FHFA Supplement to 2023 Annual Reports Submitted by Freddie Mac

The following summaries were prepared by FHFA and provide additional information on selected objectives in Freddie Mac's 2023 Underserved Markets Plan. Discussions with Freddie Mac took place during on-site and virtual meetings held on June 5th and June 11th, 2024, respectively.

<u>Affordable Housing Preservation Market</u>

FR_AHP_MF Rental_A: Purchase/Guarantee Loans for 5-50 Unit Multifamily Properties from Small Financial Institutions

Freddie Mac completed one transaction in 2023 that supported more than a dozen 5-50 unit 9% LIHTC assets that preserved the affordability of more than 500 units in 5–50-unit properties. This transaction also leveraged Freddie Mac's Q-Deal execution, allowing it to support a Small Financial Institution's efforts to extend additional liquidity to the market.

Despite completing this transaction, Freddie Mac believes that current market conditions make this objective generally infeasible. However, Freddie Mac is working through product development, seeking new deal opportunities based on its current product offerings, and re-examining its approach to the market to continue trying to provide liquidity to this part of the market.

Freddie Mac also stated that Small Financial Institutions have a limited ability to aggregate a sufficient volume of loans for Freddie Mac Q/ML-Deals, which hindered its ability to complete the objective target. To address this, Freddie Mac's Multifamily team completed the Significant Change process for Multi-Sponsor Q/ML-Deals and received approval to market a new functionality on January 26, 2024. This allows Freddie Mac's Multifamily team to aggregate collateral from multiple Small Financial Institutions (SFIs), who would otherwise not be able to aggregate enough loans to make a capital markets execution feasible and combine all of their collateral into a single Q/ML-Deal issuance.

Properties with 5-50 units are most often financed using hybrid loans, which include a floating-rate period, and the most common index used in the non-Agency market is Term SOFR. Freddie Mac makes loans and issues bonds indexed to 30-Day Avg SOFR, and this difference in basis presented a key barrier to completing transactions with SFIs involving 5–50-unit Multifamily Properties.

Following a 2024 FHFA approval, Freddie Mac's Multifamily Production team is now seeking transactions with SFIs involving 5–50-unit Multifamily Properties, including loans indexed to Term SOFR, within the limited issuance amount permitted.

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

Freddie Mac Multifamily's Sustainability and Resiliency Objective for 2023 focused on stakeholder outreach in support of identifying climate resilience standards. To achieve this, Freddie Mac Multifamily, along with a wide group of stakeholders and participants, participated in the development of the broader ASTM Standard for Property Resilience Assessment. Publication is expected in 2024. Freddie Mac believes this resilience standard will be adopted by the2ndustryy over time.

As Freddie Mac awaited publication, it worked to evaluate, find, and assess industry best practices around resilience assessments. This work included outreach to engineering, climate modeling firms and industry experts. This helped Freddie Mac to better understand how it is currently assessing climate risk with a focus on how to assess resilience at a property level. This also allowed Freddie Mac to develop a list of best practice resilience measures by peril based on outreach and cataloguing existing resilience-focused certifications.

Going forward, Freddie Mac plans to develop a refined scope of work for resilience assessments, which will include establishing an acceptable risk tolerance for resilience, particularly around climate related risks and collecting data related to the cost of the resilience improvements and best practices. Freddie Mac is also working to identify what it is required to implement resilience assessments at its properties, how it can develop offerings based on those requirements, and what other funding/financing sources are available to sponsors and that can work with Freddie Mac's financing.

Freddie Mac reported that adopting the ASTM standard is likely the most direct route to long term scaled adoption and natural integration into its practices. ASTM is typically relied upon by the Multifamily industry for the development of standards, and Freddie Mac Multifamily will continue to be an active contributor to the ASTM resilience working group. While Freddie Mac is preparing internally for the adaptation of the ASTM standards, it is also assessing industry best practices around resilience assessments. Freddie Mac has already engaged top engineering firms to evaluate their resilience assessment capabilities and found varying results.

In addition, Freddie Mac and Fannie Mae jointly hosted a Climate Risk Forum focused on Climate Resiliency in October 2023. This single-day event brought together industry stakeholders from the private, public, and nonprofit sectors to explore the current state of resilience standards, challenges, and future solutions for improved resilience. A follow up forum was hosted in March 2024 focused on Low-Carbon Transition and Housing. Many stakeholders in both sessions were tracking the development of the ASTM resilience standard and were determining how to utilize the standard in their risk assessment process.

Freddie Mac Multifamily is also connecting resilience improvements to lower insurance premiums as part of the company's revised "Consumer Climate Impact Roadmap" and is considering what additional research on resilience improvements and climate mitigation it can contribute to or author.

FR_AHP_SharedEq_B: Design New Product Flexibilities to Facilitate the Origination of Shared Equity Mortgages

In 2023, Freddie Mac performed due diligence on using certifications through a competitor's program; however, the certification program was proprietary between the vendor performing the certification and the competitor. The list of certified shared equity programs was not made publicly available by the competitor until the publication of their Selling Guide Announcement on December 13, 2023. Given that timing, Freddie Mac did not have adequate time to review the list of certified shared equity programs and policies that it created around permitting sellers to use the list. Prior to accepting certifications through a competitor program, Freddie Mac needed to perform its due diligence, create policies around reciprocal use, and take the necessary steps for internal and regulatory approval. Freddie Mac completed those efforts this year and announced its updated policies in its June 5. 2024, Selling Guide Bulletin.

The alternate method for ground lease review saves the lender time and resources as the lender now only needs to review to ensure that the ground lease is based upon one of the two model ground leases: The Institute for Community Economics (ICE) ground lease and the National Community Land Trust Network (NCLTN) 2011 Model ground Lease. Previously, the ground lease had to conform to a model ground lease. This wording change eliminates the need for a line-by-line comparison of the ground lease to the ICE model ground lease (28 pages) and the 2011 NCLTN model ground lease (79 pages with commentary). Now, the lender must only review to confirm that the ground lease has been completed with the information specific to the transaction and has not been changed in any way that conflict with Freddie Mac's Guide requirements, which include the following:

- Has a term of at least 30 years.
- Includes a resale formula that limits the homeowner's proceeds at resale. The restrictions must be binding on current and subsequent property owners, and remain in effect (i.e., survive) until they are formally removed or modified, or terminate automatically in accordance with their terms, such as at a foreclosure sale or upon recordation of a deed-in-lieu of foreclosure.
- Provides the community land trust or its assignee the right to a preemptive option to purchase the home from the homeowner at resale ("the right of first refusal").
- States that the CLT must review and approve any refinances and home equity lines of credit.

Each of the model ground leases contains the provisions listed above. Streamlining the review of the ground lease saves the lender from having staff spend time reviewing the entirety of the ground lease and provides the seller certainty that the ground lease meets Freddie Mac requirements. Prior to this change, any deviation from the model ground lease would require Freddie Mac's prior written approval. This simplified review creates efficiencies in the lender process, reduces the time and cost to originate and aligns Freddie Mac's ground lease review policies with other market participants, furthering standardization in this market and laying the foundation for the acceptance of reciprocal ground lease certifications.

Freddie Mac reported that prior to this change, any deviation from the model ground lease would require its prior written approval. In this case, the lender had to submit the CLT ground lease and an analysis to Freddie Mac for review, and Freddie Mac would then run the ground lease through a three-level internal review process to determine compliance with its requirements. This added two to three weeks to the loan process for the lender. If the determination was made that the non-model ground lease met Freddie Mac requirements, it would be added to Freddie Mac's list of approved non-model ground leases in a term of business (TOB). If the lender did not have this TOB, then the process of contracting the TOB added to the transaction timeline.

Once lenders are issued the TOB to deliver non-model ground leases, they are also able to view a growing list of the previously approved non-model ground leases. Lenders do not need to review these ground leases during the loan process, saving the lender time and resources. Freddie Mac's prior written approval for ground leases that are not based on either of the two industry models ground leases will still be required. However, the policy change results in fewer ground leases requiring this step over time.

Asked whether there was any evidence if lenders are more open to lending to CLTs. Freddie Mac reported that 10 lenders delivered CLT Mortgages in 2023 that had not sold CLT Mortgages in the past. Freddie Mac believes is a result of outreach efforts to educate lenders on its CLT Mortgage offering and its CLT database broadly through webinars and the FreddieConnect session, as well as Freddie Mac's focus on individualized lender education, Two of the 10 new CLT lenders are master servicers for HFAs, which accounted for more than 6% of Freddie Mac's 2023 CLT loan deliveries.

In addition to Freddie Mac's education and outreach efforts to HFAs and their correspondent lenders, implementing a guarantor execution path in the prior Plan year opened the door for more lenders to originate and deliver CLT Mortgages to Freddie Mac.

FR_AHP_MF Rental_B: Develop Multifamily Correspondent Lender Program for Community Development Financial Institutions, Minority Depository Institutions and Small Lenders

In 2022, Freddie Mac introduced a new correspondent program to support a range of institutions through its existing multifamily Optigo lender network. Freddie Mac refers to this program as its Emerging Correspondent Program, and defines emerging correspondents as: Minority, Women and Disabled-Owned Businesses (MWDOBs); Minority Depository Institutions, as identified by the U.S. Federal Deposit Insurance Corporation (MDIs); Community Development Financial Institutions, certified by the U.S. Department of Treasury (CDFIs) and Small Financial Institutions (SFIs).

These institutions are vital to low-income areas and are important sources of financing for diverse and emerging borrowers. However, they are often constrained by the size of their balance sheets or by borrower and geographic concentration challenges. Freddie Mac's Emerging Correspondent Program can help address these limitations by bridging the gap between these institutions and Freddie Mac.

For 2023, Freddie Mac set a goal to publish its framework for Optigo lenders, identify at least one Optigo lender to commit to supporting small lending institutions, and grow the network to at least three lenders. Freddie Mac also set a requirement for all Optigo lenders to establish an emerging correspondent lender relationship.

By year end 2023, 21 of 26 lenders had agreements in place under the framework of Freddie Mac's program. Fourteen lenders had agreements that meet Duty to Serve standards (non-depository SFIs are excluded from the Duty to Serve figure). Going forward, Freddie Mac has re-envisioned the correspondent categories and SFIs will now directly overlap with the Duty to Serve definition.

Freddie Mac is focused on building connections within the industry and monitoring activity in its pipeline related to these relationships and agreements. Freddie Mac is working with its lenders to gather feedback and better understand what would be most helpful to encourage deal flow through these relationships, especially considering current market challenges and other unique challenges for lenders in executing transactions with correspondents.

Freddie Mac is revamping its program in 2024 with new correspondent categories. For example, Freddie Mac is tightening the definition of Small Financial Institutions (SFIs) to now require each of these to be depositories in addition to the current criteria. This aligns with the Duty to Serve definition. Freddie Mac is also introducing a new category, Small Mortgage Lenders (SMLs), which continues to promote the spirit of the program by increasing focus on lenders in underserved markets that may not be depositories.

Freddie Mac believes there is a natural, although currently unrealized, potential for transactions that can be encouraged by connecting disparate parts of the industry. As such, Freddie Mac has not yet considered a financial incentive but acknowledges that this work is nascent and this approach will need evaluated over time.

FR_AHP_Sec8_A: Provide Liquidity and Stability through Section 8 Loan Purchases

In 2023, Freddie Mac exceeded both its original target of 27,200 units and its modified target of 20,400 units for purchases of Section 8 mortgages, which includes project-based and tenant-based Housing Choice Voucher units, with a total of 27,849 units. Of the 27,849 units, 7,264 are tenant-based Section 8 (vouchers) and 20,585 are Project Based Section 8.

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

Freddie Mac established an offering that incentivizes the preservation of affordability for properties with regulatory requirements that are due to expire during the first half of the Freddie Mac loan term.

Freddie Mac identified terms for workforce housing preservation, including a provision to extend an incentive to borrowers who agree to set aside at least 20% of units as rent-restricted beyond the regulatory restriction period, and began distributing the term sheet to lenders in Q1. Freddie Mac later updated its offering to extend these terms to LIHTC properties or other properties with expiring LURAs in the first half of the Freddie Mac loan term.

Favorable pricing is provided when the borrower agrees to restrict rents for a percentage of set-aside units. Rent affordability level may vary by market, with a programmatic minimum of 20% of units. Available on all fixed rate loans with a term greater than or equal to 7 years. The Preservation period is generally the lesser of the term of the loan or 10 years, with 1.25x/80% maximum credit parameters. At lower leverage, 35-year amortization may be available subject to Underwriting review and approval.

Market reception to Freddie Mac's workforce preservation offering surpassed its Equitable Housing Finance plan target of 3,000 units in 2023. The provision that meets Freddie Mac's Duty to Serve Commitment for properties with expiring LURAs was deployed in June and has not yet resulted in transactions. Freddie Mac continues to market its preservation offering that includes this provision.

Although it can vary by market, affordability is typically calculated at the 80% of AMI level based on a dataset supplied by FHFA. Freddie Mac's servicers confirm the affordability requirements are in place through an annual form certification, which includes a rent roll, and imposes a fee if there is not compliance. Freddie Mac does not impose an income test for its preservation offerings. This allows Freddie Mac to encourage use of the offering to a broad set of borrowers who typically do not have experience with or practices in place to accommodate such a requirement.

Manufactured Housing Market

FR_MH_Comm Govt_A: Purchase Resident-Owned Community, Non-Profit Owned, and Government Instrumentality-Owned Loans

Freddie Mac continues working to identify eligible MHROC transactions but continues to see a limited market for its offering – a market that has further shrunk due to the increase in interest rates since 2022. At the beginning of 2022, the 10-year treasury was sub 2%, and by the end of that year it was at 4%. Today, it hovers around 4.5%.

To address this limitation, Freddie Mac has increased its marketing and outreach related to its ability to purchase MHROC loans. This included reconnecting with ROC USA in July of 2023, hosting a podcast episode on the history of MHCs and ROCs, sitting down for an interview on MHROCs with Globe St., and publishing an article featuring one of Freddie Mac's transactions in late 2023. Freddie Mac also proposed new approaches in its 2025-2027 plan for further outreach and technical assistance. In 2023, Freddie Mac funded one loan for Leisureville Mobile Home Parks in Woodland, CA. Leisureville Mobile Home Parks is a 150-unit, age-restricted, Manufactured Housing Resident Owned Community. The property was converted to a cooperative in 1995. Just over half of the property's units are rent restricted to 1/12 of 30% of 65% area median income, and income restricted at or below 80% area median income. Property rents are, on average, 48.13% below nearby market rents. Freddie Mac's financing helped support capital improvements, including water and sewer line repairs at the property.

Rural Housing Market

FR_RH_HN Pop_B: Engage in LIHTC Equity Investment

In 2023, Freddie Mac exceeded its LIHTC equity investment target in support of rural areas, supporting 26 transactions. Through its $269 million cumulative investment, Freddie Mac supported the creation or rehabilitation of 1,784 affordable housing units. Freddie Mac's baseline is 15 transactions or 922 units, an average of its 2018-2020 transactions.

Freddie Mac's LIHTC equity transactions are for multifamily deals where there is typically no mortgage or construction loan, and Heritage One is a product for owner-occupied mortgages. As a result, Freddie Mac's Single Family and Multifamily teams generally markets these capabilities through their respective channels. Freddie Mac will also seek out opportunities to cross-market its capabilities where appropriate.

Freddie Mac works with its syndicators and leading developers to locate LIHTC transactions that can benefit high needs populations. Freddie Mac attends the Travois conference annually and uses the conference to conduct outreach, promote Freddie Mac offerings, and build relationships with federally recognized tribes. Freddie Mac also connects to tribal lands transactions is through site visits. For example, members of Freddie Mac's production team traveled in April to Onamia, MN to meet with Mille Lacs Corporate Ventures and tour Red Willow Estates. Red Willow Estates is a new construction of a 30-unit property in Onamia, MN which closed in April 2022. All 30 units are restricted to households earning no more than 30% to 60% of Area Median Income (AMI). 100% of units benefit from a tribal subsidy. Additionally, 4 of the units have a hard set aside for homeless households. The sponsor is Mille Lacs Corporate Ventures. They were created by the tribal government of the Mille Lacs Band of Ojibwe Indians to manage the business affairs of the Band and is part of the government's executive branch.

In addition to this work, Freddie Mac has often promoted its successful LIHTC equity transactions for federally recognized tribes through deal stories on its website.

FR_RH_MF Prop_D: Explore and Establish Rural Developer Capacity Building Program

Freddie Mac undertook a landscape analysis of the mission, program structure, and impact of more than 130 rural developers, nonprofits, and organizations with multifamily rental housing programs. From this review, Freddie Mac learned that there is a broad web of interconnected but locally focused developers of multifamily rental housing throughout the country. Freddie Mac also conducted outreach and met with organizations that have a national footprint with expertise and background in capacity building.

It was clear from these meetings that these organizations have deep expertise but that resources for capacity building are limited. Many rural capacity development organizations have been in this space for many years and have garnered expertise and on-the-ground learning that Freddie Mac does not have. As such, Freddie Mac believes the best role it can provide is to support and complement already existing/ongoing efforts.

Throughout Freddie Mac's review, stakeholders identified challenges including understanding and accessing USDA grant and loan programs, training opportunities for emerging developers, understaffing as it relates to recruiting employees and board members, and general funding constraints. Additionally, many existing and emerging developers in rural communities face gaps in understanding the fundamentals of financing, grants, compliance with Federal and state subsidies, and other aspects of development.

Freddie Mac believes that it could support efforts to provide foundational development and financing tools, technical assistance, and connections to or mentorship from other established developers and rural capacity building programs.

Currently, Freddie Mac's Develop the Developer Academy provides these tools along with a robust training curriculum in partnership with local nonprofit and education organizations to developers. Ultimately, Freddie Mac wants to further integrate into the ongoing work of local nonprofit and education organizations that work with developers.

One way that Freddie Mac is doing this is by engaging with Enterprise Community Partners and their work with Mississippi Home Corporation. Enterprise is working to build the capacity of small and emerging multifamily developers in the Mississippi Delta region and through this effort they will also supply Freddie Mac with curriculum and learnings that Freddie Mac hopes can be integrated with its Develop the Developer academy work.

For 2024, Freddie Mac's objective was to select at least one partner for the program, develop a curriculum and then select one initial market for the first class of applicants in 2025. Freddie Mac is partnering with Enterprise to support curriculum development and using their work in the Mississippi Delta as a live test case.

In Freddie Mac's 2025-2027 plan, Freddie Mac notes that it will select one market per year for an academy and its intention is for this to be done in alignment with Freddie Mac's Develop the Developer Academy work. There will be several factors that go into what markets it chooses and that are still under development for 2025.

FR_RH_MF Prop_A: Purchase Loans to Preserve Properties with USDA Section 515 Debt

Freddie Mac has built the ability to support USDA 515 debt into its core products and conducts regular outreach but has not been able to complete any USDA Section 515 purchase goal transactions.

In 2023, Freddie Mac conducted outreach to raise awareness of its Section 515 offering in several ways. First, Freddie Mac communicated its Section 515 offering through regular interactions with its lender networks through conference calls, email blasts, and Freddie Mac TAH lender updates. In addition, Freddie Mac's term sheet is posted both to its website and in the OUS section for lenders, and Freddie Mac highlighted its one successful transaction on its mission map.

Freddie Mac also connects with lenders, borrowers, and other market participants about its offering at events, including Enterprise Community Partner's 2023 Rural Rental Housing Preservation Academy and the Council for Affordable and Rural Housing (CARH) conference. A member of the Freddie Mac production staff participated in a panel during the Rural Rental Housing Preservation Academy, during which Freddie Mac's Section 515 offering and other loan products were highlighted.

FR_RH_Small Fin Inst_A: Provide Liquidity to Small Financial Institutions Serving Rural Regions

Freddie Mac asserted that SFI lenders have been making decisions to originate loans that do not traditionally fit GSE requirements. Many SFIs are able to leverage their portfolios to provide more favorable mortgage financing options than are generally available from the GSEs in the secondary market. SFI flexibilities were used more frequently as interest rates began to climb in 2022. For example, some lenders subsidized mortgage affordability by keeping note rates lower than what was common in the secondary market (e.g., through the use of adjustable-rate mortgages at below-market rates). Freddie Mac has seen some SFIs start to fill their available portfolio space since 2022, potentially increasing their need for market liquidity, but not at a level to drive material amounts of incremental business back into the secondary market.

The Pew Charitable Trusts analyzed Home Mortgage Disclosure Act (HMDA) data from 2018 to 2022 to identify which lenders originated small-balance mortgages and published their findings in a March 2024 article, "Independent Mortgage Companies Are Critical to Small Mortgage Access". Pew found that independent mortgage companies originated 53% of small-balance mortgages, community banks originated 21%, large banks 15%, and credit unions 10%.

Examining the historical trend of small-balance mortgage lending by lender category, banks have decreased their originations, independent mortgage companies have increased them, and community banks have increased them modestly.

Over the study period, independent mortgage companies originated a majority of small-balance mortgages in urban areas (63%) and rural areas (52%). Credit unions and community banks accounted for 35% of all loans made in rural areas but only 22% in urban areas.

Freddie Mac's small-balance mortgage deliveries followed the same trends as the Pew analysis of HMDA data.