



**FREDDIE MAC
RURAL HOUSING**

(2018-2020) ACTIVITY:

Activity 1 – High-Needs Rural Regions: Regulatory Activity

OBJECTIVE:

Objective A: Increase single-family loan purchases in high-needs rural regions

PROPOSED MODIFICATION:

Freddie Mac proposes to revise its single-family loan baseline and purchase targets in high needs rural regions for 2018-2020 as follows due to a miscalculation.

Freddie Mac Loan Purchase Volume - High Needs Rural Regions			
Year	2014	2015	2016
Overall Loan Count	19,694	24,234	24,626
Income-Qualifying Loan Count	6,850	8,020	7,833
Baseline	7,833		

Purchase Targets - High-Needs Rural Regions		
Year 1 - 2018	Year 2 - 2019	Year 3 - 2020
7,900 - 8,000	8,100 - 8,200	8,375 - 8,600



JUSTIFICATION FOR PROPOSED MODIFICATION:

In January 2017, FHFA released the data and maps identifying the eligible Duty to Serve high-needs rural areas. The data identified separately each census tract located in a rural region, Lower Mississippi Delta region, Middle Appalachian region or a persistent poverty county. At the time the Plan was drafted and finalized, Freddie Mac was not aware that the census tracts listed as persistent poverty counties, Lower Mississippi Delta census tracts, and Middle Appalachian census tracts included both rural and non-rural census tracts and that it was necessary to eliminate the non-rural census tracts from the final baseline and target calculations for loan purchase objectives. Accordingly, when we established the baselines and production targets for our activity to increase single-family loan purchases in high-needs rural regions for the 2018 - 2020 Plan cycle, we erroneously based the targets on historical purchase volume in the census tracts identified in the Lower Mississippi Delta region, Middle Appalachian region, persistent poverty areas as well as the colonias in the Texas counties of El Paso, Cameron, Hidalgo, Starr, Webb and Maverick (“Texas colonias”), without excluding non-rural tracts.

Freddie Mac became aware of the error when discussing Freddie Mac’s first quarterly loan purchase report with FHFA’s Duty to Serve team. Since only those purchases in rural census tracts within those high-needs rural regions are eligible for Duty to Serve credit, we have revised the baselines and loan purchase targets in our Plan. Our amended baselines and loan purchase targets reflect purchases that are geographically located in the rural tracts of the Lower Mississippi Delta region, Middle Appalachian region, persistent poverty counties and Texas colonias. The percentage increase in loan purchases in the high-needs regions from 2018 to 2019 and 2019 to 2020 remains the same as was used to calculate the loan purchase targets in the original Plan. The revised targets will continue to have a meaningful impact on these regions. We believe that the modification to the Plan is a minor, technical adjustment.

Activities and Objectives

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

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

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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 [rural census tracts in 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.¹ 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. The overall loan count~~ include purchase-money originations and refinances for owner-occupied properties ~~in rural census tracts in the region without regard to the borrower's income.~~² ~~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 [DTS](#) income-qualifying loan purchases [volume located in rural census tracts. 2016 loan purchase volume of 7,833 was used to establish the baseline as it was higher than the three-year historical average of loan production for years 2014 – 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.](#)

Year	2014	2015	2016
Overall Loan Count	58,575	72,007	73,274
Income-Qualifying Loan Count <small>(A three-year average of this loan count was used to establish the baseline)</small>	20,362	23,772	23,791



Baseline	22,642		
Freddie Mac Loan Purchase Volume – High-Needs Rural Regions			
Year	<u>2014</u>	<u>2015</u>	<u>2016</u>
Overall Loan Count	<u>19,694</u>	<u>24,234</u>	<u>24,626</u>
Income-Qualifying Loan Count <small>(A three-year average of this loan count was used to establish the baseline)</small>	<u>6,850</u>	<u>8,020</u>	<u>7,833</u>
Baseline	<u>7,833</u>		

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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

Purchase Targets – High-Needs Rural Regions		
Year 1 – 2018	Year 2 – 2019	Year 3 – 2020



7,900 – 8,000 loans	8,100 – 8,200 loans	8,375 – 8,600 loans
Proprietary Actual Target – 7,990	Proprietary Actual Target – 8,150	Proprietary Actual Target – 8,478

Market Opportunity and Impact

This objective will provide liquidity of more than ~~\$9 billion~~ \$850 million 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.³ 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.



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¹ There are more than 2,294 Texas colonias, located primarily along the state's 1,248-mile border with Mexico. Texas Secretary of State, <http://www.sos.state.tx.us/>

² Data includes loan purchases for both conventional and government loan types for very low-, low-, and moderate-income borrowers.

³ Forecast for the decrease in loan origination volume is reflected in Freddie Mac's Economic and Housing Research Outlook, <http://www.freddie.com/research/pdf/201702-Outlook-02-28-2017.pdf>, p. 9.