMANCE

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1	50	N/A
Outreach	2 and 3	50	N/A (Yr 2) LI and MI (Yr 3)

In 2016, Freddie Mac established its Energy Efficiency Task Force, a collaborative effort to learn about the energy efficiency market and issues preventing its growth. Task force members consisted of executive level representatives of leading organizations in this market as well as trade organizations. During our meetings, we repeatedly heard about the need for data to be used in product design. Through our evaluation of potential product features that could be implemented to help this market develop, we found that there is limited data to support meaningful modeling for product design or policy development. Additionally, several of Freddie Mac's Energy Efficiency Task Force members encouraged us to take on research to help inform the market as a whole about the effects of energy efficiency property features on property values and loan performance — two key factors that help inform product design and underwriting policy decisions.

During the first year of the plan, Freddie Mac intends to conduct research on the impact of energy efficiency features on property values and loan performance, which will lay the ground-work for loan product development. Freddie Mac is uniquely situated to accomplish this because we have a national presence, we can leverage larger data sets and we already have access to much of the foundational information. Freddie Mac plans to expand the scope of existing research by leveraging our own data and partnerships and sharing conclusions with the industry. Additionally, Freddie Mac intends to conduct periodic trending analysis and to use the results of our research to adjust our product offerings. . Freddie Mac will deem this effort successful if it either validates existing findings, uncovers at least one new finding or enables us to provide lenders with adjusted product flexibilities through a pilot or a Guide update.

We also intend to build awareness about energy efficiency across the industry. Market participants told us that consumers have limited access to information about the value of energy-efficient homes, and real estate professionals often do not have readily available property-level information. Both groups lack appropriate awareness about financing products available to pay for energy efficiency improvements. A 2012 study by Resource for the Future, a Washington, D.C.-based think tank, indicates that consumer behavior coupled with the absence of good information about the pay-offs from particular investments and the relatively low price of energy, have contributed to the lack of demand.[103]

Given these low levels of awareness, Freddie Mac intends to publish our research findings on our website during the second year and incorporate them into our customer training curriculums or present them during industry events as appropriate. In year three, we intend to increase consumer access to education and information about the value of energy efficiency improvements and first-lien mortgage options available to finance them. Freddie Mac is well positioned to effectively accomplish this objective by leveraging its existing outreach capabilities, dedicated customer education teams and wide-ranging communications channels.

During 2016 and early 2017, Freddie Mac started work to define its research plan and design. This will enable us to focus on the execution of the research plan during the first plan year.

Specific Actions

Year	Action
2018	▪ Conduct and complete research on the impact of energy efficiency on single-family properties' value and loan performance ▪ Use research findings to: o Inform future product design or issue product flexibilities; and, o Test potential product offerings through at least one pilot
2019	▪ Publish research findings about the impacts of energy efficiency improvements on property value and loan performance on Freddie Mac's website ▪ Present or disseminate research findings during one to three industry events and, when applicable, Freddie Mac Customer Advisory Council meetings ▪ Provide new or updated Seller/Servicer training based on or informed by research findings
2020	▪ Provide education or information, based on our research findings, about the value of energy efficiency and first-lien mortgage options available to finance energy efficiency improvements by: o Disseminating consumer education or information in two to four homebuyer events in partnership with entities supporting homeowners and homebuyers or through our Borrower Help Centers o Conducting marketing campaigns about Freddie Mac product features and the benefits of energy efficiency improvements

Market Opportunity and Impact

Performing this research will provide valuable information that is not currently available and therefore address a comprehensive need that was repeatedly echoed during our outreach. The information derived from the study's conclusions will significantly help set the foundation for this market for future impact since the challenges affecting it stem directly from a lack of information on the impact of energy efficiency improvements on property values and loan performance.

Freddie Mac plans to use the research findings to inform our own product design efforts and we expect the industry will be able to leverage our published findings in similarly useful ways. In order to meet this objective, we will need to obtain wide-ranging and comprehensive data to analyze. Nevertheless, we are well-positioned to do so given our experience in this area and our partnerships with a wide range of energy efficiency participants.

During year two, Freddie Mac plans to publish its findings to inform the market through industry outreach[101] and education campaigns. These campaigns would directly address the lack of consumer information and industry awareness, as described above.

Finally, we anticipate that our outreach efforts will increase awareness about the value of energy efficiency and available financing options may also help increase market demand and lender adoption.

OBJECTIVE B: DEVELOP VALUATION DATA COLLECTION GUIDELINES THAT FACTOR IN ENERGY-EFFICIENT PROPERTY FEATURES

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 3	50	LI, and MI
Outreach	2	50	N/A

Another important challenge we heard through our public outreach relates to property valuation. Members of our Energy Efficiency Task Force with expertise in property appraisals encouraged Freddie Mac to provide specific guidance on property valuations. They believe that the lack of guidance from the GSEs has contributed to this problem. Specifically, we learned there are differences among energy improvements[102] that present challenges for appraisers. Market participants want to ensure property values take into account energy efficiency improvements and lenders want to be certain the valuations will be accepted by Freddie Mac. To help the industry appropriately account for these differences, during the first year of the plan term, Freddie Mac intends to provide more specific property valuation guidance. We intend to accomplish this by issuing updated guidance via Freddie Mac's Seller/Servicer Guide Bulletin or issuing at least one negotiated term of business.

Members of our task force also told us that the absence of property-level data adds complexity to current valuation practices. We learned that the market needs a central repository for energy efficiency information within the appraisal report. The Appraisal Institute introduced the Residential Green and Energy-Efficient Addendum,[103] a form that is meant to augment information within the appraisal report, standardize the energy efficiency information reported about a home and provide a basis for comparable sale selection. However, adoption of the addendum has been limited.

Our task force members specifically encouraged us to consider incorporating data collection methods into our appraisal requirements. Freddie Mac has considered this request and believes it to be important for market growth. Therefore, during the first two years of the plan, Freddie Mac intends to engage in conversations with FHFA and other stakeholders to identify additional data that should be collected in the Uniform Residential Appraisal Report. Provided alignment is reached among key stakeholders during the second year of the plan term, we intend to take steps to incorporate energy efficiency data collection fields into a redesigned appraisal report during the third year of the plan term.[104]

Specific Actions

Year	Action
2018	▪ Develop additional guidance on valuation methodologies for energy-efficient properties and test them via pilot or issue updated guidelines via Guide bulletin. ▪ Conduct stakeholder outreach about incorporating data collection and high efficiency property appraisal guidelines into collateral policy requirements; we intend to engage, at least, one representative organization from each of the following: o national lenders, o regional/community lenders, o small lenders, o appraisal trade organizations, o real estate professional organizations and other market participants.
2019	▪ Continue stakeholder outreach about incorporating energy efficiency property data collection requirements into property appraisal guidelines and reach GSE stakeholder alignment on energy efficiency data fields to be incorporated into the Uniform Residential Appraisal Report.
2020	▪ Incorporate agreed upon energy efficiency data fields into the future redesign of the Uniform Residential Appraisal Report. (Actual completion of appraisal form redesign will be dependent on the project timeline for the Uniform Mortgage Data Program®.) ▪ Provide updated appraisal guidance on properties with energy efficiency features through a Guide bulletin update or, at least, one negotiated term of business. (Issuance of any guidance will be dependent on completion of appraisal form redesign).

Market Opportunity and Impact

Provided the stakeholders agree on the energy efficiency data that should be collected through the Uniform Residential Appraisal Report, providing a data collection repository would directly address a challenge that participants have repeatedly cited as a key gap. Freddie Mac believes that incorporating energy efficiency data collection fields into the Uniform Residential Appraisal Report would also enable ongoing tracking, trending and analysis of high efficiency homes, which would be used for product design and for assessing the risks and performance of loans on properties with energy efficiency features. The collected information, in aggregate, will also be used to continuously inform the market about the value of energy efficiency as appropriate.

Additionally, designing appropriate standard valuation guidance on energy-efficient home improvement features will provide certainty to lenders and appraisers. This task will be difficult given the varied costs, value and benefits of each distinct energy efficiency feature and the need to align key stakeholders. These efforts represent a meaningful attempt to lay the foundation for future impact. Freddie Mac is well-positioned to lead these efforts given our data mining experience, our role in the Uniform Mortgage Data Program (UMDP[105]) and our existing data collection capabilities.[106]

OBJECTIVE C: DEVELOP ADDITIONAL PRODUCT FLEXIBILITIES TO SUPPORT ENERGY EFFICIENCY

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 2	50	LI and MI

During our outreach, we learned that many of Freddie Mac's existing product and underwriting flexibilities in support of energy efficiency are not well known at the lender level and are not being widely used. As a result, during the first year of the plan term, Freddie Mac plans to conduct lender training by leveraging its existing outreach capabilities and dedicated customer education teams to increase lender awareness about its product features and flexibilities in support of financing of energy-efficiency retrofits and high-efficiency homes.

Market participants also asked Freddie Mac to focus on product features that are easy to adopt, provide economic incentives for lenders and appraisers and reduce paperwork through automation. We heard that niche energy efficiency mortgage products, although helpful, may not be the best solution. Moreover, we were asked to focus on requirements and guidelines that can be used in combination with other mortgage products. In addition, several parties cautioned us that any products or flexibilities we design would have to be competitive with existing financing mechanisms, such as PACE loans, unsecured financing and other financing options currently being used outside the first-lien space, due to ease of process and speed.

During the first year of the plan term, Freddie Mac also intends to conduct limited pilots to test new product features. Additionally, during the second year of the plan term, we intend to leverage our research findings from Objective A and any results from pilots under this objective to develop additional product flexibilities to finance energy-efficient homes or energy efficiency improvements. We intend to communicate any updated product features and flexibilities through a Freddie Mac's Seller/Servicer Guide Bulletin update or through, at least, one negotiated term of business.

Specific Actions

Year	Action
2018	▪ Issue updated energy efficiency product flexibilities through at least one Guide bulletin update ▪ Conduct lender training and marketing campaigns to: o increase lender awareness about Freddie Mac's product flexibilities to finance energy-efficiency retrofits and high-efficiency homes, and o use training sessions as a vehicle to obtain product related feedback to be incorporated into future product enhancements.
2019	▪ Develop additional first-lien product flexibilities and parameters to finance energy-efficient homes or energy efficiency retrofits. Freddie Mac's objective is to issue a Seller/Servicer Guide Bulletin update or, at least, one negotiated term of business.

Market Opportunity and Impact

Freddie Mac recognizes that we have opportunities to further enhance our product features to specifically address valuation challenges and other market needs. However, as a first step, we see an immediate opportunity to encourage implementation of our existing product features and flexibilities by increasing lender awareness. Doing so would help the market by driving up lender adoption and/or helping Freddie Mac gather feedback on our existing flexibilities that can be incorporated into future product design or pilots.

While we work to increase lender awareness about our existing product features, Freddie Mac also plans to conduct limited pilots to test product features ahead of any new offerings. The feedback received during our outreach efforts and the information we obtain from our pilot results will augment the results of the research and development described in Objective A. This comprehensive strategy will provide Freddie Mac with a wide-ranging view to make decisions, within safety and soundness standards, about which underwriting flexibilities and product features have the greatest impact and should therefore be adopted.

Freddie Mac is well-positioned to meet this objective by leveraging its existing corporate training and education resources,[107] website presence and advisory boards. It can provide technical assistance through account management resources and customer support teams. Additionally, we have experience structuring pilots prior to rolling out new requirements broadly. Competing with unsecured financing, which is the most widely used option in this market, will be a challenging undertaking.

OBJECTIVE D: DEVELOP LOAN PURCHASE TRACKING CAPABILITIES

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Loan Product	1	50	VLI, LI, and MI

Freddie Mac does not currently have specific monitoring processes to track existing loans related to energy efficiency improvements. This precludes us from analyzing loan performance trends and from tracking loan purchase volumes internally. A key priority during the first year of the plan term will be to define and improve our ability to track loans used to finance energy efficiency improvements. The scope will include tracking of loan deliveries under our products that are broadly available as well as loan deliveries under pilots.

Specific Actions

Year	**Action**
2018	▪ Develop infrastructure and processes to better identify and track loan purchases tied to financing of energy-efficient homes or energy efficiency retrofits. Freddie Mac intends to issue updated delivery guidance through a Seller/Servicer Guide Bulletin update or at least one negotiated term of business.

Market Opportunity and Impact

This objective is critical because tracking loans and underwriting features related to energy efficiency will allow Freddie Mac to conduct ongoing analysis on loan performance and provide a mechanism to analyze results from our pilots and evaluate the safety and soundness of these initiatives. We will leverage these results to inform product design and to provide the market with transparency about how this segment performs in comparison to non-energy efficiency related loans. Additionally, this objective will lay the foundation for measuring our future market impact. Completing this objective will also allow Freddie Mac to quantify our overall support of the market as measured by loan volume.

Activity 8 – Shared Equity Programs for Affordable Housing Preservation: Regulatory Activity

Although shared equity programs have achieved limited scale thus far, research confirms that they can be an effective means for providing income-eligible families with sustainable homeownership opportunities,[108] enabling them to build wealth through the ownership cycle while ensuring that home prices remain affordable to subsequent buyers over the long term. Shared appreciation second mortgage loans that function as subsidy retention vehicles and do not expose borrowers or the GSEs to the risks associated with typical second mortgage loans are eligible for Duty to Serve credit.

To address the shared equity market's limited scale, Freddie Mac intends to build both capabilities and infrastructure to facilitate a smooth and steady growth trajectory. We also plan to focus on product enhancements and underwriting flexibilities that can drive operationally feasible standardization between both types of shared equity programs that are eligible for Duty to Serve credit. Additionally, Freddie Mac plans to intensify its lender education efforts.

For this market to grow and for our efforts to have a meaningful impact, the initial funds that shared equity programs depend on must be available. Retained subsidies are what make these programs work and, therefore, the success of shared equity programs depends on significant upfront funding before they can eventually become self-sustaining. Put another way, shared equity programs inherently have limited cash flows. It takes time to recapture the portion of the market's gains that will eventually be realized by the program sponsor through property resales.

During our outreach, market participants told us that there are inadequate public resources to subsidize the creation of additional homes with lasting affordability. Moreover, they said that the field will not scale and will not be able to help greater numbers of low- and moderate-income households unless this gap is addressed.

In a concerted effort to substantially increase liquidity in the market and expand the distribution of capital, Freddie Mac intends to engage in the following activities over the next three years:

1. Invest in research and development of a shared appreciation funding model,
2. Increase market awareness of shared equity programs that are eligible for Duty to Serve credit,

Develop comprehensive underwriting guidelines to promote industry standardization on loan origination under shared equity programs that are eligible for Duty to Serve credit.

OBJECTIVE A: INVEST IN RESEARCH AND DEVELOPMENT OF A SHARED APPRECIATION REVOLVING FUNDING MODEL

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Investment	1	50	VLI, LI, and MI

During our outreach and research, we continually heard that access to down-payment funds and high property values relative to income continue to be key challenges for all borrowers, but especially for those with very low and low incomes. Shared loan appreciation homeownership programs, one of the two eligible shared equity activities for Duty to Serve credit, facilitate broader access to affordable, low-risk homeownership opportunities for very low-, low- and moderate- income families who would otherwise lack access to down-payment funds or the means to afford homes in high-cost markets.

Shared equity models have steadily grown in popularity[109] but the funding supply to cover the subsidy assistance upon which shared appreciation loan programs rely has not kept up with market demand. Typically, these programs are funded by federal and local grants or subsidies. However, we have learned that program sponsors compete among each other for scarce federal and relatively small local affordable housing funds. These factors have prevented the expansion of shared appreciation loan programs.

Additionally, the President released a budget blueprint that, if approved, would cut funding for housing and community development programs offered by HUD, the USDA and the Treasury. Therefore, investing in the development of new funding models is vital and timely and, if successful, would address an existing critical need while providing a meaningful foundation for growth. Few nonprofits and governments use these programs for two reasons: funding mechanisms are scarce and there is no secondary market for these loans.[110]

During the plan term, Freddie Mac intends to invest in research and development of a loan fund model that can facilitate distribution of shared appreciation loans via program sponsors. The goal is to fund shared appreciation loan programs through private and social investors rather than grants or subsidies.

Freddie Mac intends to carry out this objective in partnership with industry participants who can provide a well-rounded perspective, industry expertise and access to shared equity program networks that will be useful in this effort. We intend to provide strategic direction, resources and expertise to help design and deploy the fund. Based on the research and development work conducted, we hope to be able to design a pilot to test product underwriting features and flexibilities that facilitate origination of first-lien mortgages with secondary financing structured as shared appreciation loans. Through our outreach we learned that because initial funding to stand up shared appreciation loan programs is a core infrastructure element for such programs to work, developing underwriting and product flexibilities, alone, will not provide a meaningful impact to the market.

If successful, we expect this infrastructure investment will facilitate the origination of more loans to very low- and low-income borrowers, increase secondary market participation and provide much needed liquidity to the shared equity market.

Baseline

Our baseline for this Objective is zero as we are not currently active in this market.

Target

Table 1 – Target Investment to Research and Develop a Shared Appreciation Revolving Loan Fund Model

Year	Action
2018	Up to $2 million

During the first year of the plan, Freddie Mac intends to invest up to $2 million in researching the feasibility of a loan fund model. After the first year, we will evaluate making incremental investments in the future, based on the completion of project milestones and continued assessment of financial and operational feasibility of the model.

If the Shared Appreciation loan fund model is successful, Freddie Mac expects it to:

- increase first-lien mortgage originations to very low- and low-income borrowers;
- provide Freddie Mac with mortgage performance information on loans originated under the shared appreciation loan fund to be used in future product design; and
- provide Freddie Mac with additional data and information for business decisions such as future investments.

We will assess the success of this research and development effort by whether we confirm the viability of a shared appreciation loan fund or if we can inform the industry about what we have learned through this effort.

Market Opportunity and Impact

Investing in the development of a loan fund model will directly meet a market need that has not been comprehensively addressed to date. If successful, the fund would also remove a key barrier in the shared equity market and encourage its growth. Our involvement in this research and development effort also will give us an opportunity to drive incremental program standardization to further encourage secondary market participation. Freddie Mac is well positioned to engage in this objective because of our strong industry presence, ability to leverage our lender and investor relationships, secondary market experience and access to the capital markets. However, this will be a complex, yet potentially impactful, undertaking by Freddie Mac.

Finally, while other resale-restricted shared equity homeownership models limit borrowers, who meet certain income qualifications, to purchase price-restricted homes[111] acquired through state and local inclusionary zoning, shared appreciation loan programs give borrowers the flexibility to purchase homes outside of inclusionary zoning inventories because homes purchased with shared appreciation loans are bought and sold at fair market values. Research confirms that some initial buyers who sell their shared appreciation homes while retaining a portion of market gains can move up into the unsubsidized market. Therefore, in addition to providing equity-building opportunities to very low- and low-income borrowers, this objective would allow Freddie Mac to give these borrowers access to non-price-restricted home inventories. This directly addresses challenges related to the lack of affordable housing stock and, if successful, represents a significant positive impact in the shared equity market.

OBJECTIVE B: INCREASE MARKET AWARENESS OF SHARED EQUITY PROGRAMS

Evaluation Area	***Year***	***Proposed Concept Score***	***Incomes Targeted***
Outreach	1, 2 and 3	30	VLI, LI, and MI

During our outreach and discussions with shared equity program sponsors, we continually heard that shared equity structures are not widely understood by lenders or other market participants. Freddie Mac conducted outreach to lenders who have shown strong interest in this market and confirmed their limited awareness. Those who were familiar with these programs said they had shied away from originating these loans because of their non-traditional structure and the resale restrictions that are involved.

To encourage lender participation, Freddie Mac plans to focus on increasing awareness of shared equity programs through targeted lender outreach. To better asses the level of lender awareness, understand what specific

areas of education we should focus on, and to track the improvement of lender awareness after our outreach campaign, Freddie Mac plans to conduct a lender survey during the first year of the plan term and after immediately lender trainings.

During the second year of the plan term, Freddie Mac intends to design and launch a lender outreach and education campaign based on the lender survey results to educate lenders about shared equity programs. Our education campaign will also focus on the underwriting flexibilities we plan to design during year one as part of Objective C under this activity.

We also heard that program sponsors have limited information regarding how lenders view their programs. We learned that program sponsors lacked comprehensive information on secondary market practices, which could inform their program design efforts. Therefore, during the third year of the plan, we intend to support outreach and education of shared equity program sponsors to provide awareness of secondary market underwriting guidelines and facilitate improved program design.

Specific Actions

Year	**Action**
2018	▪ Conduct a lender survey to understand level of awareness of shared equity models and to inform future outreach design.
2019	▪ Develop an education curriculum for lenders based on the survey results. ▪ Provide at least two lender training sessions to help lenders learn about Freddie Mac's underwriting flexibilities and shared equity programs.
2020	▪ Develop an education curriculum for shared equity program sponsors. ▪ Conduct one to three education session during an industry event or via a webinar.

Market Opportunity and Impact

The survey should prove valuable as we set out to tailor our outreach and education efforts to most effectively address existing market knowledge gaps. Additionally, the survey would help Freddie Mac set a baseline to measure existing and future levels of awareness so we can keep track of the effectiveness of our education and outreach campaigns.

Educating lenders on shared equity programs and providing tailored training about our flexibilities can further encourage lender participation and provide underwriting certainty. Furthermore, through our training outreach, we hope to receive meaningful feedback from lenders that can be incorporated into future product designs as Freddie Mac continues to fine-tune its offerings.

Providing shared equity program sponsors with comprehensive training on secondary market underwriting guidelines as well as an understanding of the ways lenders assess their programs would allow them to better align their program structures to facilitate lender adoption and standardization. Freddie Mac is well-positioned to meet this objective by leveraging its existing corporate training and education resources, website presence and advisory boards. It can provide technical assistance through account management resources and customer support teams. We have extensive experience and expertise in customer outreach and in designing tailored training.

OBJECTIVE C: DEVELOP COMPREHENSIVE UNDERWRITING GUIDELINES TO FACILITATE ORIGINATIONS OF LOANS UNDER SHARED EQUITY PROGRAMS

Evaluation Area	*Year*	*Proposed Concept Score*	*Incomes Targeted*
Loan Product	1 and 2	50	VLI and LI

Based on our research and outreach, the lack of uniformity across the shared equity market keeps it fragmented. While all shared equity programs are designed with the same objective — to maintain affordability — they frequently have unique characteristics. We have identified opportunities to enhance our requirements in support of shared equity programs.

During the first two years of the plan term, Freddie Mac plans to help standardize this market by incrementally developing comprehensive underwriting guidelines that promote industry standardization of shared equity loan originations.

During the first year, Freddie Mac will focus on updating basic requirements and guidelines, aligning our requirements, where appropriate, with current market practices. We intend to issue a Guide bulletin update or, at least, one term of business with updated guidance and make more robust adjustments during year two. We plan to develop uniform legal instruments to address this type of financing that will further standardize shared equity programs. In carrying out this objective, Freddie Mac's goal is to find the right balance between standardization and flexibility so parties have sufficient leeway to tailor programs according to their individual needs. The guidelines will be designed consistent with safety and soundness standards.

Specific Actions

Year	Action
2018	▪ Develop underwriting and appraisal requirements to support the origination and purchase of loans tied to shared equity programs. ▪ Issue updated requirements through a Guide bulletin update or test them through a pilot.
2019	▪ Explore automation of underwriting flexibilities, develop legal instruments to promote standardization and incorporate additional lender feedback and pilot results into product design. ▪ Issue updated product guidance and underwriting requirements through a Guide bulletin update or through at least one negotiated term of business.

Market Opportunity and Impact

Freddie Mac is well-positioned to carry out this objective given our ability to design and deploy policy changes along with our existing automated underwriting capabilities. Our Loan Advisor Suite is designed to give lenders confidence in originating high-quality loans that meet Freddie Mac purchase standards while helping them reduce risk and costs. Providing comprehensive automated underwriting and appraisal requirements through our automated capabilities will encourage secondary market participation and provide greater certainty for lenders. Additionally, providing standard legal instruments will alleviate the need for individual shared equity programs to rewrite their legal documents.

[1] http://www.freddiemac.com/investors/er/pdf/2016er-4q16_release.pdf

[2] Doug Ryan, CFED, Presentation on Manufactured Housing at Nat'l Hous. Conference Restoring Neighborhoods Task Force Meeting (Nov. 2, 2016) http://cfed.org/programs/innovations_manufacturedhomes/ slide 8.

[3] 2004-2010 Survey of Consumer Finances. Surveys indicated households in manufactured homes had an average total net worth of $26,000 and a median annual income of $34,700, with more than 22 percent of residents at or below the federal poverty level. *See* Bureau of Consumer Fin. Prot., Manufactured-Housing Consumer Finance in the United Stats 10 (2014), *available at* http://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf. p7.

[4] *See* Bureau of Consumer Fin. Prot., Manufactured-Housing Consumer Finance in the United States 10 (2014), *available at* http://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf. In 112 counties located primarily in southeastern and southwestern states, manufactured housing accounts for over one third of the total housing stock. *Id.* at p. 5.

[5] Robin LaBaron, Fair Mortgage Collaborative, Real Homes, Real Value: Challenges, Issues and Recommendations Concerning Real Property Appraisals of Manufactured Homes 12 (2012), *available at* http://cfed.org/assets/pdfs/Appraising_Manufacture_Housing.pdf p. 12.

[6] Ryan, supra note 1, slide 8.

[7] LeBaron, *supra* note 4 at p. 11.

[8] Chattel financing provided lower closing costs and faster settlement times, but provided fewer borrower protections and interest rates that could be 50-500 basis points higher. Bureau of Consumer Fin. Prot., supra note 3, at p. 6.

[9] U.S. Census Bureau, Cost & Size Comparisons: New Manufactured Homes and New Single-Family Site-Built Homes (2007-2015), available at https://www.census.gov/data/tables/2015/econ/mhs/2015-annual-data.html, (2007-2015).

[10] Datacomp/JLT estimates that there may be as many as 40,000 total communities, but those outside of their dataset are likely privately held, not marketed, not financed, and are outside the universe of properties requiring financing. Therefore, we assume that the current market of MHCs is no more than 37,897 communities.

[11] These 10 states are: Florida, California, Michigan, Texas, Arizona, Ohio, Pennsylvania, Indiana, New York, and Illinois.

[12] LeBaron, *supra* note 4, at p. 23.

[13] Virginia Center for Housing Research (VCHR), Mobile and Manufactured Homes In Central Appalachia and Alabama: Age, Condition and Need for Replacement, at p. 11 (Sept. 2016).

[14] *See* Bureau of Consumer Fin. Prot., 2,.at 37.

[15] Data is Freddie Mac purchases of owner occupied manufactured housing loans.

[16] Forecast for the decrease in loan origination volume is reflected in Freddie Mac's Economic and Housing Research Outlook, http://www.freddiemac.com/finance/pdf/201702-Outlook-02-28-2017.pdf, p. 9

[17] CFED, Resident Ownership, Titling and Zoning of Manufactured Homes (State Data Table), *available at* http://scorecard.assetsandopportunity.org/latest/measure/resident-ownership-titling-and-zoning-of-manufactured-homes.

[18] We will likely rely on the census tract methodology for determining the affordability of MHCs. This methodology does not contemplate a determination of the extent to which an MHC is affordable to very low-, low- or moderate-income renters.

[19] The 11 states with the top tenant protections are Arizona, California, Colorado, Florida, Illinois, Michigan, Ohio, Oregon, Pennsylvania, Tennessee and Washington.

[20] Housing Assistance Council (HAC), Taking Stock-Rural People, Poverty and Housing in the 21st Century; http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p.2.

[21] Population growth is also below the national average, growing just 3.5 million (5.6%) from 2000 to 2010 according to the 2010 U.S. Census. The overall national growth rate from 2000-2010 grew at 9.7%. http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 11&12.

[22] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 4.

[23] Manufactured homes are more frequently cited in rural areas and are more likely than stick built homes to be owned outright.

[24] Housing Assistance Council (HAC), www.ruralhome.org, Rural Research Note, (October 2014).

[25] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 36.

[26] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf HAC Tabulations of the American Community Survey 2005-2009 Five Year Estimates, p. 57, 67, 87, and 95.

[27] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf pp.68.

[28] Today, mineral extraction employs only three percent of the Middle Appalachian population. HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p.68 & 69.

[29] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p.71.

[30] West Virginia has the highest number and percentage of pre-1976 mobile homes in this area with approximately 36,000 units. According to the one working paper, approximately 7,351 mobile and manufactured homes in the study area (Middle Appalachia and Alabama) had one or more items that was considered to be in substandard condition. Mel Jones, Ted Koebel, Andrew McCoy, Spencer Shanholtz and Julia Moeller; *Analysis by the Virginia Center for Housing Research (VCHR) at Virginia Tech; Mobile and Manufactured Homes in Central Appalachia and Alabama: Age, Condition and Need for Replacement (September 2016).* http://cfed.org/assets/pdfs/VCHR_Study_Final.pdf p. 15 & 23.

[31] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 67.

[32] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 71.

[33] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 87.

[34] https://www.dallasfed.org/assets/documents/cd/pubs/lascolonias.pdf

[35] Significant progress has been made in providing the basic infrastructure needed in certain Texas colonias. According to the Federal Reserve Bank of Dallas, in 2006 there were 636 colonias labeled green for their access to water and sewer infrastructure, with another 286 additional communities added for their access by 2014. The green-labeled communities have drinkable water, adequate drainage, wastewater disposal, solid waste disposal, paved roads and legal plats. In 2006, 396 colonias were labeled yellow with access only to drinkable water, wastewater disposal and legal plats; however, by 2014, 555 colonias were classified as yellow. There were 442 colonias having none of the most basic infrastructure (labeled red) in 2006, but by 2014 this number had dropped to 337. *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015)* https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 4.

[36] *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015)* https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 2.

[37] *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015)* https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 2.

[38] *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015)* https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 3.

[39] *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015)* https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 7.

[40] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 94.

[41] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 96.

[42] Office of the Comptroller of the Currency, U.S.US Department of Treasury – Community Developments Investments; Barry Wides, Deputy Comptroller (September 2016).

[43] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 76.

[44] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 79.

[45] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 83.

[46] This support is representative of Multifamily activity in all rural areas; it is not limited to the rural Duty to Serve activities.

[47] https://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehouisng/

[48] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 3.

[49] Persistent Poverty and Rural Inequality: Where Does Rural Housing Fit in? http://www.ruralhome.org/storage/documents/training_materials/2016-conference/PersistentPoverty.pdf, (2016), p. 1.

[50] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 3.

[51] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 25.

[52] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 61.

[53] U.S. Department of Treasury, The Report of the Native American Lending Study, November 2001, https://www.cdfifund.gov/Documents/2001_nacta_lending_study.pdf p. 39.

[54] There are more than 2,294 Texas colonias, located primarily along the state's 1,248-mile border with Mexico. Texas Secretary of State, http://www.sos.state.tx.us/border/colonias/faqs.shtml

[55] Data is Freddie Mac purchases of owner occupied loans in high-needs rural regions. The rural regions include: (i) persistent poverty counties that has had 20 percent or more of its population living in poverty over the past 30 years, as measured by the most recent successive decennial censuses, (ii) counties that make up Middle Appalachia which includes the "central" Appalachian subregion under the Appalachian Regional Commission's subregional classification of Appalachia; (iii) counties that make up the Lower Mississippi Delta which includes the Lower Mississippi Delta counties designated by Public Laws 100-460, 106-554, and 107-171, along with any future updates made by Congress; and (iv) Colonias in Texas limited to the following counties: El Paso, Cameron, Hidalgo, Starr, Webb and Maverick.

[56] Forecast for the decrease in loan origination volume is reflected in Freddie Mac's Economic and Housing Research Outlook, http://www.freddiemac.com/finance/pdf/201702-Outlook-02-28-2017.pdf, p. 9.

[57] http://www.ruralhome.org/sct-information/mn-hac-research/rpn/1379-rpn-usda-matruring-mortgages-2016

[58] Housing Assistance Council, Rural Policy Note, Aug. 29, 2016 *available at* http://www.ruralhome.org/storage/documents/policy-notes/rpn_maturing-mortgages-usda-2016.pdf.

[59] https://www.sc.egov.usda.gov/data/MFH_section_515.html

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

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

[62] Office of Comptroller of the Currency – Community Developments Investments, (September 2016)

[63] Native Nations Institute, Access to Capital and Credit in Native Communities, nni@email.arizona.edu (2016)
[64] Housing Needs of American Indians and Alaska Natives in Tribal Areas: A Report From the Assessment of American Indian, Alaska Native, and Native Hawaiian Housing Needs: Executive *available at* *https*://www.huduser.gov/portal/sites/default/files/pdf/HousingNeedsAmerIndians-ExecSumm.pdf.

[65] Data is Freddie Mac owner occupied purchase volume of small financial institutions (banks and credit unions only) with asset sizes of less than $304 million.

[66] As a point of comparison, USDA's MPR, which was designed specifically to support 515 properties, produced 133 loans across 4,115 units. 2016 was the first year that the entire allocated budget was used.

[67] As a point of comparison, USDA's MPR, which was designed specifically to support 515 properties, produced 133 loans across 4,115 units. 2016 was the first year that the entire allocated budget was used.

[68] http://www.nhtinc.org/preservation_faq.php.

[69] *See*, supra n. 10.

[70] http://nlihc.org/sites/default/files/Gap-Report_2016.pdf.

[71] https://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/.

[72] A level of 100 represents the historical average for the three-year period from January 2013-December 2015. Source: https://www.redfin.com/blog/2017/01/the-redfin-housing-demand-index-reached-a-new-high-in-december.html.

[73] The Joint Center for Housing Studies, "The State of the Nation's Housing 2016," (2016): p10.

[74] http://www.freddiemac.com/singlefamily/factsheets/sell/energy_efficient_properties.html

[75] http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bll1611.pdf

[76] http://media.bulletinnews.com/articles/view.aspx?id=a591c7a1-efe2-4ca7-9647-ce7709daf32e and https://www.ncsha.org/blog/trump-administration-releases-fy-2018-budget-blueprint-deep-cuts-hud-and-elimination-home.

[77] http://uli.org/wp-content/uploads/ULI-Documents/Preserving-Multifamily-Workforce-and-Affordable-Housing.pdf.

[78] http://uli.org/wp-content/uploads/ULI-Documents/ULI_NAAHL_Presentation.pdf.

[79] https://energy.gov/public-services/homes/heating-cooling.

[80] In 2013, the University of North Carolina published a study that presents a conclusion about improved performance of energy efficiency mortgages. a*vailable at* http://www.imt.org/uploads/resources/files/IMT_UNC_HomeEEMortgageRisksfinal.pdf. It also highlights the study's limitations with regard to the endogeneity issue that borrowers who own energy-efficient homes may be more financially able than those who don't. The study identifies a specific market need for future studies: Panel data that track the borrower's income and market conditions, which was not available for the study researchers.

[81] Coalition for Green Capital, "Report: Green Bank Academy," (February 2014): p4.

[82] The lack of comprehensive and up-to-date data on affordable housing preservation presents a challenge to fully understanding this market. The National Housing Preservation Database (NHPD), which was assembled in a joint effort by the Public and Affordable Housing Research Corporation (PAHRC) and the National Low Income Housing Coalition (NLIHC), appears to contain the most complete and extensive data for this market segment, although there are ongoing efforts to improve this data. Private data providers have recently turned their attention to the affordable housing preservation market. REIS, Axiometrics, and Yardi Matrix have recently released initial versions of their affordable housing data services.

[83] https://www.novoco.com/notes-from-novogradac/tax-reform-could-significantly-affect-lihtc-equity-market.

[84] http://media.bulletinnews.com/articles/view.aspx?id=a591c7a1-efe2-4ca7-9647-ce7709daf32e and https://www.ncsha.org/blog/trump-administration-releases-fy-2018-budget-blueprint-deep-cuts-hud-and-elimination-home.

[85] The LIHTC market, our baseline, and our activities would be impacted by any changes to the tax code; therefore, we will need to reevaluate this activity based on any such changes.

[86] The NHPD includes more programs than outside sources which helps explain why there are more properties and assisted units in this database. When only focusing on programs found in other sources, our analysis of the NHPD shows there are 15,700 active project-based Section 8 subsidies with about 1.17 million units.

[87] Section 8 properties are impacted by the LIHTC market. As such, our baseline and our activities would be impacted by any changes to the tax code; therefore, we will need to reevaluate this activity based on any such changes.

[88] http://www.cbpp.org/research/housing/policy-basics-the-housing-choice-voucher-program.

[89] http://nhlp.org/RAD. As of May 2016, 32,000 units have been converted under Component 1 and 18,000 have been converted under Component 2 https://portal.hud.gov/hudportal/documents/huddoc?id=RAD_Newsltr_May2016.pdf.

[90] The RAD program is impacted by the LIHTC market. As such, our baseline and our activities would be impacted by any changes to the tax code; therefore, we will need to reevaluate this activity based on any such changes.

[91] http://www.ruralhome.org/sct-information/mn-hac-research/rpn/1379-rpn-usda-matruring-mortgages-2016.

[92] http://nlihc.org/article/hac-examines-maturing-mortgages-usda-s-section-515-rural-rental-housing-loan-program and http://www.ruralhome.org/storage/documents/policy-notes/rpn_maturing-mortgages-usda-2016.pdf.

[93] 2012 American Community Survey, (5-Year Estimates) Tenure by Units in Structure, 2008–2012, Data Element B25032; Institute for Housing Studies at DePaul University.

[94] Markowski. "*Surprise! Most Affordable Rentals Are in Small Buildings*", OCC's Community Developments Investments (May 2015) at https://www.occ.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/small-multifamily-rental-spring-2015/small-multifamily-rental-ezine-article-2-affordable.html.

[95] Office of the Comptroller of the Currency (OCC); *Concentrations of Credit Handbook*. December 2011 at https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/Concentration-HB-Final.pdf.

[96] National Mortgage News; *"CRE Could Significantly Shape Bankers Strategies in 2017."* January 23, 2017 http://www.nationalmortgagenews.com/news/compliance-regulation/cre-could-significantly-shape-bankers-strategies-in-2017-1093508-1.html.

[97] National Mortgage News; *"CRE Could Significantly Shape Bankers Strategies in 2017."* January 23, 2017 at http://www.nationalmortgagenews.com/news/compliance-regulation/cre-could-significantly-shape-bankers-strategies-in-2017-1093508-1.html.

[98] 5-50 unit properties with institutions of an asset cap of $10 billion.

[99] As part of Green Advantage, borrowers must record their annual energy and water consumption information in EPA's portfolio manager tool.

[100] http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bll1616.pdf

[101] For Freddie Mac's existing energy efficiency outreach, see www.MyHome.FreddieMac.com/own/energy-efficient-financing.htm and http://myhome.freddiemac.com/own/energy-efficient-financing.htm

[102] For example, the value added by the installation of a high-efficiency HVAC system could be driven by the savings associated with the more efficient system. On the other hand, the value added by the installation of solar panels may need to account for the kilowatt output they produce.

[103] http://www.appraisalinstitute.org/assets/1/7/AI_820_04-Residential_Green_and_Energy_Effecient_Addendum.pdf.

[104] Actual completion of the redesign of the appraisal section is dependent on the project timeline for the Uniform Mortgage Data Program®.

[105] For information on the UMDP, see http://www.freddiemac.com/singlefamily/sell/pdf/umdp_fact_sheet.pdf

[106] Redesigning uniform instruments used to originate Single-Family residential mortgage loans requires high levels of effort and typically takes multiple years to complete.

[107] Freddie Mac's existing customer education resources are described at: http://www.freddiemac.com/learn/

[108] https://www.huduser.gov/portal/periodicals/em/fall12/highlight3.html.

[109] http://www.nhi.org/pdf/SharedEquityHome.pdf.

[110] Although limited, there is secondary market activity for first-lien mortgages that carry a subordinate lien structured as a shared appreciation loan. However, there is no secondary market for subordinate liens structured as shared appreciation loans.

[111] To help address high housing costs, many government and nonprofit organizations support the development of properties subject to resale restrictions. Resale restrictions may restrict the resale price of the property to ensure it is available to future low- and moderate-income borrowers. Resale restrictions may also limit the use of all or part of the land to occupancy by families of low- or moderate-income or on the basis of age subject to applicable laws.

Freddie Mac
We make home possible®

Freddie Mac makes home possible for millions of families and individuals by providing mortgage capital to lenders. Since our creation by Congress in 1970, we have made housing more accessible and affordable for homebuyers and renters in communities nationwide. We are building a better housing finance system for homebuyers, renters, lenders and taxpayers. Learn more at FreddieMac.com, Twitter @FreddieMac and Freddie Mac's blog FreddieMac.com/blog. Please send us feedback on our Duty to Serve draft plan through our dedicated web page at www.freddiemac.com/dutytoserve.