FHFA Supplement to 2022 Annual Reports Submitted by Freddie Mac

The following summaries were prepared by FHFA and provide additional information on selected objectives in Freddie Mac's 2022 Underserved Markets Plan. Discussions with Freddie Mac took place during virtual meetings held the week of June 26, 2023, and July 3, 2023.

Affordable Housing Preservation Market

AHP_RED_A: Purchase Loans on Properties that Support Residential Economic Diversity (Loan Purchase)

For 2022, 1,086 units came from forward conversions out of a total of 9,340 units (11.6%) funded. This proportion is consistent with that of all forward conversions and total funding. These forward commitments would have been signed three to four years prior to their deliveries and do not intentionally drive production toward goals.

AHP_SharedEq_B: Design New Product Flexibilities to Facilitate the Origination of Shared Equity Mortgages (Loan Product)

Freddie Mac provided more background information on its survey of shared equity programs. The survey results offer lenders visibility into the shared equity market, which is seriously lacking. Without the visibility, lenders are hesitant to participate in the market and/or often are unaware of the possibility of supporting shared equity homeownership until a loan originator brings an opportunity forward. Freddie Mac partnered with Grounded Solutions Network to create and disseminate the survey.

Based on the survey results, the number of shared equity/community land trust (CLT) programs grew almost 30% nationwide since Grounded Solutions Network last conducted a survey in 2011. While this growth is encouraging, the survey revealed that the largest share of homes in this micro-market are rental units, not homes for sale.

Grounded Solutions Network used the information collected to create a directory of community land trusts (CLTs) that will assist in connecting lenders to CLTs, raising awareness of the business opportunity within the market, and facilitating more lender participation and lending in this very small but important market that supports equitable, affordable homeownership, especially in high-cost areas.

In response to a question from FHFA, Freddie Mac explained that the Florida certification program launched to provide technical assistance (TA) to CLTs may not be applicable in other states because each state has unique laws and funding sources.. In addition, very few state-level or regional organizations have the expertise to offer support to CLTs. To make this a national program, Freddie Mac would need a partner with the reach and expertise to expand the program nationally. Grounded Solutions Network is the only qualified organization, and they have an exclusive agreement with Fannie Mae to create a national certification program.

Freddie Mac is working on creating a CLT database in addition to the Grounded Solutions Network CLT directory to allow Freddie Mac keep the information fresh over time and maintain the database in-house, eliminating the need to outsource the activity..

AHP_MF Rental_B: Develop Multifamily Correspondent Lender Program for Community Development Financial Institutions, Minority Depository Institutions and Small Lenders (Loan Product)

Freddie Mac provided more details about communication with the Optigo lenders that have enrolled in the Emerging Correspondent Program and their commitments to supporting CDFIs. In 2023, FRE launched a requirement that the entire Optigo lender network signs at least one agreement in 2023. There were seven touch points with the lender network between October 2022 and June 2023. More than 20 Optigo lenders have at least one agreement in their network, and over 100 agreements have been made so far.

AHP_Sustainability_A: Address Resiliency Through Analysis on Public Incentive Programs/Policies and Loan Offering Development (Loan Product)

In response to a question from FHFA, Freddie Mac explained that its white paper *Climate Resiliency Incentives in LIHTC Qualified Allocation Plans* (QAPs) is a first of its kind analysis. A greater understanding of the incentives can lead to resiliency improvements. Freddie Mac chose to analyze QAPs because they can reflect the intersection of policies and funding. By understanding existing frameworks, Freddie Mac can better meet its goal to develop appropriate loan offerings and practices.

AHP_Sec8_A: Provide Liquidity and Stability through Section 8 Loan Purchases (Loan Purchase)

Freddie Mac explained that there is no preference or benefit given to project-based Section 8 properties versus properties where Section 8 voucher-holders reside. In underwriting, rents are underwritten based on the lowest of LIHTC rent, market rent, or Section 8 preference. One preferential treatment that is given to Section 8 contracts that are longer than the loan term is that if the lower rent is LIHTC rent, then the property will be underwritten to the Section 8 contract rent. The same rent methodology is applied to voucher residents if the lender/borrower can demonstrate length of residency for the voucher holder using documentation such as historic rent rolls. Those particular units are underwritten at the higher rent level.

Manufactured Housing Market

MH_Real Prop_C: Support Growth in the Market for Manufactured Homes through Research and Outreach (Outreach)

Through speaking with various partners, Freddie Mac learned that making the homebuying experience for manufactured housing similar to site-built homes would better support the market and achieve better outcomes. The concept for its digital marketing plans was to create a platform that would allow customers to search and view homes online, learn more about different neighborhoods and communities, access homebuyer education resources, and contact lenders with experience in manufactured housing.

MH_Comm Govt_A: Purchase Resident-Owned Community (ROC), Non-Profit Owned, and Government Instrumentality-Owned Loans

Freddie Mac explained that sourcing the ROC transactions can be challenging for a couple of reasons. Transactions tend to take longer than investor-owned MHCs. A transaction can take around 90 days for investor owned MHCs whereas it can take around 6 months for ROCs. This is especially more pronounced due to the volatile capital markets environment that started in the second quarter of 2022. Another barrier that is more likely to cause delays in these transactions is that residents/ board members may not have as much experience with these types of transactions.

In response to a question from FHFA about transactions in California, Freddie Mac explained that its 2018 white paper includes an analysis of States with the most ROCs, including California. This paper mentioned that typically MHCs are not built as ROCs, rather, the residents decide to purchase the community when the owner may want to sell. Reasons for this may be that rent stabilization is common across California and can differ in each county. With limited rents, capital improvements are limited. California also has regulatory protections for ROCs; for example, if the tenants are organized, the owner must give 30-day notice that they intend to sell the property.

Rural Housing Market

Rural_MF Prop_C: Provide Financial Empowerment Offerings for Rural Renters through Credit Building On-time Rent Reporting and CreditSmart

In response to a question from FHFA, Freddie Mac explains that the adoption of this program is about the same for rural and urban renters. Each segment is equally important. The level of effort in rural vs. non rural is about the same because it is technology based, however there is generally a smaller scope in rural areas.

Freddie Mac mentioned that once they have a more comprehensive data set, they may explore producing a study. There is not enough loan level data to determine the percentage of households that are rural or non-rural.

Freddie Mac changed the term “incentivize” to “promote” in the Plan to avoid the expectation of a regulatory obligation to incentivize LIHTC property owners to adopt the Credit Building program. Freddie Mac’s role is mostly to drive attention to the benefits of on-time rent reporting. Freddie Mac’s initiative was redesigned in 2023 so that it is not tied to specific transactions, allowing sponsors to sign up properties with existing investments or loans.

Rural_HN Pop_B: Engage in LIHTC Equity Investment (Investment)

In response to a question about whether Freddie Mac invests in deals with state credits, Freddie Mac explained that it does not have state tax liability so it invests in deals where a different investor will purchase the state tax credits. Feddie Mac will typically see investment opportunities in states with robust state tax credit programs.