FREDDIE MAC

MANUFACTURED HOUSING

2023

ACTIVITY:

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

OBJECTIVE:

A - Purchase Resident-Owned, Non-Profit-Owned, and Government Instrumentality-Owned Loans

PROPOSED MODIFICATION:

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

☒ *The current Plan year*

☒ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

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

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

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

In 2022, Freddie Mac found it infeasible to meet our ROC purchase target and we anticipate the same to be true for Years 2 and 3 of the Plan. As we have found both through our research and in our efforts to serve this market, it is difficult to find ROCs interested in pursuing financing, and those that do pursue transactions often have those transactions delayed by factors outside our control. These delays, which stretch transactions across multiple calendar years, are the result of many factors, including reliance on additional capital sources with unpredictable timelines and underwriting criteria, long deliberation periods by the Resident-Owned Boards, and changing market conditions. This circumstance has worsened in light of rising interest rates that have shrunk the overall originations market and interest rate volatility which is a complicating factor for transactions that are subject to lengthy delays. In short, as our purchase target is set to increase, the number of potential transactions is declining.

We propose modifying our ROC objective to an outreach objective, including an affirmative marketing plan. This will allow us to focus on raising awareness of our specialized MHROC loan offering, including to communities that may be several years away from a potential transaction. It will also allow us to continue engaging with key market stakeholders to build a stronger pipeline and formulate new approaches that will enable more transactions. Our initial conversations with these stakeholders show promise. We remain committed to providing liquidity for ROCs and will maintain the availability of our offering as we pursue transactions through intentional outreach efforts.

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

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

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

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

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

Objective A: Purchase and Conduct Outreach to Raise Awareness of our Resident-Owned, Non-Profit-Owned and Government Instrumentality-Owned MHC Loan~~s~~ Offering

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

Through our landmark research and report publication in our immediately preceding Duty to Serve Plan cycle, we demonstrated that the ROC market is extremely small, consisting of 1,065+ communities, which comprises only 2.4 percent of the broader MHC market, and 0.09 percent of households in the country.[1]~~[26]~~ Because of the numerous challenges described above and below to creating new ROCs — challenges that extend beyond the availability of capital — we expect the market will remain small and broad capital markets interest will still be limited. However, we remain committed to serving the MHROC market by purchasing ROC loans and increasing awareness of our ability to do so, which will be fundamental to serving the market over time and reducing the cost of debt for ROCs. The market for non-profit owned and government instrumentality- owned MHCs is even smaller than the market for ROCs. As of 2019, there were only five non-profits with more than one MHC; between these five, they own 52 communities.~~2~~ Additionally, there are only two government instrumentalities that own more than one MHC.[2]~~[27]~~ Our core MHC offering is well suited to helping these non-profits, and others, both refinance their loans for a lower cost of debt and acquire new communities as opportunities arise ~~and~~ that are consistent with their business plans. We remain committed to supporting this segment of the market as well.

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

Baseline

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

We have purchased four ROC loans and two non-profit loans since the inception of our MHC program in 2014 for a total of approximately $25 million ($15 million for ROCs, $10 million for non-profits). Five of the six transactions were completed prior to our formal loan offering for MHROCs[3]~~[28]~~ created in 2019, with two non-profit transactions in 2015, two ROC transactions in 2016 and one ROC transaction in 2018. From 2018-2021, we purchased two ROC loans, despite having quoted more than 1,500 loans for MHCs, with

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[1] https://mf.freddiemac.com/docs/dts_mhroc_report.pdf

[2] https://multifamily.fanniemae.com/news-insights/multifamily-market-commentary/need-non-traditional-ownership-manufactured-housing

[3] https://mf.freddiemac.com/docs/product/mhroc-term-sheet.pdf

five for ROCs, and having done considerable work with our lenders and other stakeholders to increase this. Based on the fact that we have funded one transaction from 2018-2020, our three-year average baseline will be one transaction

Market Challenges

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

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

2022-2024 Targets

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

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

• ~~Actively target our lender network and send out multiple~~Quarterly announcements to our entire lender network about our interest in pursuing MHROC, non-profit and government owned transactions. ~~every quarter throughout the Duty to Serve plan cycle.~~

• ~~Hold~~ R~~r~~egular conversations with our lenders as well as brokers specifically explaining our interest in targeting MHROC, non-profit and government instrumentality transactions and why these deals are particularly impactful.

• Connection with non-profits across the country to inform them of our program standards and eligibility.

• Proactive public communications, such as executive-level communications, podcasts, customer news articles, trade publication outreach, and digital marketing efforts.

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

Year	2022	2023	2024
Target	Three Transaction	~~Four Transactions~~Affirmative Marketing Plan, including at least three of the following approaches: 1. Four prominent emails to lender network 2. Regular conversations with lenders and brokers. 3. Connection with non-profits focused on ROCs. 4. One executive level communication per year. 5. A Multifamily Podcast on ROCs 6. Article placements efforts with key trade publications. ~~1.~~7. Digital marketing where appropriate.	Affirmative Marketing Plan, including at least three of the following approaches: 1. Four prominent emails to lender network 2. Regular conversations with lenders and brokers. 3. Connection with non-profits focused on ROCs. 4. One executive level communication per year. 5. A Multifamily Podcast on ROCs 6. Article placements efforts with key trade publications. ~~1.~~7. Digital marketing where appropriate.~~Four Transactions~~

Market Impacts

We believe having a stable capital source for senior debt provides liquidity for this market. Today, ROC financing is dependent upon select originators and investors with profound expertise. With our presence in the market and our commitment to purchase loans, we can, over time, maximize the impact of these expert providers, help communities achieve low cost of capital to refinance higher interest rate existing debt, and assist with the conversion to resident ownership. Our prior transactions have taught us ~~us how to effectively work in this space when opportunities are available, and we are actively working to grow those opportunities.~~the importance of building connections and generating awareness of our offering. Our outreach strategy is aimed at raising the profile of our ROC offering through channels that can more effectively reach our lender and potential borrower audiences. This work will aid our efforts to cast a wider net with the goal of building a stronger pipeline of potential ROC transactions.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2023

ACTIVITY:

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

OBJECTIVE:

A: Provide Liquidity And Stability Through LIHTC Loan Purchases

PROPOSED MODIFICATION:

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

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

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

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

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

Freddie Mac is proposing a reduction in its 2023 goal for LIHTC debt purchases based on a reduction in the size of the multifamily market. The Mortgage Bankers Association projects that the origination market will contract by 38% in 2023. To account for this change, Freddie Mac is proposing to reduce its LIHTC debt purchase volume goal by 38%, from 55,000 units to 34,100 units.

Early in 2023, Freddie Mac projected that property prices and net operating incomes (NOIs) market-wide were likely to fall. To accommodate this projection, Freddie Mac exercised prudence through its credit posture. Our initial predictions regarding the market have proven accurate, and we believe our approach was warranted. This market environment has a pronounced impact on our LIHTC Debt unit count, which in the first half of 2023 was 47% less than it was at the same point in 2022. Although our purchase target was based on a fairly calculated baseline, it is unrealistic for the 2023 market.

We intentionally set aggressive targets for our LIHTC debt purchases, but those were calculated based on our experience from 2018-2020, which were relatively strong years for the multifamily market. A revision of the goal for 2023 is warranted given that the market today provides fewer opportunities for transactions that align with a safe and sound credit posture.

OBJECTIVE A: PROVIDE LIQUIDITY AND STABILITY THROUGH LIHTC LOAN PURCHASES

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

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

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

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

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

Baseline

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

Year	2018	2019	2020	Three-Year Avg.
Total Loan	$3.8B	$4.8B	$6.5B	$5B

Amount				
LIHTC Units	41,926	54,302	58,259	51,496
Properties	306	373	413	364

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

Market Challenges

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

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

2022-2024 Targets

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

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

Year	2022	2023	2024
Target	54,000 LIHTC Units	~~55,000~~34,100 LIHTC Units	56,000 LIHTC Units

Market Impacts

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

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

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2023

ACTIVITY:

2 - Activity 2 – Section 8: Statutory Activity

OBJECTIVE:

A - Provide Liquidity and Stability through Section 8 Loan Purchases

PROPOSED MODIFICATION:

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

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

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

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

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

Freddie Mac is proposing a reduction in its 2023 goal for Section 8 loan purchases based on a reduction in the size of the multifamily market. The Mortgage Bankers Association projects that the origination market will contract by 38% in 2023. This market environment has impacted our Section 8-unit count, which in the first half of 2023 was 32% less than it was at the same point in 2022. To account for this change, Freddie Mac is proposing to reduce its Section 8 loan purchase goal by 25%, from 27,200 units to 20,400 units, which maintains a responsibly aggressive target given the market environment, while also factoring in the significant efforts we've made thus far. Freddie Mac funded three large transactions early in 2023, which allows us to avoid the need for a reduction in line with the overall market. Even with these transactions and our continued efforts to purchase Section 8 loans, market conditions make it unlikely that we would reach our original target without modification.

Early in 2023, Freddie Mac projected that property prices and net operating incomes (NOIs) market-wide were likely to fall. To accommodate this projection, Freddie Mac exercised prudence through its credit posture. Our initial prediction regarding the market has proven accurate, and we believe our approach was warranted. A result, is that our purchase target, although based on a fairly calculated baseline, is unrealistic for the 2023 market.

We intentionally set aggressive targets for our Section 8 loan purchases, but those were calculated based on our experience from 2018-2020, which were relatively strong years for the multifamily market. A revision of the goal for 2023 is warranted given that the market today provides fewer opportunities for transactions that align with a safe and sound credit posture.

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

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

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

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

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

Baseline

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

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

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

We are using our 2018-2020 three-year average actual volume of 27,001 units as the baseline for our

2022-2024 Plan. We exceeded our prior targets by 55 percent on average over the past three years, having increased liquidity to this segment of the market through our record purchase volume.

Market Challenges

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

2022-2024 Targets

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

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

Year	2022	2023	2024
Target	27,100 Section 8 units	~~27,200~~20,400~~32~~ Section 8 units	27,300 Section 8 units

Market Impacts

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

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

FRE_AHP_Section 515_A

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2023

ACTIVITY:

3 - Section 515: Statutory Activity

OBJECTIVE:

A - Purchase Loans to Preserve Properties with USDA Section 515 Debt

PROPOSED MODIFICATION:

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

☒ *The current Plan year*

☒ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

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

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

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

Freddie Mac proposes removing the Affordable Housing Preservation Section 515 plan activities for years 2 and 3 of the plan while maintaining our Section 515 objective for the Rural Housing Market (Activity 5, Objective A). Our ability to support USDA 515 properties is embedded into our core loan offerings and remains available and promoted nationwide. The proposed modification simplifies our plan in recognition of our focus on rural markets. It also aligns with our efforts in the LIHTC Equity Space where we have invested in 18 properties benefiting from USDA Section 515 debt since 2018.

Activity 3 — Section 515: Statutory Activity

USDA's Section 515 program is vital for the preservation of highly affordable rural multifamily housing. It provides rental assistance to ensure that tenants pay no more than 30 percent of their income toward rent. According to an analysis by the Housing Assistance Council (HAC), the USDA has financed approximately 28,000 multifamily properties with over 533,000 units through the Section 515 program.~~123~~ As of early 2018, approximately 13,000 properties with 415,000 units were still in the program. HAC has determined that the following number of units will exit the 515 program by 2040 based on their loan maturity dates.

Years	2017-2027	2028-2032	2033-2040
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

Per our analysis of the 515 portfolio on data.gov, we estimate that 75 percent of these units are in rural areas. And among rural 515 properties, 94 percent have between five and 50 units.~~124~~ When these units exit the program, affordable housing is lost in rural areas because owners will no longer be able to access the rental assistance that enabled them to preserve rents at affordable levels to residents making very low incomes for their area while maintaining the property. This is often referred to as the "maturing mortgage crisis." We have repeatedly heard from advocacy groups that USDA's annual budget is not sufficient to preserve this number of properties at the rate at which they would exit the program. Therefore, the introduction of private capital is necessary to recapitalize and preserve these properties to maintain this important housing stock for rural communities.

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

Objective A: Purchase Loans to Preserve Properties with USDA Section 515 Debt

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

Baseline

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

Market Challenges

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

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

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

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

2022~~-2024~~ Targets

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

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

Year	2022	~~2023~~	~~2024~~
Purchase Target	One Transaction	~~Two Transactions~~	~~Four Transactions~~

Market Impact

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

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

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

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2023

ACTIVITY:

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

OBJECTIVE:

B - Publish Research Analyzing LIHTC Properties at Risk of Exiting the Program and Develop Loan Offering Parameters to Preserve Their Affordability

PROPOSED MODIFICATION:

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

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

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

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

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

Freddie Mac Multifamily is working to broaden the potential scope and impact of our initiatives but provide sufficient flexibility regarding the development of marketable loan offerings. We are also working to align our Equitable Housing Finance and Duty to Serve plan objectives where possible to reduce the complexity of implementation or confusion that may result due to language differences between the two plans.

Activity 1, Objective B commits to the development of loan offering parameters that preserve affordability, with a specific requirement that at least 20 percent of units be rent restricted for the entirety of the loan term. Our Equitable Housing Finance Plan similarly includes an objective aimed at preserving at-risk affordable housing but does not designate a specific percentage of units that must be rent restricted.[1] While we would as a general matter prefer to see at least 20% of units with rent preservation, we recognize that there are circumstances in which this may not be feasible, and we want to ensure that our plan recognizes the flexibility that may sometimes be required. This modification will allow us to align our objectives and employ our preservation offering in cases where a multifamily borrower is willing to restrict rents for a number of units but cannot reach a 20% threshold in a respective market. It will allow us to grow our overall impact as measured by the total number of units subject to Freddie Mac rent restrictions.

Objective B: Publish Research Analyzing LIHTC Properties at Risk of Exiting the Program and Develop Loan Offering Parameters to Preserve Their Affordability

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

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

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

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

Baseline

Freddie Mac's prior research has focused on the characteristics of LIHTC affordability, general demographics, and access to opportunity. We have not conducted research explicitly investigating the

[1]See Freddie Mac's Equitable Housing Finance Plan, Section 5.9, Page 30 https://www.freddiemac.com/about/pdf/Freddie-Mac-Equitable-Housing-Finance-Plan.pdf

issue of affordability loss due to LIHTC program exit or expiration. While other research has been published on this topic, our work—as described below—will expand upon that research—and support new loan offering development that provides liquidity specifically for the preservation of LIHTC properties exiting the program.

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

Market Challenges

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

Actions

Year 1 – 2022

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

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

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

Year 2 – 2023

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

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

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

Market Impact

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

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[i] National Low Income Housing Coalition and the Public and Affordable Housing Research Corporation, https://nlihc.org/sites/default/files/Balancing-Priorities.pdf pp. 7-8

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2023

ACTIVITY:

8 - Sustainability and Resiliency: Additional Activity

OBJECTIVE:

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

PROPOSED MODIFICATION:

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

☒ *The current Plan year*

☒ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

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

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

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

Freddie Mac proposes modifying our Duty to Serve sustainability and resiliency activity to align with our Equitable Housing Finance Plan goals. This modification prioritizes the development of climate resiliency standards which can later be encouraged through our loan products. This approach will provide Freddie Mac with additional time to identify, develop and socialize standards with the market which will enhance our ability to encourage their adoption. Resiliency initiatives in the Multifamily market are evolving, and additional outreach will allow us to explore a wider range of standards and. best practices.

Activity 8 — Sustainability and Resiliency: Additional Activity

Affordable multifamily housing is increasingly vulnerable to natural disasters, extreme weather conditions and environmental hazards. Most low-income individuals live in rental housing, and nearly half of all renters in the United States are cost-burdened,[1]~~137~~ leaving renters in disaster-prone areas at greater risk of incurring property damage, financial hardship, loss of life and other health impacts. Natural disaster risk exacerbate existing social and racial inequalities in health. ~~10~~ In 2018, as part of the Fourth National Climate Assessment, the United States federal government conducted an analysis of health impacts experienced as a result of natural disasters. The research in this assessment indicated that extreme weather events and temperatures can further existing health problems, lead to heart disease, produce stress and debilitate mental health. Lack of potable water after a hurricane, for example, can impact the food security of a low-income, vulnerable population already living in a food desert and cause lasting negative effects.[2]~~138~~

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

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

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

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

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

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

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

on a national level particularly with respect to the multifamily housing market. With an increase in policies mandating retrofits and efficiency upgrades, the market needs to create innovative products to ensure borrowers have access to necessary funds for these improvements.

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

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

1. Research climate resiliency incentives through research on LIHTC QAPs.

2. Identify, and implement where applicable, climate resiliency standards.~~Develop our own offering for resiliency improvements at the property level.~~

Baseline

In 2021, we published a report on the disparate impacts from climate-related disasters on low-income communities and how greater intersection of public and private efforts is needed. This research provides a foundation for our deeper look at resiliency incentives in LIHTC QAPs, which will help us better understand resiliency incentives directly for affordable housing. This research will lay a foundation for our work ~~on a new loan offering~~to identify, and implement where applicable, climate resiliency standards.~~. We do not currently have a loan offering that incentivizes resiliency efforts.~~

Market Challenges

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

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

Action Items

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

Year 1 – 2022

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

1. Identify commonalities and emerging standards — as well as regional or state specific considerations.

2. Assess the implications of these on affordable multifamily housing and the surrounding communities.

3. Analyze how these identified practices and standards may impact low- and moderate- income renters.

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

Year 2 – 2023

To encourage borrowers to make resiliency improvements at their properties we plan to ~~offer innovative financing structures that are designed to support~~identify standards by which to assess climate resiliency ~~improvements~~ at multifamily properties. We will do this in four stages:

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

~~2. Create a Resiliency Framework to outline our approach to acceptable resiliency measures, climate risk, resiliency disclosure, and resiliency ratings.~~

~~3~~2. Identify climate resiliency standards~~Develop loan terms to incentivize resiliency measures at properties~~.

Year 3 - 2024

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

~~4.~~1. ~~Publish term sheet and m~~Market standards and their applicability to loan offerings to~~to~~ our Optigo® lender network.

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

Market Impact

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

Our research will also inform the development of our resiliency-focused ~~loan offering~~standards which ~~will~~ can help protect properties from natural disasters and preserve affordability. ~~Through the offering,~~ Freddie Mac will ~~design and implement incentives for~~ encourage owners of multifamily properties to meet the standards, especially in areas vulnerable to the effects of climate change, which tend to be in historically underserved communities. ~~These incentives~~This work will support ~~allow~~ owners as they ~~to~~ make capital improvements that enhance resiliency to natural disasters and promote sustainability~~, and will increase liquidity in the market.~~ . Encouraging borrowers to make resiliency improvements ~~through~~ that align with our resiliency-focused ~~loan offering~~standards can lead to less damage and help preserve affordability. ~~Our combined research and loan offering developments will help to establish new standards for property-level resiliency improvements.~~

Revised Underserved Market Plan Modification Request Template

FREDDIE MAC

RURAL HOUSING

2023

ACTIVITY:

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

OBJECTIVE:

A – Increase Single-Family Loan Purchases in High-Needs Rural Regions

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Resize the 2023 target for loan purchases in high-needs rural regions (HNRR).

JUSTIFICATION FOR PROPOSED MODIFICATION:

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

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

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

Freddie Mac proposes resizing our 2023 target loan purchase volume in HNRR based on changed market conditions and FHFA's definition of colonias published in April 2023.

Freddie Mac's original purchase targets were aggressive relative to housing market forecasts in early 2022. Since then, the economic environment and continuing housing affordability challenges have significantly driven down loan originations in HNRR overall, with refinance loan volume particularly affected by the rapidly rising mortgage interest rates. Duty to Serve-qualified loan volume in 2023 through April in HNRR declined 68% from the same period in 2022, with refinances down 86%; Freddie Mac's overall single-family loan volume was down 47%. The current market environment, forecasts, and feedback from lenders signal significant cooling in the origination market.

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

- We continually reach out to lenders with presence in HNRR to encourage them to adopt and use our offerings and to sell loans to Freddie Mac. As part of this, we promote the pricing benefits of certain products as well as relevant down payment assistance.
- We are conducting outreach to small lenders in rural markets to expand our direct and indirect delivery channels; however, those efforts will not result in increased volume in 2023.
- We purposefully promote products most relevant to HNRR in marketing and communications activities.

The adjusted volume includes loans securing homes in the newly defined colonia census tracts.

Nevertheless, purchases of loans on homes in HNRR consistently have lagged our monthly tracking benchmarks this year and are expected to fall well short of the current 2023 target. Our efforts cannot overcome market headwinds.

Among them: the interest rate environment. The rapid rise and continued volatility of interest rates discourages many homeowners from refinancing their home mortgages. With the large numbers of homeowners who refinanced in the last few years, comparatively few see benefit in refinancing now.

In addition, Freddie Mac researchers found[1] that the total number of mortgage-ready individuals shrinks by three million to four million per percentage increase in interest rates. They calculated that, based on the recent high mortgage rate – near 7% – and median home prices at the time – around $400,000 – about 15 million fewer potential homebuyers could sustainably afford mortgages than when rates were 3%. Rates declined a fraction of a percent since the research was published last November. On the other hand, according to the St. Louis Federal Reserve, the median home price rose to around $435,000 at the end of first quarter 2023.

Many lenders are holding loans in portfolio so that they can extend credit to borrowers who fall outside of the Enterprises' credit box, according to lenders we interviewed.

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

The interest environment, combined with years of double-digit home price growth, will affect the housing market for several years to come, according to Moody's Investor Services: "Home purchase

[1] Freddie Mac Research Brief; "Do Rising Interest Rates Price Out Mortgage-Ready Borrowers?"; November 21, 2022: https://www.freddiemac.com/research/insight/20221121-do-rising-interest-rates-price-out-mortgage-ready

affordability has plummeted to the lowest in decades, as typical payments on new mortgages have soared."[2]

Continued high inflation rates further dampen prospects for the housing market. Many households may have less money to put toward a home purchase or refinance closing costs, given the higher costs of living. The Federal Reserve is expected to continue raising rates in 2023 to help rein in inflation. However, higher rates will make access to credit more expensive and further limit homeownership opportunities for low- and moderate-income households in HNRR.

Given all of these circumstances, we will lower our HNRR purchase target for 2023 to reflect the drop experienced to date and expected to persist in the market throughout the year. This change does not diminish our commitment to homebuyers and homeowners in HNRR.

OBJECTIVE A: ~~INCREASE~~ PURCHASE SINGLE-FAMILY LOANS ~~PURCHASES~~ IN HIGH-NEEDS RURAL REGIONS

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

Freddie Mac will continue to ~~increase~~ purchase~~s of~~ single-family mortgage loans in certain high-needs rural regions each Plan year to ~~increase~~channel liquidity ~~in~~ to these markets. For purposes of this objective, we will continue to focus specifically on the rural census tracts in the following high-needs regions: persistent-poverty counties, Lower Mississippi Delta, Middle Appalachia, and Colonias ~~in the Texas counties of El Paso, Cameron, Hidalgo, Maverick, Starr, and Webb~~as defined in the revised Duty to Serve rule published on April 12, 2023. ~~These Texas counties have both the largest number of Colonias and the largest relative Colonia population. Focusing on this combination of geographies increases the likelihood that our activities will have impact and yield purchase volume. Limiting the target areas in the Colonias for this objective will allow us to appropriately deploy resources to support our plans.~~

Baseline

The following table reflects Freddie Mac's historical single-family loan purchases in the high-needs rural regions listed above from ~~2016~~ 2018 to ~~2020~~2022. To calculate a baseline, we used a five-year historical average of our volume to normalize the record amount of ~~refinance~~ volume we purchased in 2020 and 2021 as a result of the historically low interest-rate environment. Using the ~~2021~~2023 reference files provided by FHFA[i], refinance volume accounted for approximately 40 percent of total Duty to Serve-qualifying loan deliveries in high-needs rural regions in ~~2016~~ 2018 and 2019; however, in 2020 and 2021, refinances composed more than 60 percent of total qualifying volume. As rates have risen rapidly since March 2022, qualifying loan volume has contracted accordingly. In 2022, volume remained elevated but began to decline, with refinances composing just over half of qualifying loan volume. Overall qualifying loan volume in these areas increased ~~66~~ 70 percent from 2019 to 2020 and 42 percent from 2020 to

[2] "US Housing Market in Trouble: Moody's Predicts Home Prices Will Fall in 2023 and 2024", Dan Weil, April 3, 2023: https://www.thestreet.com/housing/us-housing-market-in-trouble-moodys-predicts-home-prices-will-fall-in-2023-and-2024

2021, whereas the annual increases were approximately 9~~8~~ percent in prior years. On the other hand, the qualifying loan volume declined 34 percent from 2021 to 2022. ~~As rates hold steady for an extended period, we anticipate that refinance volume will eventually contract, and the significant spike of refinance volume likely will abate during the 2022-2024 Plan cycle.~~

~~Freddie Mac Single-Family Loan Purchase Volume – High-Needs Rural Regions~~					
~~Year~~	**~~2016~~**	**~~2017~~**	**~~2018~~**	**~~2019~~**	**~~2020~~**
~~Income-Qualifying Loan Count~~ **~~(A five-year average of this loan count was used to establish the baseline)~~**	~~7,947~~	~~8,635~~	~~9,290~~	~~10,055~~	~~16,708~~
~~Baseline~~	~~10,527~~				

Freddie Mac Single-Family Loan Purchase Volume – High-Needs Rural Regions					
Year	**2018**	**2019**	**2020**	**2021**	**2022**
Income-Qualifying Loan Count **(A 5-year average of this loan count was used to establish the baseline)**	10,557	11,509	19,628	27,807	18,270
Baseline	17,554				

2022-2024 Targets

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

~~As rates hold steady for an extended period, we anticipate that origination volume will eventually contract, and the significant spike of refinance volume will abate during the 2022-2024 Plan cycle. Our Economic & Housing Research group estimated[ii] that refinance originations will fall from $2.6 trillion in 2021 to less than $1 trillion in 2022. Continued strong home sales and robust home price growth are expected to help boost purchase originations from $1.9 trillion in 2021 to $2.1 trillion in 2022. According to Freddie Mac's forecast, overall single-family mortgage origination activity will decrease from $4.5 trillion in 2021 to $3.1 trillion in 2022.~~

~~Therefore~~Given the circumstances, our loan purchase~~s targets will increase meaningfully relative to our historical average but are not expected to reach the levels achieved in 2020~~ are not expected to reach the levels achieved in 2020-2022. Instead, they likely will fall below the baseline.

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

Single-Family Loan Purchase Targets – High-Needs Rural Regions		
Year 1 – 2022	**Year 2 – 2023**	**Year 3 – 2024**
12,800-13,850 loans	~~13,900-14,650~~6,400-6,500 loans	14,750-16,000 loans

Market Opportunity and Impact

We estimate that we will provide lenders with an average of ~~more than~~around $~~2~~1.8 billion in liquidity each year of this Plan cycle to finance homes in high-needs rural regions. Lenders originating the loans that we purchase may include CDFIs and small financial institutions; our purchases from rural areas will include loans securing manufactured homes, an affordable housing option for many households that tends to be more prevalent in rural regions than in other areas. Our loan purchases will expand access to credit to qualified borrowers and help create affordable homeownership opportunities in high-needs rural regions.

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

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

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

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

[i] Overall qualifying loan volume is based on FHFA's ~~2021~~ 2023 reference files for Rural Areas Data and Areas of Concentrated Poverty on FHFA's web site: https://www.fhfa.gov/DataTools/Downloads/Pages/Duty-to-Serve-Eligibility-Data.aspx.

~~[ii] http://www.freddiemac.com/research/forecast/20211015_quarterly_economic_forecast.page?~~

Revised Underserved Market Plan Modification Request Template

FREDDIE MAC

RURAL HOUSING

2023

ACTIVITY:

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

OBJECTIVE:

A – Provide Liquidity to Small Financial Institutions Serving Rural Areas

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Revise the 2023 target for loan purchases from small financial institutions (SFIs) serving rural areas.

JUSTIFICATION FOR PROPOSED MODIFICATION:

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

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

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

Freddie Mac proposes revising our 2023 target loan volume from SFIs serving rural regions due to the continuing economic pressures and shrinking pool of lenders that meet the Duty to Serve definition of a small financial institution.

Duty to Serve-qualified home-purchase loan volume in 2023 through April from SFIs serving rural regions declined 46% from the same period in 2022; Freddie Mac's overall single-family home-purchase loan volume was down 29%. The modified loan purchase targets will reflect more realistic goals relative to the market conditions based on current origination volume, forecasts, and feedback from lenders, which all signal significant cooling in the single-family origination market.

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

- We strategically are conducting outreach to small lenders in rural markets to expand our direct and indirect delivery networks; however, given the time required to establish the channels and before deliveries begin to flow through them, these efforts will not yield volume in 2023.
- We continually reach out to SFIs to encourage them to adopt and use our offerings and to sell loans to Freddie Mac. As part of this, we promote the pricing benefits of certain products as well as relevant down payment assistance.
- We purposefully promote products most relevant to rural areas in marketing and communications activities.

Nevertheless, SFIs have delivered far fewer loans than in past years, with many delivering none in first quarter 2023. Applying the colonia definition that FHFA published in April 2023 resulted in a de minimis volume increase in the rural tracts served by SFIs.

Our loan purchases from SFIs have lagged our tracking benchmarks and are expected to fall well short of the current 2023 target. Our efforts cannot overcome market headwinds.

Among them: the interest rate environment. Freddie Mac researchers found[1] that the total number of mortgage-ready individuals shrinks by three million to four million per percentage increase in interest rates. They calculated that, based on the recent high mortgage rate – near 7% – and median home prices at the time – around $400,000 – about 15 million fewer potential homebuyers could sustainably afford mortgages than when rates were 3%. Rates declined a fraction of a percent since the research was published last November. On the other hand, according to the St. Louis Federal Reserve, the median home price rose to around $435,000 at the end of first quarter 2023.

Many lenders are holding loans in portfolio so that they can extend credit to borrowers who fall outside of the Enterprises' credit box, according to lenders we interviewed.

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

The interest environment, combined with years of double-digit home price growth, will affect the housing market for several years to come, according to Moody's Investor Services: "Home purchase affordability has plummeted to the lowest in decades, as typical payments on new mortgages have soared."[2]

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[1] Freddie Mac Research Brief; "Do Rising Interest Rates Price Out Mortgage-Ready Borrowers?"; November 21, 2022: https://www.freddiemac.com/research/insight/20221121-do-rising-interest-rates-price-out-mortgage-ready

[2] "US Housing Market in Trouble: Moody's Predicts Home Prices Will Fall in 2023 and 2024", Dan Weil, April 3, 2023: https://www.thestreet.com/housing/us-housing-market-in-trouble-moodys-predicts-home-prices-will-fall-in-2023-and-2024

Continued high inflation rates further dampen prospects for the housing market. Many households may have less money to put toward a home purchase or refinance closing costs, given the higher costs of living. The Federal Reserve is expected to continue raising rates in 2023 to help rein in inflation. However, higher rates will make access to credit more expensive and further limit homeownership opportunities for low- and moderate-income households in rural areas.

Another pressure: The continuing loss of eligible lenders through closures, mergers, and acquisitions reduces opportunities to purchase loans from SFIs. About 11% of both the banks and credit unions on the list received from FHFA were no longer active at the end of 2022. The pool of eligible lenders has shrunk each year. The trend is expected to continue.

Given all of these circumstances, we will lower our rural SFI loan purchase targets for 2023.

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

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

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

Baseline

The following table reflects Freddie Mac's historical single-family home-purchase loan purchases from small financial institutions serving rural areas from ~~2017~~ 2018 to ~~2021~~2022. To calculate a baseline, we used a five-year historical average of our volume to normalize the record amount of ~~refinance~~ volume we purchased in 2020 and 2021 as a result of the historically low interest-rate environment. Freddie Mac's targets for rural loan purchases from small financial institutions include only home-purchase loans. Our baseline calculation reflects this focus.

~~Using the reference file of eligible institutions provided by FHFA for the 2022-2024 Duty to Serve Plan cycle, refinance volume from 2017-2019 accounted for 46 percent of total Duty to Serve-qualifying loan deliveries from small financial institutions serving rural areas; however, in 2020, refinances composed 72 percent of total qualifying volume and in 2021 jumped to 78 percent before sliding to 64 percent by year-end. At the same time, b~~Buying homes in rural areas has become increasingly difficult. The combination of a shortage of affordable homes in rural areas, years of rapid home price increases, and rising mortgage interest rates ~~have~~ prevent~~ed~~ many potential homebuyers from buying homes. Additionally, ~~prior to the refinance boom that started in late 2019,~~ volume from small financial institutions had been decreasing due to the loss of eligible lenders through mergers and acquisitions. ~~Overall qualifying loan volume in these areas from eligible lenders decreased at a rate ranging from 8-10 percent between 2016~~

~~and 2018 – a stark contrast to the 137 percent increase that was realized from 2019 to 2020.~~[i]

~~For these reasons, Freddie Mac's loan purchase targets include only home-purchase loans. Our baseline calculation reflects this focus.~~

~~**Freddie Mac Single-Family Loan Purchase Volume – Small Financial Institutions Serving Rural Areas**~~					
~~**Year**~~	~~**2017**~~	~~**2018**~~	~~**2019**~~	~~**2020**~~	~~**2021**~~
~~**Income-Qualifying Loan Count**~~ ~~**(A 5-year average was used to establish the baseline)**~~	~~2,205~~	~~2,222~~	~~2,382~~	~~3.023~~	~~3,391~~
~~**Baseline**~~	~~2,645~~				

Freddie Mac Single-Family Loan Purchase Volume – Small Financial Institutions Serving Rural Areas					
Year	**2018**	**2019**	**2020**	**2021**	**2022**
Income-Qualifying Loan Count **(A 5-year average was used to establish the baseline)**	2,242	2,391	3,048	3.410	2,524
Baseline	2,723				

2022-2024 Targets

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

~~Our Economic & Housing Research group estimated in July 2022~~[ii] ~~that U.S. home prices will increase almost 13 percent in 2022 and another 4 percent in 2023, driving down home sales from 6.9 million in 2021 to 6 million in 2022 and 5.4 million in 2023. Total 2022 home sales were down 17 percent through June. Based on market conditions and patterns, we forecast the dollar amount of total home-purchase loan originations will stay fairly stable, going from slightly more than $2 billion in 2021 to slightly less than $2 billion in 2022 and $1.9 billion in 2023. On the other hand, refinance originations will drop from $2.8 trillion in 2021 to $885 billion in 2022 and $463 billion in 2023.~~

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

Therefore, our purchases are expected to ~~be more in line with our performance in earlier years and~~ fall below the baseline.

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

Single-Family Loan Purchase Targets – Small Financial Institutions Serving Rural Areas		
Year 1 – 2022	**Year 2 – 2023**	**Year 3 – 2024**
2,390-2,450 loans	~~2,400-2,450~~1,475-1,800 loans	2,420-2,500 loans

Market Opportunity and Impact

We estimate that we will provide an average of more than $~~389~~ 340 million in liquidity each year of the Plan cycle to small financial institutions that serve rural areas. Deliberately increasing our engagement with small financial institutions to provide liquidity will notably improve access to credit in rural markets because we have heard from lenders that they are limited in resources, available products, and outreach capacity.

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

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

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

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

~~[i] Overall qualifying loan volume is based on FHFA's 2021 reference file for Small Financial Institutions on FHFA's web site: https://www.fhfa.gov/DataTools/Downloads/Pages/Duty-to-Serve-Data.aspx. The list consists primarily of depository institutions, credit unions and Community Development Financial Institutions. The list does not include non-depository mortgage banks. The list also includes several Agricultural Credit Associations (ACAs).~~

~~[ii] "Quarterly Forecast: Market Slowdown will Continue as High Rates and Prices Exacerbate Affordability Challenges"; July 20, 2022; https://www.freddiemac.com/research/forecast/20220720-quarterly-forecast-market-slowdown-will-continue-high-rates-and-prices-exacerbate~~