Federal Housing Finance Agency

Duty to Serve

FHFA presents Snapshots from Fannie Mae's & Freddie Mac's Duty to Serve Underserved Markets Plans for High-Needs Rural Regions & Populations

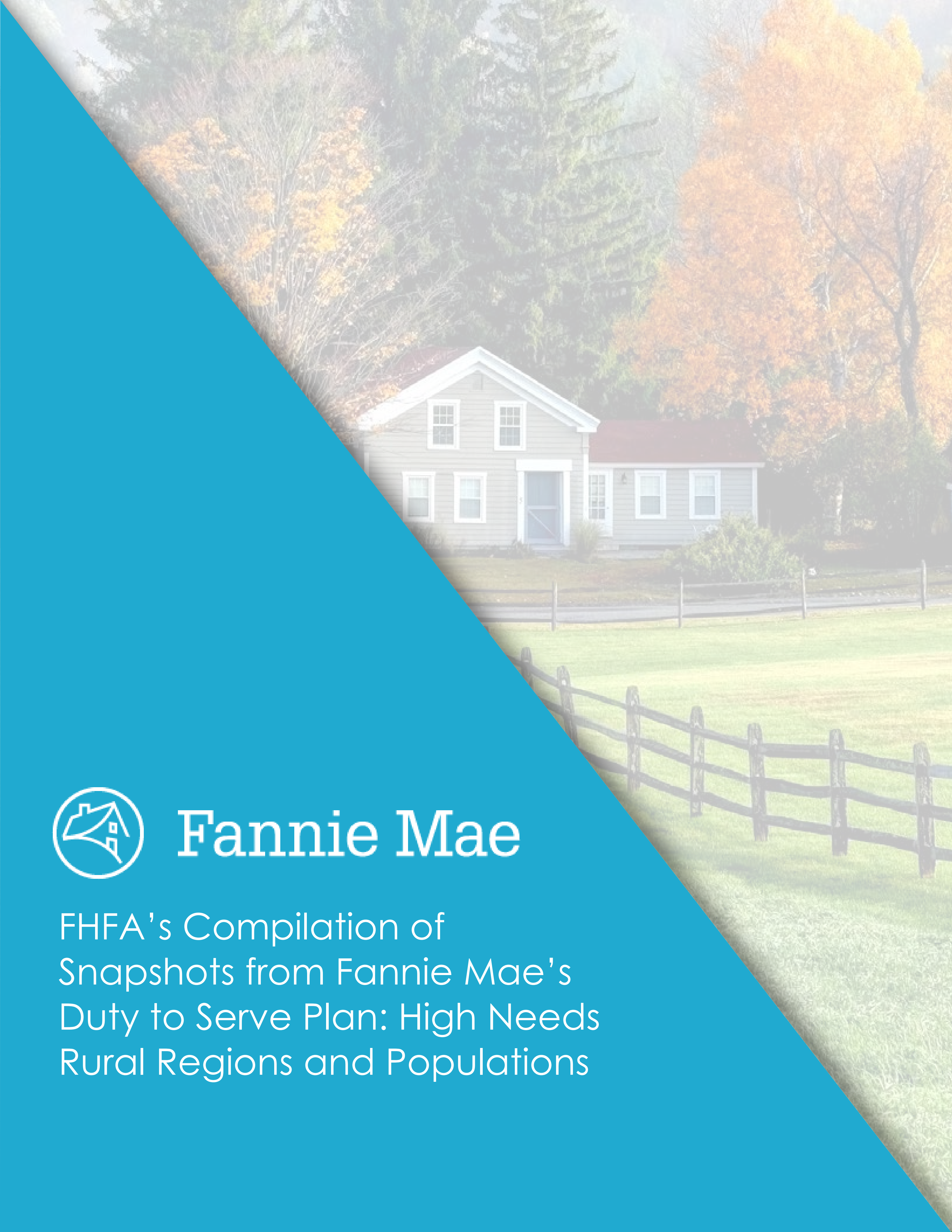
Effective January 1, 2018

Snapshots from Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans: High-Needs Rural Regions and Populations

Compiled by the Federal Housing Finance Agency

FHFA has compiled Snapshots from Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans addressing activities that support housing in rural regions and for rural populations that have been identified as high-needs. To access the Duty to Serve Underserved Markets Plans in their entirety, please visit FHFA's Duty to Serve website. High-needs rural regions and populations activities may also be eligible for Duty to Serve extra credit.

Table of Contents



Fannie Mae

FHFA's Compilation of Snapshots from Fannie Mae's Duty to Serve Plan: High Needs Rural Regions and Populations

A. Regulatory Activity: Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c)(1)).
Note: Fannie Mae seeks extra credit for this Activity.

1. *Objective #1: Fannie Mae will increase single-family loan purchases in high-needs rural regions (Do What We Do Best).*

Meeting the Challenges
High-needs rural regions lack conventional mortgage liquidity: • The 2015 concentration of rural conventional loans relative to non-rural conventional loans is slightly lower than in the nation overall. In rural areas, 61 percent of purchase loans and 69 percent of all loans were conventional, compared to national rates of 66 percent and 72 percent, respectively. • Lenders tend to retain loans originated in rural areas in their portfolios, particularly loans in high-needs rural regions, rather than selling them into the secondary market and replenishing their capital. Nationwide, 26.1 percent of originated loans were not sold into the secondary market. The rate was 35 percent in rural areas, 50 percent in the rural Lower Mississippi Delta, and 46.3 percent in rural Middle Appalachia. • The denial rate for loan applications in rural areas is higher than the nationwide rate of 18.5 percent. Denial rates were 21.8 percent in rural areas overall, 25.8 percent in the rural Lower Mississippi Delta, 26.1 percent for rural Middle Appalachia, and 28.8 percent for rural tracts in persistent poverty counties. To address this challenge, Fannie Mae will increase our purchase volume of single-family loans in high-needs rural regions by an additional 3,569 to 4,869 loans, which equals an estimated additional $555 million to $758 million of liquidity over the Baseline.

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

Year	Actions
2018	• Purchase between 10,700 and 11,000 single-family loans in high-needs rural regions, representing a three to six percent increase over the Baseline.[12]

12 Of this group, a target of 505 loans will be manufactured housing loans, as provided under Fannie Mae's Manufactured Housing Plan. In addition, of this group, a target of between 100 and 105 loans will finance the purchase or rehabilitation of distressed properties under Fannie Mae's Affordable Housing Preservation Plan.

Year	Actions
	o **Baseline**: Given that the three year average for the purchase of these loans (10,015) is lower than the total number of loans Fannie Mae purchased in 2016, using the three year average is not appropriate and the Baseline for these purchases is being set at the 2016 level of 10,377 loans. (2014: 10,042; 2015: 9,632; 2016: 10,377).
2019	• Purchase between 11,000 and 11,500 single-family loans in high-needs rural regions, representing a six to 11 percent increase over the Baseline.[13]
2020	• Purchase between 13,000 and 13,500 single-family loans in high-needs rural regions, representing a 25 to 30 percent increase over the Baseline.[14] This includes the loan purchases referenced in Objective #2.

This is an ambitious outcome given that Fannie Mae forecasts an overall decrease in loans in 2018 and 2019 as higher interest rates are projected, resulting in the transition to a purchase market, which increases the challenge of growing loan volume over the Baseline derived from the lower interest rate and higher acquisition volumes from the 2014 – 2016 period. Fannie Mae purchases loans in high-needs rural regions and has the systems, operations, and resource tools needed to facilitate efficient loan delivery in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to acquisition of this product. Based on Fannie Mae's experience, we believe this Objective is reasonable and can be achieved within the time periods described. The ultimate opportunity available in high-needs rural regions is to purchase increased numbers of conventional loans.

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

2. *Objective #2: Increase affordable capital through industry outreach and developing solutions to increase single-family loan purchases in high-needs rural regions (Analyze, Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
High-needs rural regions face substantial challenges that make it difficult to attract lenders, investors, and real estate developers. These challenges include: • Economic obstacles such as declining populations, unemployment, high housing cost burdens, persistent poverty, and limited access to lenders providing affordable capital.

13 Of this group, a target of: (a) 750 loans will be manufactured housing loans, as provided in Fannie Mae's Manufactured Housing Plan; (b) 95-100 loans will be for the purchase or rehabilitation of distressed properties, as provided in Fannie Mae's Affordable Housing Preservation Plan; and (c) 20 loans will be for the financing of single-family energy or water efficiency Improvements, as provided in Fannie Mae's Affordable Housing Preservation Plan.
14 Of this group, a target of: (a) 1,250 loans will be manufactured housing loans, as provided in Fannie Mae's Manufactured Housing Plan; (b) 120-125 loans will be for the purchase or renovation of distressed properties, as provided in Fannie Mae's Affordable Housing Preservation Plan; and (c) 25 loans will be for the financing of single-family energy or water efficiency Improvements, as provided in Fannie Mae's Affordable Housing Preservation Plan.

Meeting the Challenges
• Potential borrowers have lower incomes, affecting affordability, are more likely to be self-employed, increasing their risk of unstable and unreliable income, and are less likely to be a first time homebuyer, a criterion often required to receive down payment or matched savings dollars assistance. • Existence of geographic market differentiation; rural loans should not be viewed as one homogenous group. • Lack of quality housing stock; older homes may be in substandard condition and in need of rehabilitation, or could benefit from energy or water efficiency improvements. • Appraising rural properties tends to be more challenging. • Rural properties are more likely to be manufactured homes and have larger lot sizes. • Rural properties have smaller loan balances, and note rates are marginally higher than those for urban loans. • Housing demand is weak and housing is not highly promoted and does not receive an adequate amount of attention given small, dispersed populations as compared to urban areas. • Homeownership can be less expensive than renting in high-needs rural regions, however, poor credit history, financial barriers, and a lack of knowledge about homeownership limit opportunity. To address these challenges, Fannie Mae will: • Perform outreach and market research; use the information gathered to identify appropriate product enhancements that, when implemented, will increase borrower and property eligibility and simplify loan requirements, resulting in the provision of increased liquidity. • Analyze and share the information gathered by publishing and distributing findings to the public. Providing transparency to the industry will encourage new capital sources to venture into or invest in mortgage lending. This activity will provide additional affordable capital to high-needs rural regions. • Employ a test and learn approach to enhance a loan product or policy to reach more very low-, low-, and moderate-income families. Evaluate the success and develop affordable lending best practices. • Strengthen the housing demand by building partnerships with anchor institutions, housing counseling organizations, and financial capability service providers. This collaboration will provide homebuyers with the necessary knowledge to overcome credit and budget barriers, thus improving financial stability and facilitating access to affordable rental housing and homeownership opportunities. • Address the lack of housing supply by advocating for manufactured housing as an affordable option. Approximately 67 percent of all manufactured homes are located in rural communities. Across the nation manufactured housing makes up about 10.3 percent of occupied, single-family detached housing, however it is much more prevalent in high-needs rural regions. For example, manufactured housing makes up nearly 21 percent of the single-family detached housing in Middle Appalachia and approximately 17 percent in the Lower Mississippi Delta.

SMART Factors

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

Year	Actions
2018	• Facilitate one rural housing roundtable with 15 cross-functional industry representatives including lenders, mission based financial institutions, non-profit organizations, and housing counseling agencies focused on or located in a particular high-needs rural region – by Q4 end. Topics for discussion may include opportunities to expand access to credit, regional needs, challenges in access to housing, and/or

Year	Actions
	financing options, market trends, and potential solutions that addresses the housing challenges facing each high-needs rural region. • Establish a Fannie Mae Rural Housing Advisory Council with subcommittees representing industry stakeholders from each high-needs rural region, and conduct one annual meeting – by Q4 end. Responsibilities could include providing recommendations and strategic information, evaluating performance of an activity outlined in the Rural Housing Plan, serving as an advocate to promote Duty to Serve, assisting in the future development of the Plan, and gathering and presenting material when necessary. • Participate in two regionally based affordable housing conferences as a means to obtain rural housing market insight, share knowledge, gain visibility, communicate the “Duty to Serve” message, collaborate, and build and maintain relationships with important industry stakeholders – by Q4 end. Information gathered will be shared and evaluated to highlight current policies that support the market that are underutilized, and to identify the need to develop new or enhance existing products, policies, or activities outlined in the Plan. • Obtain a comprehensive understanding of one high-needs rural region and customize appropriate solutions by dedicating staff or resources – by Q2 end. In order to determine meaningful impact, Fannie Mae will perform due diligence around the target location and roles and responsibilities and create metrics to evaluate success. If expectations are exceeded, Fannie Mae may look to expand activity to other high-needs rural regions. • Expand availability of financial or housing counseling to households in a high-needs rural region – by Q3 end – by entering into a fee for service contract with two non-profit partners. Develop an outreach strategy to serve at least 100 households through these partnerships and monitor progress towards homeownership. • Identify opportunities to share detailed information around Fannie Mae technology with the U.S. Department of Housing and Urban Development and the USDA and collectively explore ways to deepen penetration into rural communities – by Q4 end. • Establish a marketing campaign focused on affordable lending products and policies that address known challenges in rural areas with a focus on high-needs rural regions – by Q2 end. Target 25 lenders and 10 additional stakeholders that could include appraisers, mortgage insurance companies, non-profit organizations, CDFI, Housing Finance Agencies (HFA), down payment assistance providers, and/or individual development account (IDA) program providers, and: o Produce and market material through social media, webinars, Fannie Mae’s Rural Housing Advisory Council, and conferences. o Create a “rural specific” segment in Fannie Mae’s appraiser newsletter that addresses issues unique to rural areas with a focus on high-needs rural regions. o Develop a training module focused on appraising in rural areas with a focus on high-needs rural regions and publish it in Fannie Mae’s existing appraiser training curriculum – by Q3 end. o Provide technical support such as educational training to stakeholders located in rural areas with a focus on high-needs rural regions to include three lenders, four non-profit housing counseling agencies, two down payment assistance and/or IDA program providers, and three appraisers to optimize homeownership opportunities for potential homebuyers. o Create and implement follow-up surveys to assess longer-term impact of service on client outcomes.
2019	• Develop and make available – by Q2 end – market research and/or rural housing data sets. Fannie Mae will define topics that (1) have meaningful impact on high-needs rural regions and (2) are chosen to work toward a solution to a problem. Some topics could include challenges of originating low balance loans or

Year	Actions
	appraising properties in high-needs rural regions. This information will be made available to the public and industry stakeholders on Fannie Mae's website, through the use of targeted email campaigns, and other highly visible mechanisms. This activity of market research promotes transparency, educates the public and housing industry stakeholders, and provides insights and solutions to potential challenges. • Because of known barriers such as lack of down payments from potential borrowers and an aging housing stock in need of updates and renovation in high-needs rural regions, to facilitate the use of Fannie Mae single-family loan products in high-needs rural regions, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products such as HomeReady® or HomeStyle® Renovation and establish a test and learn approach issuing one negotiated variance to select lenders with experience in high-needs rural regions – by Q4 end. • Provide technical assistance such as resources to assist lenders serving the colonias to become approved sellers, and facilitate collaborative partnerships between lenders and interested stakeholders to establish availability of conventional mortgage financing in the colonias – by Q4 end. • Work to create a beyond county-based and widely accepted definition of colonias; develop identification or database and a map of colonias including surrounding impact areas to enable accurate targeting and tracking. • Create or expand homebuyer education or financial counseling – by Q2 end: o Develop or expand two partnerships targeting certain high-needs rural regions creating one documented business plan to reach and engage households in need of housing assistance. o Implement an anchor institution partnership to increase homeownership opportunities by identifying and engaging two potential anchor institution partners in high-needs rural regions. o Support two partners developing scalable models to teach those living in high-needs rural regions and document best practices to reach and engage households needing financial literacy. o Develop one test and learn service learning program model and training curriculum; analyze, assess, document, and publish quantitative data on clients served against the target outcome. o Work with the industry to promote access to appropriate types of products, resources, and financing that will help very low-, low-, and moderate-income families access appropriate financing and assistance, including third-party grants for renovations and energy and water efficiency improvements.
2020	• As a result of the outreach and product development activities outlines in 2018 and 2019, purchase between 500 and 550 single-family loans in high-needs rural regions, an approximate four percent of the total loan purchases in 2020 from Objective #1. These loans are included in the total loan purchases in Objective #1 where the Baseline has been described.

The long term activities in this Objective are challenging. Activities supporting this Objective require a different paradigm designed to reach communities in a scalable way and, therefore, the work is difficult. Achieving these goals, while maintaining safety and soundness, requires substantial effort and use of Fannie Mae resources. Fannie Mae has significant experience evaluating, developing, and enhancing loan products and policy. Accordingly, Fannie Mae believes this Objective is reasonable and can be achieved within the time periods described. Product changes will be critical to increasing access to affordable capital and reducing limitations and requirements while opening access to Fannie Mae financing to those who otherwise do not meet eligibility requirements. Any variances, which create changes in credit parameters and product guidelines, will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns. The ultimate opportunity available in this market is to finance an increased number of single-family loans in high-needs rural regions.

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

3. *Objective #3: Create a work-plan and increase multifamily loan purchases in Middle Appalachia, the Lower Mississippi Delta, and the colonias (Analyze, Test and Learn, Do What We Do Best).*

Meeting the Challenges

The multifamily housing markets in Middle Appalachia, the Lower Mississippi Delta, and the colonias, respectively, face substantial challenges, including:

- Economic challenges such as declining rural populations and employment, higher housing cost burdens, persistent poverty, and limited access to lenders that can provide affordable capital.
- High construction costs and operating expenses.
- Rents, which when affordable to low-income residents, undermine the ability of multifamily properties to support debt.
- Small rural communities which lack appropriate multifamily underwriting information, including market comparables, analyses of economic health, and supply/demand indicators.
- Rural loans that cannot be viewed as one homogeneous group but require geographic market differentiation.
- Much of the housing is in substandard condition and needs renovation and energy or water efficiency improvements.
- There is little to no standardization across the rural multifamily debt market which results in a significant barrier to reliable liquidity.
- Traditional lenders cannot attain "economies of scale" in lending in these areas due to the small project sizes coupled with the lack of readily available market information.
- Community Reinvestment Act (CRA) investors are not necessarily interested in these markets based on the size of and geographic distance between communities in these and other rural markets.

To address these challenges, Fannie Mae will:

- Work to establish a deeper understanding of the subject rural markets/submarkets through outreach and research activities in order to determine the most impactful multifamily housing strategy for these high-needs rural regions.
- Upon completion of the identified outreach and research activities, create a work-plan and develop key loan products and enhancements that will provide a foundation for the future purchase of loans secured by housing in these high-needs rural regions.
- Based on the outreach and research activities completed, create a multifamily work-plan and complete updates and/or product enhancements that will provide a foundation for the purchase of loans secured by housing in these high-needs rural regions in the future. Elements to be addressed in the work-plans include the following:
    - Collaborating with partners that have strength in and knowledge of rural markets.
    - Identifying opportunities for standardization of multifamily debt in rural markets.
    - Identifying providers of non-debt capital, including Fannie Mae, subject to FHFA's approval of Fannie Mae's participation in the Low Income Housing Tax Credits (LIHTC) equity market.

Meeting the Challenges
o Determining how Fannie Mae can serve as a catalyst to facilitate the provision of reliable capital based on the specific needs of each high-needs rural region. o Finding workable strategies to address economies of scale issues faced by financial institutions active in these high-needs rural regions. • Purchase multifamily loans in Middle Appalachia, the Lower Mississippi Delta, and the colonias.

SMART Factors

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

Year	Actions
2018	• In conjunction with Fannie Mae Single-Family: o Facilitate one rural housing roundtable with cross-functional industry representation to discuss, analyze, and solve for the challenges facing high-needs rural regions. o Establish a Fannie Mae Rural Housing Advisory Council with subcommittees representing each of the high-needs rural regions to gain a deeper understanding of the market challenges affecting the high-needs rural regions and discuss how these challenges can be met. o Conduct one annual meeting of the Advisory Council and semi-annual meetings of each subcommittee to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. o Participate in two key conferences as a means to network with key industry stakeholders and to communicate the "Duty to Serve" message. • Based on research and outreach results, create one multifamily work-plan each for Middle Appalachia, the Lower Mississippi Delta, and the colonias that will address key multifamily affordable housing issues, including (1) identification of the three top multifamily housing issues that need to be addressed in these high-needs rural regions; (2) identification of two potential roles for Fannie Mae Multifamily in serving these high-needs rural regions (including an assessment of how potential LIHTC equity investments can facilitate liquidity to the market); and (3) two key actions that would enhance Fannie Mae's ability to serve these high-needs rural regions. The work-plan will also address customizing appropriate solutions by dedicating staff or resources to one or more specific high-needs rural regions – by Q2 end – which will include the determination of a full time employee, partnership or vendor relationship, definition of roles and responsibilities, and appropriate metrics to evaluate success. • Identify three potential product enhancements the purpose of which is to facilitate the provision of liquidity to Middle Appalachia, the Lower Mississippi Delta, and the colonias, to be submitted to Fannie Mae's internal product enhancement and development approval process during 2019. • Identify at least one strategy that could facilitate increased standardization for multifamily loans in the high-needs rural regions.
2019	Based on the work completed in 2018: • Process one product enhancement and one standardization element identified in the work-plan through the product enhancement and development approval procedure.

Year	Actions
	• Implement the two identified key actions that will enhance Fannie Mae's role in and ability to serve the multifamily market in Middle Appalachia, the Lower Mississippi Delta, and the colonias. • Confirm 2020 multifamily loan purchase goals.
2020	Based on the work performed in 2018 and 2019, increase loan purchases as follows: • Purchase nine multifamily loans in rural areas in Middle Appalachia. o **Baseline**: The three year average of Fannie Mae's multifamily loan purchases in Middle Appalachia is five loans (2014: 4; 2015: 5; 2016: 6). For purposes of the Baseline, Fannie Mae will use the higher purchase level of six loans as reflected in the 2016 purchases. o Fannie Mae's initial loan purchase goal of nine multifamilyloans will be based on increasing multifamily loan purchases by 50 percent over the Baseline. • Purchase 17 multifamily loans in rural areas in the Lower Mississippi Delta. o **Baseline**: The three-year average of Fannie Mae's multifamily loan purchases in the Lower Mississippi Delta is nine loans (2014: 13; 2015: 4; 2016: 11). For purposes of the Baseline, Fannie Mae will use the higher purchase level of 11 loans as reflected in the 2016 loan purchases. o Fannie Mae's initial loan purchase goal of 17 multifamily loans will be based onincreasing multifamily loan purchases by 50 percent over the Baseline. • Purchase five multifamily loans located in the colonias. o **Baseline**: Because the colonias have not been sufficiently defined and tracked by Fannie Mae, there are no previous loan purchases to be used to establish a Baseline. In addition, Fannie Mae needs to better understand the market in order to establish an acceptable Baseline. As such, the initial Baseline will be set at five multifamily loan purchases. This Baseline may be adjusted as Fannie Mae's research and outreach better defines the market. • In Q3, conduct one survey of key stakeholders in Middle Appalachia, the Lower Mississippi Delta, and the colonias to assess the impact of Fannie Mae's work-plan. • In Q4, identify and document at least four key lessons learned from the work completed during the three years of the Plan and use this information as well as the research results to prepare the 2021 – 2023 Duty to Serve Plan.

The ultimate goal in these markets is to increase liquidity to Middle Appalachia, the Lower Mississippi Delta, and the colonias. Fannie Mae will be able to draw on our past experience in various local markets across the country as we work through our outreach and research. Any product enhancement and development work will factor in appropriate safety and soundness standards. Fannie Mae has significant experience studying and analyzing submarkets, designing enhanced loan products to address their needs, and purchasing loans in the submarkets. Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Any mortgages purchased under this Objective will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

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

B. Regulatory Activity: Housing for high-needs rural populations (12 C.F.R. § 1282.35 (c) (2)).

Note: Fannie Mae seeks extra credit for this Activity.

1. Objective #1: Rebrand and market Fannie Mae's Native American Conventional Lending Initiative (NACLI) and purchase single-family loans (Analyze, Partner and Innovate, Do What We Do Best).

Meeting the Challenges
Native American tribes are one of the most underserved, impoverished minority populations in the country. The Native American Indian Housing Council (NAIHC) estimates that the homeownership rate in Indian country is about 33 percent, substantially below the national average, and Native Americans are four times more likely than the average American family to live in substandard housing. Potential homebuyers wanting to purchase homes on Native American land are faced with substantial challenges making it difficult to attract investors and lending products. These challenges include: • Each tribe has a unique structure of governance, culture, history, and identity. • There are legal complexities involving Native American land (e.g., federally restricted trust land and allotted lands). • Housing located on reservations can be in substandard condition; overcrowding is common due to a high level of unemployment, persistent poverty, and lack of affordable rental housing. • The mortgage lending process on Native American land is confusing and can be overwhelming, compounded by a general lack of understanding of the home purchase and ownership process. • Conventional lending is nearly non-existent, leaving Native American tribes to rely on government lending programs to finance home purchases and refinance transactions. To address these challenges, Fannie Mae will: • Partner with tribal leadership and Tribally Designated Housing Entities (TDHE) to establish a Memoranda of Understanding (MOU) adopting the necessary procedures to participate in Fannie Mae's NACLI loan program, resulting in the provision of increased liquidity. • Increase lending opportunities on Native American lands by fostering collaboration between tribes and Fannie Mae approved lenders. • Collect and analyze mortgage data and loan performance; this information will be made available on Fannie Mae's website, through the use of targeted email campaigns and other highly visible mechanisms to bring clarity to the market. Providing factual information addressing misconceptions about Native American lending, which will help provide additional liquidity to the market. Promoting Fannie Mae's presence in this market and ultimately providing critical information will support and encourage capital sources to venture into lending and investing in this market where they may not have done so previously. • Employ a test and learn approach to enhance a loan product or policy to reach more very low-, low- and moderate-income families. Evaluate the success and aim to develop affordable lending best practices. • Strengthen homeownership knowledge of tribal members by building partnerships with anchor institutions, housing counseling organizations, and financial capability service providers. This collaboration will provide potential homebuyers with assistance to overcome credit and budget barriers, thus improving financial stability for increasing access to affordable rental housing and homeownership opportunities.

SMART Factors

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

Year	Actions
2018	• Facilitate one rural housing roundtable with 10 cross-functional industry representatives including lenders, mission based financial institutions, non-profit organizations, tribal leadership, and TDHE. Topics of discussion may include opportunities to expand access to housing and financing, regional needs, housing market challenges, market trends, and potential solutions that address the challenges facing Native American tribes. • Engage three appraisers from two different tribal regions or States with experience in appraising properties on Native American lands to gather intelligence and knowledge about the unique challenges, and use the information to develop and share best practices. • Conventional lending is not available to Native American tribes seeking to buy or construct homes on trust lands or other restricted areas. Fannie Mae will identify and engage two lenders with the ability to actively originate loans on tribal trust land – by Q2 end. • Partner with one housing counseling agency and create one specialized Native American focused homebuyer education and financial counseling curriculum – by Q2 end. • Execute at least two MOUs with two Native American tribes – by Q3 end. • Establish a marketing campaign focused on the NACLI product, targeting 10 lenders geographically located near Native American land, and 10 other stakeholders including, TDHE, non-profit organizations, Native American CDFI, HFA, and down payment assistance and/or IDA program partners. o Market information via social media, webinars, and other mechanisms – by Q3 end. o Leveraging the specialized homebuyer education curriculum, work with counselors, educators, and other third parties to engage 25 tribal member households to monitor and document their progress towards homeownership – by Q4 end. o Provide training and/or support to three lenders, four non-profit counseling agencies, and two TDHE to optimize homeownership opportunities for Native Americans – by Q4 end.
2019	• Purchase between 15 and 40 NACLI purchase money or refinance loans.[15] o **Baseline**: The Baseline is the average of the number of NACLI loans purchased by Fannie Mae over the last three years which is one loan (2014, 0; 2015, 3; 2016, 0). • Expand lender outreach to an additional two lenders geographically located near Native American land (i.e., lenders not approached in 2018).
2020	• Purchase between 125 and 200 NACLI purchase money or refinance loans. • Enhance NACLI and the MOU with the tribe to incorporate lessons learned as a result of appraiser and lender engagement.

15 In Fannie Mae's proposed Plan dated 5/8/17, significantly higher loan purchase goals for Year 2 (75–125) and Year 3 (200–275) and baseline numbers (31) were proposed. This was a result of our original analysis being completed manually without the application of the "rural" filter and the "< 100% AMI" filter which limit the number of historical loan purchases identified. In addition, the analysis uncovered a number of loans delivered with a transposed identifier code, erroneously increasing the NACLI Baseline. These errors were corrected to establish the correct figures presented in this Plan.

Year	Actions
	• Publish one piece of guidance related to appraisals of tribal trust land. Expand lender outreach to an additional two lenders geographically located near Native American land (i.e., lenders not approached in 2018 or 2019).

The use of conventional lending products to purchase or construct homes is non-existent with this particular high-needs rural population. Fannie Mae has a long history of demonstrated commitment to finding ways to create affordable housing opportunities for Native American families living on tribal trust lands since as early as 1994 and launched our first rendition of this product in 1999. Today, NACLI is an existing refinance-only product, but it is an underutilized product in the Fannie Mae Selling Guide. The MOU is a critical piece to the NACLI product and requires updating before new loan acquisitions can be made. Under a MOU, the tribe agrees to maintain certain legal standards supporting mortgage lending—primarily laws permitting land leasing, pledging of leaseholds, mortgage foreclosures, and evictions. Without a legal framework of this type, Fannie Mae cannot safely and soundly purchase mortgages on Native American lands. The MOU also sets forth Fannie Mae's offer to purchase loans secured by Native American lands and to respect tribal sovereignty through the acknowledgment of tribal court jurisdiction. Based on these significant factors along with our prior knowledge of working with Native American tribes, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Achieving these goals, while maintaining safety and soundness, requires substantial effort and use of Fannie Mae resources. The ultimate opportunity available in this market is to finance more conventional Native American mortgages. To this end, Fannie Mae will conduct loan product work and loan purchases in a safe and sound manner. Activities supporting this Objective require a different paradigm designed to reach disparate communities in a scalable way and, therefore, the work is difficult.

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

2. *Objective #2: Design an investment pilot program, partnering with a Native American CDFI or other mission driven lenders, to increase access to credit, capital, or financial counseling (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
CDFI and other mission driven lenders provide much needed capital, financial or homeownership counseling, and other programs to communities that typically cannot be served by traditional financial institutions**.** These organizations specialize in unique housing and lending programs that meet the particular market, but have a constant need for funding from various sources to support their unique programs at affordable interest rates. CDFI can supplement traditional financial institutions and have the capability to support Native American tribal members wanting to purchase homes despite some of the challenges that include: • Lack of funding to support innovative programs including financial literacy and homebuyer education. • Absence of depositories and financial institutions on or near Native American lands that provide mortgage lending. • Native Americans' limited experience with and trust of mainstream banking institutions. To address these challenges, Fannie Mae will:

Meeting the Challenges
• Look to design or invest in one pilot investment program that addresses one or more unique challenges with a CDFI experienced in working with tribal leadership and tribe members providing appropriate financial services that make homeownership more achievable.

SMART Factors

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

Year	Actions
2018	• Engage three CDFI or other mission driven lenders, identifying one to five potential innovative homeownership, lending, or investment opportunities that have the potential to meet FHFA approval and are consistent with Fannie Mae's Charter Act – by Q3 end. • Perform outreach and research, data collection, and analysis in order to: (1) improve Fannie Mae's understanding of the needs, opportunities and factors that will drive improvements and outcomes for Native American tribes; (2) establish and identify methodologies to determine a level of investment that meets those needs; and (3) establish the investment underwriting criteria – by Q3 end. • Achieve internal approval and submit proposed pilot program to FHFA for review and approval – by Q3 end. • Establish reporting mechanisms and performance measures – by Q4 end. • The completion of outreach and research, data collection, and analysis, and all actions pertaining to the internal and FHFA approval process in 2018 will inform any or all future actions in 2019 and 2020, including Fannie Mae's internal product development process.

The need to invest in CDFI or other mission driven lenders and participate in pilot programs in the underserved markets was raised during the outreach Fannie Mae conducted in 2016 and more recent public comment received in response to our proposed Underserved Markets Plan. These comments define a significant market opportunity for this action. Investment in homeownership programs in Indian country is meaningful and impactful.

Because Fannie Mae has experience with investments in years past, we believe the internal activities described in this Objective are realistic and may be achieved within the time period described. Any new investment would be subject to internal approval and FHFA approval, which would incorporate safety and soundness analysis.

Implementation of this Objective is contingent upon a determination that the Objective and related actions are compliant with Fannie Mae's Charter Act and receipt of FHFA approval.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	n/a	n/a
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

3. ***Objective #3: Create and implement work-plans and purchase loans secured by multifamily housing for Native Americans and agricultural workers (Analyze, Do What We Do Best).***

Meeting the Challenges

The rental housing markets for Native Americans and for agricultural workers face a number of challenges, including:
• The opportunity to finance multifamily housing for each of these high-needs rural populations is believed to be very limited given:
  o Economic challenges such as persistent poverty and limited access to lenders that can provide affordable capital.
  o Communities in the areas in which these high-needs rural populations reside often lack appropriate multifamily underwriting information, including market comparables and analyses of economic health and supply/demand indicators.
  o Loans in the rural areas in which these high-needs rural populations often reside, cannot be viewed as one homogeneous group but require geographic market differentiation.
  o Much of the housing in which these high-needs rural populations reside is in substandard condition and needs energy or water efficiency improvements.
  o Traditional lenders cannot reach “economies of scale” in lending in the areas in which these high-needs rural populations reside due to the small project sizes coupled with the lack of readily available market information.
  o CRA investors are not necessarily interested in the markets in which these high-needs rural populations reside based on the size of and geographic distance between communities.
  o Native American communities are sovereign States and tribal lands have significant restrictions that may create barriers to acquiring a traditional mortgage.
To address these challenges, Fannie Mae will:
• Work to establish a deeper understanding of the subject rural markets/submarkets through outreach and research activities in order to determine the most impactful multifamily housing strategy for these high-needs rural populations.
• Upon completion of the identified outreach and research activities, create work-plans and develop key loan products and enhancements that will provide a foundation for the future purchase of loans secured by affordable housing for Native Americans and agricultural workers.
• Purchase multifamily loans that support affordable housing for Native Americans and agricultural workers.

SMART Factors

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

Year	Actions

2018	• In conjunction with Fannie Mae Single-Family efforts:
	  o Facilitate one rural housing roundtable with cross-functional industry representation to discuss, analyze, and solve the challenges facing high-needs rural populations.
	  o Establish a Fannie Mae Rural Housing Advisory Council with subcommittees representing each of these high-needs rural populations to gain a deeper understanding of the market

Year	Actions
	challenges affecting these high-needs rural populations and discuss how these challenges can be met. o Conduct one annual meeting of the Advisory Council to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. o Participate in two key conferences as a means to network with key industry stakeholders and to communicate the "Duty to Serve" message. • Based on research and outreach results, create one multifamily Native American work-plan and one agricultural workers work-plan that will address key multifamily affordable housing issues, including, respectively, (1) identification of Native American and agricultural worker communities; (2) identification of the three top multifamily housing issues that need to be addressed in these communities; (3) two potential roles for Fannie Mae Multifamily in serving each of these communities; and (4) two key actions (e.g., reviewing Fannie Mae's current products to determine what potential changes could be made to increase liquidity to these populations, or survey lenders to document barriers to lending to these populations) that would enhance Fannie Mae's ability to serve the multifamily market for both populations. • As part of the outreach and product development work occurring in connection with purchasing rural loans from small financial institutions, determine if any of the small financial institutions have a focus on Native American or agricultural worker housing that can be leveraged to increase liquidity to Native Americans and agricultural workers. • Identify three potential product enhancements (total) that could facilitate the provision of liquidity to Native Americans and agricultural workers to be submitted to Fannie Mae's internal product enhancement and development approval process for consideration during 2019.
2019	Based on the work completed in 2018: • Process at least one product enhancement identified in the work-plan through the internal product enhancement and development approval process that will facilitate the provision of liquidity to housing for Native Americans and agricultural workers. • Implement the two identified key actions from the work-plan that will enhance Fannie Mae's role and ability to serve the affordable housing needs of both Native Americans and agricultural workers. • Revise and document updated work-plans including proposing additional product enhancements and confirming loan purchase Baselines and goals for 2020.
2020	Based on the work completed in 2018 and 2019: • Implement product enhancement(s) approved during 2019. • Purchase one loan for multifamily housing serving Native American populations and three loans for multifamily housing serving agricultural worker populations. o **Baseline:** Over the last three years, Fannie Mae has not purchased any multifamily loans on rental housing for Native Americans or agricultural workers. Until such time as Fannie Mae completes the outreach and research described for this Objective, it cannot reasonably determine a more accurate Baseline than zero. • Conduct a survey of key stakeholders to assess the impact of each of Fannie Mae's work-plans for these high-needs rural populations – in Q3.

Year	Actions
	• Identify and document at least four key lessons learned from the work completed under each of the work-plans and use those findings, as well as the survey results, in the planning process for the 2021 – 2023 Duty to Serve Plan – in Q4.

The ultimate goal of this Objective is to determine the most impactful strategy for Fannie Mae to increase liquidity to the Native American and agricultural workers multifamily markets. Fannie Mae will be able to draw on our past experience and relationships in various local markets across the country as we work through our outreach and research. Based on our previous experience in conducting outreach and research, product development, and multifamily financing, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Any product enhancement and development work will factor in appropriate safety and soundness standards.

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

Freddie Mac

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FHFA's Compilation of Snapshots from Freddie Mac's Duty to Serve Plan: High Needs Rural Regions and Populations

Activity 1 – High-Needs Rural Regions: Regulatory Activity

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

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

- Increase single-family purchase volume in high-needs rural regions
- Design new product flexibilities to facilitate the origination of mortgages in high-needs rural regions
- Design improved product flexibilities to facilitate financing of renovation costs
- Increase future homebuyer access to education and resources
- Develop a rural mapping tool
- Research the use of LIHTC in support of high-needs rural regions and populations
- Purchase loans to preserve properties with USDA Section 515 debt in high-needs rural areas
- Engage in LIHTC equity investment

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

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

Freddie Mac intends to increase purchases of single-family mortgage loans in certain high-needs rural regions each Plan year to increase liquidity in these markets. For purposes of this objective, we are focusing specifically on the following high-needs rural regions: 1) persistent poverty counties; (2) Lower Mississippi Delta, (3) Middle Appalachia; and (4) colonias in the Texas counties of El Paso, Cameron, Hidalgo, Starr, Webb and Maverick. We will focus our efforts to increase purchase volume in these Texas counties because they have both the largest number of colonias and the largest relative colonia population. This combination increases the likelihood that our activities will have impact and yield purchase volume.[54] We have limited the target areas in the colonias for this objective so that we can appropriately deploy resources to support our plans. Over time, we intend to extend our efforts to additional colonias in other states.

Baseline

The following table reflects Freddie Mac's historical single-family loan purchases in the high-needs rural regions, as described above, from 2014 to 2016. Our baseline for performance in this market is a three-year average of all Freddie Mac loans purchased that meet the Duty to Serve income-qualifying definition of very low-, low- and moderate-income borrowers. All loan counts represented include purchase-money originations and refinances for owner-occupied properties.[55] The overall loan count includes all loans purchased in the high-needs rural regions without regard to income. The income-qualifying loan count is limited to only income-qualifying loan purchases. It should be noted that the historical loan volume previously represented in Freddie Mac's initial draft Plan did not distinguish the loan population by qualifying income, but instead included all conventional loans on owner-occupied properties that are in high-needs rural regions.

Freddie Mac Loan Purchase Volume – High-Needs Rural Regions			
Year	**2014**	**2015**	**2016**
Overall Loan Count	58,575	72,007	73,274
Income-Qualifying Loan Count **(A three-year average of this loan count was used to establish the baseline)**	20,362	23,772	23,791
Baseline	22,642		

Target

Our purchase targets over the Plan Term are set forth in the following table. Purchase volume in prior years reflects an increasing trend, and we anticipate that our purchase volume will continue to increase as we deploy a variety of tactics, including expanding the number of lenders, leveraging various purchase-execution options (including selling for cash, bulk portfolio sales and flow purchases), conducting outreach, enhancing our product features and providing technical training that enables lenders to lend confidently to very low-, low-, and moderate-income homebuyers.

Projected volume for the first two years of the Plan takes into account that not all of the activities intended to promote purchases will have been implemented by that time. Using a three-year historical average as a benchmark will ensure that we have set realistic targets as we implement activities to grow our share and gradually increase our loan purchases.

Purchase Targets – High-Needs Rural Regions		
Year 1 – 2018	**Year 2 – 2019**	**Year 3 - 2020**
24,000 – 24,500 loans	24,500 – 25,000 loans	25,500 – 26,000 loans

Market Opportunity and Impact

This objective will provide liquidity of more than $9 billion per year to financial institutions that serve high-needs rural regions. Targeted loan volume may also include manufactured homes titled as real property and as personal property.

Meeting this objective will be difficult due to the high level of need in each region and the unique challenges that face individual regions. Freddie Mac's forecast for 2018 relative to 2016 takes into account market developments such as higher interest rates, continued reduction in refinance share, higher consumer prices and a 25 percent decrease in single-family origination volume, all of which contribute to making it a challenge to meet the targets.[56] Furthermore, our ability to meet this objective will be somewhat dependent upon our ability to meet our other objectives, as well as the ability of our existing seller/servicers to increase purchase activity. Developing relationships with new counterparties will require a significant investment in resources to support and sustain the level of purchase growth targeted in the Plan cycle. Further, it will take time to onboard new seller/servicers as approved counterparties before we can realize any purchases from them. After establishing multiple partnerships, we will increase our outreach in Year 2 in specific regions anticipating that this activity will result in increased purchases in years 2 and 3.

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

OBJECTIVE B: DESIGN NEW PRODUCT FLEXIBILITIES TO FACILITATE THE ORIGINATION OF MORTGAGES IN HIGH-NEEDS RURAL REGIONS

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

Through our public outreach and review of public comments on the draft Duty to Serve Plan, we understand that the high-need rural regions require additional underwriting flexibility that takes into consideration the varied borrower profiles that are in these regions and the challenges with obtaining property valuations. In response, Freddie Mac intends to undertake a comprehensive review of our current loan products and underwriting parameters to determine how we can enhance our product offerings to better serve high-needs regions.

To further engage the underserved rural regions and produce meaningful impact, we will undertake an assessment to determine how we will enhance our offerings to further serve the needs of this market, including reviewing our requirements related to the following:

- Borrower qualification
- Collateral valuation
- Down payment and closing costs
- Pricing criteria

In making any product adjustments to borrower qualifying criteria, we intend to incorporate changes into our automated underwriting tools. Providing automated underwriting solutions will promote lender confidence in making loans to very low-, low-, and moderate-income borrowers who are in high-needs rural regions as it provides representation and warranty relief on certain components of the underwriting decision. We also plan to research ways to enhance current product requirements and methodologies around finding similar and recent comparable sales to support rural valuations.

Freddie Mac intends to look beyond our current products to innovations from other industry participants, such as housing finance agencies, appraisal trade organizations and small financial institutions. We also plan to enhance our product training for lenders so they can help more borrowers in rural communities purchase or refinance a home.

Freddie Mac will share key information, research and data with FHFA and the public to provide support and transparency to high-needs rural regions to encourage additional innovation and investment.

Based on the results of the review of products currently in the market, feedback from both market participants and communities, and the needs of the market, we intend to make loan product enhancements and underwriting changes that are consistent with prudent underwriting and safety and soundness. We believe that a strategic enhancement of Freddie Mac's overall product line that supports the rural underserved markets will increase liquidity for high-needs rural regions.

Baseline

Freddie Mac has fixed- and adjustable-rate mortgage options and an affordable product suite with Home Possible® and Home Possible Advantage® that offers low down payment options for very low-, low- and moderate-income borrowers, including borrowers in rural underserved communities. Home Possible Advantage can also be combined with a USDA Section 502 single-family leveraged second loan. In addition, we have a HFA Advantage® product that provides additional flexibility and enhancements to our affordable product for housing finance agencies, which are mission-oriented institutions that offer a broad spectrum of support to the affordable housing market.

Freddie Mac has conventional loan products that serve rural populations, but the market can benefit from additional flexibilities in mortgage and borrower eligibility and simplification of operational processes if we can support policy changes through further automation. A comprehensive review of product parameters and the purchase of portfolio loans from lenders with products serving high-needs rural regions will help determine the product adjustments needed to deliver the greatest impact to the market and increase in loan purchases. Additionally, Freddie Mac currently has criteria to determine collateral value for properties in rural regions; however, the market will benefit from any additional guidance and training we can provide that will facilitate more confidence in lending and valuations.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Limited product usage and product awareness ▪ Lenders may not be making full use of conventional product features in high-needs rural regions due in part to a lack of awareness of financing options available to very low-, low- and moderate-income rural borrowers. Limited product usage may also be due to a need for additional product flexibilities, such as financing solutions for small balance loans,	**Year 1 – 2018** 1) Update Freddie Mac's product features in the Selling Guide and on Freddie Mac's website to make the requirements more obvious to the market and to increase awareness of current product features. 2) Evaluate and assess the effectiveness of all Freddie Mac products that serve rural

borrowers with resolved financial hardships and limited or non-traditional credit profiles. **Appraisal and valuation impediments** ▪ There are a variety of challenges facing appraisers attempting to value rural properties -- lack of available comparable(s), lack of similar comparable(s), distance of comparable(s) and age of comparable(s). **Limited cash for home purchase** ▪ Many low- and moderate-income households in high-needs rural regions are challenged by the cash required to purchase a home, including the down payment and closing costs.	borrowers to determine the parameters that hinder the very low-, low- and moderate-income households' ability to purchase or refinance a home in high-needs rural regions. The results of this assessment will inform an action plan to address product parameters that will have the greatest impact on the market. The assessment will include these activities: a. Conducting an analysis of historical mortgage performance in high-needs rural regions and correlating performance to opportunities regarding credit terms and pricing. b. Conducting a policy assessment related to down payment requirements and options for down payment assistance that can assist borrowers in high-needs rural regions. To inform policy design, Freddie Mac will initiate at least one pilot to assist borrowers with options for down payment assistance with at least three lenders (national and regional) and at least one non-profit. c. Researching available property databases to determine whether there is sufficient data available to support increased output of automated valuations in rural regions. d. Conducting a policy assessment on rural property characteristics and Freddie Mac's collateral policy parameters to determine additional collateral guidance and potential flexibilities that would provide clarification and support to lenders. Freddie Mac will conduct outreach with appraisers, lenders and appraisal trade organizations to develop a comprehensive curriculum for lenders on rural appraisals and acceptable collateral guidelines for rural properties. e. Purchasing more loans in high-needs rural regions to obtain data on loan characteristics and performance that will increase our understanding of product flexibilities being provided by other lending institutions and further inform product enhancements. See also Objective A, Increase Single-Family Loan Purchases, for measurable purchase actions. f. Conducting quarterly outreach with market

	participants, such as lenders, housing finance agencies, appraisers, community development financial institutions, rural trade organizations and non-profits via industry meetings and our Affordable Housing Advisory Council, to understand the opportunities, barriers to financing and challenges that are specific to residents in the various geographies of the high-needs rural regions. 3) Submit findings and an action plan to FHFA once the assessment is completed and implement resulting policy changes in 2019 and 2020. **Year 2 – 2019** 1) Issue one or more changes to the Seller/Servicers Guide in support of financing for existing homeowners and potential homebuyers in high-needs rural regions, based on results from the assessment of existing program policies conducted in 2018. 2) Use results from the 2018 product assessment on rural property characteristics to achieve the following: a. Develop a training curriculum and best practices for lenders on rural housing valuations. We will implement this by conducting training sessions with at least five lenders. Freddie Mac anticipates broad expansion of this comprehensive curriculum to all lenders in 2020. b. Publish in the Seller/Servicers Guide additional guidance on appraising rural properties. 3) Analyze available rural property databases and update our valuation model if the research conclusions support such a change. Incorporate changes in applicable applications (e.g.., Loan Advisor Suite®) for lender use. 4) Publish relevant findings about the high-needs rural regions on our website, based on our 2018 assessment of product needs, to provide further transparency on mortgage access in the regions. 5) Assess the effectiveness of the pilot issued in 2018 for down payment assistance to determine the impact on purchase volume for very low-, low- and moderate-income

	households in markets where implemented. Gather industry feedback from at least three non-profits and at least 10 lenders to gauge success and market reaction. Findings will be submitted in a report to FHFA. 6) Socialize product changes to the market through our website, sharing product changes and market updates to at least four industry events, providing updates during Freddie Mac Affordable Housing Advisory Council meetings, Freddie Mac's Single-Family News Center, Freddie Mac blogs and email to all Single-Family News subscribers, which currently circulates to approximately 7,000 lenders. **Year 3 – 2020** 1) Provide additional product flexibility to lenders through the Seller/Servicers Guide, addressing underwriting flexibilities related to borrower funds for closing costs. 2) Finalize a rural appraisal curriculum and release it as part of a rural tutorial series, to include focus on product features that can be leveraged with appraisal best practices and rural property scenarios. Roll it out broadlyon Freddie Mac's website to all seller/servicers and socialize availability as set forth in our communications plan (including industry forums, advisory meetings, Single-Family News Center updates). 3) Assess the effectiveness of policy changes made in 2019 to determine whether the change(s) did or will increase participation and production in the market. Analyze internal data, including the impact on purchase volume and income-eligible borrower segments. Obtain market feedback from at least 10 participating seller/servicers for changes issued broadly via the Seller/Servicers Guide. Freddie Mac will provide results in its report to FHFA. 4) Increase our focus on loan purchases. Enhance product adoption through the development and release of updated marketing material that supports lenders, housing finance agencies, housing counselors, and other industry professionals. See also Objectives A and D for measurable actions on loan purchases and homebuyer outreach.

Market Impact

The challenges for high-needs rural markets include a general lack of low-priced capital and liquidity for mission-oriented institutions serving the regions, a lack of knowledge of available financial products and programs, difficulty in appraising rural properties, and a lack of available product flexibilities that can facilitate financing of homes for very low-, low- and moderate-income households. Although Freddie Mac has loan initiatives that serve rural populations, the market can benefit from additional flexibilities in mortgage and borrower eligibility and simplification of operational processes. A comprehensive review of product parameters and the purchase of portfolio loans from lenders with products serving high-needs rural regions will help determine the product adjustments needed to deliver the greatest impact to the market and increase in loan purchases.

The market is also challenged by the difficulty experienced in appraising rural properties due to the expansive geography of rural regions, uniqueness of homes and lack of comparable sales. These challenges can increase the cost of appraisals in high-needs rural regions. The market also lacks a coordinated and informed platform with sufficient information to provide a confident collateral value. Researching additional databases or data sources may result in the ability to incorporate more data into Freddie Mac's valuation model. As a result, this activity could improve our model, which may result in Freddie Mac's ability to further support lenders financing rural properties in high-needs rural regions. Conducting research and outreach will inform additional guidance and opportunities.

Another substantial obstacle for very low-, low- and moderate-income homebuyers is the cash required for the down payment and closing costs on a home. To address these challenges and have a sizable, immediate impact on the market, a multi-prong approach will be undertaken. We will review opportunities within our product features and underwriting requirements, and review down payment assistance programs to determine synergies between our product and available programs. We will also review opportunities within our product line regarding requirements related to required funds for closing costs and look for automated solutions that can directly serve this market in 2020.

Providing these initiatives and enhancements will take significant efforts including both internal and external coordination at Freddie Mac. Internal coordination on product enhancements include engaging Single Family teams responsible for affordable lending, seller/servicer relationships, credit decisions, modeling, pricing and product development, to analyze the economics, credit risks, operational impacts, counterparties and support application adjustments. External coordination with stakeholders will also require a significant level of effort due the geographic span of the rural regions. Freddie Mac will update the Seller/Servicers Guide where data supports a change will benefit the borrower and meets the requirements of safety and soundness. We may use a negotiated term of business with select lenders to test product features in limited cases where we need additional data to inform product development and support a product change with the intention of publishing future Guide adjustments once we have sufficient data to make informed policy decisions. These actions will have a high level of impact on the market by providing further transparency on options for financing and liquidity to lenders serving the regions which increases purchase opportunities in the long term.

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

By sharing what we learn through our outreach and requesting feedback from industry participants including seller/servicers, appraisers and non-profits, we will develop partnerships with relevant parties and encourage innovative solutions to the challenges facing these regions.

OBJECTIVE C: DESIGN IMPROVED PRODUCT FLEXIBILITIES TO FACILITATE THE ORIGINATION OF RENOVATION MORTGAGES

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	**1 and 2**	**VLI, LI, MI**	**Yes - HNRR**

During our public outreach, we heard that the high-needs rural regions require additional product features that can support renovation of aging housing stock and homes impacted by natural disasters. In response, Freddie Mac intends to undertake a comprehensive review of our current renovation mortgage parameters to determine how we can further enhance this offering to better serve high-needs rural regions.

Freddie Mac intends to partner with other industry participants, including community development financial institutions that are locally based in rural regions and are currently providing renovation financing, to better understand their product efficacy and innovations in this area. Reviewing product parameters and operational execution of what's working in the market today, in addition to purchasing seasoned loans used to finance home improvements, can further inform our product design.

To enhance our offerings to further serve the needs of this market, we will focus our activities on the following actions over the Plan cycle:

- Analyze existing renovation mortgage product features to determine how we will provide new underwriting criteria and operational execution.
- Engage with lenders currently providing rehabilitation/renovation loans in rural regions and purchase renovation loans from select lenders to further inform product design.
- Provide product flexibilities to complement and support self-help programs, where borrowers use sweat equity to construct or renovate homes.
- Provide new and improved renovation mortgage product features to support the financing of renovation costs.

Baseline

Freddie Mac has a renovation mortgage feature that can be used with our affordable product, Home Possible; however, our renovation product feature is not widely used by lenders in part due to limitations on the amount of improvements that can be financed and the operational timeline for completion of work. Our current product will need to be redesigned.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Limited renovation financing support ▪ There is a large percentage of homes in high-needs rural regions that require renovation due to age, deferred maintenance, vacancy and/or lack of certified professionals available to perform rehabilitation at a reasonable cost. ▪ Due to the complexity of administering	**Year 1 – 2018** 1) Conduct an analysis of existing renovation product features to determine underwriting and operational flexibilities needed to support renovation financing in high-needs rural regions for very low-, low- and moderate-income households. The findings will be

construction lending, there is a lack of innovative financing options to assist borrowers that need to renovate a property to bring it up to state and local code requirements and/or habitability.	submitted in a report to FHFA and we will implement resulting policy changes in 2019. 2) Engage with lenders, non-profits, housing finance agencies and community development financial institutions that have successful rehab programs and/or provide direct renovation financing to understand the opportunities to support programs and loan structures. We would also engage mortgage insurers as part of the outreach effort. 3) Purchase renovation loans from at least one regional or national lender or community development financial institution to further inform product design. 4) Provide underwriting flexibilities with lenders via the Seller/Servicers Guide or a negotiated term of business to facilitate borrowers' use of sweat equity and/or participation in self-help programs. **Year 2 – 2019** 1) Complete the product development process based on the results of the renovation product assessment conducted in 2018 to support the renovation of aging housing stock in high-needs rural regions. 2) Implement the product, including updating any supporting processes, and issue new product terms via a negotiated term of business with lenders or via the Seller/Servicers Guide. Freddie Mac will provide product features through a negotiated term of business with select lenders if we need additional data to model risk; however, if the analysis produces sufficient data, we will issue a Seller/Servicers Guide change.

Market Impact

The high-needs rural regions have a large percentage of existing homes that, due to age or deferred maintenance, require a significant amount of renovation. Even though these homes may have an affordable sales price, the overall cost to purchase and renovate is prohibitive and there is a lack of financing solutions to make the cost of repair affordable. By completely redesigning our renovation product, Freddie Mac will have a high impact on the market by bolstering the purchase of homes in need of renovation and increasing affordable housing in high-needs rural regions. This effort will require significant resources by several departments within Freddie Mac, including Single Family teams responsible for affordable lending, seller/servicer relationships, credit decisions, modeling, pricing and product development, to analyze the economics, credit risks, operational and system impacts. We also intend to take short-term, direct measures to enhance product terms to further support borrowers who leverage self-help programs for renovation activity, that will have an immediate and direct impact because it will be rolled out to the broad market.

OBJECTIVE D: INCREASE FUTURE HOMEBUYER ACCESS TO EDUCATION AND RESOURCES

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

Freddie Mac heard many public comments on the draft Plan requesting a comprehensive approach to financial education to strengthen and increase the pool of potential borrowers. Specifically, there was a demand for pre-purchase homebuyer education for potential borrowers, as well as continued education about responsible homeownership. In response, Freddie Mac intends to update our curriculum on financial education. We will also partner with organizations that provide pre-purchase and post-purchase homebuyer education, housing counseling, employment services and credit rebuilding.

To further engage the high-needs rural regions and have a meaningful impact, we intend to continue expanding our footprint in high-needs rural regions by partnering with local non-profits, housing finance agencies and community development financial institutions to increase their capacity to provide homebuyer education and counseling. We will leverage our experience in providing education and solicit feedback from industry leaders on effective content that addresses the regional needs of individual homebuyer-education programs. We also plan to track training outcomes and use the information obtained to adjust our program in the future.

Freddie Mac will expand our existing financial education curriculum to address area-specific challenges, such as the use of contracts-for-deeds in the colonias, promotion of estate planning to create clear title for future generations, and technical training for education providers in specific areas. Freddie Mac will initially expand our education efforts in the Lower Mississippi Delta and the colonias in Texas, and then to Middle Appalachia and other persistent-poverty counties. We intend to partner with non-profits, housing finance agencies and community development financial institutions to conduct outreach regarding borrower needs in these regions. Based on the high demand for such a program, we anticipate that a comprehensive educational curriculum will have a meaningful, positive impact in the high-needs rural regions.

Baseline

Freddie Mac has extensive experience with financial education; our successful CreditSmart® curriculum is available in five languages and has been available for over 15 years. In addition, Freddie Mac provides outreach, homebuyer education and counseling through our Borrower Help Centers and the national Freddie Mac Borrower Help Network that has been in place for the past nine years. We recently opened a new Borrower Help Center in McComb, Mississippi, in partnership with the D&E Power Group, a HUD-approved housing counseling agency.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Need for comprehensive education ▪ The market lacks the full array of services and education to support the very low-, low- and moderate-income households in the high-needs rural regions regarding financial education, credit counseling, employment services, pre-purchase counseling and post-purchase counseling.	**Year 1 – 2018** 1) Conduct research and outreach to assess areas in the colonias in the State of Texas, Lower Mississippi Delta (beyond McComb, MS), Middle Appalachia and persistent-poverty counties in other states to target expansion of homebuyer education and resources. The assessment will include the

	geographic location and availability of potential partners, including housing finance agencies, small or regional lending institutions, non-profit organizations and community development financial institutions providing housing support in the regions. 2) Upon completion of the assessment, Freddie Mac will partner with mission-oriented organizations in these regions that are active in affordable housing and who are closest to the communities to increase their capacity to provide services and education. Freddie Mac will establish at least three additional partnerships with non-profits, housing finance agencies or community development financial institutions serving the colonias in Texas, Lower Mississippi Delta and Middle Appalachia regions that provide homebuyer education, housing counseling, individual development accounts, employment services and related resources that are relevant to very low-, low- and moderate- income individuals. **Year 2 – 2019** 1) Expand financial and homebuyer education curricula in specific persistent-poverty counties by partnering with two additional mission-oriented organizations that support affordable housing activities that benefit very low-, low- and moderate-income individuals. 2) Expand access to homeownership information by holding at least two homebuyer fairs—one in the Lower Mississippi Delta and one in a colonia in Texas. 3) Ask consumers to complete a survey on our financial education and homebuyer education curricula at each session to inform future enhancements. **Year 3 – 2020** 1) Expand financial and homebuyer education curricula in at least two additional persistent-poverty counties by partnering with at least two additional mission-oriented organizations that support affordable housing activities that benefit very low-, low- and moderate-income individuals. 2) Socialize homeownership information by holding at least two additional homebuyer fairs leveraging newly established partnerships in the persistent-poverty

	counties. 3) Ask consumers to complete a survey on our financial and homebuyer education curricula at each session to inform future enhancements. 4) Assess consumer-survey results and adjust education curricula, as appropriate, and submit findings to FHFA.

Market Impact

Research, outreach and public comment suggest comprehensive educational services and resources are lacking in high-needs rural regions. A solid homebuyer education foundation significantly increases the likelihood of sustainable homeownership. This is a substantial challenge in the high-needs rural regions due to the geographic scope and wide variety of needs specific to each region; the cost to develop, update, train and sustain a variety of services and outreach; locations and distance to cover with services and the need for additional training or resources for regional specific challenges. Additionally, once partnerships are developed it will take additional time to train and scale resources and education we plan on offering potential homebuyers and existing homeowners.

Conducting surveys to track success are important to benchmark progress and determine updates needed. These homebuyer educational efforts and other services will have a direct impact in areas where they are being provided and will have a future impact as we expand to additional regions. We believe that providing comprehensive financial and homebuyer education and other support services will lead to an increase in sustainable homeownership in the high-needs rural regions. It is also very important to survey the participants to confirm that Freddie Mac is meeting the needs of the market and providing any necessary adjustments.

OBJECTIVE E: DEVELOP A RURAL MAPPING TOOL

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

There are many definitions of "rural" for purposes of defining the market, which creates market confusion. A lack of market research in rural regions contributes to this confusion. The FHFA Duty to Serve definition takes significant steps to solve this problem. We intend to build upon this foundation and provide further clarity. To define the scope of the market consistently and allow market participants and our network of seller/servicers to better support this market, Freddie Mac intends to create a rural property mapping tool. This mapping tool will be inclusive of all rural areas and include filters to specify if a property is located in a high-needs rural region.

Baseline

Freddie Mac does not currently offer such a mapping tool. There are other mapping services in the market, but, to our knowledge, none of them have the foundation that is specific to rural regions and the distinct areas they represent as well as the foundational infrastructure to include the layers of information that we intend to build.

Challenges, Actions, and Market Impacts

Market Challenge	Freddie Mac Action
Lack of readily accessible rural data ▪ Current rural data is unconsolidated due, in part, to a lack of institutional investment. As a result, the locations and characteristics of these properties are not clearly documented. **Market awareness** ▪ Private capital investment is lacking in rural areas. **Lack of data for high-needs rural populations** ▪ We recognize that targeting high-needs rural populations is important to success under the Duty to Serve rule; however, there is not sufficient data available to efficiently define and understand these markets.	**Year 1 – 2018** 1) Initiate a technology project that will ultimately deliver an interactive mapping tool to identify rural areas and high-needs rural census tracts for internal and public use. The tool will also allow users, such as Seller/Servicers, borrowers, and lenders, to query by address or other geographic markers to be determined during development. Steps to achieve this in 2018: a. Identify/Develop appropriate software for the tool. b. Aggregate and align data from a selection of the following and other sources we discover in our research for use in the mapping tool: National Housing Preservation Database, data.gov, HUD, and Census Bureau c. Test the mapping tool in beta form prior to formal release. d. Solicit market feedback from seller/servicers, syndicators, and rural research organization(s). e. 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. **Year 2 - 2019** 1) Release the tool for public use. Note that, depending on data licenses, this release may have a mix of public and private components. 2) Develop enhancements to the mapping tool that will outline further areas of interest for high-needs rural regions (and all rural regions). This may include income distributions, zoning information, and population density. A final list will be determined based on feedback, analysis, the availability of data, and technical constraints of the tool. 3) Host a feedback session with key stakeholders (research and policy

	organizations, localities, borrowers, seller/servicers) to determine additional enhancements. 4) Refine the tool based on input from seller/servicers, syndicators, and rural research organization (s) and incorporate data updates from FHFA, HUD, or external vendors. 5) Add capability to identify or link to Freddie Mac products that may be applicable to a certain property.
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 an internal software can be a time-consuming process. ▪ The development cycle will require multiple tests to ensure the product's 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, bringing together the necessary individuals who will design and implement the product from IT, Research, and business areas. 2) Reach out to external vendors to acquire or purchase the necessary data to build the platform. 3) Identify the needs of stakeholders including: a. Research organizations b. Trade organizations c. Borrowers d. Seller/Servicers **Year 2 – 2019** 1) Refine the tool based on changing needs of stakeholders.

Market Impact

During our outreach in rural areas, we repeatedly heard that the lack of a consistent definition of "rural" was a barrier to the creation of a secondary market. Multiple definitions with different purposes added an unnecessary level of complexity to structuring efficient and effective financing for multifamily properties.

While the Duty to Serve rule provides a clear definition of "rural" around which the industry can now standardize, stakeholders will need tools to be able to easily and quickly identify whether a property falls within that definition. Creating this tool and making it available to the entire industry will provide the market with an understanding of the geographic parameters and promote better channeling of rural housing financing. An entirely public mapping tool will eliminate barriers that are associated with rural housing financing such as identifying properties, developers and investors in rural areas. This tool will reduce the time-consuming burdens that come along with serving rural markets by making it easier to locate and define properties based on the FHFA definition and take advantage of Freddie Mac's offerings in support of rural markets. Therefore, financing will be expedited throughout the process.

Today, there are no comparable mapping tools in the market. We expect that development of a rural mapping tool will require a significant dedication of resources and a high level of effort. Multiple collaboration sessions to identify stakeholder needs and incorporate them into our requirements are critical to the success of this tool. In order for it to be effective, the tool must be user-friendly. We expect that such a tool will have multiple uses.

These include 1) enabling investors to understand which properties lie in rural areas and see the extent to which investment in rural areas differs from urban and suburban properties and 2) enabling researchers to better study the distribution of properties and investment in rural areas. Given the current lack of standardization around rural housing and the need for data and information, we believe that an effective rural properties mapping tool lays the groundwork for other rural lending activities because it will decrease barriers to financing and allow for the better focusing of private capital in rural areas in the future by Freddie Mac and other industry players.

OBJECTIVE F: RESEARCH THE USE OF AND OPPORTUNITY FOR LIHTC IN SUPPORT OF MIDDLE APPALACHIA

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

Low Income Housing Tax Credits (LIHTCs) are the subsidy most commonly used to finance affordable rental housing. They are particularly important for multifamily housing in Middle Appalachia, where debt financing is limited outside of highly specialized USDA and HUD programs. Indeed, many properties cannot support debt at all, so they must be funded entirely with LIHTC equity. Despite the importance of LIHTC equity, there is not currently sufficient understanding of how to best leverage the LIHTC and attract investors to Middle Appalachia. Freddie Mac plans to engage with leading rural LIHTC market participants and researchers and publish a research paper focused on the use of LIHTCs in supporting Middle Appalachia.

Baseline

We have not been able to particpate in the LIHTC market for the last 10 years; therefore, we do not currently have a baseline of experience in LIHTC equity generally, or in Middle Appalachia specifically. In 2017, we have been attending conferences and conversing with leading mission-focused LIHTC syndicators with expertise in Middle Appalachia in order to understand how we might best support the market.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ Insufficient understanding of how LIHTC may be used to support Middle Appalachia and how to attract more investment ▪ Limited data about the prevalence of LIHTC in Middle Appalachia. 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 research in Middle Appalachia will rely heavily on data, and completing the objective within a narrow	**Year 1 – 2018** 1) Engage with at least one syndicator, lender, governmental entity, housing finance agency, and developer who have expertise in Middle Appalachia and LIHTC.[57] 2) Leverage data aggregated and aligned in conjunction with the mapping tool described in Objective E above from a selection of the following and other sources we discover in our research in order to explore how LIHTCs are used in Middle Appalachia today and the possible gaps in the market: National Housing

timeframe will be very difficult if data issues are encountered.

- Limited tax credit allocations in rural Middle Appalachia relative to non-rural areas.

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.

Preservation Database, data.gov, HUD, and Census Bureau. Engage with at least one leading researcher on Middle Appalachia areas to help inform and structure our research and analysis.

3) Include information in the report on the following, based on available data:

   a. Geographic distribution of properties receiving LIHTC allocations

   b. Estimated market size

   c. Percentage of properties receiving allocations in Middle Appalachian states that are in rural versus urban and suburban locations

   d. Percentage of properties receiving allocations that also receive other major subsidies, such as USDA 515, 538, or Section 8

4) Publish the report on our website, share it with the organizations involved in our outreach so they can distribute it further, share it with our Multifamily seller/servicer network, and promote it with a press release

Market Impact

There is currently limited analytical work about the prevalence of LIHTCs in support of Middle Appalachia, and data that is available is contained in disparate sources that are not necessarily easy to reconcile. While we understand anecdotally that the market for multifamily properties supporting Middle Appalachia is small, we believe this data may reveal opportunities for multifamily support.

We intend to leverage these various sources of data, our analytical capabilities and our relationships with various parties such as syndicators, HFAs, and seller/servicers to provide the rural housing industry and LIHTC investors with a baseline understanding of the ways tax credits are being used in both the debt and equity arenas, and the opportunities provided there.

Our outreach will allow us to further define our other objectives in support of Middle Appalachia. The results of our research will be foundational to determining the extent to which Freddie Mac, as well as states and allocating agencies, can leverage LIHTCs to bring more liquidity to Middle Appalachia in a safe and sound manner. As a result of our research, we believe other industry participants, such as borrowers and seller/servicers, will gain the foundational understanding of the Middle Appalachian market and will increase their involvement in this area.

OBJECTIVE G: RESEARCH THE USE OF AND OPPORTUNITY FOR LIHTC IN SUPPORT OF THE LOWER MISSISSIPPI DELTA

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

LIHTCs are the subsidy most commonly used to finance affordable rental housing. They are particularly important for multifamily housing for the Lower Mississippi Delta, where debt financing is limited outside of highly specialized USDA and HUD programs. Indeed, many properties cannot support debt at all, so they must be funded entirely with LIHTC equity. Despite the importance of LIHTC equity, there is not currently sufficient understanding of how the LIHTC may be used to support these high-needs rural areas. Freddie Mac plans to partner with leading rural LIHTC market participants and experts to publish a research paper focused on the use of LIHTCs in supporting the Lower Mississippi Delta.

Baseline

We have not been able to particpate in the LIHTC equity market for the last 10 years; therefore, we do not currently have a baseline of experience in LIHTC equity generally, or in the Lower Mississippi Delta specifically. In 2017, we have been attending conferences and conversing with leading mission-focused LIHTC syndicators with expertise in the Lower Mississippi Delta in order to understand how we might best support the market.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ Insufficient understanding of how LIHTC may be used to support the Lower Mississippi Delta and how to attract more investment. ▪ Limited data about the prevalence of LIHTC in the Lower Mississippi Delta. 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 research on the Lower Mississippi Delta will rely heavily on data, and completing the objective within a narrow timeframe will be very difficult if data issues are encountered. ▪ Limited tax-credit allocations in rural Lower Mississippi Delta relative to non-rural areas. **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,	**Year 2 – 2019** 1) Engage with at least one syndicator, lender, government entity, housing finance agency and developer who have expertise in the Lower Mississippi Delta and LIHTC.[58] 2) Leverage data aggregated and aligned in conjunction with the mapping tool described in Objective E above from a selection of the following and other sources we discover in our research in order to explore how LIHTCs are used in the Lower Mississippi Delta today and the possible gaps in the market: National Housing Preservation Database, data.gov, HUD, and Census Bureau. 3) Engage with at least one leading researcher on the Lower Mississippi Delta to help inform and structure our research in this area. 4) Include information in the report on the following, based on available data: a. Estimated market size b. Geographic distribution of properties

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.	receiving LIHTC allocations c. Percentage of properties receiving allocations in Lower Mississippi Delta states that are in rural versus urban and suburban locations d. Percentage of properties receiving allocations that also receive other major subsidies, such as USDA 515, 538, or Section 8 5) Publish the report on our website, share it with the organizations involved in our outreach so they can distribute it further, share it with our seller/servicer network, and promote it with a press release.

Market Impact

There is currently limited analytical work about the prevalence of LIHTCs in support of the Lower Mississippi Delta, and data that is available is contained in disparate sources that are not necessarily easy to reconcile. While we understand anecdotally that the market for multifamily properties supporting the Lower Mississippi Delta is small, we believe this data may reveal opportunities for multifamily support.

We intend to leverage these various sources of data, our analytical capabilities and our relationships with various parties, such as syndicators, HFAs, and seller/servicers to provide the rural housing industry and LIHTC investors with a baseline understanding of the ways tax credits are being used in both the debt and equity arenas, and the opportunities provided there.

Our outreach will allow us to further define our other objectives in support of the Lower Mississippi Delta. The results of our research will be foundational to determining the extent to which Freddie Mac, as well as states and allocating agencies, can leverage LIHTCs to bring more liquidity to the Lower Mississippi Delta in a safe and sound manner. As a result of our research, we believe other industry participants, such as borrowers and seller/servicers, will gain the foundational understanding of the Lower Mississippi Delta market, and will increase their involvement in this area.

OBJECTIVE H: RESEARCH THE USE OF AND OPPORTUNITY FOR LIHTC IN SUPPORT OF PERSISTENT-POVERTY COUNTIES NOT INCLUDED IN OTHER HIGH-NEEDS RURAL REGIONS

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

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

Baseline

We have not been able to particpate in the LIHTC equity market for the last 10 years; therefore, we do not currently have a baseline of experience in LIHTC equity generally, or in persistent-poverty counties specifically. In 2017, we have been attending conferences and conversing with leading mission-focused LIHTC syndicators with expertise in persistent-poverty counties in order to understand how we might best support this market.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ Insufficient understanding of how LIHTC may be used to support persistent-poverty counties and how to attract more investment. ▪ Limited data about the prevalence of LIHTC in persistent-poverty counties. 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 research on persistent-poverty counties will rely heavily on data, and completing the objective within a narrow timeframe will be very difficult if data issues are encountered. ▪ Limited tax-credit allocations in persistent-poverty counties. **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,	**Year 3 – 2020** 1) Engage with at least one syndicator, lender, government entity, housing finance agency, and developer who have expertise in persistent-poverty counties and LIHTC [59] 2) Leverage data aggregated and aligned in conjunction with the mapping tool described in Objective E above from a selection of the following and other sources we discover in our research in order to explore how LIHTCs are used in the persistent-poverty counties today and the possible gaps in the market: National Housing Preservation Database, data.gov, HUD, and Census Bureau. 3) Engage with at least one leading researcher on persistent-poverty counties to help inform and structure our research in these areas. 4) Include information in the report on the following, based on available data: a. Estimated market size b. Geographic distribution of properties

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.	receiving LIHTC allocations c. Percentage of properties receiving allocations in persistent-poverty counties that are in rural versus urban and suburban locations d. Percentage of properties receiving allocations that also receive other major subsidies, such as USDA 515, 538, or Section 8 5) Publish the report on our website, share it with the organizations involved in our outreach so they can distribute it further, share it with our seller/servicer network, and promote it with a press release.

Market Impact

There is currently limited analytical work about the prevalence of LIHTCs in support of the persistent-poverty counties, and data that is available is contained in disparate sources that are not necessarily easy to reconcile. While we understand anecdotally that the market for multifamily properties supporting persistent-poverty counties is small, we believe this data may reveal opportunities for multifamily support.

We intend to leverage these various sources of data, our analytical capabilities and our relationships with various parties, such as syndicators, HFAs, and seller/servicers, to provide the rural housing industry and LIHTC investors with a baseline understanding of the ways tax credits are being used in both the debt and equity arenas, and the opportunities provided there.

Our outreach will allow us to further define our other objectives in support of persistent-poverty counties. The results of our research will be foundational to determining the extent to which Freddie Mac, as well as states and allocating agencies, can leverage LIHTCs to bring more liquidity to persistent-poverty counties in a safe and sound manner. As a result of our research, we believe other industry participants, such as borrowers and seller/servicers, will gain the foundational understanding of the market in persistent-poverty counties, and will increase their involvement in this area.

OBJECTIVE I: PURCHASE LOANS TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT IN HIGH-NEEDS RURAL REGIONS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	**3**	**VLI, LI**	**Yes**

USDA's Section 515 program is vital for the preservation of highly affordable rural multifamily housing. It provides rental assistance to ensure that tenants pay no more than 30 percent of their income toward rent. According to an analysis by the Housing Assistance Council (HAC), the USDA has financed approximately 28,000 multifamily properties with over 533,000 units through the Section 515 program.[60] As of early 2016, there were approximately 13,830 properties with 416,000 units still in the program. HAC has determined that the following number of units will exit the 515 program by 2040 based on their loan maturity dates.[61]

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

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

Despite the small market size, purchases of loans on properties with USDA 515 debt are an integral part of our strategy of providing liquidity in support of the 515 program and the high-needs rural multifamily housing market. We will leverage our loan product offering for properties with 4 percent tax credits and USDA 515 debt to purchase loans on properties that are in the rural housing regions. In addition to the loan offering, we will also leverage the research being done to better serve the regions through the creation of our loan offering. Maintaining long-term affordability is key to providing the rural regions with a stable source of housing. As a result of our initial outreach, we have determined that loans on properties with USDA 515 debt are usually originated in portfolios of multiple properties and it could take as long as three years to originate one portfolio with USDA 515 debt.

Understanding that this process can take multiple years, we plan on using the lessons learned from our first USDA 515 preservation transaction, and hope to initiate one more transaction, initiated in Year 2 and funded in Year 3, to further prove to the market that the loan offering is efficient and repeatable. This new transaction will include properties that are in one or more high-needs rural regions.

Baseline

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

Target

Prior to the creation of this third-party financing offering, there is no precedent to accurately determine the market for this product. Also, these transactions are highly complex and slow to develop. Therefore, during Year 3 we plan to execute one multi-property portfolio with USDA 515 debt that will contain properties located in at least one of the high-needs rural regions, but will not be limited to these areas.

We believe one such transaction is an appropriate initial target given (1) the limited number of units in high-needs rural regions generally; (2) the even smaller number of properties that are likely to mature, be ready for recapitalization, or experience a transfer of ownership during this time period, which limits the likelihood of a transaction occurring at all; and (3) the multi-year lead time for any transaction. This combination leads to high unpredictability and limits our ability to deliberately target properties in any particular geographic locations.

As we gain experience in the Section 515 market and more borrowers accept our product, we will have a greater scope and be able to better predict where these purchases will take place. Any purchases in the early years will be precedent setting and will be used to attract developer interest in the products we offer.

Market Challenges

There are several challenges to making loan purchases to preserve properties with USDA Section 515 Debt in rural regions.

First, there are limited financing sources. Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs.

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

Third, there is a very small market for 515 properties in high-needs rural regions. Per our analysis of USDA data from data.gov, within the total 515 portfolio, approximately 19 percent are located in high-needs locations: 5 percent in Middle Appalachia, 8 percent in the Lower Mississippi Delta, and 6 percent in persistent-poverty counties not located in other high-needs rural regions. We found that, on average, these properties were built in 1988 or 1989, which means that, with up to a 50-year USDA 515 loan, they are not likely due to mature until well into the future. Therefore, in the near term, the market for these properties is likely to be even smaller and limited to prepayments, recapitalizations, and transfers of ownership.

Fourth, unlike most markets, where one could expect transactions to be initiated and closed in the same year, this is far less likely to be the case for properties with USDA 515 debt. These transactions are highly complex with multiple parties, multiple properties, and sometimes challenging market conditions. Even once initiated, a transaction can fall through due to many factors, such as disruptions in the LIHTC equity market, rising interest rates, or change in local market conditions.

Market Impacts

The immediate benefit of these transactions will be to rehabilitate and preserve safe, decent, and affordable rental homes for tenants who are at risk of becoming homeless if these properties exit the 515 program. This cannot be understated in the near term or in the long term. Indeed, these initial loan purchases lay the foundation for more third-party financing and enable long-term, stable liquidity, which is fundamental to providing long-term residence to many thousands of households. Upon completion, we will issue a press release and/or publish a news story on our website that summarizes the transaction and promotes its replicability, which will lead to a growth in purchases in future years.

Through these transactions, we will demonstrate to rural developers that there is a new and replicable source of innovative financing for 515 properties that will enable the recapitalization and rehabilitation of these properties. In so doing, we will introduce new standards and efficiencies into the market. We will also look to attract private capital and promote safety and soundness by leveraging our capital markets infrastructure and risk distribution capabilities.

We recognize that these innovations will likely take some time to catch on, especially in the very small high-needs rural market, as each transaction in the early years will likely be slow to develop and new opportunities will likewise be slow to follow. However, with each transaction, we will preserve more affordable rental homes and build more momentum and market adoption so that, by the time 515 properties start to mature at scale, the market has a well-functioning and well-tested execution in place to preserve a meaningful share of rental homes for tenants in need.

OBJECTIVE J: ENGAGE IN LIHTC EQUITY INVESTMENT

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

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

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

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

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

Freddie Mac intends to make LIHTC equity investments in order to help meet the affordable rental housing needs of low-income families in all rural areas, including high-needs regions. In Year 1 of our Plan, we intend to re-enter the LIHTC equity investment market by partnering with at least two LIHTC syndicators and investing in at least one high-needs region LIHTC deal per syndicator. Although Freddie Mac was a substantial LIHTC investor prior to 2008, we have made no LIHTC investments in the interim. Recent disruption in the LIHTC equity market due to uncertainty surrounding the impact of potential changes to corporate tax rates has highlighted the need for Freddie Mac to enter the market as a source of liquidity and stability.

Investing in LIHTC equity will bring many positive changes to the market including the following:

- Stability by making long-term and consistent investments regardless of market volatility
- Liquidity particularly for investments that positively impact low-income renters in underserved areas, such as rural communities, Indian reservation communities, and agricultural worker communities, as well as preservation deals and for any other investment type that may not receive consistent investment interest year after year
- Affordability for investments that may not be as attractive to the largest investors, such as preservation deals, Section 8 deals, and bond deals with high losses-to-LIHTC ratios

To achieve these benefits, we plan to make steady improvements through the three-year Plan. In Year 1, we will increase our knowledge of the LIHTC market, develop product parameters, and build the necessary infrastructure within our production, underwriting, legal, and asset management teams to engage LIHTC equity investing. We will also look to form partnerships with at least two LIHTC syndicators and close at least one high-needs-region LIHTC equity investment with each syndicator. Without recent involvement in this market, it will be difficult to create the necessary internal infrastructure.

Baseline

We have not made any LIHTC equity investments in the last 10 years, so we do not have a baseline for this objective.

Target

Our intention is to partner with at least two syndicators and make investments at an increasing rate each year, starting at two investments in Year 1. This leads to the following targets across all of the high-needs rural regions.

Year	2018	2019	2020
Number of Investments	2	3	4

We believe it reasonable and appropriate to view these targets across all high-needs rural regions, as opposed to within any particular high-needs rural regions at this stage because (1) the market for LIHTC deals in each region is relatively small and not fully known, and (2) it is not clear that there will be both viable projects and sufficient allocations of credits each year in each region to support setting region-specific targets at this time. Moreover, while there are fewer investors in non-CRA markets, it is unlikely that we, or the syndicator with whom we work, will be the only participant; therefore, we have no guarantee that we will win each investment deal on which we bid.

Should we exceed these targets in a material way in the early years of our Plan, and the market allows for it, we will likely revise the Plan to include higher targets. Likewise, if we find there is a smaller-than-anticipated market and fewer-than-anticipated investment opportunities, we will revise our targets downward.

Market Challenges

There are several challenges that will be presented when making LIHTC investments in high-needs rural regions. The primary market challenges are caused by a lack of investment and volatility of LIHTC allocation.

In the LIHTC market generally, there have been significant disruptions in the price of credits.

As 2017 progressed, we have seen 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.

Both examples illustrate how fewer LIHTC-assisted units are likely to be built, ultimately hurting low-income families across the country.

Properties in the rural regions have an additional challenge because they are frequently not in areas that typically attract multiple bids from financial institutions seeking CRA credit. Lack of investor interest lowers LIHTC pricing, which makes the credits less effective. Additionally, State Qualified Allocation Plans (QAP) change annually and rural areas may not be as competitive year in and year out for the limited number of deals that receive a LIHTC allocation.

There is a meaningful difference between a LIHTC deal located in a rural county like Wetzel County, West Virginia, where there is not much CRA-motivated demand for investment, and one in Charlotte, North Carolina. Based on current market information from the Community Affordable Housing Equity Corporation (CAHEC), a Raleigh, North Carolina-based LIHTC syndicator with 25 years' experience and covering the Southeast, a deal in Wetzel County is expected to receive approximately 86 cents on the dollar, while a deal in Charlotte would receive up to 95 cents on the dollar. In a hypothetical transaction with $10 million of debt and a need for $6 million of equity, this difference in tax-credit pricing equates to a $540,000 funding gap, which would require additional tax credits, soft debt, or a deferral of developer fee (with payment from cash flow) to close. This gap financing is often more expensive than LIHTC equity.

There are also several underwriting challenges. Transactions in rural areas often require additional review and analysis. Deals in these areas are frequently in smaller markets, often with marketing and lease-up challenges compared to more urban and suburban properties.

Lastly, resource challenges will hinder our ability to make investments, at least in the early years. The first challenge is our need to develop expertise in these markets. Freddie Mac has not originated new LIHTC investments or had partnerships with LIHTC syndicators in close to 10 years. Therefore, we will develop expertise in-house or hire new talent to support this offering. Additionally, we will need to develop partnership agreements at both syndicator and individual deal levels.

Market Impacts

By initiating investments in the LIHTC market for high-needs rural regions, Freddie Mac will provide stability to the equity market specifically for investments that are directly impacted by the lack of investment due to investors' tax-reform concerns and lack of CRA credit. This is particularly important for LIHTC properties supporting high-needs rural regions due to the volatility in allocation and lack of investors.

Building a LIHTC equity investment team will help to formalize the infrastructure and ensure that each investment is well-structured and underwritten. Engaging outside counsel also will allow us to create a legal infrastructure leveraging the expertise of a lawyer that is experienced in drafting partnership agreements.

Our initial investments will not only provide a meaningful benefit to the people living in rural markets by providing them with safe, decent and affordable housing that is so hard to come by, it will also introduce competition into a segment of the market that lacks it and often lacks investor interest at all. By doing so, we could potentially increase the price per credit, which could make the development of properties viable where they were not previously, or allow developers to create or preserve more units than they would otherwise.

These investments will also set an important precedent as we build out our market presence and lay the foundation for future investment by us and others. To raise awareness of these transactions and potential replicability, we will issue a press release and/or publish news stories on our website highlighting these transactions and their impact.

Activity 2 – High-Needs Rural Populations: Regulatory Activity

High-needs rural populations include federally recognized Indian tribes located in Indian areas and agricultural workers. These populations have unique histories, cultures and economies. However, both face similar challenges that significantly impact their access to credit, including substantially higher poverty rates than the national average and extremely limited access to financial services.[62] Additionally, 40 percent of the housing is substandarda[63] and almost one-third of homes are overcrowded.[64] Approximately 26 percent of the Native American population is living in areas close to Indian areas and may be interested in living in Indian areas if they could obtain mortgage financing.[65]

Freddie Mac's strategic approach to serving high-needs rural populations includes partnering with local non-profits, housing finance agencies, CDFIs and other small financial institutions to provide homebuyer education, and providing technical expertise to lenders and appraisers serving Indian areas. During the Plan Term, Freddie Mac intends to engage in the following objectives:

- Increase access to education and resources for Native Americans planning to buy homes in Indian areas.
- Provide technical expertise to lenders and non-profits serving Native Americans in Indian areas.
- Research the use of LIHTC.
- Develop an LIHTC equity investment offering.
- Engage in LIHTC equity investment

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

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

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

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

To engage the Native American population in Indian areas and provide meaningful impact, we will undertake an analysis to determine the tribal regions we can lend support and partnerships we can establish with non-profits, housing finance agencies and community development financial institutions to expand our homebuyer education and counseling efforts to serve very low-, low- and moderate-income homebuyers in Indian areas. In addition, we will complete homebuyer surveys to monitor the effectiveness of education platforms and adjust our efforts as needed. Through borrower education, we hope to help Native Americans build and maintain credit, understand the steps to sustainable homeownership and increase the demand for homeownership in Indian areas.

Baseline

Freddie Mac has extensive experience with financial education; our successful Credit Smart program is available in five languages and has been taught for over 15 years. In addition, Freddie Mac provides outreach, homebuyer education and counseling through our network of 14 Borrower Help Centers and the national Freddie Mac Borrower Help Network that has been in place for the past nine years. However, for the past three years we have not conducted these services in Indian areas. In addition, we do not have any Borrower Help Centers that specifically serve Indian areas and will need to find additional partners to expand our services. We currently participate in committee meetings on a quarterly basis with the Center for Indian Country Development (CICD) to better understand homebuyer readiness in Indian areas.

Challenges, Actions and Market Impacts

Challenge	Freddie Mac Action
Limited homebuyer education and resources ▪ Homebuyer readiness is one of the most challenging issues facing Native Americans in Indian areas today. The market faces the need for education to initiate the desire for home ownership as a wealth building strategy and then the means to successfully embark on the process to become a homeowner. ▪ In addition, the market has long suffered from a lack of financial institutions to educate the population and promote homeownership. ▪ The lack of education and resources has left a large percentage of Native Americans without the financial knowledge, satisfactory credit, adequate assets and desire to become homeowners. ▪ There are additional challenges that face the Native Americans who want to become homeowners face due to the additional challenges of lending on trust land and understanding the rights and responsibilities of the borrower purchasing property on trust lands and the diverse needs of various tribes.	**Year 1 – 2018** 1) Participate and collaborate monthly on initiatives outlined in quarterly CICD homebuyer readiness subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas 2) Initiate a review of Indian areas to assess where partnerships can be established and begin the design of homebuyer education specific to the Native American market. Establish at least one partnership with a non-profit, housing finance agency or community development financial institution to increase their capacity to provide financial and homebuyer education, housing counseling or other resources. 3) Provide financial and homebuyer education and housing counseling with an established partner in one Indian area. **Year 2 – 2019** 1) Continue to participate and collaborate on initiatives outlined in homebuyer readiness subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas. 2) Establish one additional partnership with a non-profit, housing finance agency or community development financial institution that provides homebuyer education, housing counseling and other resources relevant to potential Native American homebuyers in

	one additional Indian area to expand our area of outreach and increase access to financial and homebuyer education to promote sustainable homeownership in Indian areas. 3) Provide financial and homebuyer education and housing counseling with an established partner in one additional Indian area. 4) Ask consumers to complete a survey on our financial and homebuyer education curricula at each session to inform future enhancements. **Year 3 – 2020** 1) Continue to participate and collaborate on initiatives outlined in quarterly CICD homebuyer readiness subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas. 2) Establish one additional partnership with a non-profit, housing finance agency or community development financial institution that provides financial and homebuyer education, housing counseling and other resources relevant to potential Native American homebuyers in one additional Indian area to increase their capacity to provide education in Indian areas. 3) Hold at least two homebuyer fairs with established partners to educate consumers on available products, programs and resources. 4) Conduct homebuyer and financial education and housing counseling in the Indian areas selected in 2018 and 2019 to further expand access to education to promote sustainable homeownership. 5) Ask consumers to complete a survey on our education curricula at each session to inform future curricula enhancements. 6) Assess consumer survey results, and adjust homebuyer and financial education curricula as appropriate. Findings on survey results will be included in a report to FHFA. 7) Publish lessons learned from the three-year Plan initiatives and survey results on Freddie Mac's website.

Market Impact
Providing comprehensive homeownership education will require a significant amount of research and coordination needed internally at Freddie Mac through various divisions including Single-Family teams responsible for affordable lending and relationships with Seller/Servicers, non-profits, housing finance agencies and community development financial institutions. Externally, we need to develop partnerships to successful initiate and later expand into additional Indian areas with various cultures and governments. We also plan to track training outcomes and use the information obtained to adjust the program in the future. We believe the schedule proposed is reasonable as it incorporates time for us to learn more about the specific needs of the target population, and gives sufficient flexibility for us to learn from initial program feedback to make course corrections. This objective addresses the need for information about financing options developed specifically for members of Indian tribes. We anticipate that the homebuyers' needs will include financial and homebuyer education, pre- and post-purchase counseling and resources, to help them qualify for a mortgage in Indian areas. A successful education program will be a significant development with high impact for this high-needs rural population because it is expected to increase the number of mortgage-ready borrowers that can qualify for financing options that may be available. Given the prevalence of very low-, low- and moderate-income families living in Indian areas, targeting homebuyer education to these areas will be key to increasing sustainable homeownership.

OBJECTIVE B: INCREASE TECHNICAL EXPERTISE IN INDIAN AREAS

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

In order to support increased lending activity in this market, Freddie Mac will engage in efforts to increase understanding the barriers to lending and the priority of needs to develop education for lenders on the unique aspects of lending in Indian areas, including but not limited to education on title processing, deed restrictions, tribal government transition education and default processes. In addition, Freddie Mac will encourage standardization of title search processes with government entities. Doing so will bring efficiency to title processing and expedite the lending process, which should benefit all parties involved. In addition, Freddie Mac will provide training and outreach on our mortgage products that may be useful by Native Americans in Indian areas. Once we complete an analysis on which tribal regions we can lend support during this Plan cycle, we will align our focus for technical assistance in the same geographies we will undertake for providing further access to homebuyer education as referenced in Objective A.

Baseline

Freddie Mac does not currently have best practices and training dedicated to increasing technical expertise for lenders and housing professionals on the intricacies of lending in Indian areas.

Challenges, Actions and Market Impacts

Challenge	Freddie Mac Action
Insufficient support of industry participants ▪ Native Americans in Indian areas experience specific challenges in finding diverse financing options due to the legal intricacies of trust land ownership and the difficulty of finding lenders willing to finance loans on trust land. ▪ Additional challenges involve the title processing along with lease processing and approvals involving the federal government and the lack of capacity of tribal governments. ▪ The tracking of Native American loans on Indian areas is not currently being incentivized or tracked in affordable lending products. ▪ The market suffers from a lack of sustainable capacity and resources to further initiatives that will increase homeownership over the long term. ▪ The market also suffers from a lack of coordination and collaboration to develop and increase the use of best practices to further homeownership.	**Year 1 – 2018** 1) Evaluate and assess by year-end the opportunities and barriers to lending through outreach to three lenders, non-profit organizations or governmental entities. Findings will be submitted in a report to FHFA. 2) Conduct bi-annual outreach to at least two market participants, such as housing finance agencies, community development financial institutions or other Native American organizations, to assist with research on the development of mechanisms to better track conventional purchase volume for loans to members of a federally recognized Indian tribe in Indian areas. 3) Participate in quarterly meetings of the CICD committee, CICD secondary market subcommittee, and CICD lending products subcommittee to better understand the opportunities and challenges of Native American lending in Indian areas and their need for technical support. **Year 2 – 2019** 1) Leverage relationships with partners established in 2018 to develop best practices for lending to Native Americans in Indian areas. Share this information with lenders by publishing best practices for lending to Native Americans in Indian areas on Freddie Mac's website. 2) Provide broad-based product and program support to lenders through industry conferences, website material, and Freddie Mac training programs that is specific to Native Americans in Indian Areas. 3) Provide capacity building with at least one Indian tribe through a partnership with a non-profit, Tribally Designated Housing Entity (TDHE) or housing finance agency to offer resources and assistance related to loan packaging, title clearance or other priorities identified that will increase the efficiency of lending on trust lands. 4) Depending on the results of outreach in 2018, by year-end, complete an evaluation

	of potential changes that allow us to identify membership of borrowers in federally recognized Indian tribes members to track loan purchase activity. Submit findings in report to FHFA. 5) Participate in quarterly meetings of the CICD committee, CICD secondary market subcommittee and CICD lending products subcommittee to better understand the opportunities and challenges of Native American lending in Indian areas. **Year 3 – 2020** 1) Monitor and assess the usage and impact of best practices and training provided to lenders via ongoing outreach to lenders and surveys to obtain feedback. Adjust and re-publish best practices as appropriate. 2) Continue outreach efforts leveraging industry conferences, website material, and Freddie Mac training programs that are specific to Native Americans in Indian areas. 3) Expand capacity building with at least one additional Indian tribe through a partnership with a non-profit, TDHE or housing finance agency for loan packaging, title clearance or other priorities identified that will increase the efficiency of lending on trust lands. 4) Participate in quarterly meetings of the CICD committee, CICD secondary market subcommittee and CICD lending products subcommittee to better understand new opportunities and challenges of Native American lending in Indian areas.

Market Impact

This objective will require significant amount of outreach, research, partner building and coordination that needs to be accomplished to successfully build sustainable capacity. This will entail work with federal government agencies, tribes, non-profits, and other partners to provide resources and capacity in this market. There currently exists an extremely large knowledge gap in the Indians areas due to different cultures, different tribal governments, different operating laws, turnover of leadership, remoteness and distance from other tribal communities. Freddie Mac’s efforts and participation through outreach, research and participation in meetings will begin to assist in bridging this gap. It will take a significant level of effort and resources to establish new relationships as we do not currently have established partners in Indian areas. It will also take time to develop and coordinate activities to begin bridging the gap to provide more loan packaging and processing efficiencies. These efforts will have a direct effect as we share best practices and provide capacity support and resources. They will also have an increasing and future impact as they are expanded through the plan period.

OBJECTIVE C: CONDUCT RESEARCH ON TRIBAL LANDS IN ASSOCIATION WITH LIHTC AND OTHER FEDERAL PROGRAMS

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

LIHTCs are the most commonly used subsidy for affordable rental housing. They are particularly important for multifamily housing on tribal lands, where debt financing is limited outside of highly specialized HUD programs. Indeed, most properties cannot support conventional debt at all. Despite the importance of LIHTC equity, there has not been sufficient equity investment to solve the affordable housing challenges on tribal lands. Additionally, LIHTC investments on tribal lands generally do not receive much competition from banks or other investors. This lack of competition results in a lower price per credit, which means it is even harder to amass sufficient equity to finance these properties.

While there are various sources of data and research reports on housing and LIHTC equity on tribal lands, our research will pull together disparate sources of data, identify challenges and opportunities for investment, identify debt financing options and their viability, and popularize this understanding with a broader audience than is currently familiar with the challenges of housing on tribal lands today.

Baseline

We have not been able to particpate in the LIHTC equity market for the last 10 years; therefore, we do not currently have a baseline. In 2017, we have been attending conferences and conversing with leading-mission focused LIHTC syndicators with expertise on tribal lands. We have not performed or published any formal research on this topic.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ Limited data about the prevalence of LIHTCs in support of multifamily housing on tribal lands. 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 tribal land research will rely heavily on data, and completing the objective within a narrow timeframe will be very difficult if data issues are encountered. ▪ Insufficient knowledge of the market size and scope. ▪ Limited opportunities for third party financing. ▪ Geographic challenges; tribal lands are often in remote areas. ▪ Many properties on tribal lands are LIHTC equity driven, which leaves little room for debt financing. ▪ Definition of qualifying tribal lands contains some uncertainty. As a result, there may be some margin of error in our analysis, and the time it takes to perform this analysis will be greater than for areas with more readily defined boundaries. **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** 1) Conduct outreach by engaging with three tribal housing authorities, two syndicators, and two advocacy organizations with expertise in LIHTC and/or the housing needs on tribal lands. 2) Aggregate and align data to determine whether, and how much, sufficient information there is on LIHTC housing for members of Indian tribes living on Indian land today based on definitions provided by FHFA and the possible gaps in the data from the following sources and any others we discover in our research: National Housing Preservation Database, data.gov, HUD, and Census Bureau. 3) Engage with at least one leading researcher on tribal lands to help inform and structure our research and analysis in these areas. 4) Include information in the report on the following, based on available data: a. Estimated equity market size b. The identification and applicability of relevant federal programs, and eligibility for third-party financing to be applied c. Identification of gaps in data that could be closed over time to provide a stronger understanding of this market 5) Publish the report on our website, share it with the organizations involved in our outreach so they can distribute it further, and promote it with a press release.

Market Impact
There is currently limited data about the prevalence of LIHTCs in support of members of Indian tribes on tribal lands. While we understand anecdotally that the market for multifamily properties supporting these populations is very small, we believe this data may reveal opportunities for further investment and draw greater attention to the challenges and opportunities for LIHTC equity investment and multifamily housing on tribal lands. This study will also reveal whether there are opportunities for providing multifamily first mortgage debt financing on tribal lands. By identifying and promoting these opportunities, we are laying the foundation for more competition in the LIHTC market on tribal lands, which can increase the price per credit and, therefore, the effectiveness of LIHTC equity in creating and preserving affordable rental housing on tribal lands.

OBJECTIVE D: DEVELOP LIHTC EQUITY INVESTMENT OFFERING

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

Freddie Mac intends to develop a product that leverages LIHTC equity investment in order to help meet the affordable rental housing needs of low-income families that are members of Indian tribes in Indian areas as well as agricultural workers in designated rural areas. According to a 2017 Urban Institute study, “during the past two decades, although improvements have been made, the overcrowding and physical housing problems of American Indians and Alaska Natives (AIANs) living on reservations and other tribal areas remain strikingly more severe than those of other Americans. Particular circumstances of tribal areas--remoteness, lack of infrastructure, and complex legal and other constraints related to land ownership--make it extremely difficult to improve housing conditions in those areas.”[66] Also, according to the HAC, 52 percent of housing units recently surveyed were overcrowded, which is nearly 10 times higher than the national average. Despite these challenges, the LIHTC program has been effective in producing new affordable units for these underserved populations, particularly in states that set aside tax credits specifically for multifamily properties, though there is still need for more housing.

Freddie Mac anticipates building relationships with experienced LIHTC syndicators that work with established developers that focus on these populations in their affordable housing development businesses. In addition, Freddie Mac will provide direct equity investments in properties where the developer is a Freddie Mac client or has a relationship with one of our existing financing partners. Throughout Year 1 of our Plan, we will research the LIHTC market with a focus on investment opportunities to support high-needs populations as mentioned in Objective C. We will also hire experienced staff, develop internal capacity and controls and introduce our LIHTC equity investment product offering. Ultimately, we will begin investing in order to better understand the market while making a direct impact.

We recognize in creating this LIHTC equity investment offering that the fundamentals described and established here are applicable across all LIHTC equity investments, with some specific terms tailored to the needs of these populations. It will be important to make LIHTC investments that have sufficient geographic diversity to control for concentration risk, invest at a large enough scale to operate a viable and sustainable business that allows us to continually serve these markets, and do so in a safe and sound manner. We will be mindful to make these investments in markets and cases where there is not sufficient CRA-motivated investment already. Indeed, our role will be to support those parts of the market that are underserved by CRA-motived investment.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Difficulty in developing multifamily housing in tribal areas ▪ This is due to remoteness, lack of infrastructure, and complex legal and other constraints related to land ownership. **Difficulty in developing multifamily housing for agricultural workers** ▪ This is due to limited tenant incomes and cyclical residence, the combination of which require properties that often cannot support first mortgage debt. **Market size** ▪ The ability to make a visible impact in the market may be capped by its small volume. **Cultural effects** ▪ Many tenants who are members of an Indian tribe living on tribal lands prefer single-family homes over multifamily properties.	**Year 1 – 2018** 1) Partner with at least one experienced LIHTC syndicator that focuses on high-needs rural populations. Partnership will be evidenced by an investment agreement. 2) Set up internal infrastructure to enable future LIHTC work.
Underwriting Challenge	**Freddie Mac Action**
▪ Cyclical tenant income among agricultural workers ▪ High turnover rates ▪ Small market size	**Year 1 – 2018** 1) Develop underwriting parameters, as evidenced by internal credit policy and an underwriting checklist. The LIHTC underwriting checklist will include at least the following: a. Developer experience b. LIHTC property management and compliance experience c. Balanced and detailed sources and uses budget d. 15-year operating proforma with rents trending less than operating expenses e. All financing sources have commitments by closing f. Acceptable insurance coverage g. Acceptable Phase 1 environmental assessment h. Acceptable market study

Resource Challenge	Freddie Mac Action
Development of expertise ▪ Freddie Mac has not originated new LIHTC investments in close to 10 years. Therefore, we will develop expertise in-house or hire new talent to support this offering. **Development of partnership agreements at both the syndicator and individual-deal levels** ▪ Freddie Mac has not entered a new partnership with a syndicator in close to 10 years and will need to hire outside counsel to understand the market for LIHTC investors.	**Year 1 – 2018** 1) Create a team to support the production lead including a production analyst and investment underwriting lead. 2) Engage outside counsel to review both syndicator partnership legal documents as well as individual investments at the lower-tier level within each fund. 3) Develop a checklist of important deal points (business issues) and legal points that should be included in all individual LIHTC deals and develop a process for exceptions.

Market Impact
By focusing some of its investment capital in these areas, Freddie Mac will introduce more competition for LIHTC equity investment in properties supporting high-needs populations, which will result in improved LIHTC pricing for these properties. The higher the LIHTC pricing, the greater amount of equity in the financing stack, which decreases pressure on rents, because the borrower needs less income to service the debt. Ultimately, support for LIHTC equity will make properties more affordable, and perhaps enable properties to be built that otherwise would not have been economically viable, thereby creating more affordable housing for some of the hardest to serve populations. We will develop our LIHTC equity investment capabilities and product in accordance with safety and soundness principles, setting strong underwriting parameters that will mitigate the risks of investment in these properties and allow us to responsibly serve these populations and communities.

OBJECTIVE E: ENGAGE IN LIHTC EQUITY INVESTMENT

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

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

Investing in LIHTC equity will bring many positive changes to the market including but not limited to the following:

1. Stability by making long-term and consistent investments regardless of market volatility.

2. Liquidity, particularly for investments that positively impact low-income renters in underserved areas, such as rural communities, Indian reservation communities, and agricultural worker communities as well as preservation deals, and for any other investment type that may not receive consistent investment interest year after year.

3. Affordability for investments that may not be as attractive to the largest investors such as preservation deals, Section 8 deals, and bond deals with high losses-to-LIHTC ratios.

In years 2 and 3, we intend to measure LIHTC equity investments in support of high-needs rural populations relative to market opportunity.

Baseline

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

Target

Today, the size of the LIHTC equity market in rural areas with high-needs populations is unknown. As part of our research, described above in Objectives F and G, we intend to estimate the annual market size. Generally, though, we understand it to be very small, with few transactions per year, and to be unpredictable—the amount or presence of LIHTC equity investment opportunities on tribal lands and for agricultural workers may vary. Therefore, in our early years of investment, as we come to better understand this market and develop a presence in it, we intend to make two investments in tribal lands or for agricultural workers in 2019, and three in 2020. As we learn this market better, we may be able to set specific targets for each category, but we believe it is premature to do so at this time.

Year	2019	2020
Number of Transactions	2	3

Challenges

There are several challenges that will be presented when making LIHTC investments for high-needs rural populations.

First, there is a lack of investors in rural areas. Properties in rural areas and those serving high-needs populations are frequently outside of most banks' CRA assessment areas; thus, there is typically far less competition. This lack of competition leads to lower LIHTC pricing, which makes the credits less effective. There is a meaningful difference between a LIHTC deal located in a rural county like Wetzel County, West Virginia, where there is not much CRA-motivated demand for investment, and one in Charlotte, North Carolina. Based on current market information from the Community Affordable Housing Equity Corporation (CAHEC), a Raleigh, North Carolina-based LIHTC syndicator with 25 years' experience and covering the Southeast, a deal in Wetzel County is expected to receive approximately 86 cents on the dollar, while a deal in Charlotte would receive up to 95 cents on the dollar. In a hypothetical transaction with $10 million of debt and a need for $6 million of equity, this difference in tax-credit pricing equates to a $540,000 funding gap, which would require additional tax credits, soft debt, or a deferral of developer fee (with payment from cash flow) to close. This gap financing is often more expensive than LIHTC equity.

Second, there is volatility of LIHTC allocation. Many state housing finance agencies do not have a set-aside for Indian housing or agricultural workers, making them virtually uncompetitive with urban and suburban properties that better meet the requirements of the state Qualified Allocation Plans (QAPs). QAPs change annually and rural areas may not be as competitive year in and year out for the limited number of deals that receive a LIHTC allocation.

Third, we will have resource challenges. We will need to develop expertise. Freddie Mac has not originated new LIHTC investments in close to 10 years, let alone on tribal lands or for agricultural workers. Therefore, we will develop expertise in house or hire new talent to support this offering. We also need to develop partnership agreements at both the syndicator and individual-deal levels. Freddie Mac has not entered a new partnership with a syndicator in close to 10 years and will need to hire outside counsel to understand the current market for LIHTC investors.

Market Impact

By initiating investments in the LIHTC market for high-needs rural populations, Freddie Mac will provide stability to parts of the market that receive less favorable LIHTC pricing due to limited competition, inconsistent allocations, and challenging transactions.

Building a LIHTC equity investment team will help to formalize the Freddie Mac infrastructure and ensure that each investment is well-structured and -underwritten. Engaging outside counsel also will allow us to create a legal infrastructure leveraging the expertise of a lawyer that is experienced in drafting partnership agreements.

Our initial investments will not only provide a meaningful benefit to the hardest to serve segments of the rural population by providing them with safe, decent and affordable housing that is so hard to come by, we will also introduce competition into a segment of the market that lacks it, and often lacks investor interest at all. By doing so, we could potentially increase the price per credit, which could make the development of properties viable where they were not previously, or allow developers to create or preserve more units than they would otherwise.

These investments will also set an important precedent as we build out our market presence and lay the foundation for future investment by us and others. To raise awareness of these transactions and their potential replicability, we will issue at least one press release and/or publish at least one news story on our website, highlighting these transactions and their impact.

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.

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