# 2016
# Annual Housing Activities Report

## Federal Home Loan Mortgage Corporation

**MARCH 15, 2017**

# Introduction

Pursuant to section 307(f) of the Federal Home Loan Mortgage Corporation Act, as amended, 12 U.S.C. § 1456(f), the Federal Home Loan Mortgage Corporation (Freddie Mac) must submit annually to the Committee on Banking, Housing, and Urban Affairs of the Senate, the Committee on Financial Services of the House of Representatives and the Federal Housing Finance Agency (FHFA) a report on its activities under subpart B of part 2 of subtitle A of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, 12 U.S.C. §§ 4561 et seq.

We view the purchase of loans that are eligible to count toward our affordable housing goals to be a principal part of our mission and business, and we are committed to facilitating the financing of affordable housing for very low-, low-, and moderate-income families.

**<u>Single-Family Guarantee Business</u>**

In our Single-family Guarantee segment, we purchase, securitize, and guarantee single-family loans originated by seller/servicers and we manage our single-family credit risk. Our Single-family Guarantee segment supports our primary business strategies by creating:

<u>A Better Freddie Mac</u>:

- Providing market leadership by delivering quality offerings, programs, and services to an increasingly diversified customer base and an evolving mortgage market;
- Improving the customer experience through continued enhancement of our products, programs, processes, and technology; and
- Establishing effective risk management activities that are appropriate for the expected level of risk.

<u>A Better Housing Finance System</u>:

- Developing innovative technology platforms to provide sellers and Freddie Mac with better methods of assessing and managing single-family mortgage credit risk;
- Developing and implementing initiatives to reduce taxpayer exposure and offer private investors new and innovative ways to share in the credit risk of the Core single-family book;
- Expanding access to mortgage credit in a responsible manner to support our Charter Mission as well as to meet specific mandated goals;
- Working with FHFA, Fannie Mae, and CSS on the development of a new common securitization platform; and
- Implementing the single (common) security initiative for Freddie Mac and Fannie Mae, which is intended to increase the liquidity of the TBA market and to reduce the disparities in trading value between our PCs and Fannie Mae's single-class mortgage-related securities.

## Multifamily Business

The Multifamily segment provides liquidity to the multifamily market and supports a consistent supply of workforce housing by purchasing and securitizing loans secured by properties with five or more units. The Multifamily segment reflects results from our purchase, securitization, and guarantee of multifamily loans and securities, our investments in those loans and securities, and the management of multifamily mortgage credit risk and mortgage market spread risk. The Multifamily segment supports our primary business strategies by creating:

A Better Freddie Mac:

- Continuing to provide financing to the multifamily mortgage market and expanding our market presence for workforce housing in line with our mission;
- Improving our risk-adjusted returns by leveraging private capital in our credit risk transfer transactions; and
- Maintaining strong credit and capital management discipline.

A Better Housing Finance System:

- Operating in a customer focused manner, in an effort to build value and support the creation of a strong, long-lasting rental housing system;
- Identifying new opportunities beyond our existing K Certificate and SB Certificate transactions to transfer credit risk to third parties and reduce taxpayer exposure; and
- Fostering innovation of products that expand the availability of workforce housing in the marketplace.

The following constitutes Freddie Mac's 2016 Annual Housing Activities Report to Congress and FHFA under section 307(f) and FHFA regulations at 12 C.F.R. 1282.63.[1]

### A. Information Required Under § 307(f)(2)(A)

*§ 307(f)(2)(A) requires that this report include, in aggregate form and by appropriate category, statements of the dollar volume and number of mortgages on owner-occupied and rental properties purchased which relate to each of the annual housing goals established under such subpart.*

In 2016, Freddie Mac purchased more than 1.5 million mortgages on single-family owner-occupied properties, and more than 4,500 mortgages on multifamily properties.[2]

[1] The statistical and financial information included in this Report and in the tables referenced in this Report may not be comparable to information provided in Freddie Mac's public disclosure documents, including Monthly Volume Summaries and reports filed with the U.S. Securities and Exchange Commission, as the statistical and financial information included in this report and in the tables has been compiled and aggregated in accordance with specific regulatory guidelines. The information presented in the exhibits (and described in the related discussion) is derived from certain tables included in Freddie Mac's 2016 Annual Mortgage Report (2016 AMR). The 2016 AMR is being delivered to FHFA with this report.

[2] The vast majority of these single-family and multifamily mortgages funded "eligible housing units" for purposes of the housing goals, and thus was used as the basis for calculating our performance under the housing goals.

Exhibit A-1 summarizes our performance for the single-family affordable housing goals, listing for each affordable housing goal the regulatory benchmark, our performance against the benchmark in 2016, the dollar volume of goal-qualifying mortgages that Freddie Mac purchased in 2016, and the number of goal-qualifying mortgages. Exhibit A-2 summarizes our performance for the multifamily affordable housing goals, listing for the multifamily goal and subgoals, the regulatory targets, our performance against the targets in 2016, and the dollar volume of goal-qualifying units that Freddie Mac financed in 2016. Our official performance will be determined by FHFA.

**Exhibit A-1:**
**Freddie Mac's 2016 Single-Family Affordable Housing Goals Performance**[3]

| | 2016 Benchmark | 2016 Market | 2016 Performance | Volume ($Millions) | Owner-Occupied Mortgages Financed |
|---|---|---|---|---|---|
| Low-Income Purchase Goal | 24% | As determined by FHFA | 23.79% | $22,531 | 153,434 |
| Very Low-Income Purchase Goal | 6% | As determined by FHFA | 5.71% | $3,972 | 36,837 |
| Low-Income Areas Purchase Goal | 19% | As determined by FHFA | 19.89% | $24,387 | 128,304 |
| Low-Income Areas Subgoal | 14% | As determined by FHFA | 15.60% | $19,727 | 100,593 |
| Low-Income Refinance Goal | 21% | As determined by FHFA | 21.03% | $26,260 | 174,706 |

**Exhibit A-2:**
**Freddie Mac's 2016 Multifamily Affordable Housing Goals Performance**[4]

| | 2016 Benchmark (Units) | 2016 Performance (Units) | Volume[5] ($Millions) |
|---|---|---|---|
| Low-Income Goal | 300,000 | 406,958 | $28,701 |
| Very Low-Income Subgoal | 60,000 | 73,031 | $4,112 |
| Low-Income Subgoal (5 – 50 Unit Properties) | 8,000 | 22,101 | $1,595 |

Pursuant to FHFA regulations[6] promulgated under section 1336(b)(2) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (enacted as part of the Housing and Economic Recovery Act of 2008), Freddie Mac may achieve a single-family housing goal or subgoal by meeting or

[3] Figures calculated by Freddie Mac. Final performance will be calculated and published by FHFA.

[4] *Id*.

[5] Includes UPB amounts related to underlying Multifamily units with and without rental information, as reflected on Table 3A of the 2016 AMR.

[6] 12 CFR §1282.12.

exceeding either the FHFA benchmark or the share of qualifying loans originated by the market, as calculated from Home Mortgage Disclosure Act (HMDA) data.

The 2016 HMDA data is not expected to be released until the fall of 2017. At that time FHFA will have all the necessary information to make a final determination of our 2016 Single-Family Affordable Housing Goals performance.

In 2016, Freddie Mac also financed 6,367 low-income rental units in single-family 2-4 unit properties in which an owner-occupant resides in one unit.

## B. Information Required Under § 307(f)(2)(B)

*§ 307(f)(2)(B) requires that this report include, in aggregate form and by appropriate category, statements of the number of families served by the Corporation, the income class, race, and gender of homebuyers served, the income class of tenants of rental housing (to the extent such information is available), the characteristics of the census tracts, and the geographic distribution of the housing financed.*

In 2016, Freddie Mac financed housing for almost 2.5 million families, including more than 1.7 million single-family owner-occupied and rental units and almost 740,000[7] multifamily rental units.

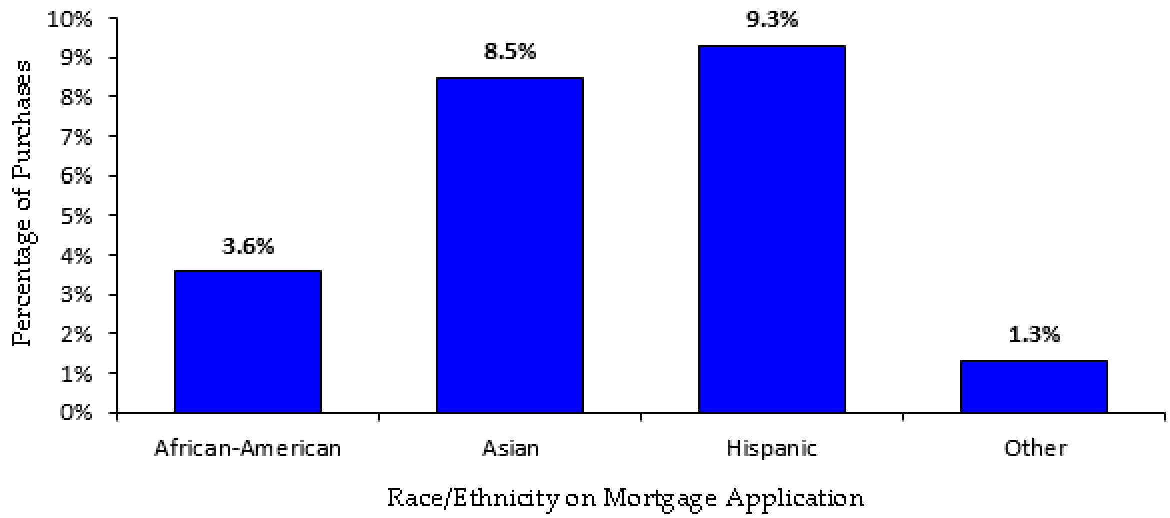
The following exhibits provide the information required under § 307(f)(2)(B).

**Exhibit B-1:**
**Freddie Mac's 2016 Single-Family Owner-Occupied Mortgage Purchases, by Borrower Income**


Source: Freddie Mac internal data; Exhibit B-1 represents the vast majority of Freddie Mac's Single-Family purchase-money and refinance mortgage purchase activity by income.

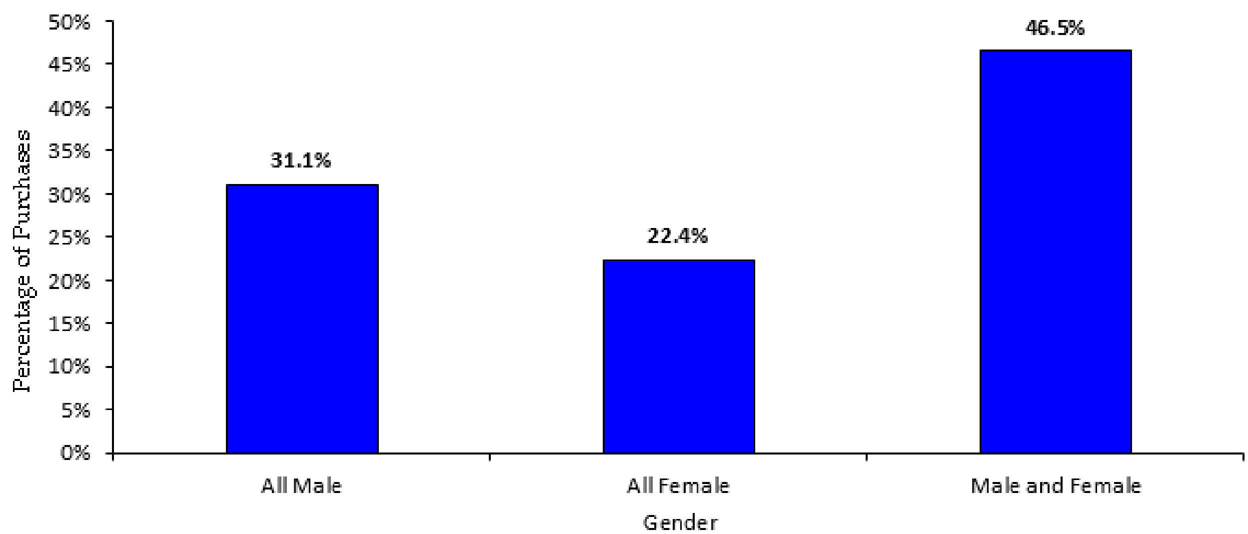
[7] Additionally, Freddie Mac provided financing for approximately 5,000 multifamily cooperative units.

**Exhibit B-2:**
**Freddie Mac's 2016 Single-Family Owner-Occupied Mortgage Purchases, by Race/Ethnicity of Minority Borrowers**



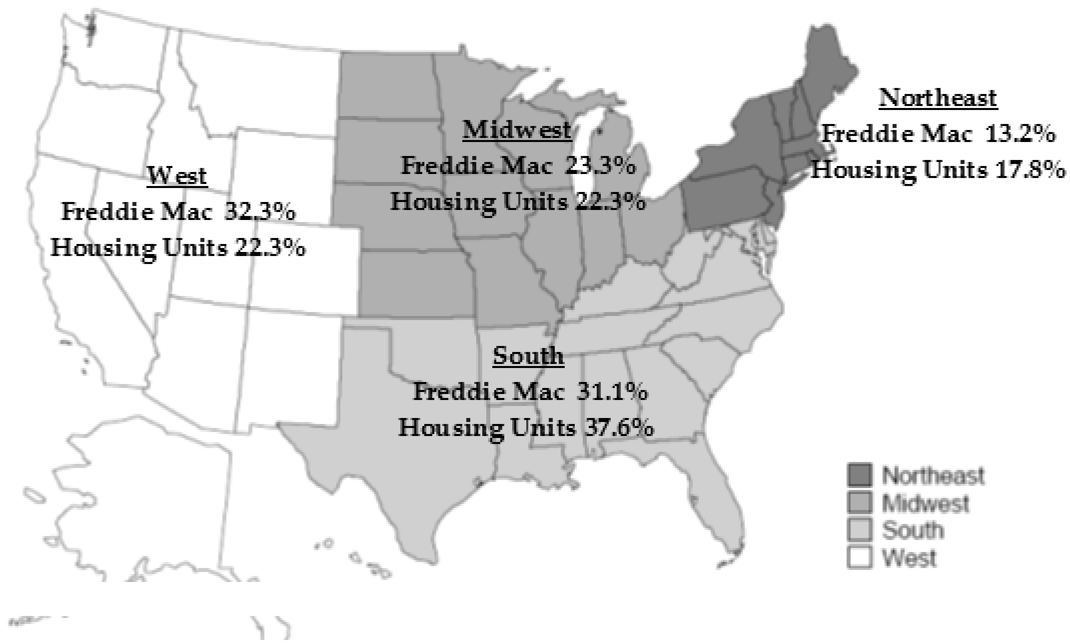

Note: The "Other" category includes American Indian or Alaskan Native, Native Hawaiian or Other Pacific Islander, mortgages that have White and minority co-borrowers, and mortgages where a borrower defines him or herself to be of two or more races. The Hispanic borrower category overlaps with other minority categories, since borrowers may define themselves to be of Hispanic ethnicity and also belong to one or more racial classifications. Minority shares exclude mortgages where (a) ethnicity is non-Hispanic and race is missing, (b) race is White and ethnicity is missing, or (c) both race and ethnicity are missing.
Source: Table 5A & 5B of the 2016 AMR.

**Exhibit B-3:**
**Freddie Mac's 2016 Single-Family Owner-Occupied Mortgage Purchases, by Borrower Gender**



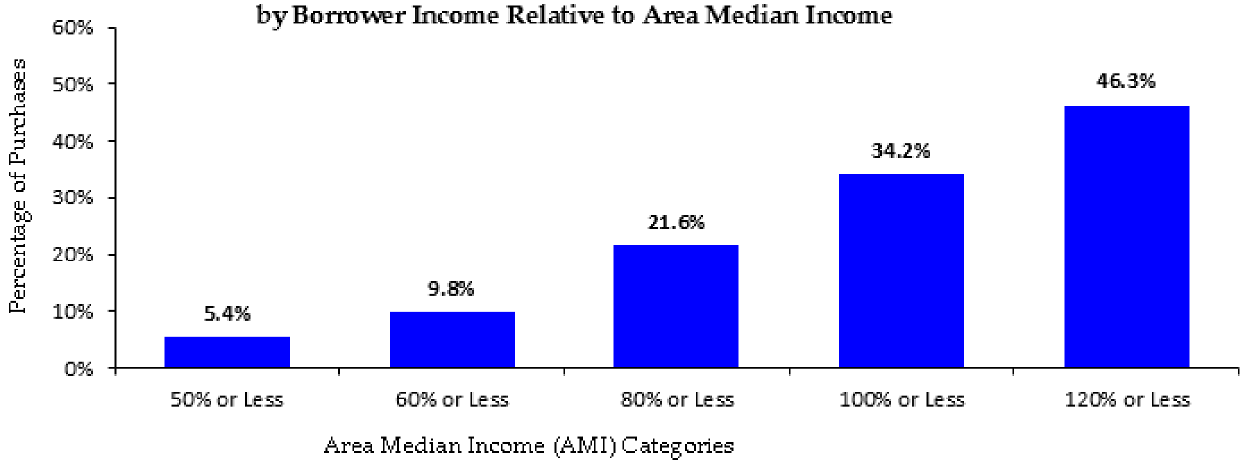

Note: These calculations exclude those mortgages for which we do not have borrower gender information.
Source: Table 6 of the 2016 AMR.

**Exhibit B-4:**
**Freddie Mac's 2016 Single-Family Units Compared to 2015 Occupied Single-Family Housing Units, by Census Region**



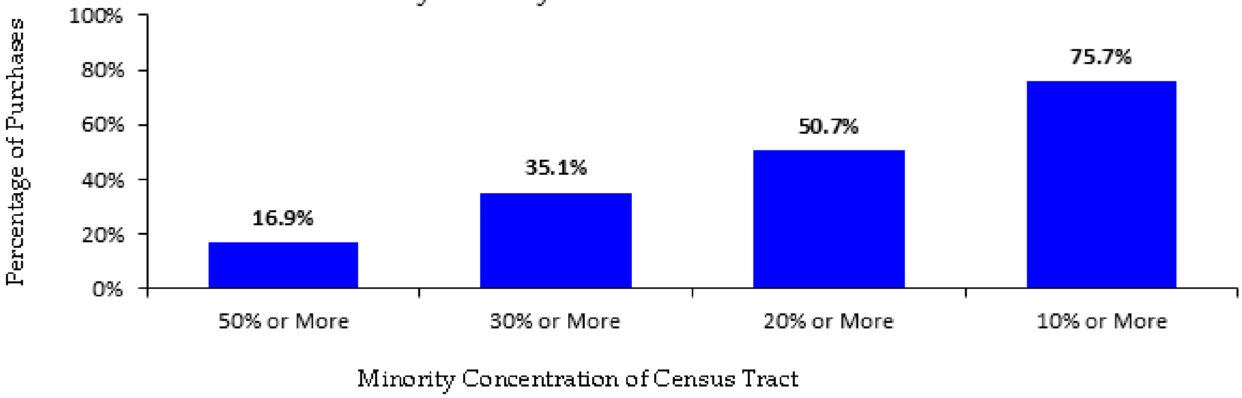

Note: Does not include Puerto Rico, Guam or U.S. Virgin Islands.
Sources: Table 10A for Freddie Mac data and Housing Unit data from 2015 American Community Survey.

**Exhibit B-5:**
**Freddie Mac's 2016 Single-Family Owner-Occupied Mortgage Purchases, by Borrower Income Relative to Area Median Income**



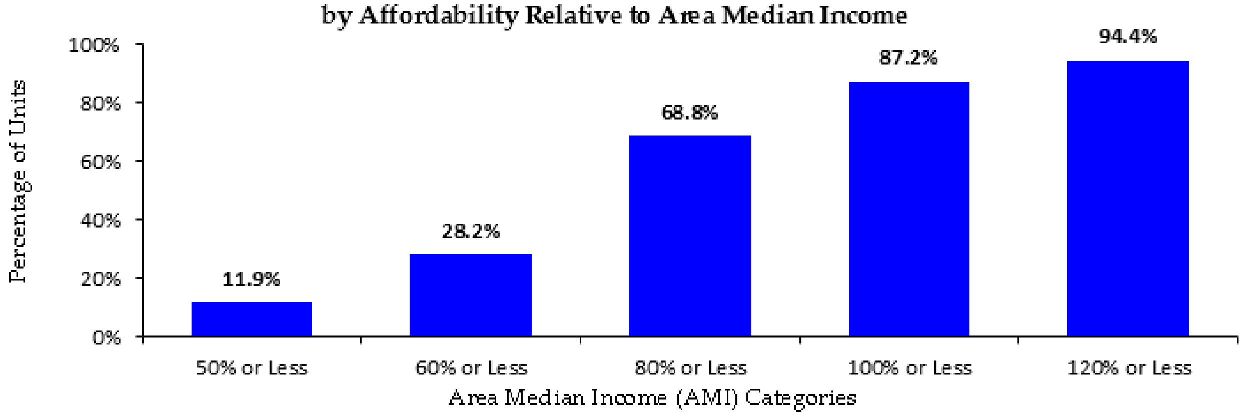

Note: These calculations exclude those mortgages for which we do not have borrower income information.
Source: Table 2 of the 2016 AMR.

**Exhibit B-6:**
**Freddie Mac's 2016 Single-Family Owner-Occupied Mortgage Purchases, by Minority Concentration of Census Tract**



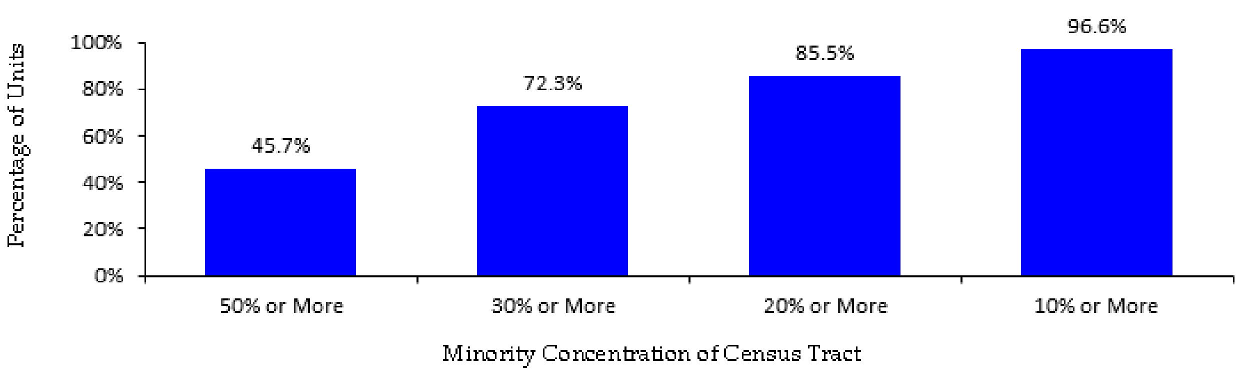

Source: Table 7 of the 2016 AMR.

**Exhibit B-7:**
**Freddie Mac's 2016 Multifamily Rental Units, by Affordability Relative to Area Median Income**




Note: These calculations exclude those rental units for which we do not have rent information.
Source: Table 3A of the 2016 AMR.

**Exhibit: B-8:**
**Freddie Mac's 2016 Multifamily Rental Units, by Minority Concentration of Census Tract**




Note: These calculations exclude those rental units for which we do not have rent information.
Source: Table 8A of the 2016 AMR.

### C. Information Required Under § 307(f)(2)(C)

*§ 307(f)(2)(C) requires that this report include a statement of the extent to which the mortgages purchased by the Corporation have been used in conjunction with public subsidy programs under federal law.*

In 2016, Freddie Mac purchased or guaranteed almost $146 million in single-family mortgages (financing approximately 1,200 mortgages) and almost $4.0 billion in multifamily mortgages (financing approximately 58,000 units)[8] that had been used in conjunction with various federal public subsidy programs including the following:

- the Federal Housing Administration (FHA) program;
- the Veteran Administration (VA) program;
- the U.S. Department of Agriculture's Guaranteed Rural Housing program;
- Mortgage Revenue Bonds (MRBs) issued by various state and local housing finance agencies (HFAs);
- Low Income Housing Tax Credits; and
- Section 8 and Section 236 programs.

In addition, Freddie Mac securitizes pools of multifamily mortgage revenue bonds under its Tax-Exempt Bond Securitization (TEBS) execution and credit enhances tax-exempt multifamily mortgage revenue bonds through its bond credit enhancement program. These multifamily transactions totaled almost $1.7 billion in 2016, financing approximately 28,400 units. Freddie Mac also purchases tax-exempt loans (TELs) from HFAs. In 2016, these TEL multifamily transactions totaled almost $670 million, financing approximately 6,300 units.

### D. Information Required Under § 307(f)(2)(D)

*§ 307(f)(2)(D) requires that this report include statements of the proportion of mortgages on housing consisting of 1 to 4 dwelling units purchased by the Corporation that have been made to first-time homebuyers, as soon as providing such data is practicable, and identifying any special programs (or revisions to conventional practices) facilitating homeownership opportunities for first-time homebuyers.*

In 2016, Freddie Mac purchased over 268,000 mortgages of first-time homebuyers, representing 41.6 percent of our owner-occupied, purchase money mortgages for which information on the borrower's ownership history is available.[9]

Freddie Mac facilitated homeownership opportunities for first-time homebuyers through its

[8] Almost $2.2 billion in multifamily LIHTC transactions (financing approximately 33,700 units) and almost $1.8 billion in multifamily Section 8 and Section 236 transactions (financing approximately 25,100 units).

[9] We do not have information on the borrower's ownership history for 0.18 percent (1,153) of the single-family, owner-occupied, purchase money mortgages we purchased in 2016. Therefore, we excluded those mortgages from the calculations underlying the information presented in this section.

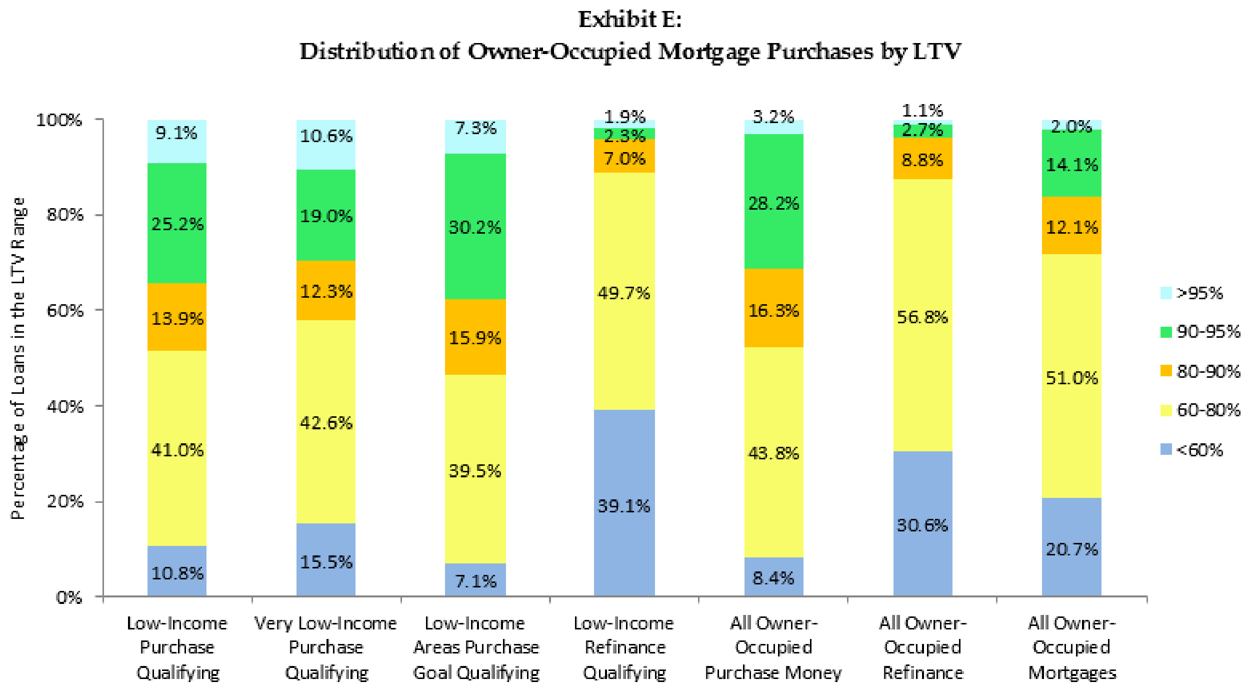
Single-Family products, programs, and services. In particular, Freddie Mac's Single-Family Affordable Lending and Access to Credit organization continues to focus its efforts on meeting the needs of first-time and underserved homebuyers through responsible offerings, the development of strong relationships and a heightened focus on broadening access to credit. For example, Freddie Mac's low-down payment mortgage, the Home Possible Advantage® 97 percent LTV mortgage product, and the HFA Advantage® mortgage product specifically created for State and Local Housing Finance Agencies, both continue to gain interest and have been very successful in providing financing for first-time homebuyers. For example, as of December 31, 2016, 88% of HFA Advantage purchase mortgages were attributable to first-time homebuyers. Additionally, Freddie Mac continues to engage non-profit organizations, lenders and housing professionals in educational and outreach initiatives designed to inform and prepare homebuyers and homeowners on how to build and maintain better credit, make sound financial decisions and understand the steps to successful long-term homeownership.

These actions complement the significant outreach and business related activities Freddie Mac is continuously engaged in with our Single-Family lenders and State and Local Housing Finance Agencies. For more information on these and other areas that Freddie Mac is engaged in support of affordable housing, please see Section K.

## E. Information Required Under § 307(f)(2)(E)

*§ 307(f)(2)(E) requires that this report include, in aggregate form and by appropriate category, the data provided to the Director of FHFA under subsection (e)(1)(B) [loan-to-value ratios of purchased mortgages at the time of origination].*

Exhibit E compares the LTV distribution on the goal-qualifying, single-family owner-occupied mortgages acquired by Freddie Mac in 2016 to the LTV distribution on all single-family owner-occupied mortgages acquired by Freddie Mac in 2016, as measured at the time of origination.




Note: These calculations exclude those mortgages for which we do not have LTV information.
Source: Table 11 of the 2016 AMR.

## F. Information Required Under § 307(f)(2)(F)

*§ 307(f)(2)(F) requires that this report compare the level of securitization versus portfolio activity.*

During 2016, Freddie Mac securitized approximately $437.9 billion in single-family and multifamily mortgage loans. We had total portfolio acquisitions of $300.8 billion. In 2016, Freddie Mac's portfolio decreased by $48.5 billion.

## G. Information Required Under § 307(f)(2)(G)

*§ 307(f)(2)(G) requires that this report assess underwriting standards, business practices, repurchase requirements, pricing, fees, and procedures, that affect the purchase of mortgages for low- and moderate-income families, or that may yield disparate results based on the race of the borrower, including revisions thereto to promote affordable housing or fair lending.*[10]

Freddie Mac regularly evaluates market conditions, the credit environment and the performance of our mortgage purchases in an effort to ensure that our underwriting standards, business practices, repurchase requirements, pricing, fees and procedures serve our mission to provide liquidity and stability to the conforming mortgage market, and to promote affordable housing and fair lending.

During 2016, Freddie Mac continued to take steps consistent with prudent risk management to

[10] As implemented by § 81.43(a) of the U.S. Department of Housing and Urban Development's regulations, 24 C.F.R. § 81.43(a) (2005).

manage the risk of our credit terms, provide mortgage credit risk leadership in the marketplace, and help lenders make mortgage financing available for homeowners on terms intended to sustain successful homeownership. In doing so, Freddie Mac made the following significant credit policy changes and enhancements in 2016 to help serve low- and moderate-income families:

**Addressed inquiries from housing advocacy groups and agencies to expand acceptable homeownership education program options for Home Possible® and Home Possible Advantage mortgages by:**

- Including homeownership education programs provided by HUD-approved counseling agencies, Housing Finance Agencies (HFAs) and Community Development Financial Institutions.
- Permitting, on a negotiated basis, HFAs to provide homeownership education as the originating lender and/or the seller.

**Revised certain borrower income qualification requirements by:**

- Updating guidance to reflect when a borrower with less than a two-year employment and/or income history, relative to secondary employment, may be acceptable.
- Adding requirements delineating base non-fluctuating and fluctuating hourly earnings to support analysis of income stability and accurate income calculation.
- Introducing new requirements and guidance for employment and income type characteristics, some of which may be more prevalent in today's labor force, such as seasonal, part-time and temporary employment, as well as IRS Form 1099 and foreign source income.

**Revised and expanded borrower asset qualification requirements, based on Seller inquiry and feedback, to better align with current industry practices by:**

- Streamlining eligibility documentation requirements for certain asset types.
- Providing additional guidance to improve seller understanding of Freddie Mac's requirements for eligible borrower assets and to address the efficiencies of today's banking and technology.
- Updating requirements for documentation of accounts held in financial institutions to include requirements for computer-generated transaction histories.
- Specifying that certain funds belonging to borrower which are verifiable, such as disaster relief funds, lottery winnings, and court awarded settlements, are an acceptable source of borrower funds.
- Adding wedding gifts as an acceptable source of funds subject to certain eligibility and documentation requirements.
- Providing requirements for when the borrower's source of funds needed for closing are located outside the United States and its territories.

**Increasing access to mortgage credit by:**

- Removing the sunset (expiration) dates and purchase volume limits for affordable mortgages with LTV or TLTV ratios greater than 95%.

- Updating Loan Product Advisor to expand mortgage eligibility where a single borrower does not have a useable credit score, or in a co-borrower situation one of the borrowers does not have a usable credit score.
- Permitting, for Home Possible mortgages, ownership of additional property under certain limited circumstances.

**Expanding borrowers' refinancing options for Property Assessed Clean Energy (PACE) or PACE-like obligations by:**

- Permitting a PACE or PACE-like obligation, which results in or provides for first lien priority, to be paid off as part of a "no cash-out" refinance of a Freddie Mac-owned or securitized mortgage regardless of loan settlement or origination date.

**Further facilitated access to low-down payment mortgages in the marketplace by:**

- Increasing the maximum gross LTV ratio from 95% to 97% for certain affordable mortgages with financed mortgage insurance premiums.
- Permitting financed mortgage insurance premiums for mortgages secured by 2- to 4-unit primary residences.

## H. Information Required Under § 307(f)(2)(H)

*§ 307(f)(2)(H) requires that this report describe trends in both the primary and secondary multifamily housing mortgage markets, including a description of the progress made, and any factors impeding progress, toward standardization and securitization of mortgage products for multifamily housing.*

**National Trends in the Primary and Secondary Multifamily Mortgage Markets**

The multifamily market continued to experience solid fundamentals during 2016. Data reported by Reis, Inc. indicated that the national apartment vacancy rate decreased slightly to 4.2% in 2016 from 4.3% in 2015 and remains well below long-term averages. Vacancy rates are expected to increase at a moderate pace during 2017. In addition, Reis, Inc. reported that effective rents (i.e., the average rent paid by the tenant over the term of the lease adjusted for concessions by the landlord and costs borne by the tenant), declined in 2016 (growing 3.6% during 2016 compared to 5.8% growth in 2015), but remains strong relative to long-term averages. In 2017, the rate of growth is expected to remain in line with the 2016 growth. Vacancy rates and effective rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property and these factors significantly influence those cash flows. Multifamily property prices have been especially strong, with 12% annualized growth through November 2016. Multifamily property price growth may slow from this level with expected moderation in the rate of effective rent growth, the increasing vacancy rate and interest rate environment, as well as improving returns for other investment types.

Apartment completions are an indication of the supply of rental housing. Net absorption, which is a measurement of the rate at which available apartments are occupied, is an indication of demand for rental housing. Completions and net absorption were roughly equal for 2016 and we expect them to remain in balance during 2017.

There was significant growth in the multifamily market during 2016, driven by increasing property prices, an elevated construction pipeline and low interest rates. As reported by the Federal Reserve, total multifamily mortgage debt outstanding was approximately $1.2 trillion at September 30, 2016 (the latest available information), representing an increase of $63.5 billion (or 6%) since December 31, 2015. Our share of multifamily mortgage debt outstanding has remained relatively stable over the past several years in the 13-15% range. We expect continued growth in the multifamily mortgage market due to increasing property prices and new completions, along with favorable investment opportunities. We also expect to maintain our share of multifamily mortgage debt outstanding in 2017.

As a result of our strong property performance, our credit losses remain low. Multifamily credit losses (gains) as a percentage of the combined average balance of our multifamily loan and guarantee portfolios were 0.1 basis points, 0.8 basis points, and (0.5) basis points in 2016, 2015, and 2014, respectively. Our delinquency rate of 0.03% at December 31, 2016, remained among the lowest in the industry, primarily due to our prior-approval underwriting approach discussed below. We expect the credit losses and delinquency rates for the multifamily mortgage portfolio to remain low in the near term.

**Freddie Mac Multifamily Financing and Initiatives**

Freddie Mac continued to provide liquidity to the multifamily market and meet the needs for affordable rental housing through credit enhancing or purchasing multifamily mortgages originated by a network of approved lenders. During 2016, our total multifamily new business activity was $56.8 billion in UPB, providing financing for 738,901 apartment units. Nearly 90% of the eligible units we financed during 2016 were affordable to families earning at or below the median income in their area (eligible units are multifamily units that qualify towards our affordable housing goal). Of our $56.8 billion 2016 new business activity, $36.5 billion was capped under FHFA's 2016 scorecard production cap. The remaining $20.3 billion related to certain targeted loan types was uncapped and excluded from our 2016 scorecard limit.

Nearly 90% of the loans we purchased in 2016 were designated for securitization and we continue to pursue strategies to transfer credit risk for loans that are not designated for securitization. In addition, to expand liquidity and affordable housing in the multifamily mortgage market we continued our support of workforce housing during 2016 through our purchases of manufactured housing community loans and small balance loans.

We expect our overall new business to increase in 2017; however, we expect our volume in the capped categories to be at or below the 2017 Conservatorship Scorecard cap of $36.5 billion. We also expect to introduce new initiatives to support liquidity and workforce housing in the multifamily mortgage markets. Increased market competition from other market participants, particularly banking institutions, is expected to continue.

**Standardization and Securitization**

Freddie Mac maintains a strong credit and capital management discipline. We follow a prior-approval approach when underwriting multifamily mortgages, allowing us to maintain our credit discipline by completing our own underwriting and credit review of each new loan prior to issuance of a loan commitment, including review of third-party appraisals and cash flow analysis. Our primary business model is to acquire multifamily loans for aggregation and then securitization through the issuance and guarantee of K Certificates or SB Certificates. Such K Certificates and SB Certificates typically feature a wide range of investor options with stable cash flows and structured credit enhancement that transfer a large majority of expected and stress credit risk of the loans to third-party investors who hold the subordinated securities. The nature of our Multifamily business is based on the general concept that private investor capital absorbs the first and predominant losses before any taxpayer exposure; we believe this positions the business well for the future.

In 2016, Freddie Mac issued $49.9 billion through 61 K Certificate and SB Certificate securitizations. We expect these issuances to continue generally at the same levels during 2017.

## I. Information Required Under § 307(f)(2)(I)

*§ 307(f)(2)(I) requires that this report describe trends in the delinquency and default rates of mortgages secured by housing for low- and moderate-income families that have been purchased by the Corporation, including a comparison of such trends with delinquency and default information for mortgage products serving households with incomes above the median level that have been purchased by the Corporation, and evaluate the impact of such trends on the standards and levels of risk of mortgage products serving low- and moderate-income families.*

Two measures contrast the delinquency and default performance of mortgages serving low- and moderate-income (LMI) borrowers to the performance of mortgages serving borrowers who are above the area median income (non-LMI). In Exhibit I, the second column presents the ratio of early payment delinquency rates for LMI borrowers to that of non-LMI borrowers by acquisition year. The third column in Exhibit I presents the ratio of cumulative lifetime default rates for the two groups of borrowers.[11]

[11] The information presented in this section and in Exhibit I is based upon an analysis of unseasoned, conforming, conventional, forward amortizing, first lien, non-Graduated Equity Mortgages/Graduated Payment Mortgages. The delinquency (default) rates presented in Exhibit I were determined by dividing mortgages serving low- and moderate-income families by the delinquency (default) rates for mortgages serving households with incomes above the median level. Delinquency is defined as the borrower ever being 90 or more days delinquent on the mortgage within 12 months of Freddie Mac's acquisition. Default is defined as a foreclosure, deed-in-lieu of foreclosure, or third party sale occurring at any point since Freddie Mac acquired the mortgage. With respect to the delinquency rate, we analyzed only the performance during the first year so that we could present a trend over time that avoided commingling mortgages of different ages. The analysis presented here does not control for other risk factors, such as LTV or credit history.

**Exhibit I**

**Delinquency and Default Rate of LMI Borrowers**
**Relative to the Delinquency and Default Rate of Higher Income Borrowers**

| Year of Acquisition | Relative Serious Early Delinquency Performance | Relative Ever Default Performance |
|---|---|---|
| 1996 | 1.5 | 1.7 |
| 1997 | 1.7 | 1.9 |
| 1998 | 1.5 | 2.0 |
| 1999 | 1.7 | 2.0 |
| 2000 | 1.9 | 2.7 |
| 2001 | 1.9 | 2.8 |
| 2002 | 2.8 | 3.6 |
| 2003 | 2.7 | 3.0 |
| 2004 | 2.3 | 2.3 |
| 2005 | 1.7 | 1.6 |
| 2006 | 1.2 | 1.2 |
| 2007 | 1.1 | 1.2 |
| 2008 | 1.4 | 1.8 |
| 2009 | 1.9 | 2.9 |
| 2010 | 2.1 | 3.1 |
| 2011 | 2.4 | 3.3 |
| 2012 | 2.1 | 3.3 |
| 2013 | 2.3 | 3.2 |
| 2014 | 2.3 | 2.9 |
| 2015 | 2.1 | 2.6 |
| Average | 1.7 | 1.8 |

Source: Internal Freddie Mac delinquency study.

## J. Information Required Under § 307(f)(2)(J)

*§ 307(f)(2)(J) requires that this report describe in the aggregate the seller and servicer network of the Corporation, including the volume of mortgages purchased from minority-owned, women-owned, and community-oriented lenders, and any efforts to facilitate relationships with such lenders.*

Freddie Mac purchases mortgages from a network of more than 1,678 Single-Family lenders and approximately 31 active Multifamily lenders, benefiting borrowers across the U.S. and its territories. Freddie Mac purchases mortgages from all major lender types. Some of these firms sell mortgages to Freddie Mac on a regular basis, while others sell to Freddie Mac only occasionally.

Of the total Single-Family seller network, about 1,166 Single-Family lenders sold mortgages to Freddie Mac in 2016, and approximately 93 percent of these Single-Family lenders are considered community-oriented lenders. In 2016, Freddie Mac purchased approximately $77 billion in Single-Family mortgages from community-oriented lenders, approximately $85 billion in Single-Family mortgages from regional lenders, and approximately $18 billion in Single-Family mortgages from lenders which identified themselves as minority-owned and women-owned. Freddie Mac's ongoing efforts to facilitate relationships with community-oriented lenders supported our continued ability to source mortgages from these lender institutions.

We continued our alliances with the Independent Community Bankers of America, the Credit Union National Association, the Capital Markets Cooperative, the Mortgage Bankers Association, and The Mortgage Collaborative. In addition, during 2016, we entered into new alliances with Lenders One and The Community Mortgage Lenders of America. In 2016, 579 Single-Family lenders participated in our alliance programs, which provide additional services to our lender customers, including customized training opportunities and involvement in local and regional strategic market initiatives. Approximately 24 percent of the dollar volume of mortgages that Freddie Mac purchased from community and regional Single-Family lenders came from participants in our alliance programs.

Of the total Multifamily mortgages purchased by Freddie Mac in 2016, 28 of the 31 active Multifamily lenders sold the large majority of such mortgages to Freddie Mac,[12] with the 3 remaining lenders participating in one-time structured transactions. Of the total Multifamily active lender network, 1 such lender identified themselves as a community-oriented lender.

## K. Information Required Under § 307(f)(2)(K)

*§ 307(f)(2)(K) requires that this report describe the activities undertaken by the Corporation with non-profit and for-profit organizations and with State and local governments and housing finance agencies, including how the Corporation's activities support the objective of comprehensive housing affordability strategies under section 12705 of Title 42.*

Freddie Mac undertakes numerous activities in support of affordable housing with state and local governments, housing finance agencies, our lender customers, and a wide variety of non-profit and for-profit organizations. The following sections describe some of these affordable activities Freddie Mac continued to take in 2016 that should also support the objectives of the Cranston-Gonzalez National Affordable Housing Act.

[12] These lenders include our Conventional, Targeted Affordable Housing, Seniors Housing and Small Balance Loan lenders. This list is available at http://www.freddiemac.com/multifamily/lenders/.

**HFA Activities**

Freddie Mac continues seeking opportunities to provide Housing Finance Agencies (HFAs) with a consistent and sustainable source of liquidity in support of their ability to serve low- and moderate-income borrowers. Our HFA Advantage mortgage product, allowing 97% maximum loan-to-value (LTV) and 105% maximum total LTV (TLTV) ratio limits continues to gain interest and acceptance among HFAs. The HFA Advantage mortgage product, part of our Home Possible Advantage program, was launched in 2015 and was specifically created for State and Local Housing Finance Agencies to support HFA affordable lending. HFA Advantage offers preferential pricing to HFAs, and enables them to apply their own mission-driven income limits and their preferred homebuyer education programs for borrower eligibility purposes. As of December 31, 2016, 88% of HFA Advantage purchase mortgages were attributable to first-time homebuyers. Additionally, in 2016, more than 2,791 individuals, including HFA staff, HFA master servicers and key personnel from HFA-approved participating lenders participated in 41 Freddie Mac led HFA Advantage online training sessions nationwide.

In 2016, we increased the staffing of our HFA Engagement Team to seven experienced industry experts covering three regional territories – East, Midwest and West. Our increased staffing enhances our abilities to actively grow and deepen our relationships with State and Local HFAs by providing a dedicated resource to support these valuable partners at the state and local level

**Housing Finance Agency Initiative**

Since 2009, on behalf of the U.S. Department of the Treasury, Freddie Mac, along with Fannie Mae, continues to effectively manage the administration of the Housing Finance Agency (HFA) Initiative – New Issue Bond Program (NIBP). As part of the Homeowner Affordability and Stability Plan, the HFA Initiative was an interim solution designed to assist state and local HFAs' lending programs and support their infrastructure.

The HFA Initiative consists of two main components:

- New Issue Bond Program (NIBP) – Designed to enable the HFAs to originate mortgages to low- and moderate-income borrowers at affordable rates, Freddie Mac and Fannie Mae developed a securitization execution whereby Treasury purchased partially guaranteed GSE securities backed by tax-exempt (and certain taxable) bonds issued by the HFAs. The HFAs used the proceeds from bond issuances to originate new single-family and multifamily mortgages. Total completed issuance through the expiration of the program in 2012, including simultaneous and drawn funds from escrow, totaled $12,467,505,000 representing over 86 percent of allocated funds. Single-Family program bond issuance totaled $10,432,965,000, (approximately 84 percent of total allocations) and Multifamily program bond issuance totaled $2,694,470,000 (over 95 percent of total allocations). Additionally, $75,070,000 of Single-Family allocation was transferred to Multifamily per the extension agreement of November 2011. To ensure effective and proper governance of the NIBP program, Freddie Mac employees from Single-Family, Multifamily, Counterparty Credit

Risk and Legal continue to support Freddie Mac's administration of the NIBP jointly with Fannie Mae.

- Temporary Credit and Liquidity Program (TCLP) – Under the TCLP, Freddie Mac and Fannie Mae provided substitute credit and liquidity facilities to HFAs to replace their existing liquidity facilities. For a three-year period, Freddie Mac, together with Fannie Mae, provided, on a standby basis, credit support and liquidity guaranties for certain variable rate single-family and multifamily housing revenue bonds. HFAs were required to convert to private liquidity providers as competitive facilities became available to them. The TCLP program successfully closed as of December 31, 2015.

**Foreclosure Prevention Activities**

In 2016, Freddie Mac continued to support foreclosure prevention activities through outreach initiatives, events, and activities with housing professionals. These efforts have resulted in approximately 50,000 borrowers receiving information and education on alternatives to foreclosure through our non-profit housing counseling relationships.

In support of FHFA's Neighborhood Stabilization Initiative (NSI), an effort to stabilize communities that have been hardest hit by the housing crisis, Freddie Mac continued its Block-by-Block initiative in Chicago's Auburn Gresham neighborhood. The Block-by-Block initiative is designed to revitalize urban neighborhoods that are slowly recovering from the economic housing crisis. Through collaboration with neighborhood organizations, local residents, and key stakeholders, the initiative is intended to help facilitate sustainable neighborhood recovery. The Block-by-Block initiative has resulted in more than 350 individuals receiving housing and/or financial counseling, 35 homes receiving home improvements, and more than 1,500 people attending community outreach events. As a result, homeownership in this neighborhood is increasing while vacancies are decreasing.

Additionally, during the fourth quarter of 2016, Freddie Mac launched the Block-by-Block initiative in Baltimore in an effort to rebuild one of the city's hardest-hit neighborhoods.

**Borrower Help Centers/ Borrower Help Network**

In order to assist delinquent borrowers avoid foreclosure, Freddie Mac continued to maintain "Borrower Help Centers & Network" (BHC/N) with selected non-profit organizations in several metropolitan areas. The BHC/N initiative is designed to encourage delinquent borrowers to pursue mortgage workouts whenever possible. Through this initiative, Freddie Mac wants to leave no stone unturned in helping struggling homeowners keep their homes. In 2016, the Borrower Help Centers and Borrower Help Network solicited approximately 39,000 delinquent Freddie Mac borrowers, made right-party contact with almost 5,500 borrowers, counseled 3,700 of those borrowers, and assisted with reinstating almost 2,300 delinquent loans after contact. The year was concluded with almost 2,800 foreclosures avoided as a result of the Network's outreach.

With the number of delinquencies generally decreasing overall, the BHC/N have repositioned themselves in the community by focusing on preparing potential homebuyers for homeownership through financial literacy and homebuyer education and counseling. Freddie Mac has created other initiatives, as described below, to enhance and increase the amount of education provided. In 2016, the BHC/N educated over 94,000 potential homebuyers on homebuyer education, educated almost 42,000 potential homebuyers on financial literacy, and referred almost 10,000 potential homebuyers seeking a mortgage to Lenders.

**Other Initiatives with Non-Profits**

Freddie Mac continues to engage non-profit organizations, lenders and housing professionals in educational and outreach initiatives designed to inform and prepare homebuyers and homeowners on how to build and maintain better credit, make sound financial decisions and understand the steps to successful long-term homeownership. The educational tools used to support these initiatives include, "CreditSmart", a multilingual financial education curriculum, "CreditSmart Online", "Workforce Home Benefit", "Your Step-By-Step Mortgage Guide", "Get the Facts on Homeownership", and "Take Root" outreach campaigns. 2016 continued to see a significant increase in the requests for CreditSmart training and materials from the non-profits we work with as they are seeing an increase in the numbers of people wanting to enter or re-enter the home buying space. We have increased our CreditSmart Training opportunities from 2 to 3 times per year.

**Regional and Local Initiatives**

Freddie Mac also undertakes numerous outreach initiatives designed to expand homeownership opportunities specifically in minority and underserved communities in states and localities across the country. These initiatives include financial literacy, homebuyer education and counseling, access to bilingual homeownership information and counseling, outreach to military service members, outreach to women and outreach to individuals and families with disabilities. In 2016, Freddie Mac hosted 2 outreach and education homebuyer fairs for consumers focused on empowering families with the information needed to move toward homeownership. These fairs included housing and financial workshops, as well as, tours of HomeSteps properties available for purchase. More than 200 consumers attended these events.

Freddie Mac also conducted workshops to increase the awareness, understanding and focus of local housing industry participants in the first time home buying process. These workshops were conducted in 3 markets with approximately 250 industry professionals attending.

**Affordable Housing Advisory Council (AHAC)**

The AHAC is an annual in person meeting and quarterly conference call series that Freddie Mac hosts to engage affordable housing leaders to discuss, review and confirm various aspects of our affordable housing approach, policies and initiatives. In October, AHAC convened to discuss key topics facing the affordable housing industry, with approximately 25 executive level representatives from housing finance agencies, lenders, housing intermediaries, housing advocates, realtors and other industry stakeholders attending.  Attendees were broken into 3 sub-groups in order to provide an opportunity to rotate and fully engage with Freddie Mac staff on discussions around mortgage products, credit and ability to repay, and pre-purchase support.  Subject matter experts from Freddie Mac led these interactive discussions.