We also Exhibit F:

# Annual Investments Narrative Reporting Template

FREDDIE MAC

RURAL HOUSING

2019

INVESTMENT

ACTIVITY:

1- Support for High-Needs Rural Regions: Regulatory Activity

OBJECTIVE:

J- Engage in LIHTC Equity Investment: LIHTC Equity High Needs Geography

SUMMARY OF RESULTS:

| | **Investments** | | | **Properties** |
|---|---|---|---|---|
| **Baseline (2014-2016)** | 0 | | | 0 |
| **2019 Target** | 3 | | | N/A |
| **2019 Volume** | 4 | | | 4 |
| **Incomes Targeted** | VLI units | LI units | MI units | |
| | 0 | 163 | 163 | |

In 2019, we exceeded our target of 3 LIHTC equity investments in high needs rural regions by 33%.

Our LIHTC investment business in our second year totaled $22MM over 4 investments, and we expanded into two additional states compared to 2018 - Florida and Alabama.

Out of the four investments, two properties were in rural Middle Appalachia, one was in the Lower Mississippi Delta region, and one was in a rural Persistent Poverty county. This equates to $10.3 million in Middle Appalachia allocation, $8 million in Lower Mississippi Delta allocations, and $3.7 million Persistent Poverty county investment.

*(Character limit: 3,000 characters, including spaces)*

SELF-ASSESSMENT RATING OF PROGRESS:

*Select the category that best describes your progress on this objective for the year.*

- ☐ Objective met
- ☒ Objective exceeded
- ☐ Objective partially completed:
  - ☐ 75-99% (substantial amount)
  - ☐ 50-74% (limited amount)
  - ☐ 25-49% (minimal amount)

☐ 1-24% (less than a minimal amount)

☐ No milestones achieved

IMPACT:

*Provide a self-assessment of the level of impact that actions under the objective have accomplished.*

☐ 50 – Substantial Impact

☒ 40

☐ 30 – Meaningful Impact

☐ 20

☐ 10 – Minimal Impact

☐ 0 – No Impact

IMPACT EXPLANATION:

*Answer the following questions.*

1. **How and to what extent were actions under this objective impactful in addressing underserved market needs, or in laying the foundation for future impact in addressing underserved market needs? (limit: 3,000 characters, including spaces)**

There are four primary ways that our investments have had a direct and substantial impact on the rural market: (a) we provided stability to the market; (b) we increased our presence by expanding into two additional states; (c) the investments had a large impact on the specific communities; and (d) our proprietary fund model drove deeper involvement in each market by Freddie Mac and created competition for multi-investor funds, resulting in improved LIHTC pricing.

a. Per public feedback from Novogradac and Midwest Housing Equity group at the 2019 Duty to Serve Listening Sessions, our entry into, and continued presence in, the LIHTC equity market has helped to stabilize pricing at a time of uncertainty leading up to, and after, tax reform.
b. In 2019, we placed investments in two additional states- Alabama and Florida- as a result of expanded market knowledge and research. Lodges on Lincoln is located in Selma, Alabama, a part of the Lower Mississippi Delta, and has a population of around 18,000. Southern Villas of Madison is located in Madison, FL, which is within a persistent poverty county. Selma, AL has a population of around 2,797 and a RUCA code of 7.
c. We invested a greater percentage of our allowed investment volume in rural markets than the market did overall. In 2019 alone, we placed $111.9 million in rural markets. Our investments in DTS rural regions represents a greater share relative to the national market: 10.8% (4/37) of our investments were in high needs rural regions, while the national average allocation to high needs rural areas has been 6.7%, per our analysis of National Housing Preservation Database (NHPD) data.[1]

The two examples below highlight the positive impacts these investments made in the market.

| **Property** | Lodges on Lincoln | Blue Ridge Landing |
|---|---|---|
| **Region** | Rural- Persistent Poverty | Rural- Middle Appalachia |
| **Units** | 56 units at 50% and 60% AMI | 48 units affordable at 50% and 60% of AMI |

[1] *Per the NHPB over the past twenty years, there has been a national average of 1,350 LIHTC properties placed in service each year. Rural regions are only 27.6% of that, with an average of 370 being place in rural areas.*

| | | |
|---|---|---|
| **Details** | Lodges on Lincoln is the new construction of 56 units in Selma, Alabama. 12 (21%) units will be restricted to 50% AMI, and 44 (79%) units will be restricted to 60% AMI. Despite a slightly declining population in the Selma market, there continues to be strong demand for well-built, affordable rental units. Based on a recent market study and site visit, the occupancy of competing units is 99.6% indicating a very tight rental market and proven demand for new affordable units. Our equity is 78% of total development costs thus reducing the need for "must-pay" debt. | Blue Ridge Landing is the acquisition/rehabilitation of 48 apartment units in Benton, Tennessee, 50 miles northeast of Chattanooga. The project includes a mix of one, and two-bedroom units that are restricted to 50% and 60% AMI. Our LIHTC equity supports these units. The property was originally built in 1985 and was subsequently moderately rehabilitated in 1994 with an allocation of LIHTC. 40 of the 48 units also have rental assistance via USDA, allowing households to only pay 30% of their income toward rent. Our equity is 82% of total development costs. |

d. Our proprietary fund model leads to a deeper understanding of each market. We underwrite every investment and visit every property. This helps us to better know and understand each of the markets, make better credit decisions, and gives us greater control over pricing. Our model also creates competition for multi-investor funds, which are typically more yield driven and may be able to pay less per credit for investments due to limited competition. Competition can improve pricing, further stretching public subsidy as more equity can be put into a deal, lessening the requirement for subordinate debt, which can in turn be spread across more projects.

These impacts were particularly challenging to achieve. We exceeded market norms by investing a greater share of our investments in these areas relative to both our annual $500 million cap and to the national share of allocations to these markets.

2. **What did the Enterprise learn from its work about the nature of underserved market needs and how to address them? (limit: 1,500 characters, including spaces)**

   We have learned two major lessons over the past two year about managing credit and managing through transaction difficulties, which can be more frequent in rural markets:

   a. Sponsor and Credit Concerns: Not every property placed in service is a strong investment opportunity with appropriate credit risk profile for us. Rural developers, especially in high needs areas, tend be more locally oriented, have less net worth and liquidity, and less experience operating properties than national developers. We factor these risks into credit decisions.
   b. Transaction Difficulties: Transactions can be harder to close for developers in rural markets, even after a letter of intent has been signed. This reduces predictability when managing to annual targets. Rural projects are often those with the most complexity and most challenging economics.

   Additionally, we have seen that there is already a small market for high-needs rural regions based on limited geography and economic constraints, such as very low incomes. Sponsor and credit concerns and an increased likelihood of transaction challenges makes the viable investment market for Freddie Mac smaller than the number of LIHTC allocations.

To address these issues, we perform in depth due diligence on each investment, and we work with experienced syndicators—including one expert in Middle Appalachia—who partner with a range of strong local and regional developers and have built robust a pipeline of opportunities to select from.

3. **Optional**: **If applicable, why were all components of this objective not completed? (limit: 1,500 characters, including spaces)**

   Not applicable

*Attach the data specified for Investments objectives in Section 3 of this document.*