Federal Housing Finance Agency

Duty to Serve

FHFA presents Snapshots from Freddie Mac's & Fannie Mae's Duty to Serve Underserved Markets Plans for State & Local Multifamily Housing

Effective December 14, 2018

Excerpts from Freddie Mac's and Fannie Mae's Duty to Serve Underserved Markets Plans: State and Local Multifamily Housing

Compiled by the Federal Housing Finance Agency

FHFA has compiled excerpts from Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans addressing activities that support state and local multifamily housing. To access the Duty to Serve Underserved Markets Plans in their entirety, please visit FHFA's Duty to Serve website.

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DISCLAIMER

Implementation of the activities and objectives in Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans may be subject to change based on factors including FHFA review for compliance with the Charter Acts, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.

Freddie Mac

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FHFA's Compilation of Snapshots from Freddie Mac's Duty to Serve Plan: State and Local Multifamily Housing

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

LIHTCs comprise the number one subsidy currently available for new affordable rental housing units, and are tightly connected to many other federal and local subsidy programs. In our analysis of the National Housing Preservation Database (NHPD), which was assembled jointly by the Public and Affordable Housing Research Corporation (PAHRC) and the National Low Income Housing Coalition (NLIHC), we identified just under 33,000 properties with an active LIHTC subsidy and about 2.2 million total assisted units under this program. We compared these figures against data from HUD, which showed there are about 33,500 properties with nearly 2.28 million LIHTC assisted units.[88]

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

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

Per analysis from NCSHA in the 2015 State HFA factbook, the overwhelming majority (89.5 percent) of units financed with LIHTCs in 2015 also were supported by other federal subsidies. The major overlapping subsidies in units financed that year were tax exempt bond financing (37.5 percent), HOME (18.5 percent), and Project Based Section 8 (15.8 percent). Only 10.5 percent of LIHTC units financed in 2015 were not also supported by another federal subsidy.

Freddie Mac currently supports the LIHTC program by providing debt financing on properties with tax credits. This market is largely driven by LIHTC equity investment, which ultimately informs market opportunity for debt financing.

We currently offer a comprehensive suite of debt financing products and flexible underwriting parameters that support LIHTC properties. This suite includes the following offerings:

1. Bridge to Resyndication
2. Immediate Cash Loan for LIHTC Preservation
3. Value-Add
4. Lease-Up
5. 9% new LIHTC Loan
6. Tax-Exempt Loan
7. Preservation Rehab Loan
8. Bond Credit Enhancement
9. Tax-Exempt Bond Securitization
10. Green Advantage®

Through our Tax-Exempt Loan product, we offer both forward commitments to take out construction loans, as well as immediate loans to support properties that are stabilized or have predictable and achievable rehab plans that do not disrupt economic performance of the property or materially affect tenants.

Given our comprehensive product offerings and our long history of growing our purchase volume, we are starting our Duty to Serve Plan from a position as market leader. The question becomes: How can we continue our strong support as the market experiences challenges from rising rates and decreasing tax credit pricing while at the same time find opportunities to expand the capability of borrowers to preserve more of the existing stock of affordable housing?

We see two methods by which we can best continue and grow our support for the LIHTC Debt market:[89]

1. Provide liquidity and stability through LIHTC loan purchases, leveraging our many debt offerings.
2. Develop a new mezzanine offering to close the capital gap for LIHTC preservation transactions and enable the properties to be preserved as affordable after the compliance period.

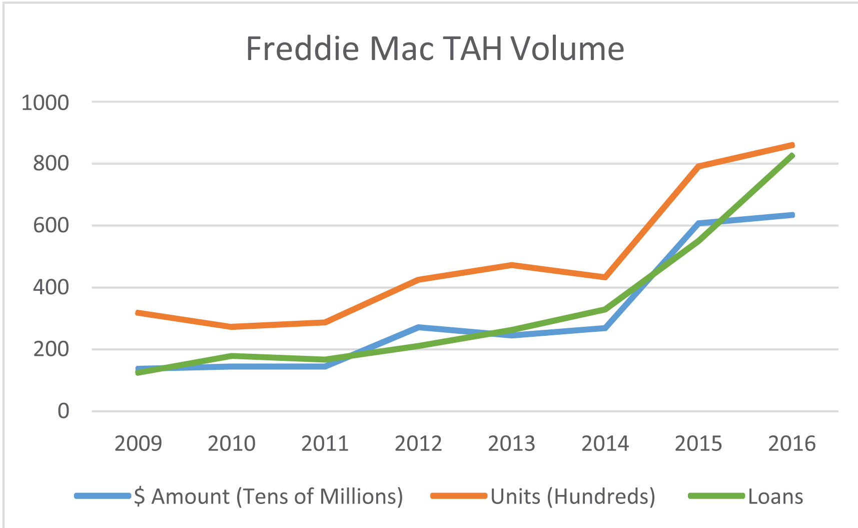
OBJECTIVE A: PROVIDE LIQUIDITY AND STABILITY THROUGH LIHTC LOAN PURCHASES

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

We intend to continue our vital role in providing liquidity, stability and affordability in the LIHTC debt market through a focus on loan purchases. We have grown this business considerably over the past 10 years since Duty to Serve was first described in HERA, with a dramatic increase in the past few years, as a result of a mature suite of product offerings, and favorable market factors.

Across our total TAH business, including LIHTC debt support, from 2009 to 2016, we have increased

- the number of units we supported by 170 percent,
- the number of loans by 560 percent, and
- the annual loan amounts by 362 percent,



Since 2014, we have doubled our dedicated core TAH production and underwriting staff, and have also introduced five new loan offerings, including our Tax-Exempt Loan, Bridge to Resyndication, Special Needs Single-Family Rental, and Preservation Rehab, all of which play an important role in supporting the underserved and preserving affordable housing. This focus has made Freddie Mac the clear market leader. Analysis of the average of the prior three years of purchases from both Enterprises' draft Plans indicates that Freddie Mac has held over 70 percent of the GSE market share for LIHTC debt purchases from 2014 through 2016. We caution that there is not much room for further growth in real terms without growing market share and taking transactions from other market participants. Should other market participants seek to increase their loan purchases, they would likely need to take market share from Freddie Mac. Given the breadth and depth of our investment and experience and the consistency we provide, the only way for other participants to do this would be to loosen credit standards and/or reduce price significantly. Either or both of these measures have the potential to run contrary to safety and soundness and distort the mid- and long-term health of the affordable housing preservation market in favor of short term gains.

As a result of this growth, recent 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 sought to grow our business well in advance of the Duty to Serve regulation. Our sole objective is not to routinely grow our loan purchase activity. Rather, it is to provide consistent liquidity, certainty of execution, and stability to this market. This is important to note because at times of market turbulence, growing purchases is not in the best interest of the public or the best stewardship of taxpayer funds if it requires mispricing loans or sacrificing credit discipline to meet short-term goals.

Indeed, we are in the midst of just such a period of market turbulence, which is described below. At least in the near term, this turbulence has depressed the LIHTC debt market size, and therefore affects our annual purchase volume relative to recent record years.

This underscores, however, the importance of the stability we provide, as we offer flexibility on a transaction basis to get deals done and support the market in the near term, while maintaining strong credit terms and distributing risk to private investors that promote safety and soundness over the long term.

Baseline

In setting our baseline, we counted distinct units and properties on which we purchased loans during the year in question through our TAH retail Seller/Servicers network or via TAH negotiated transactions on individual mortgages. In the prior three years, our LIHTC loan purchases have been as follows. We have more than doubled the number of units we supported, and increased the number of properties by 234 percent.

Year	2014	2015	2016	Three-Year Avg.
Total Loan Amount	$1.5B	$2.3B	$2.1B	$1.96B
LIHTC Units	12,002	21,887	25,432	19,773
Properties	82	152	196	143

This results in a three-year average baseline of $1.96 billion supporting 19,773 units and 143 properties.

Target

Due to market headwinds and challenges described below, we anticipate that the market for LIHTC debt will not be as strong going forward as it has been in 2015 and 2016, even if the total multifamily market grows, at least in terms of debt origination dollars. While LIHTC investors have returned to the market in the second half of 2017, they have done so at a lower price per credit, which means more tax credits—both federal and state—are required for each transaction, ultimately leading to fewer transactions. As the market for new tax credit properties has cooled, we have increased our focus on the preservation and refinance of properties with existing credits to support this market. While this emphasizes the stability, we provide, we do not anticipate exceeding our prior two years of LIHTC purchases in 2017. For example, our 2017 LIHTC debt originations in terms of units are down 26 percent through 3Q as compared to the first three quarters of 2016.

In 2018 through 2020, we are likely to continue to see a smaller market for LIHTC debt, particularly for properties with new credits, though we will likely see incremental growth as investors reenter the LIHTC market and settle on a corporate tax rate against which to set their models.

As a result of the above factors, updated analysis of the LIHTC market, and public input, we have set our purchase targets in excess of our baseline, and intend to increase purchases from there. In setting our targets, we will count distinct units and properties on which we purchase loans during the year in question through our TAH retail seller/servicer network or via TAH negotiated transactions on individual mortgages. We did this to account for the reduced LIHTC equity market and rising interest rates, and therefore reduction in total LIHTC units available for financing in the market. We are also taking into account our position as market leader, with our support being two to three times that of other financing providers for LIHTC debt in the market today.

Year	2018	2019	2020
Target	The Lesser of 20,500 LIHTC Units or 150 Properties	The Lesser of 21,500 LIHTC Units or 160 Properties	The Lesser of 23,000 LIHTC Units or 175 Properties

We anticipate that we will reach these goals by leveraging our seller/servicer network and core products, as well as innovating to reduce financing costs, increase efficiency and close capital gaps. These innovations are described in Objective B below as well as under Activity 1, Objective B, of the Section 8 activity, as this product will support both LIHTC and Section 8 properties. Purchases tied to these initiatives are included in the 2019 and 2020 targets above and account for the non-linear growth curve in targets, despite the many challenges facing this market, as these products will help mitigate the declining impact of lost or narrowly concentrated subsidies. Should these initiatives not reach the level of success we anticipate, we will adjust our targets accordingly. We may also adjust these targets upward or downward annually based on market conditions, such as market reactions to tax changes.

Challenges

The LIHTC market has experienced two simultaneous challenges in late 2016 and 2017 that have shrunk the market in the near term over recent record-high market size and will likely have a sustained impact over time:

1. Reduced LIHTC equity pricing has led to a smaller market
2. Rising interest rates have increased the need for LIHTC equity and soft subordinate debt

In 2017, tax credit pricing has reduced from historic highs of about $1.03 per credit in mid-2016 to $0.95 in mid-2017 per *Affordable Housing Finance*'s survey of syndicators.[90] In a hypothetical transaction with $10 million of debt and a need for $6 million of equity, this reduction in tax credit pricing equates to a $480,000 funding gap, which would require additional tax credits or soft debt to close.

Increased interest rates have a direct effect on how much debt a property can support, and therefore how much LIHTC equity or soft debt is required. In 2016, interest rates were at historic lows. For example, over the course of 2016, the 10-year Treasury index had an average high for the year of 187 bps and an average low of 180 bps. In 2017 through July, the 10-year Treasury index had an average high for the year of 237 bps and an average low of 232 bps. Using a 50 bps difference in rate we can see the effect on a hypothetical property: if a property qualified for a loan amount of $10 million, a 50 bps increase in the 10-year Treasury index would mean that property would only qualify for about $9.44 million at the higher interest rate. This means that property would require an additional $560,000 of equity or soft debt in order to receive financing. This gap would be in addition to the gap caused by reduced LIHTC pricing. The combined effect of higher interest rates and lower equity pricing would be over a $1 million gap in funds to fill.

Where the gap in funds is growing, states have been required to focus their support on fewer transactions in order to help them succeed, which reduces the resources available for other properties. Indeed, as 2017 has progressed, we saw more and more examples of large scale LIHTC market disruption, two of which particularly highlight the impact:

1. On March 15, 2017, the California Tax Credit Allocation Committee (TCAC) passed a resolution allowing developers to exchange their 2016 9 percent LIHTC allocation for 2017 LIHTCs. Given delays in finding equity investors, developers found it impossible to close in time to complete construction by the end of 2018 (LIHTC deals must be "placed in service"- meaning 100 percent construction completion and receipt of the certificate of occupancy- by the end of the second year after receiving a LIHTC allocation).
2. In the Midwest, the Ohio Housing Finance Agency (OHFA) had to increase the allocation of LIHTC to deals awarded in 2016 because developers were not getting sufficient equity pricing to allow the deals to be economically feasible. Unfortunately, the additional credits had to come from the 2017 allocation, thus reducing the 2017 pool by approximately 12 percent.

As a result of this disruption, in the first half of 2017 there were 16 percent fewer new acquisitions compared to the first half of 2016 per *Affordable Housing Finance*'s survey of syndicators.[91] We expect the market to remain smaller for some time unless interest rates experience a sustained reduction and either tax code changes or revisions to the LIHTC program are made, either of which could further affect the market.

Market Impacts

Freddie Mac intends to continue our role as the leader in providing debt to 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 by a wide margin—indeed, the continuation of this market leadership has, and will continue to have, a profound influence on the health of the market and availability of liquidity in the near-and long-term We will do this by expanding our product set (as described in Objective B below as well as Objective B in the Section 8 activity) and competitive stance, in order to further improve liquidity and mitigate the market declines for viable transactions. Recognizing the critical role the GSEs may play in providing a source of stability during this period of market turmoil, we will be mindful of our status in conservatorship and ensure that our purchase volume 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 LIHTC debt. These are the most comprehensive risk distribution methods in the market, and allow us to provide attractive financing and flexible terms to borrowers, 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.

OBJECTIVE B: DEVELOP A NEW MEZZANINE FINANCING OFFERING TO CLOSE CAPITAL GAPS FOR LIHTC PRESERVATION TRANSACTIONS

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

As a LIHTC property reaches the end of its compliance period, the LIHTC equity partner typically seeks to exit the partnership and invest in new LIHTC properties. When this happens, the general partner must raise equity to buy out the limited partner, either by pursuing a new, often costly, equity partner or contributing more equity.

In Year 1 of our Plan, we intend to introduce a new offering to enable borrowers to better leverage their equity for affordable housing preservation by providing a one-stop-shop for efficient and comprehensive capital. This new offering will be in the form of mezzanine financing secured by a pledge of primary partnership interest, and will generally be of lower cost than equity options in the market. In exchange for our mezzanine financing, borrowers will be expected to preserve rents as affordable during the term of the loan, regardless of whether other restrictions remain in place.

We anticipate that this offering will have several effects over time:

1. Allow borrowers to acquire and preserve more properties and units for the same amount of equity contribution, as each property will require less equity.
2. Enable the general partner in a partnership to get additional debt to buy out the limited partner at the end of the compliance period and continue to operate the property as affordable for the remainder of the extended use period while performing necessary improvements to the property.
3. Allow LIHTC equity investors to exit partnerships after the tax credit compliance period so they can reinvest their equity in new LIHTC transactions, thereby promoting more affordable housing to support more renters.
4. Enable borrowers to recapitalize and preserve more properties as affordable at year 30 or beyond relative to the market, even without new tax credits.
5. Motivate and enable borrowers seeking an exemption from the extended use period affordability restrictions to keep rents affordable relative to the market.

Subject to FHFA approval, our intentions over the first two years of the Plan Term are as follows:

1. In Year 1 of our Plan we will develop the product parameters, expertise, and legal, underwriting, and servicing infrastructure to offer mezzanine financing.
2. In Year 2 of our Plan, we will look to purchase mezzanine loans as part of product development, develop our risk distribution model, and propose a risk-distribution method to FHFA.

Details and challenges can be found below.

Baseline

Freddie Mac does not currently offer mezzanine financing. Over the course of 2017, we have been exploring the potential impact of and interest in mezzanine financing through conversations with borrowers and investors, as well as through discussions with FHFA.

Challenges, Actions and Market Impacts

<table>
<tr><th>Market Challenge</th><th>Freddie Mac Action</th></tr>
<tr><td>
Cost and availability of equity limits borrowers' ability to acquire and preserve affordable housing

Typically, the General Partner sponsor solicits equity partners to act as Limited Partner in a borrowing entity and provide most of the funds to acquire or develop a property. For LIHTC transactions, this is the LIHTC investor. In Year 15 once the LIHTC compliance period is over, the GP must find a new equity partner or source the equity themselves.
Equity is generally more expensive than debt, and equity investor return expectations put pressure on a property to grow value and pay off the investor. Often the way to grow value and make payments is to raise rents to the maximum levels the market will bear.
Without a cost-effective alternative, borrowers are under pressure to raise rents or put off rehab in order to pay off the equity investor.
Without mezzanine debt, borrowers are limited in the number of properties they can support with their current sources of equity.

Rising interest rates limit the amount of senior debt a property can support

As interest rates rise, the properties will be able to support less senior debt, and will rely on other sources to close the capital gap.

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Year 1 – 2018

If necessary, obtain FHFA approval to offer mezzanine financing. If FHFA approval is required and not received at all, or in the first six months of the year, subsequent timelines could be delayed.
Subject to FHFA approval, distribute term sheet (details below) to the TAH seller/servicer network.

Year 2 - 2019

Purchase at least three mezzanine loans that support affordable housing preservation.
Seek feedback from at least three seller/servicers on if and how we might improve the offering.

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Underwriting Challenge	Freddie Mac Action
Increased leverage requires careful setting of underwriting and refinance parameters ▪ The additional debt from the mezzanine loan must be serviceable during the life of the loan. ▪ The property must be able to be refinanced at mezzanine loan maturity. **Increased leverage increases the importance of risk distribution to ensure safety and soundness**	**Year 1 - 2018** 1) Develop underwriting parameters, as evidenced by an offering term sheet. 2) Include at least the following elements in the term sheet: a. Product overview and loan purpose b. Sponsor and/or property eligibility requirements c. Loan-to-Value limits d. Debt coverage limits e. Allowable lengths of loan term f. Allowable length of Amortization g. Affordability requirements 3) Develop a mezzanine finance refinance test for internal use to control for risks that the property will not be able to refinance at maturity of the senior and mezzanine loans. **Year 2 - 2019** 1) Develop risk distribution method for mezzanine loans. 2) Solicit feedback from at least three potential investors in mezzanine loan risk distribution model. 3) Propose risk distribution method to FHFA (if required).

Resource Challenge	Freddie Mac Action
Development of expertise ▪ Freddie Mac does not have experience as a mezzanine lender. Therefore, we will have to develop expertise in-house or hire new talent to support this offering. **Development of suite of legal documents** ▪ Mezzanine financing has its own unique suite of legal document infrastructure that needs to be created. At present, Freddie Mac does not have such an infrastructure, and will need to develop it from the ground up. **Development of affordability monitoring and enforcement capabilities** ▪ In cases where a property is no longer subject to a LURA, monitoring and enforcement of any	**Year 1 – 2018** 1) Appoint or hire at least one mezzanine finance production lead for structuring transactions and at least one mezzanine finance underwriting lead for underwriting transactions. 2) Develop a cross-departmental internal mezzanine financing working group including production, underwriting, legal, asset management, and risk distribution representatives. 3) Engage outside counsel to draft legal documents, including the following: a. Loan and Security Agreement b. Note

affordability restrictions agreed to by the borrower with Freddie Mac will be required. At present, Freddie Mac does not enforce rent restrictions independent of a LURA.	c. Pledge Agreement d. Guaranty e. Subordination of the Management Agreement f. Omnibus Assignment g. Inter-creditor Agreement h. UCC Financing Statement 4) Create and document affordability restrictions monitoring and enforcement terms and process. 5) Provide one to three training sessions covering product process and parameters, including underwriting and ongoing monitoring to internal staff via webinar or in person training sessions as appropriate for the audience. 6) Provide one to three training sessions covering product process and parameters, including underwriting and ongoing monitoring to Freddie Mac seller/servicers via webinar or in person training sessions as appropriate for the audience.

Market Impact

Providing cost-effective mezzanine financing will enable borrowers to acquire and preserve more affordable housing over time at different points in the LIHTC compliance and extended use cycles. This is of considerable importance and impact to the market. This mezzanine offering will empower mission focused borrowers to extend their equity investments and benefit more tenants over time, and enable LIHTC investors to exit partnerships and invest their equity into new LIHTC deals. Mezzanine financing can also be used to offset the decline or narrowing use of public subsidies to support affordable housing preservation. The result will be the preservation of more affordable housing for longer periods oftime.

Additionally, providing mezzanine financing to enable the preservation of affordable housing is a new activity for Freddie Mac. As such, there is much to develop, from product parameters, legal infrastructure, and ongoing monitoring and enforcement in our first year, to an effective risk distribution method that attracts private capital and ensures safety and soundness in our second year. All of this is a substantial and concerted effort.

With this offering, we will set appropriate underwriting parameters and develop the comprehensive legal infrastructure that will allow us to provide all of the benefits to the borrowers and renters described above while protecting taxpayers from undue risk during the period we hold the loans and allowing us to effectively distribute risk on the mezzanine loans to private investors over time.

Activity 9 - Support Residential Economic Diversity: Additional Activity

The Duty to Serve regulation defines Residential Economic Diversity (RED) as: affordable housing in a high-opportunity area or mixed-income housing in an area of concentrated poverty. The regulation defines “high opportunity area” to mean a HUD-designated “Difficult Development Area,” with a specified poverty rate cap, or an area designated in a state or local Qualified Allocation Plan (QAP), as determined by FHFA. FHFA has specified the state definitions of high opportunity areas in QAPs that qualify as high opportunity areas for Duty to Serve purposes. The regulation defines “area of concentrated poverty” as a HUD-designated Qualified Census Tract (QCT) or Racially or Ethnically Concentrated Area of Poverty (R/ECAP).Most QCTs and R/ECAPs overlap. A QCT is defined as census tracts where 50 percent of households have incomes below 60 percent of the area median income or that have a poverty rate of 25 percent or more. Given this definition, it is evident that these areas need support; we can offer our services to promote affordable housing development and preservation. Promoting economic diversity in housing is consistent with Freddie Mac’s charter mission to provide liquidity, stability and affordability to the US housing market, and our community mission to enable social and economic mobility and promote sustainable communities.

There has been a great deal of academic research conducted to better understand the role of economic diversity in community development. Per research from Harvard’s Equality of Opportunity Project, the zip code where one grows up has a significant, and perhaps disproportionate, impact on a person’s life outcome, and the outcomes of that person’s descendants.[117] Therefore, with our mission to increase the supply of affordable housing and preserve existing affordable housing, we also need to consider how we can promote diverse, vibrant, and healthy communities, using housing as the anchor. In so doing, we will seek to create or reinforce opportunities that will encourage economic and social mobility through Residential Economic Diversity.

Additionally, many states and localities have made deliberate efforts to promote RED through LIHTC QAPs and inclusionary zoning. Various laws, regulations, and federal programs have sought to address RED and economic mobility in different ways, from The Fair Housing Act of 1968, Community Reinvestment Act (CRA) to HUD programs including Housing Choice Voucher Program Section 8, HOPE VI, and the recent Affirmatively Furthering Fair Housing regulation.

Although we are hopeful and excited to further this mission, there are a few challenges that we foresee may extend beyond the capacities of a financial institution to solve. With respect to affordable housing development and Residential Economic Diversity, the following five challenges are especially important:

1. High property development costs
2. Limited land availability
3. The availability of state and local efforts to prioritize Residential Economic Diversity, particularly in high cost locations
4. Public willingness to accept initiatives
5. Lingering effects of prior public policy and redevelopment decisions

While these are significant challenges, the Urban Institute suggests many interconnected ways to further Residential Economic Diversity. These include: enforcement to combat discrimination, education on diverse neighborhoods, affordable housing development, and new incentives to encourage stability and long-term growth.[118] To this point, we intend to focus on four housing related efforts that will both create more opportunities for renters over time, and complement research, public policy, and federal and local efforts:

1. Purchase loans on properties that support Residential Economic Diversity
2. Create a mapping tool to enable deeper understanding of the various aspects of RED

3. Conduct and publish research on housing in high opportunity areas
4. Conduct and publish research on housing in areas of concentrated poverty (QCTs and R/ECAPs)
5. Work with states that prioritize RED in QAPs to identify commonalities and best practices and publish reports

Freddie Mac believes we can contribute to the progression towards diverse, vibrant, and sustainable neighborhoods through these RED initiatives, each of which has a distinct value to offer to the market. This value is magnified when all activities are considered together with each other and the important work they will enable.

In our loan purchases, Freddie Mac can and will continue to provide liquidity to affordable housing in high opportunity areas and support localities in their efforts to promote sustainable communities.

In our research, we will lay a foundation for broader understanding of the role of affordable housing in areas of high opportunity, as well as the role of mixedincome housing in areas of concentrated poverty. Much research has, and will continue to be conducted on this subject beyond our own, but our focus, using housing as the anchor and leveraging our unique position in the market as a housing finance provider with a national scope and extensive expertise, will provide a beneficial complement.

Our mapping tool will provide the first-ever national view of these high opportunity areas and areas of concentrated poverty and the housing opportunities in them, and allow our seller/servicer network to deliberately target properties in these areas in need of financing. Our national analysis of various definitions of opportunity and market size in these areas will demonstrate for the first time the opportunities for scaled investment in real estate that promotes RED and enable FHFA to refine the Duty to Serve definition of RED over time. Our case studies that focus on replicable community approaches to RED and replicable financing methods and lender-locality partnerships will allow us to showcase and leverage emerging standards to further more development, preservation, and financing opportunities over time and increase liquidity for the promotion of Residential Economic Diversity.

OBJECTIVE A: PURCHASE LOANS ON PROPERTIES THAT SUPPORT RESIDENTIAL ECONOMIC DIVERSITY

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

Freddie Mac has previously, and currently, provides financing for affordable housing properties in high opportunity areas. The opportunities to purchase loans vary annually depending upon local priority, interest rates, and the LIHTC market. Although the market is consistently changing, we have maintained a constant presence in supporting Residential Economic Diversity. We currently offer a comprehensive suite of debt financing products and flexible underwriting parameters that support LIHTC properties. This suite includes the following offerings:

1. Bridge to Resyndication
2. Immediate Cash Loan for LIHTC Preservation
3. Value-Add
4. Lease-Up

5. 9 percent new LIHTC Loan
6. Tax-Exempt Loan
7. Preservation Rehab Loan
8. Bond Credit Enhancement
9. Tax-Exempt Bond Securitization
10. Green Advantage

Through our array of products, we have offered both forward commitments to support new construction, and immediate loans to support properties that desire refinancing. Our thorough underwriting procedures enable the continuance of affordable housing even where the costs of construction remain high. In addition to these particular debt products, we are able to leverage our industry leading risk distribution measures--our K-series, M-series, and PC executions—to attract private investment to support affordable housing and distribute risk away from the taxpayers. Localities, developers, and lenders will have access to additional liquidity while leveraging our capabilities. We intend to continue our strong support for RED in high opportunity areas by purchasing loans.

Baseline

In setting our baseline, we counted distinct restricted units and properties with restricted units on which we purchased loans during the year in question through our TAH retail seller/servicer network or via TAH negotiated transactions on individual mortgages. Over the past three years our loan purchases in high opportunity areas have been as follows:

Year	2014	2015	2016	Three-Year Avg.
Total Loan Amount	$503.8 Million	$856.2 Million	$622.6 Million	$660.9 Million
Restricted Units	1,471	4,425	1,603	2,500
Properties	14	32	24	23

These purchases are inclusive of LIHTC Debt and Section 8 purchases. This results in a three-year average baseline of the lesser of 2,500 restricted units or 23 properties.

Target

The market for affordable housing in high-opportunity areas is heavily dependent on the LIHTC market and interest rates.

In prior years, especially 2015 and 2016, the LIHTC debt market was highly favorable with historically low interest rates and historically high LIHTC pricing. These market conditions allowed Freddie Mac to provide financing for more units than we would be able to support in a challenging market environment. Even with these favorable market conditions, and even as our LIHTC debt business grew, we did not support as many properties or units in FHFA designated high opportunity areas in 2016 as in 2015. This suggests that there are various local variables that affect the market, such as state and locally administered LIHTC awards, and the availability of qualifying projects in these geographic areas. Additionally, anomalous large transactions can skew purchase volume in a given year. In fact, in 2015, the top five properties in terms of restricted units accounted for 1,663, or 38 percent, of the restricted units in that year, while the bottom five accounted for only 70 restricted units, or 2 percent of the total. As such, past success is not a reliable indicator of future performance, especially in geographically specific submarkets.

Given these variabilities, and the challenges laid out below, we are setting an aggressive target at the lesser of 25 properties or 2,600 restricted units in 2018, and will seek to deliberately increase the target subject to market conditions and states and localities continuing to prioritize affordable housing in high opportunity areas. We may also change these targets based on interest rates, tax rates and LIHTC market implications, or the results of our research described below. In setting our targets, we will also count distinct restricted units and properties with restricted units on which we purchase loans during the year in question through our TAH retail seller/servicer network or via TAH negotiated transactions on individual mortgages. Our targets for each year will be the lesser of the number of restricted units or properties as follows:

Year	2018	2019	2020
Target	The Lesser of 2,600 Restricted Units or 25 Properties	The Lesser of 2,700 Restricted Units or 27 Properties	The Lesser of 2,800 Restricted Units of 29 Properties

These targets will be inclusive of LIHTC debt and Section 8 purchases.

Market Challenges

There are several challenges associated with making purchases on properties in high opportunity areas. In these areas, there are often market complications that will hinder development. These include: high costs of development, limited land availability, and public willingness to accept housing diversity efforts. Additionally, our ability to support affordable housing in high opportunity areas is heavily dependent on state and local priorities and allocations of funds, as affordable housing in high opportunity areas relies upon subsidy in order to operate even a portion of the units at rents that are affordable to residents of very low- and low- income in a market where such rents alone could not generate sufficient cash flow to cover debt service payments.

The most important method states can use to subsidize affordable housing in high opportunity areas is the LIHTC, which can have an even greater impact in a low interest rate environment, such as in 2015 and for most of 2016. In late 2016 and in 2017, the LIHTC market has experienced two simultaneous challenges that have shrunk the market in the near term over recent record high market size and will likely have a sustained impact over time:

1. Reduced LIHTC equity pricing has led to a smaller market.
2. Rising interest rates have increased the need for LIHTC equity and soft subordinate debt.

In 2017, tax-credit pricing has reduced from historic highs of about $1.03 per credit in mid-2016 to $0.95 in mid-2017 per *Affordable Housing Finance*'s survey of syndicators.[119] In a hypothetical transaction with $10 million of debt and a need for $6 million of equity, this reduction in tax credit pricing equates to a $480,000 funding gap, which would require additional tax credits or soft debt to close.

Increased interest rates have a direct effect on how much debt a property can support, and therefore how much LIHTC equity or soft debt is required. In 2016, interest rates were at historic lows. For example, over the course of 2016, the 10-year Treasury index had an average high for the year of 187 bps and an average low of 180 bps. In 2017 through July, the 10-year Treasury index had an average high for the year of 237 bps and an average low of 232 bps. Using a 50 bps difference in rate we can see the effect on a hypothetical property: if a property qualified for a loan amount of $10 million, a 50 bps increase in the 10-year treasury index would mean that property would only qualify for about $9.44 million at the higher interest rate. This means that property would require an additional $560,000 of equity or soft debt in order to receive financing. This gap would be in addition to the gap caused by reduced LIHTC pricing. The combined effect of higher interest rates and lower equity pricing would be over a $1 million gap in funds to fill.

Additionally, states and localities can apply various subordinate debt programs, but in the current market, they have been required to focus their support on fewer transactions in order to help them succeed, which reduces the resources available for other properties. Indeed, as 2017 progressed, we saw more and more examples of large scale LIHTC market disruption, two of which particularly highlight the impact:

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

2. In the Midwest, the Ohio Housing Finance Agency (OHFA) had to increase the allocation of LIHTC to deals awarded in 2016 because developers were not getting sufficient equity pricing to allow the deals to be economically feasible. Unfortunately, the additional credits had to come from the 2017 allocation, thus reducing the 2017 pool by approximately 12 percent.

As a result of this disruption, in the first half of 2017, there were 16 percent fewer new acquisitions compared to the first half of 2016 according to *Affordable Housing Finance*'s survey of syndicators.[120] We expect the market to remain smaller for some time unless interest rates experience a sustained reduction and either tax code changes or revisions to the LIHTC program are made, either of which could further affect the market.

Market Impacts

Creating and preserving affordable housing in high opportunity areas is difficult, as older properties are often attractive candidates for conversion to market rate housing, and the cost of new construction is prohibitively expensive to allow for 100 percent affordable properties. By providing financing for affordable housing in high opportunity areas with the competitive advantage given by our product set and our risk distribution methods, we are enabling developers and localities to further Residential Economic Diversity and promote affordability in some of the areas where it is hardest to do so.

Given the numerous obstacles that currently limit the deveopment of affordable housing in high-opportunity areas, our success in making loan purchases will not only have a significant impact on the communities we support and the market generally. These purchases will also provide case studies for states and localities to leverage as they prioritize furture development needs and determine how best to apply LIHTCs and their various subsidies to maximum benefit. In support of this, we will publish at least one news story on our website or press release each year about an exemplary or precedent setting transaction. Successful developments and successful loan purchases will also demonstrate to states and localities that do not currently prioritize RED that doing so can be both economically and socially beneficial, and that there are replicable models for achieving these benefits.

OBJECTIVE B: CREATE A MAPPING TOOL TO ENABLE DEEPER UNDERSTANDING OF THE VARIOUS ASPECTS OF RED

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	**1**	**VLI, LI, MI**	**Yes**

FHFA defines Residential Economic Diversity as either affordable housing in a high opportunity area or mixed income housing in an area of concentrated poverty. FHFA has gone to great lengths to identify specific regions in need of support, and we intend to build upon this foundation to bring greater transparency and understanding to the housing market in high-opportunity areas and areas of concentrated poverty. A key component of this effort is the development of a mapping service that will clearly identify these locations, and categorize and label properties in these locations so we, researchers, policy makers, localities, and developers can better understand precedents, opportunities, and challenges to promoting Residential Economic Diversity.

Baseline

Freddie Mac does not currently offer such a mapping tool. There are various mapping services in the market, but none of them have the foundation for housing and Residential Economic Diversity and national scope that we intend to build.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Lack of accessible data on Residential Economic Diversity and housing ▪ Current data on housing and RED is unconsolidated due, in part, to a lack of institutional investment and to the vast scope of this concept. As a result, the locations and characteristics of properties supporting RED are not clearly documented in a consolidated, accessible manner. **Market awareness** ▪ Not all states and localities actively promote Residential Economic Diversity ▪ The public is often unaware of the benefits and methods of achieving Residential Economic Diversity.	**Year 1 – 2018** 1) Initiate a technology project that will ultimately deliver an interactive mapping tool to identify FHFA-defined areas of interest for RED, affordable and mixed-income properties in those areas as well as: a. If the property meets regulatory agreements for housing subsidies or is market rate (note that we can only perform this service where the data exists, so we cannot likely capture and provide this information in all cases) b. Contact information for a Freddie Mac representative 2) How the tool will be used: a. The tool will be available to our network of seller/servicers who will be able to target localities that support RED b. Localities will more easily recognize locations that count as FHFA-identified high opportunity areas where Freddie Mac is seeking to provide financing, and can adjust their focus as appropriate. c. Freddie Mac will likely use the tool to locate properties that meet RED requirements and seek to provide financing for them. d. Tool will allow users to query by address or other geographic markers to be determined during development. 3) Take the following steps to achieve this : a. Identify/Develop appropriate software for the tool b. Aggregate and align data for use in mapping tool from a selection of the following sources as well as others we may discover in our

	work: The National Housing Preservation Database, data.gov, HUD, Harvard's Equality of Opportunity Project, and Census Bureau information. c. Test the mapping tool in beta form prior to formal release. 4) Solicit market feedback (from research and policy organizations, localities, borrowers, seller/servicers) and release official product to the public 5) While this is a one year objective, we plan to make this tool available to the public in Year 2. We will also make changes as necessary based on feedback from seller/servicers, developers, and borrowers. These updates may also include data changes from FHFA, HUD, or external vendors.
Resource Challenge	**Freddie Mac Action**
Deficiency of consolidated data ▪ Gathering the necessary data to create the mapping system will be labor intensive. ▪ We will need to purchase data from external vendors which can be costly. **Software development** ▪ Creating internal software can be a time-consuming process. ▪ Development cycle will require multiple tests to ensure the products' practicality, ▪ There will need to be multiple teams of developers, testers, researchers, and business planners to implement this product	**Year 1 – 2018** 1) Assemble a design team. Bring together the necessary individuals from IT, Research, and Business teams who will design and implement the product. 2) Reach out to external vendors to acquire or purchase the necessary data to build the platform. Note: With any mapping and searching of data, there will be a margin of error in trying to identify exact locations of properties—address mismatches and latitude/longitude imprecisions may create some ambiguity or false positives in a small minority of cases. 3) Identify the needs of stakeholders, including, but not limited to: a. Research and policy organizations b. Localities c. Borrowers d. Seller/Servicers

Market Impact
Residential Economic Diversity is ultimately a method of promoting opportunity and social and economic mobility. This mapping tool will act as a foundation of research that will broaden the markets' knowledge of economic diversity in housing. Much academic research has been conducted that suggests that promoting economic diversity in neighborhoods leads to healthy and sustainable communities. In creating a mapping service that will outline what properties support and promote RED, Freddie Mac is making it easier for other lenders and developers to engage in RED activities. We expect that this mapping tool will have multiple uses and therefore benefit various parties, including: researchers, policy makers, localities, developers, and ultimately people and communities around the country. Given the breadth of RED as a concept, it is challenging to focus disparate information and fields of study into tools that will enable concrete actions. We believe this mapping service will establish an important foundation to decrease barriers to public policy decision making and financing decisions and allow for the better focusing of private capital for the purpose of promoting RED. We anticipate that this tool will have a great deal of impact on the market by (1) enabling investors to understand what properties meet the requirements for RED, whether the Duty to Serve definitions of high opportunity area and area of concentrated poverty unintentionally exclude areas that promote economic diversity, (2) enabling researchers to better study the distribution of properties and investment in these areas, and (3) enabling policy makers and localities to learn from each other's efforts and make well-considered decisions about how to best promote RED, (4) enabling our seller/servicer network to deliberately target for financing properties that support RED in these areas, and (5) enabling states who value RED in their QAP but do not have their high opportunity areas mapped to leverage our mapping service— over time we can envision using this tool to map all high opportunity areas prioritized by states in their QAP. Through these factors, and likely more as the tool is released to the public and gains market adoption, we will enable greater liquidity in the market for properties supporting RED.

OBJECTIVE C: CONDUCT AND PUBLISH THREE RESEARCH PROJECTS ON HOUSING IN HIGH OPPORTUNITY AREAS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	**1, 2 and 3**	**VLI, LI, MI**	**Yes**

In defining high-opportunity areas, FHFA has leveraged public input, established geographical criteria—HUD's "Difficult Development Area (DDA)"—and taken local programs into account by identifying states or localities whose LIHTC QAPs recognize or reward efforts to further Residential Economic Diversity. FHFA has also included in its definition a "maximum poverty rate threshold for HUD-designated metropolitan DDAs at 10 percent and for non-metropolitan DDAs at 15 percent" for areas to qualify as high opportunity. However, FHFA has made it clear that DDAs are not a perfect proxy for high opportunity areas and thus there is room to better understand and refine this definition over time.

Through a series of distinct research efforts and publications, we intend to explore several aspects of the high-opportunity areas definition as it relates to economic diversity.

- The extent to which HUD's DDAs do or do not provide the foundation for economic mobility
- The opportunities and barriers for developing or preserving affordable housing in high opportunity areas, potentially based on various measures of opportunity
- Factors, both including and beyond housing, that are necessary to further economic diversity and opportunity

We intend for our research to leverage and complement leading academic and policy work, explore anomalies in various definitions, as well as to explore case studies that can lead to better public understanding and well-considered public policy, and help FHFA to refine or reinforce the definition of high opportunity areas. With a refined or reinforced definition, we will look to create and enable the emergence of standards that will increase liquidity and investment in support of RED.

Given the level of detail and effort that this work requires, we plan to complete distinct individual projects and publications on an annual basis that build upon our findings from each year but have their own unique value. These efforts will begin with a broad market study in 2018, followed by in depth case studies in 2019 and 2020. We view case studies—focused and detailed analysis of particular communities and/or properties—as the best approach for our research in years 2 and 3 because they will allow us to focus on the unique and nuanced challenges of supporting RED in different communities, and take those lessons and apply them more broadly. In order to delve into these studies with appropriate depth and care, it is important to take sufficient time in our outreach, analysis, and writing to ensure that our work is well considered and meaningful to the market. Indeed, each of these efforts will involve a great deal of time, effort, and focus in each year from our internal research team, and will involve outreach to leading researchers in the field to better inform our work and help it to be maximally beneficial to the market and communities across the country.

Our work is summarized as follows:

Year 1 – 2018. The first year of our research will involve gathering necessary data to better define high-opportunity areas, which includes estimating market size and opportunity, as well as comparing different definitions of high-opportunity areas. After consolidating and refining this analysis, we will publish a research report on our findings. This analysis will also be foundational for our efforts in 2019 and 2020.

Year 2 – 2019. The second year of our research will involve conducting case studies on three communities that have undergone deliberate efforts to promote Residential Economic Diversity. We will use the definition of high opportunity area to pinpoint our research to these areas. Our goal will be to explore how residential economic has other economic and social impacts on communities beyond individual properties, and how states, localities, communities, and developers have effectively furthered these benefits. We will publish this research in 2019. We expect that this will be useful for states and localities, as well as developers who will look to support economic diversity. We will look to identify replicable models for other communities to follow in their holistic approach to RED. By enabling more communities to deliberately promote RED, we will likely also promote future loan purchase opportunities and increased liquidity in the market.

Year 3 – 2020. In the final year of our Plan, we will conduct three additional case studies with a new focus: the challenges and opportunities specifically for financing affordable housing in high opportunity areas. We will examine three properties for which Freddie Mac has provided financing, explore how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were effectively leveraged to support these transactions. Through this research, and its publication in 2020, we will identify replicable transaction structures and tools that Freddie Mac and localities can use to further RED and opportunity through affordable housing in high opportunity areas. We anticipate that this will lead to more liquidity in the market as other communities and developers avail themselves of these standards and transaction models.

By completing each of these studies and publishing our analyses, we will provide a foundation for the federal, state, and local policy makers, researchers, developers, and financing providers to coalesce around concepts and objectives that will promote economic diversity and opportunity over time.

Baseline

Freddie Mac has not engaged in or published formal research on housing in high opportunity areas. Moreover, no organization has performed or published such research on using this definition of high opportunity areas. This research will be the first of its kind.

Challenges, Actions and Market Impacts

<table>
<tr><th>Challenges</th><th>Freddie Mac Action</th></tr>
<tr><td>
Lack of easily accessible data on high opportunity areas and housing
▪ Gathering information that relates to high opportunity areas will be difficult, as there are many disparate sources of data, not all of which are publicly available. Throughout the course of our research there have been instances where data was temporarily unavailable or where combining sources proved to be more difficult than originally anticipated. The wide range of topics that we intend to cover for our high opportunity research will rely heavily on data, and completing the objective within a narrow timeframe will be very difficult if data issues are encountered.
Public is often unaware of the benefits of Residential Economic Diversity
▪ Public misconceptions regarding economic diversity and housing may play a role in creating preconceived notions that deter the creation and preservation of affordable housing in high
</td><td>
Year 1 – 2018
Leverage data aggregated and aligned in conjunction with the mapping tool described in Objective B above from a selection of the following and other sources we discover in our research to better understand housing in high opportunity areas: The National Housing Preservation Database, data.gov, HUD, Harvard's Equality of Opportunity Project, and Census Bureau,
1) Compare and contrast various definitions of high opportunity areas
2) Publish report on housing in high opportunity areas
3) This report will include at least the following:
a. Comparison of definitions of high opportunity areas
b. Analysis of the geographic distribution in high opportunity areas of LIHTC, Section 8,
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opportunity areas

Definitional challenge

- Insufficient industry consensus on what is considered high opportunity
- Understanding the opportunities that exist to expand this market

Resource challenge

- Throughout the Duty to Serve Plan, we are taking on a considerable number of research efforts, all of which require extensive planning, as well as collaboration with key stakeholders, and analysis. The design and research for all of these objectives will have many unique components, and will leverage the expertise and skills of our internal research organization, whose focus extends beyond the scope of the Duty to Serve Plan.

and other programs we may identify in our research, leveraging the data sources identified above

c. Estimation of market size in high opportunity areas of LIHTC debt, Section 8, and other programs we may identify in our research, leveraging the data sources identified above

4) Report will be published on our website, distributed to research organizations, advocacy organizations, and the seller/servicer network, and will be promoted with a press release.

5) Engage with at least two leading researchers on Residential Economic Diversity to help inform and structure our research and identify communities we should focus on in our case studies.

Year 2 – 2019

1) Identify and analyze three high opportunity areas that are approaching economic diversity in different ways and conduct individual case studies for each community, comparing their approaches and their use of housing as a tool to further economic opportunity.

2) Draft a report on these three case studies. Report will include analysis of the approaches taken by each community, the role of housing and housing programs used to promote Residential Economic Diversity, and the relationship between the specific housing and a selection of measures of opportunity identified in different definitions of high opportunity areas. This report will identify factors that successfully enabled affordable housing to be developed and financed so that these factors may be replicated elsewhere. We will also identify factors that inhibit or make more difficult the promotion of Residential Economic Diversity and pathways to avoid or mitigate these challenges.

3) Report will be published on our website, distributed to research organizations, advocacy organizations, and the seller/servicer network, and will be promoted with a press release.

4) Engage with at least two leading researchers on Residential Economic Diversity to help inform and structure our research and identify communities we should focus on in our case studies.

Year 3 – 2020

1) Our research in Year 3 will build off our

	findings in 2019 regarding steps communities can take to promote RED, but will focus more specifically on the avenues to finance properties through state and local programs and Freddie Mac that have successfully promoted Residential Economic Diversity. 2) To do this we will identify and analyze three high opportunity areas in which Freddie Mac has provided financing for affordable housing, and draft a report on these three case studies. Report will include analysis in different high opportunity areas for which Freddie Mac has provided financing, how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were effectively leveraged in conjunction with Freddie Mac financing to support these properties. Through these case studies we will identify replicable development models, financing models, and approaches and tools states and localities can use to facilitate development and financing of affordable housing in high opportunity areas. Report will be published on our website, distributed to research organizations, advocacy organizations, and the seller/servicer network, and will be promoted with a press release. 3) Engage with at least two leading researchers on Residential Economic Diversity to help inform and structure our research and identify communities we should focus on in our case studies.

Market Impact

Over time, many programs and studies have focused on Residential Economic Diversity and its role in promoting social and economic mobility. Likewise, there have been many ways of understanding what constitutes the fundamentals of opportunity. Our research will build upon the information collected by numerous academic studies, and look beyond this work as it relates to housing and housing finance as an important aspect of furthering Residential Economic Diversity. The results of each of our research efforts will have several market impacts across all three years of our Plan.

Year 1 – 2018. Our research will build upon the information collected by numerous academic studies, and look beyond this work as it relates to housing and housing finance, an important aspect of furthering Residential Economic Diversity. Better understanding of high opportunity areas, and what can be done to create them, will also ensure that loan purchases we make in these areas have a high level of beneficial impact on communities. The housing market needs access to a consolidated set of research that clearly outlines the benefits of economic diversity in residential communities, and ways in which these may be achieved. This published research will act as a reference for all market particpiants. By working with academic teams and the FHFA, we will be able to refine the definition for high opportunity areas for the use of the housing industry, and, more importantly, for the benefit of the residents in these communities

Year 2 – 2019. Promoting Residential Economic Diversity in high opportunity areas has been a long-term challenge. Identifying and analyzing communities that have succeeded, and the reasons for their success and the challenges they have faced, is fundamental to enabling more communities to follow suit. In evaluating communities that have made a deliberate effort to further Residential Economic Diversity, we will be able to identify and analyze replicable models of community development rooted in affordable housing and economic diversity. Publishing research on this will provide greater attention to these efforts, and will demonstrate models for other communities to follow. This will in turn help to attract more development and investment supporting Residential Economic Diversity.

Year 3 – 2020. Our publication in Year 3 will build upon our findings in Year 2 as we seek to take the lessons of community development identified in Year 2 and apply them more specifically to the financing of affordable housing that promotes RED. We will focus specifically on how Freddie Mac financing and other sources have been leveraged to promote Residential Economic Diversity, and the challenges faced in doing so. Our focus on replicability, not just of our debt, but also of steps communities can take to further development and make transactions work, will provide a clear signal to the market of how to facilitate more development in support of Residential Economic Diversity, and how to promote greater opportunity for residents in strong, sustainable communities. This will lead to greater liquidity in this market as more developers, lenders, and localities leverage the tools and new standards identified in our analysis.

OBJECTIVE D: CONDUCT AND PUBLISH THREE RESEARCH PROJECTS ON HOUSING IN AREAS OF CONCENTRATED POVERTY (QCTs and R/ECAPs)

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	**1, 2 and 3**	**VLI, LI, MI**	**Yes**

Developing mixed income housing in areas of concentrated poverty is an important objective, but one that comes with many challenges. Increasing opportunity in these areas is something that extends beyond housing. Freddie Mac is committed to healthy neighborhoods for all through our role in supporting affordable housing. Enabling growth in persistent-poverty areas is consistent with our charter and community missions.

As we look to provide financing for mixed-income housing in poverty areas over time and perform research into the role of housing and economic development in these areas, it will be important to look at how we can enable Residential Economic Diversity and attract new capital to these neighborhoods without creating negative secondary outcomes. In promoting development in such areas today, it will be important that it is done with the community, while preserving safe and decent housing opportunities for residents living there today, something that has historically been a casualty of redevelopment efforts. For example, as a result of urban renewal efforts in the 20th century, hundreds of thousands of affordable units were lost, a legacy that has left lingering impacts on communities today. Per analysis from Marc Weis in “The Origins and Legacy of Urban Renewal,” “As of June 30, 1967, 400,000 residential units had been demolished in urban renewal areas while only 10,760 low-rent public housing units had been built on these sites”[121].

While researching opportunities to promote Residential Economic Diversity in these areas, we expect many of the necessary efforts to further economic diversity will extend beyond housing. It will take the collaboration of residents, local leaders, governmental entities, planners, developers, and financing providers, among others, to enable job development and infrastructure improvement. Freddie Mac’s products, purchases, and outreach will be a basis for the revitalization of these areas, but cannot and will not be the only factor. Through our research, we will look beyond housing to help lay a foundation for collaboration of various institutions that can aid in promoting economic diversity in areas of concentrated poverty.

Given the level of detail and effort that this work requires, we plan to complete distinct individual research projects and publications on an annual basis that build upon our findings from each year but have their own unique value. These efforts will begin with a broad market study in 2018, followed by in depth case studies in 2019 and 2020. We view case studies—focused and detailed analysis of particular communities and/or properties—as the best approach for our research in years 2 and 3 because they will allow us to focus on the unique and nuanced challenges of supporting RED in different communities, and take those lessons and apply them more broadly. In order to delve into these studies with appropriate depth and care, it is important to take sufficient time in our outreach, analysis, and writing to ensure that our work is well considered and meaningful to the market. Indeed, each of these efforts will involve a great deal of time, effort, and focus in each year from our internal research team, and will involve outreach to leading researchers in the field to better inform our work and help it to be maximally beneficial to the market and communities across the country.

Our work is summarized as follows:

- **Year 1 – 2018.** The first year of our research will involve gathering necessary data to better define areas of concentrated poverty, which includes estimating market size and opportunity, as well as comparing different definitions of “areas of concentrated poverty.” After consolidating and refining this analysis, we will publish a research report on our findings. This analysis will also be foundational for our efforts in 2019 and 2020.

- **Year 2 – 2019.** The second year of our research on areas of concentrated poverty will be focused on conducting case studies on three communities that have undergone deliberate efforts to promote Residential Economic Diversity. We will use the definition of areas of concentrated poverty to pinpoint our research to these areas. Our goal will be to explore how Residential Economic Diversity has other economic and social impacts on communities outside of housing, and how states, localities, communities, and developers have attempted to provide these benefits in areas of concentrated poverty. We will publish this research in 2019. We expect that this will be useful for states and localities, as well as developers who will look to support economic diversity. We will look to identify replicable models for other communities to follow in their holistic approach to RED. By enabling more communities to deliberately promote RED, we will likely also promote future loan purchase opportunities and increased liquidity in the market.

- **Year 3 – 2020.** In the final year of our plan, we will conduct three additional case studies with a new focus: the challenges and opportunities specifically for financing mixed-income housing in areas of concentrated poverty. We will examine three properties for which Freddie Mac has provided financing, though perhaps in different range of income-mixing than FHFA has defined depending on availability in our recently-financed loan portfolio, explore how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were (or were not) leveraged to support these transactions. Through this research, and its publication in 2020, we will identify replicable transaction structures and tools that Freddie Mac and localities can use to further RED and opportunity through mixed-income housing in areas of concentrated poverty. We anticipate that this will lead to more liquidity in the market as other communities and developers avail themselves of these standards and transaction models.

By completing each of these studies and publishing our analyses, we will provide a foundation for federal, state, and local policy makers, researchers, developers, and financing providers to coalesce around concepts and objectives that will promote economic diversity and opportunity in areas of concentrated poverty over time.

Baseline

Freddie Mac has not engaged in or published formal research on Residential Economic Diversity as it relates to areas of concentrated poverty. Moreover, while various organizations have analyzed housing opportunities in these areas, FHFA's work in formalizing a definition of Residential Economic Diversity as it relates to areas of concentrated poverty sets a foundation for us to perform research that will be the first of its kind.

Challenges, Actions and Market Impacts

Challenges	Freddie Mac Action
Promoting economic growth without the displacement of current neighborhood residents ▪ Many community rehabilitation programs have resulted in the displacement of residents that have been living there **Public perception and preference** ▪ Public misconceptions regarding economic diversity and housing may play a role in creating preconceived notions ▪ Higher income residents may be unwilling to live in areas of concentrated poverty without demonstrable local incentives	**Year 1 – 2018** Leverage data aggregated and aligned in conjunction with the mapping tool described in Objective B above from a selection of the following and other sources we discover in our research to better understand housing in areas of concentrated poverty: National Housing Preservation Database, data.gov, HUD, Harvard's Equality of Opportunity Project, and Census Bureau. 1) Compare and contrast various definitions of areas of concentrated poverty. 2) Publish a report on housing in areas of concentrated poverty. This report will include at

Definitional Challenge

- Insufficient industry consensus on what is considered an area of concentrated poverty and methods to provide support
- Throughout the course of our research there have been instances where data was temporarily unavailable or where combining sources proved to be more difficult than originally anticipated. The wide range of topics that we intend to cover for our areas of concentrated poverty research will rely heavily on data, and completing the objective within a narrow timeframe will be very difficult if data issues are encountered.

Resource Challenge

- Throughout the Duty to Serve plan, we are taking on a considerable number of research efforts, all of which require extensive planning, as well as collaboration with key stakeholders, and analysis. The design and research of all of these objectives will have many unique components, and will leverage the expertise and skills of our internal research organization, whose focus extends beyond the scope of the Duty to Serve plan.

least the following:

a. Comparison of definitions of areas of concentrated poverty

b. Analysis of the geographic distribution in areas of concentrated poverty of LIHTC, Section 8, and other programs we may identify in our research, leveraging the data sources identified above

c. Estimation of market size in areas of concentrated poverty for LIHTC debt, Section 8, and other programs we may identify in our research, leveraging the data sources identified above

3) Report will be published on our website, distributed to research organizations, advocacy organizations, and the Seller/Servicer network, and will be promoted with a press release.

4) Engage with at least two leading researchers on areas of concentrated poverty to help inform and structure our research and identify communities we should focus on in our case studies.

Year 2 – 2019

1) Identify and analyze three areas of concentrated poverty that are approaching economic diversity in different ways and conduct individual case studies for each community, comparing their approaches and their use of housing as a tool to further economic opportunity.

2) Draft a report on these three case studies. Report will include analysis of the approaches taken by each community, the role of housing and housing programs used to promote Residential Economic Diversity, the methods of financing used, and the relationship between the specific housing and a selection of measures of opportunity identified in different definitions of areas of concentrated poverty. This report will also identify factors that successfully enabled mixed-income housing to be developed and financed so that these factors may be replicated elsewhere.

3) Publish a report on our website, distribute it to research organizations, advocacy organizations, and the seller/servicer network, and promote it with a press release.

4) Engage with at least two leading researchers on areas of concentrated poverty to help inform and structure our research and identify communities we should focus on in our case

	studies. **Year 3 – 2020** Identify and analyze three areas of concentrated poverty in which Freddie Mac has provided financing for mixed-income housing. 1) Draft a report on these three case studies. Report will include analysis of three properties in different areas of concentrated poverty for which Freddie Mac has provided financing, how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were or were not leveraged in conjunction with Freddie Mac financing to support these properties. Through these case studies we will identify replicable development models, financing models, and approaches and tools states and localities can use to facilitate development and financing of affordable housing in areas of concentrated poverty. This report will also consider different levels of income-mixing on properties. 2) Publish a report on our website, distribute it to research organizations, advocacy organizations, and the seller/servicer network, and promote it with a press release. 3) Engage with at least two leading researchers on areas of concentrated poverty to help inform and structure our research and identify communities we should focus on in our case studies.

Market Impact

Economic diversity where affordable housing is preserved for the community is essential to transforming areas of concentrated poverty into areas of economic prosperity and opportunity. Our outreach and research will be fundamental to examining how we, and other institutions, can make an impact in this market. Our research will build upon the information collected by numerous academic studies, and look beyond this work as it relates to housing and housing finance, an important aspect of furthering Residential Economic Diversity. The results of each of our research efforts will have several market impacts across all three years of our plan.

Year 1 – 2018. Our research will act as a foundation for policy makers, federal and local government agencies, lenders, housing finance agencies, and developers that want to support Residential Economic Diversity. Better understanding of the definition of areas of concentrated poverty will ensure that loan purchases we make in these areas have a high level of beneficial impact on communities. The housing market needs access to a consolidated set of research that clearly outlines the benefits of economic diversity in residential communities, and ways in which these may be achieved. This published research will act as a reference for all market participants. By working with academic teams and the FHFA, we will be able to reinforce and/or refine the definition of areas of concentrated poverty to be used by the housing industry to benefit the residents in these communities.

Year 2 – 2019. Promoting Residential Economic Diversity and bringing economic prosperity to areas of concentrated poverty to benefit, and not displace, the residents living there today is a long term and difficult challenge. Identifying and analyzing communities that have succeeded, and the reasons for their success and the challenges they have faced, is fundamental to enabling more communities to follow suit. In evaluating communities that have made a deliberate effort to further Residential Economic Diversity, we will be able to identify and analyze replicable models of community development rooted in affordable housing and economic diversity. Publishing research on this will provide greater attention to these efforts, and will demonstrate models for other communities to follow. This will in turn help to attract more development and investment supporting Residential Economic Diversity.

Year 3 – 2020. Our publication in Year 3 will build upon our findings in Year 2 as we seek to take the lessons learned of community development identified in Year 2 and apply them more specifically to the financing of mixed-income housing that promotes RED. We will focus specifically on how Freddie Mac financing, and perhaps other sources, have been leveraged to promote Residential Economic Diversity. Our focus on replicability, not just of our debt, but also of steps communities can take to further development and make transactions work, will provide a clear signal to the market of how to facilitate more development in support of Residential Economic Diversity, and how to promote greater opportunity for residents, and promote strong, sustainable communities. We expect that the lessons we learn from this research will also enable us to better tailor our financing offerings for the benefit of RED as it relates to areas of concentrated poverty. This will lead to greater liquidity in this market as more developers, lenders, and localities leverage the tools and new standards identified in our analysis.

OBJECTIVE E: CONDUCT AND PUBLISH THREE RESEARCH PROJECTS ON STATES THAT PRIORITIZE, OR COULD PRIORITIZE, RED IN QAPS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	**1, 2 and 3**	**VLI, LI, MI**	**Yes**

There have been many states and localities that have made it their policy to support Residential Economic Diversity, some in ways that meet FHFA's qualifications, some in ways that do not, while others have not overtly stressed RED at all. The extent to which states support this idea is not widely known or researched. Over the next three years, we will conduct and publish three research projects to better understand the following:

- Year 1 - 2018: What states are emphasizing in their furtherance of RED through QAPs, what are the leading factors in their furtherance of RED, and what is the market size and opportunity;
- Year 2 - 2019: How Freddie Mac financing can be leveraged into replicable programs with these states; and
- Year 3 - 2020: In states that are not emphasizing RED to the degree FHFA views as qualifying for Duty to Serve credit, how might they do so, and how might Freddie Mac financing be aligned with their efforts for the furtherance of RED?

Given the level of detail, outreach, and effort that this work requires, we plan to complete these distinct individual projects and publications on an annual basis that build upon our findings from each year but have their own unique value. These efforts will begin with a broad market study in 2018, followed by in depth case studies in 2019 and 2020. We view case studies—focused and detailed analysis of particular communities and/or properties—as the best approach for our research in years 2 and 3 because they will allow us to focus on the unique and nuanced challenges and methods of supporting RED in different communities, and take those lessons and apply them more broadly. In order to delve into these studies with appropriate depth and care, it is important to take sufficient time in our outreach, analysis, and writing to ensure that our work is well considered and meaningful to the market. Indeed, each of these efforts will involve a great deal of time, effort, and focus in each year from our internal research team, and will involve outreach to leading researchers in the field to better inform our work and help it to be maximally beneficial to the market and communities across the country.

Through these efforts individually and in the aggregate, we anticipate that we will enable more states to prioritize RED, be able to better tailor our loan offerings to support them (and how they might tailor theirs to work better with us), and provide more liquidity to support RED.

Baseline

Freddie Mac has not explicitly worked with the identified states with the goal of studying and furthering RED in this context.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Deficiency of research on the involvement of states and localities in RED ▪ It is unclear how states and localities support RED **External factors outside of housing** ▪ How public policy has contributed to concentrations of unsustainable neighborhoods ▪ Our ability to affect conditions outside of housing is very limited ▪ Development of jobs, highways, and other infrastructure is not in our control but is essential for community growth **Resource Challenge** ▪ Throughout the Duty to Serve Plan, we are taking on a considerable number of research efforts, all of which require extensive planning, as well as collaboration with key stakeholders, and analysis. The design and research of all of these objectives will have many unique components, and will leverage the expertise and skills of our internal research organization, whose focus extends beyond the scope of the Duty to Serve Plan.	**Year 1 – 2018** Create and/or assign an internal team to contact and meet with states and localities regarding their involvement in Residential Economic Diversity. 1) Conduct outreach to states and localities that are involved in promoting RED to determine how we can provide financing to complement their efforts. 2) Aggregate and align data from a selection of the following and other sources we discover in our research as it relates to states identified by FHFA as having QAPs that emphasize RED: The National Housing Preservation Database, data.gov, HUD, Harvard's Equality of Opportunity Project, and Census Bureau information 3) Publish a report of our findings that will include at least the following: a. Leading factors that states prioritize in promoting RED b. Analysis of the distribution of LIHTC, Section 8, and others we may identify in our research, leveraging the data sources identified above in states identified by FHFA as having QAPs that emphasize RED 4) Publish report on our website, distribute to research organizations, advocacy organizations, and the seller/servicer network, and promote with a press release. 5) Engage with at least two leading researchers on state QAPs to help inform and structure our research and identify communities we should focus on in our case studies. **Year 2 – 2019** 1) Identify and analyze three states in which Freddie Mac has provided financing for affordable housing that supports RED. 2) Draft a report on these three case studies. Report will include analysis of three properties in states for which Freddie Mac has provided financing, how these properties supported RED and opportunity in their communities, and how they have done so in the context of state QAPs and other state or local efforts. Through these case studies we will identify replicable

	development models, financing models, and approaches and tools states and localities can use to facilitate development and financing of affordable housing in high-opportunity areas. 3) Publish the report on our website, distribute it to research organizations, advocacy organizations, and the seller/servicer network, and promote it with a press release. 4) Engage with at least two leading researchers on RED to help inform and structure our research and identify communities we should focus on in our case studies. **Year 3 – 2020** 1) Identify and analyze three states that either do not currently prioritize RED or do not meet FHFA's definition for a qualifying QAP. 2) Draft a report on these three case studies. Report will include analysis of these state's QAPs and how they differ from FHFA's standard and how they could meet that standard, as well as analysis of properties that may be considered as supporting RED for which Freddie Mac has provided financing in these states, the financing used along with state or local programs, and the replicability of the model. 3) Publish the report on our website, distribute it to research organizations, advocacy organizations, and the seller/servicer network, and promote it with a press release. Engage with at least two leading researchers on RED to help inform and structure our research and identify communities we should focus on in our case studies.

Market Impact

With respect to Residential Economic Diversity, it is important to examine how states and localities have been involved in supporting economic and social mobility. Freddie Mac is committed to outreach with these entities—both those whose QAPs meet FHFA's standard for promoting RED, and those whose QAPs do not, to thoroughly understand their role in this market, and to identify and support emerging standards. Our three research projects will have distinct benefits independently, and their combined effect will likely be even greater.

1. In 2018, our work will not only reveal the property makeup and distribution in states with qualifying QAPs, it will also identify emerging standards and illustrate how other states may follow suit.
2. In 2019, our report will identify replicable financing models that pair Freddie Mac debt with state and local programs, including LIHTC, to further RED and bring more private capital into this space.
3. In 2020, our work will enable more states to meet FHFA's standard for QAPs that prioritize RED, which will lead to more deliberate financing opportunities and more liquidity across a broader RED-focused market.

From our findings and our outreach, we can demonstrate to other states and localities how they can promote RED. Additionally, in the aggregate, consistent outreach to states and localities will enable us to further understand their financing needs, which will allow us to tailor our products (and them to tailor theirs) to support RED in a manner befitting the needs and objectives of their communities while channeling private capital at a growing scale through our risk-distribution methods.

Fannie Mae®

FHFA's Compilation of Excerpts from Fannie Mae's Duty to Serve Plan: State and Local Multifamily Housing

D. Statutory Activity: Low-income housing tax credits under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42.

1. *Objective #1: Increase purchases of mortgages secured by LIHTC properties (Do What We Do Best).*

Meeting the Challenges
Financing and preserving LIHTC properties has several key challenges, including: • The LIHTC market is sensitive to potential changes in the US Tax Code as recently demonstrated by the decline in LIHTC prices based on a presumption that the corporate tax rate could drop as part of a national tax reform. • While communities on both coasts and interior cities have access to competitive LIHTC equity, the needs of tertiary cities and rural communities are not met. To address these challenges, Fannie Mae will: • Review the LIHTC market to determine key trends and identify issues which may drive Fannie Mae's possible enhancements of our LIHTC debt product. • Review and consider product enhancements that could result in increased loan purchases. • Contribute additional liquidity to the market by acquiring an increased number of loans secured by LIHTC properties. • As noted in Objective #1 of Fannie Mae's activities relating to Residential Economic Diversity (RED), incorporate concepts of RED into Fannie Mae's LIHTC Debt Purchase activities.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions

2018	• Identify two trends and two product enhancement needs in the LIHTC industry, and propose ways to address them in order to increase liquidity to the LIHTC debt market.
	  ○ Consider specific geographies, rent cost burdens, and potential RED as part of this review.
	• Purchase 83 loans secured by LIHTC properties, representing approximately a 14 percent increase over the Baseline.
	  ○ **Baseline:** The average number of LIHTC debt loans purchased by Fannie Mae over the last three full years is 63 loans (2014: 63; 2015: 44; 2016: 65; 2017: 80). However, given that this average is lower than the number of loans purchased in 2016 and 2017 and to account for the upward trend, Fannie Mae is using an average of the 2016 purchases (65) and the 2017 purchases (80) as our Baseline, or 73 loans.

2019	• Purchase 86 loans secured by LIHTC properties, representing approximately an 18 percent increase over the Baseline.

Year	Actions
	• Confirm loan purchase goal for 2020 including LIHTC debt purchases on properties that serve other Duty to Serve underserved markets including rural high-needs regions, high-needs populations, and RED housing.
2020	• Purchase 92 loans secured by LIHTC properties, representing approximately a 26 percent increase over the Baseline. • Plan for the 2021 – 2023 Duty to Serve Plan.

Fannie Mae has a long history of purchasing loans secured by LIHTC properties and may rely on our traditional lender partners to continue to originate and work with Fannie Mae to expand the number of transactions. Based on this history and these relationships, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Market opportunity is generally based on the information provided in HUD and other preservation databases and utilization of these databases allows for the estimation of annual volume. Fannie Mae's standard underwriting guidelines and risk standards, which incorporate notions of safety and soundness, will be applied to these purchases.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

E. Statutory Activity: Other comparable State or local affordable housing programs.

1. *Objective #1: Expand Fannie Mae's multifamily affordable housing (MAH) definition to support other comparable State or local programs to preserve affordable housing and purchase loans (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
Providing liquidity through other comparable State or local affordable housing programs has several key challenges, including: • The programs are often not aligned with federal housing programs, which creates a lack of standardization between the jurisdictions. • What qualifies as "affordable" may vary between jurisdictions. • Different jurisdictions may have different requirements for various debt structures (e.g., subordination, term and compliance). • The lack of standardization among jurisdictions may require time-consuming waivers for loan purchases, which may result in a less efficient market. • If a jurisdiction's affordable housing program does not meet Fannie Mae's MAH requirements, these properties cannot take advantage of the beneficial MAH underwriting guidelines (e.g., higher loan-to-value

Meeting the Challenges
ratio (LTVR) and lower debt service coverage ratio (DSCR) than for conventional multifamily) and may take more time to be reviewed and processed. • Only one State program is currently delegated to Fannie Mae's DUS lenders for approval. To address these challenges, Fannie Mae will: • Review affordable housing programs in various jurisdictions to determine if they can be incorporated into Fannie Mae's existing MAH guidelines, thus qualifying them for special underwriting requirements as well as facilitating delegation to lenders to approve loans, which will shorten processing time. • Support research on other comparable State or local affordable housing programs nationwide in order to educate the market on the various programs for further consideration. • As noted in Fannie Mae's activity relating to RED, identify other comparable State or local affordable housing programs that include concepts of RED.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Review transactions that have been submitted to MAH for a "Special Purpose" waiver to utilize MAH underwriting guidelines in order to find out what other comparable State or local affordable housing programs are utilized in these transactions and to see which ones currently receive a one-time exception. • Review five of the other comparable State or local affordable housing programs that have come into Fannie Mae for waivers that do not currently qualify for eligibility under Fannie Mae's MAH program in order to determine if the programs can be approved as acceptable MAH programs that can utilize the MAH underwriting guidelines without a special waiver. • As part of the review above, determine which, if any, of other comparable State or local affordable housing programs incorporate RED. • Support research that reviews programs in various jurisdictions including inclusionary zoning, shared equity, and rent restrictions in order to identify other comparable State or local affordable housing programs that have the potential to be delegated and/or receive an expedited review. In addition, publish research results to inform the market on other comparable State or local affordable housing programs. • Based on this review and the completed research, approve appropriate expanded guidelines and/or delegation for loans to qualify in these jurisdictions as MAH transactions. • Confirm loan purchase goals for 2019.
2019	• Purchase 30 loans secured by properties under a Fannie Mae-approved State or local affordable housing program, representing a goal of approximately a 43 percent increase over the Baseline. ○ **Baseline:** Fannie Mae started tracking loans that did not meet Fannie Mae's MAH definition but still had some sort of income restriction on the property in 2015. Because we do not track any specific State or local affordable housing programs, Fannie Mae has chosen to utilize this group of loans that have income restrictions but are not part of a federal housing program as a proxy for an initial Baseline for this activity. The category of loans includes properties where more than 20 percent of the units have income restrictions at 80 percent of AMI. Fannie Mae's three-year average for loan

Year	Actions
	purchases is 18 loans (2015: 13; 2016: 20; annualized 2017: 21 loans). However, because the most recent production level is 21 loans, we will use that as the Baseline. • Continue to build upon knowledge gained in the previous year by reviewing other comparable affordable housing programs in five additional State or local jurisdictions that could benefit from streamlined guidelines and/or delegation in order to increase liquidity to those jurisdictions. • Continue to support research that identifies and reviews other comparable State or local affordable housing programs across the country. • Based on this review and the completed research, provide for appropriate expanded guidelines and/or delegation for loans to qualify as MAH transactions under the approved State or local affordable housing programs.
2020	• Purchase 36 loans secured by properties under Fannie Mae-approved State or local affordable housing programs, representing a goal of approximately a 71 percent increase over the Baseline. • Analyze lessons learned in previous years to determine if modifications are needed to expanded guidelines and/or if there are additional State and/or local guidelines to be reviewed. • Publish research on State or local affordable housing programs (format to be determined) so that the knowledge can be shared publicly to better inform the market. • Plan for the 2021 – 2023 Duty to Serve Plan.

Fannie Mae has significant experience purchasing loans secured by properties subject to different comparable State or local affordable housing programs. Expanding Fannie Mae's MAH definition to include other comparable State or local affordable housing programs that do not meet the current definition used by Fannie Mae would allow affordable housing preservation transactions to be financed using the benefits of Fannie Mae's MAH guidelines, which in turn would increase liquidity to those markets. In addition, Fannie Mae would be making capital available to support affordable housing preservation issues that are important to each State and locality. Fannie Mae regularly reviews data available from third party data vendors and is exploring collaboration with potential non-profit partners to estimate the potential market opportunity for these loans, which is not ascertainable at this time. The ultimate opportunity available in this market is to finance an increased number of properties that are the subject of other acceptable State or local affordable housing programs. Any expansion of underwriting guidelines or credit standards to include other comparable State or local affordable housing programs would be subject to underwriting guidelines and credit risk standards consistent with safety and soundness. Based on Fannie Mae's experience working with other comparable State or local programs, we have determined that this Objective is realistic and may be achieved within the time periods described.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

DISCLAIMER

Implementation of the activities and objectives in Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans may be subject to change based on factors including FHFA review for compliance with the Charter Acts, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.

Updated January 2019