Freddie Mac Proposed Modifications to the 2018-2020 Duty to Serve Underserved Markets Plan Year 3 - 2020

Manufactured Housing

FREDDIE MAC

MANUFACTURED HOUSING

2020

ACTIVITY:

1 - Support for Manufactured Homes Titled as Real Property: Regulatory Activity

OBJECTIVE:

B - Design New Product Flexibilities to Facilitate the Origination of Mortgages Securing Manufactured Housing Titled as Real Property

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to remove actions under this objective related to conducting ongoing surveys to gather feedback from lenders on the effectiveness of the manufactured housing lender curriculum and the web-based training.

We also propose to modify the frequency of convening our Affordable Housing Advisory Council (AHAC) and to remove the convenings with our Manufactured Housing Initiative Task Force (MHIT), and the Next Step® SmartMH℠ Task Force.

In addition, we will make a technical modification to remove from our Plan the goal of implementing remaining policy changes related to funds for closing. FHFA approved this modification in 2019; we now are deleting the action from the Plan.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Market conditions changed dramatically in 2020 because of the coronavirus pandemic and historically low interest rates. Accordingly, Freddie Mac has been focused on fulfilling our mission, providing liquidity, stability, and affordability to help minimize disruption to the housing market. Appropriately, lenders also have shifted their focus and reallocated resources. Their priorities now center on assisting customers who have been adversely affected by the pandemic, implementing the GSEs' changes to servicing and origination policies, and maintaining service levels for the growing number of refinance customers. Lenders are delaying new product releases and development; some have temporarily discontinued offering niche products.

Therefore, the current environment does not lend itself to convening meetings of the AHAC, MHIT, and SmartMH Task Force beyond those already held this year. Doing so could conflict with and draw resources away from lenders' and other industry participants' business priorities and their ability to serve their customers during this critical time.

Also because of their shifting priorities, fewer lenders are likely to advantage of our training courses. Because of this, we do not expect to receive sufficient feedback on the curriculum's effectiveness to reach conclusions.

OBJECTIVE B: DESIGN NEW PRODUCT FLEXIBILITIES TO FACILITATE THE ORIGINATION OF MORTGAGES SECURING MANUFACTURED HOUSING TITLED AS REAL PROPERTY

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

During our public outreach and comments on our draft Plan, we identified four key areas of concern related to the origination of manufactured housing mortgages:

1. A need for additional financing options and underwriting flexibility related to borrower qualification, including expansion of options for down payment assistance to further support the purchase of manufactured homes by very low-, low- and moderate-income households
2. A market need for additional solutions related to the collateral, including appraisal guidance, property use restrictions, land-ownership designations, and product parameters to further support the expense of siting and installing the home
3. A lack of information on comparable sales in the market
4. A lack of information and understanding of the attributes of energy efficiency in manufactured housing and the long-term affordability advantages through utility savings

In response, Freddie Mac intends to undertake a comprehensive review of our existing product offerings to determine how we can enhance our collateral underwriting parameters to better serve manufactured housing titled as real property. Freddie Mac has developed a strategy intended to address market challenges by increasing product flexibility, lender participation, and borrower assistance.

Freddie Mac will undertake a comprehensive review of our existing underwriting parameters to better serve potential homebuyers and existing homeowners of manufactured housing titled as real property, while establishing a foundation for future product development. We intend to collaborate with industry participants, such as lenders, community development financial institutions, housing finance agencies and non-profits, to help inform the design of additional product features. Based on the reviews of our products and the needs of the market, we intend to make enhancements and underwriting changes consistent with prudent underwriting and safety and soundness. We will start by undertaking an assessment of our requirements related to

- borrower qualifications,
- collateral valuation,
- down payment and closing costs,
- renovation financing criteria, and
- pricing.

We anticipate that obtaining additional information on market needs and publishing what we learn about the efficacy of manufactured housing products and consumer behavior on financing can lead to additional innovations by Freddie Mac and other industry participants when developing lending products.

We intend to provide further underwriting automation to promote lender confidence in making loans to very low-, low-, and moderate-income borrowers who are purchasing manufactured housing. We also plan to research ways to enhance current product requirements and methodologies to address the challenge of finding similar and recent comparable sales to support valuations.

Cumulatively, we expect that enhancements will have a significant impact on potential buyers of manufactured housing titled as real property by providing increased access to credit for very low-, low- and moderate-income borrowers through flexibility in underwriting parameters to lenders.

We will leverage advisory councils to assist with product calibration and socialization of features we plan to bring to market.

- The Manufactured Housing Initiative Task Force, which currently meets bi-annually, and is comprised of lenders, representatives from manufactured housing trade organizations, retailers, housing counseling agencies, housing finance agencies, builders of manufactured housing, a non-profit that supports the development of ROCs, a community owner and community development financial institutions
- The Next Step SmartMH Task Force, which currently meets bi-annually and is comprised of lenders, retailers, a community owner, representatives from a manufactured housing trade organization, housing counseling agencies, housing finance agencies, builders of manufactured housing and community development financial institutions
- Freddie Mac's Affordable Housing Advisory Council, which currently meets quarterly and is comprised of lenders, affordable housing trade organizations, a mortgage insurer, housing counseling agencies, housing finance agencies, and community development financial institutions
- Lender and servicing advisory boards, which currently meets quarterly, and consist primarily of Seller/Servicers.

This objective is designed to address enhancements to our existing offerings, flexible underwriting, pricing adjustments, lower closing costs and shorter processing times. We expect that these improvements will result in increased purchase volume and additional liquidity to this market. Freddie Mac plans to follow a strategic and progressive schedule in conducting our review and addressing market challenges. Incremental enhancements of product offerings focusing on certain features and underwriting guidelines can be efficiently and effectively launched and adopted by the market.

In addition, because a significant amount of manufactured housing is sited in rural areas, the challenges borrowers face in obtaining financing in rural areas overlaps with those related to the financing of manufactured homes. Accordingly, where possible, we intend to promote further lender standardization by making product changes that lenders, including housing finance agencies, can leverage broadly for both the rural and manufactured housing markets.

Baseline

Freddie Mac has fixed- and adjustable-rate mortgage options, including our affordable product, Home Possible, that offer low down payment and refinance solutions for very low-, low- and moderate-income borrowers. In addition, we have the HFA Advantage® product that provides additional flexibility and enhancements to our affordable product for housing finance agencies. As mission-oriented institutions offering a broad spectrum of support to the affordable housing market, the housing finance agencies are focused on regional challenges and provide local solutions, including down payment assistance and homebuyer education to very low-, low- and moderate-income homebuyers in their specific markets. However, current policy parameters within the HFA Advantage product do not support manufactured housing. Given the housing finance agencies' community focus, Freddie Mac will consider changes to our HFA Advantage program to support manufactured housing. Even with these financing options, the market experiences many limitations related to pricing, borrower qualification and collateral requirements that inhibit growth.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Limited product usage and product awareness ▪ There are limited conventional product features and incentives available to support the financing of manufactured homes for very low-, low- and moderate-income borrowers. Access to credit is further limited by a lack of lending on small loan sizes and unique borrower profiles, including those with limited credit histories. To increase originations of manufactured housing titled as real property, lenders need solutions that address lending costs and product flexibilities that are more closely aligned with product requirements of site-built homes. ▪ Freddie Mac's product features in support of manufactured housing may not be obvious to market participants and difficult to distinguish from site-built requirements. ▪ Conventional financing requirements supporting the construction costs of manufactured-home siting and installation are more onerous than the requirements for site-built homes. Borrowers may encounter	**Year 1 – 2018** Freddie Mac will focus on increasing awareness of product features, research opportunities to improve collateral valuations, test new product features, leverage purchases to inform product design and conduct a product assessment to determine opportunities for new or updated product features to support the financing of manufactured homes. Freddie Mac will take these actions: 1) Publish to the Selling Guide and Freddie Mac website an update of our current product features and highlight at least one new product feature in support of manufactured housing to make the requirements more obvious to the market and to clarify the availability of product features to Seller/Servicers to increase awareness in the market. 2) Develop and implement a marketing campaign to promote quality energy efficient manufactured housing and de-emphasize the perception of manufactured housing as "trailers,"

less-favorable terms if lenders opt for portfolio products to finance homes.

Historical perception of manufactured housing as a mobile home or "trailer"

- Manufactured housing is plagued by the stereotype of the "trailer" or mobile home typically represented by manufactured homes built prior to the 1976 Housing and Urban Development manufactured home construction and safety standards (HUD code), even though the latest generation of homes have standard features and finishes similar to site-built homes and are seldom moved after installation.

Appraisal and valuation impediments

- Some of the barriers to obtaining conventional financing on a manufactured home titled as real estate include, but are not limited to, lack of guidance and underwriting flexibility on appropriate comparable sales, no recognition of energy efficiency improvements in the valuation, titling the home as real property, lending restrictions on unit size, land ownership and zoning that may exclude homes titled as real estate.
- Real estate appraisers attempting to value a manufactured home are challenged by a lack of data about manufactured-home sales. Transactions are not always listed in the Multiple Listing Service, and the difficulty is exacerbated when the home is in a rural market that has few overall home sales.
- There is a lack of appraisers that are experienced in assessing value of manufactured homes also impacts access to credit because it limits financing options, which leads to higher lending costs.

State titling variations add complexity

- States do not have a standardized process for recording the title conversion from personal property to real property, which adds operational complexity for lenders.

Limited down payment assistance and funds for closing

- Underlying challenges exist related to availability of programs that provide down payment and closing cost assistance to support manufactured housing as an highlighting it as a viable source of sustainable and affordable homeownership.

3) Evaluate and assess the barriers of existing manufactured housing policies focused on very low-, low- and moderate-income borrower qualifications to identify at least three policies that may need to be adjusted to support financing for existing homeowners and potential homebuyers of manufactured housing; outline an action plan to address product parameters that will have the greatest impact on the market. Assessment will include the following activities:

    a. Assessing policies related to down payment requirements and options for down payment assistance that can assist borrowers purchasing manufactured housing. To inform policy design, Freddie Mac will initiate at least one Test and Learn pilot with at least three lenders (national and regional) and at least one non-profit to assist borrowers with options for down payment assistance to increase the ability of very low-, low- and moderate-income homebuyers to purchase a manufactured home.

    b. Conducting policy assessment of Freddie Mac's renovation product offering to determine product changes necessary to support the renovation of existing manufactured homes, including energy-efficiency retrofits.

    c. Researching available property databases or data sources to determine whether sufficient data is available to support automated valuations on manufactured housing titled as real property and to further inform solutions on aggregation of data.

    d. Conducting collateral policy assessment on manufactured-housing property characteristics to identify the policies that need to be adjusted in support of additional appraisal guidance and best practices, including valuation of energy efficient features, eligible manufactured housing collateral, titling the home as real property, property use restrictions and eligible property type.

Product support for housing finance agencies (HFAs)

- The housing finance agencies are mission-focused to assist low- to moderate-income households but have limited product features to leverage for very low-, low- and moderate-income homebuyers and existing homeowners of manufactured housing titled as real property.

Lack of market data and information

- The market lacks transparency and information on the efficacy of manufactured-housing products and loan performance.

Limited renovation financing support

- A significant number of existing manufactured homes in the market can benefit from renovation or replacement strategies.
- Limited financing solutions are available to homeowners who are attempting to renovate a manufactured home; these issues may also inhibit homeowners who want to sell or refinance their homes.

land ownership. Freddie Mac will work in partnership with at least one appraiser, lender and appraisal trade organization to develop a comprehensive curriculum for lenders on eligible manufactured housing collateral. This outreach activity will further inform additional collateral guidance that can be published to the Selling Guide.

e. Purchasing more manufactured housing loans to obtain data on loan characteristics and performance to increase understanding of product flexibilities being provided by other lending institutions to 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, manufactured housing trade organizations and non-profits, via at least four industry events to understand the barriers to financing and related opportunities.

g. Convening our Manufactured Housing Initiative Task Force and the Next Step SmartMH Task Force at least bi-annually and leveraging at least one meeting of the Affordable Housing Advisory Council to discuss manufactured housing.

4) Submit findings and an action plan to FHFA once assessments are completed and implement resulting policy changes in 2019 and 2020.

Year 2 - 2019

Freddie Mac will begin to implement policy changes resulting from the assessment completed in 2018 in addition to building up our marketing efforts to educate stakeholders on new product features.

1) Issue at least one change to the Seller/Servicer Guide to support manufactured housing financing for existing homeowners and potential homebuyers, based on results from the assessment of existing program policies

	conducted in 2018. 2) Complete renovation mortgage product development leveraging outreach and assessment conducted in 2018 to support manufactured housing. Updated product enhancements will be issued via a negotiated term of business with select lenders or via the Seller/Servicers Guide depending on whether additional data is needed. 3) Initiate a consumer research project that will entail a variety of outreach components, including a survey, to gather data on consumers' choices in manufactured housing financing. 4) Use results and learnings from the collateral policy assessment conducted in 2018 to achieve the following: a. Develop best practices and a training curriculum for lenders on manufactured housing valuations and titling homes as real property and implement it by conducting a training session with at least five lenders. Freddie Mac anticipates expansion of a comprehensive curriculum to all lenders in 2020. b. Publish at least one policy change to the Seller/Servicer Guide giving additional underwriting guidance on acceptable collateral and valuation of a manufactured home. 5) Update our valuation model and incorporate changes in applicable applications (e.g., Loan Advisor Suite®) for lender use, if research conclusions related to available data sources for manufactured housing support an update to our valuation methodology. 6) Assess the effectiveness of a pilot related to down payment assistance issued in 2018 to determine the impact on purchase volume for very low-, low- and moderate-income households. Gather industry feedback from at least five lenders and one non-profit to gauge success and market reaction. Findings will be submitted in a report to FHFA. 7) Issue at least one negotiated term of business to each Freddie Mac-approved housing finance agencies that provide additional product support of

	manufactured housing titled as real property so they may assist more very low-, low- and moderate-income households. 8) Assess historical loan performance and effectiveness of Freddie Mac's current manufactured housing policy by using available public data and data on our existing loan portfolio. Analyze the impact on housing affordability for very low, low- and moderate-income borrower segments and geographic distribution, including high-needs rural regions. Freddie Mac will document results and publish a report on our website. 9) Socialize product changes with market participants by publishing updated collateral material to our website, Freddie Mac's News Center, and Freddie Mac blogs and via email to all Single-Family News subscribers and present the changes at least six industry events. 10) Hold at least one meeting with our Affordable Housing Advisory Council and/or servicing advisory boards to discuss manufactured housing, in addition to bi-annual meetings of the Manufactured Housing Initiative Task Force and the Next Step SmartMH Task Force, to obtain feedback and further calibrate product features. 11) Develop best practices for lenders related to underwriting, appraisal and settlement criteria obtained from outreach activities. Publish the summary of best practices along with product features in a fact sheet on Freddie Mac's dedicated manufactured housing webpage by year-end. 12) Provide ongoing manufactured housing training to lenders on best practices and product features via on-demand webinars and/or scheduled quarterly webinars. **Year 3 – 2020** Freddie Mac will focus on ~~implementing remaining policy changes related to funds for closing,~~ publishing research findings on consumer behavior related to financing ~~and~~ manufactured homes, ramping up ~~increase in~~ purchases, and conducting initial assessments of changes implemented in

<table>
<tr><td></td><td>2018 and 2019. Freddie Mac will take these actions:

1) Assess the effectiveness of policy changes made in 2018 and 2019 by obtaining market feedback from at least five lenders for any changes issued broadly via the Seller/Servicer Guide, analyzing internal data including impact on purchase volume and income-eligible borrower segments. Freddie Mac will document results and provide a report to FHFA.

~~2) Conduct ongoing surveys with lenders on the manufactured housing lender curriculum and the on web-based training to gather feedback on the effectiveness of the lender curriculum.~~

~~3)~~2) Complete a research project on manufactured housing consumer financing selections, analyze the information and data from the research project and publish findings on Freddie Mac’s website.

~~4)~~3) Convene our Affordable Housing Advisory Council~~, Manufactured Housing Initiative Task Force and the Next Step SmartMH Task Force at least bi-~~ annually to obtain feedback and further calibrate product features.</td></tr>
<tr><th colspan="2">Market Impact</th></tr>
<tr><td colspan="2">The manufactured housing market currently makes limited use of conventional financing for either the purchase or refinance of a manufactured home titled as real property. Providing product adjustments that increase a borrower’s entry into conventional financing will have a significant impact on lenders and housing finance agencies as they look for liquidity rather than holding manufactured housing loans in portfolio.

Freddie Mac anticipates the following focused activities will have a significant impact on the market:

▪ Enhancing products will allow the collection of automated property values where none exist currently. Furthermore, we expect sharing best practices and training for lenders on eligible collateral will provide more confidence in lending, which increases liquidity and homebuyers’ entry into the real property financing market.

▪ Providing new incentives and underwriting flexibilities with respect to manufactured housing via HFA Advantage to housing finance agencies will have a material impact on very low-, low- and moderate-income consumers as it can translate to lower lending costs (housing finance agencies typically cap the fees that can be charged to a borrower).

▪ Increasing the data available to inform property values increase confidence in lending against the collateral, may reduce the time and cost to obtain a property value, and address a primary obstacle to lending in this market.</td></tr>
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- Increasing knowledge and understanding of the market by sharing information regarding the efficacy of manufactured housing products and consumer behavior on financing can lead to significant innovations by Freddie Mac and other industry participants in lending products and increase usage of our product.
- Providing immediate alternatives and assistance for down payment and closing costs will have a dramatic impact by increasing a qualified borrower's ability to purchase by closing the asset gap that is significant in the very low-, low- and moderate-income homebuying market.
- Supporting renovation activity will ultimately reduce barriers to entry to conventional financing for existing homeowners of manufactured housing, including homeowners in rural markets who can benefit from energy-efficiency retrofits if their utility costs are making housing unaffordable.

Understanding the product levers that have the most impact on very low-, low- and moderate-income borrower qualifications and providing operational simplification can result in increased lender usage, solutions for small balance loans, and, with the right incentives, more affordable financing for borrowers in the long run, especially in high-needs rural markets where manufactured housing tends to be sited.

The assessment of existing policies will include outreach to lenders, mortgage insurers, appraisers and appraisal trade organizations, manufactured housing trade organizations, housing finance agencies and other housing professionals. This will require resources from multiple areas internally at Freddie Mac to complete varied analyses including Single-Family teams responsible for affordable lending, Seller/Servicers relationships, credit decisions, modeling, pricing and product development to understand the economics, credit risk and operational impacts, including impacts to our supporting applications. Once product development activities have been completed in years 1 and 2, we will increase our focus on loan purchases by leveraging policy changes to source more loans from lenders and reach more homebuyers through outreach activities. See also Objectives A and C for measurable actions on homebuyer outreach and loan purchases. Freddie Mac expects that encouraging additional lenders to offer manufactured housing financing products will lead to more purchases of manufactured housing loans. Freddie Mac will enhance the Seller/Servicers Guide in cases where we have clear data and performance information to support a broad policy change. We may use a negotiated term of business with select lenders 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 and business decisions.

Additional transparency and marketing of product solutions and publication of research should also assist other housing professionals, including housing counselors, who are educating borrowers on financing options. We believe the market can realize increased industry participation through dedicated efforts by Freddie Mac to provide information and product clarity through education and training. Freddie Mac has extensive experience in training and educating market participants. However, engaging more lenders and other housing professionals to support this market will present a significant level of effort if it is to be accomplished within the Plan cycle. Increasing purchase opportunities will involve a high degree of coordination and production from many departments in Freddie Mac to research, produce, coordinate, publish and monitor the effectiveness of product features and training.

FREDDIE MAC

MANUFACTURED HOUSING

2020

ACTIVITY:

1 - Support for Manufactured Homes Titled as Real Property: Regulatory Activity

OBJECTIVE:

C - Increase Homebuyer Access to Education and Resources

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to remove actions under this objective related to expanding the homebuyer education pilot to additional states and expanding the network to additional lenders. We also propose to remove the actions relating to homebuyer fairs.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Retailers and lenders in the SmartMH network continue to refer potential homebuyers to housing counseling, regardless of a customer's home state; also, potential homebuyers anywhere in the country may enroll themselves in the SmartMH program through our partner Next Step's web site. Network retailers, lenders, and non-profits already are working with customers who live outside of the current pilot states. Moreover, the network includes 31 lenders, eight more than our target. Because of how Freddie Mac expanded access to the SmartMH homebuyer education program in 2019, we in effect already reached our cumulative target under this objective. Given this achievement and recognizing the need to now allocate resources to responding to the pandemic, we decided not to pursue further expansion of the SmartMH pilot and the number of participating lenders.

Holding homebuyer fairs during the coronavirus pandemic would be irresponsible and dangerous. By their nature, homebuyer fairs require large groups of people in a limited space and close personal interactions. Many state and local governments are prohibiting large in-person gatherings to help slow and prevent the spread of this deadly disease, in keeping with Centers for Disease Control and Prevention (CDC) recommendations. Also, non-profit housing counseling agencies—like lenders—have had to change their priorities and their approach to serving customers. To comply with state, local, and CDC guidelines on gatherings, they are providing remote access to services. Supporting foreclosure prevention activities has become the highest priority. They still are providing homebuyer education to the extent possible, but one-on-one through an on-line platform or by telephone. Therefore, we will not hold homebuyer fairs in 2020.

OBJECTIVE C: INCREASE HOMEBUYER ACCESS TO EDUCATION AND RESOURCES

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

During our outreach on manufactured housing and review of public comments on the draft Plans, we repeatedly heard that the manufactured housing market requires focused homebuyer education to address consumer questions about the unique aspects of manufactured housing, and the benefits of energy efficient manufactured homes, as well as general homebuyer education. Freddie Mac intends to address this need by developing a more expansive homebuyer education curriculum that specifically addresses manufactured housing, expanding existing outreach activities to a larger geographic area, promoting homeownership with partners through homebuyer fairs and providing a more comprehensive homebuyer education platform that includes credit counseling along with pre-purchase and post-purchase education. Through borrower education, we hope to help manufactured housing consumers build and maintain better credit, and understand the steps to sustainable homeownership.

Freddie Mac strongly supports the benefits of homebuyer education and providing educational tools to consumers. We believe that well-informed and well-prepared homebuyers are more likely to enjoy successful and sustainable homeownership. Freddie Mac has extensive experience with homebuyer education and housing counseling. Over the past nine years, we have provided education and counseling through our 14 Borrower Help Centers and the national Freddie Mac Borrower Help Network. However, prior to 2017 our homebuyer education did not incorporate manufactured housing. In addition, we did not include information related to manufactured housing in homebuyer fairs that we sponsor.

Baseline

Freddie Mac recently partnered with Next Step and eHome America to develop an online homebuyer education curriculum that is inclusive of manufactured housing tailored to prospective buyers of manufactured homes in Kentucky. The pilot is Next Step’s SmartMH program, which aims to expand the opportunity for sustainable homeownership by educating consumers about the benefits of energy efficient manufactured homes. The curriculum, which was launched in April 2017, covers information about purchasing a manufactured home, including the benefits of energy efficient features, financing options, the availability of down payment assistance programs, and credit-rebuilding services via housing counseling agencies. Potential homebuyers who can benefit from education will be referred by lenders and retailers.

The pilot with Next Step also has a working group, the SmartMH Task Force, made up of lenders, retailers, housing finance agencies, trade associations and non-profit housing counseling agencies that will provide market intelligence and data to inform loan product needs and suggested variations to grow the market. Leveraging the pilot, we anticipate expanding the number of local lenders who originate energy efficient manufactured homes that are titled as real property. We currently have 11 active lenders engaged in the pilot and hope to expand the network to include 23 lenders in at least six additional states over the Plan cycle.

Given that 70 percent of manufactured homebuyers choose chattel loans when selecting financing, we will deem the pilot to be successful if we can assist lenders with increasing the number of mortgage-ready borrowers they can realize by leveraging education to facilitate converting loan application denials to approvals and by increasing the percentage of borrowers choosing conventional financing and real property ownership. We anticipate that in 2017 approximately 80 consumers will complete the SmartMH online homebuyer education curriculum, which should give us preliminary data on potential homebuyers choosing a conventional loan as their financing solution.

Freddie Mac plans to expand our outreach beyond the State of Kentucky by partnering with non-profit housing counseling agencies, housing finance agencies and community development financial institutions that provide homebuyer education and credit counseling to grow capacity and serve very low-, low-, and moderate-income homebuyers. We also plan to track results following education and use the information obtained to adjust the curriculum in the future. The schedule proposed is reasonable and incorporates sufficient flexibility for us to learn from initial program feedback and make course corrections, if necessary.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Lack of comprehensive homebuyer education ▪ Comprehensive homebuyer education and credit counseling that include manufactured housing as part of the curricula are rarely available. There is a critical need to provide a sustainable education platform that includes the following: ▪ Awareness of the benefits and low costs of manufactured housing. ▪ Available products and options for securing financing. ▪ Emphasis on quality home selections, including energy efficient features that can lower the overall cost of homeownership. ▪ Pre-purchase financial education in	**Year 1 – 2018** 1) Expand the homebuyer education pilot beyond the State of Kentucky to address manufactured housing titled as real property and the benefits of energy efficiency: a. Expand pilot to at least two additional states. b. Expand network to include four additional lenders. c. Provide education and/or credit counseling to a total of 275 consumers in three states (includes Kentucky), and d. Train any new non-profit partners, and lenders being included in the network. 2) Provide additional information on

addition to housing counseling, if needed, to develop homebuyers who are mortgage-ready. ▪ Post-purchase education and counseling to increase sustainability of homeownership and the future maintenance of manufactured homes.	available resources—including educational resources on Freddie Mac's website—to support manufactured housing content for potential homebuyers, including promotion of Smart MH. Include a survey that allows people to provide feedback on the usefulness of the manufactured housing information that was provided. **Year 2 – 2019** 1) Conduct analysis on performance of pilot, including participation, conversions from lender declinations to approvals, and the share of conventional mortgage financing versus other financing types: a. Survey eight participating lenders on the effectiveness of the pilot. b. Using analysis, calibrate the pilot as needed to meet the identified measures of success by helping lenders to increase the percentage of buyers choosing conventional financing and converting application denials to approvals. c. Include findings in reporting to FHFA 2) Continue to expand the homebuyer education pilot: a. Expand the pilot to at least two additional states. b. Expand the network to include four additional lenders. c. Provide education and/or credit counseling to a total of 475 consumers in five states, including Kentucky. d. Train any new non-profit partners, and lenders. 3) Launch a video series with Next Step about the benefits of the SmartMH program. 4) Ask consumers to complete surveys on the effectiveness of the homebuyer education and/or credit counseling at all sessions to inform updates. 5) Hold one to two homebuyer fairs in strategic areas that have a high concentration of manufactured housing and are currently being served by the pilot. Fairs will include a discussion of the value and benefits of manufactured

	housing titled as real property. **Year 3 – 2020** 1) Further expand the homebuyer education pilot: ~~a. Expand the pilot to at least two additional states.~~ ~~b. Expand the network to include four additional lenders.~~ ~~c.~~a. Provide education and/or credit counseling to a total of 675 consumers in seven states, including Kentucky). ~~d.~~b. Train any new non-profit partners and lenders; and ~~e.~~c. Analyze performance and provide key findings in a report to FHFA. 2) Continue asking consumers to complete surveys to determine efficacy of the homebuyer education and/or credit counseling and use results to inform further enhancements, as applicable. ~~3) Hold one to two homebuyer fairs in states where we have expanded the homebuyer education curriculum and have a high concentration of manufactured housing. Fairs will include a discussion of the value and benefits of manufactured housing.~~ ~~4)~~3) Publish to Freddie Mac's website key findings and outcomes from the homebuyer education training curriculum.

Market Impact

The market is significantly challenged by an inadequate amount of homebuyer education that provides information about manufactured housing and related financing options. The inadequate access to comprehensive homebuyer education that is inclusive of manufactured housing has contributed to the stymied growth in the manufactured housing market. Freddie Mac has initiated a pilot with Next Step in Kentucky. It will take a significant level of effort to expand the pilot to additional regions, including finding additional non-profit partners to administer the curriculum, and establishing additional relationships with lenders and retailers to make the pilot successful and grow the real property financing market.

Given that there was not a curriculum focused on manufactured housing available prior to the launch of Freddie Mac's pilot with Next Step, we anticipate that our pilot will have a significant positive impact on homebuyers as it relates to home selection, financing and maintenance. Over the period of the Plan, the total number of lenders participating will increase from 11 to 23 and the education curricula will be expanded from one state to seven. Lenders will be able to expand their conventional lending portfolios for manufactured housing, increase or strengthen partnerships with retailers and counseling agencies, and ultimately realize greater consumer purchases due to an increased number of qualified loan applicants.

Freddie Mac will monitor feedback on the education materials through surveys to understand additional consumer needs that should be addressed. These efforts will have a direct impact on the borrowers who are accessing the educational curricula. Through its expansion, we expect that the market will experience future growth. Together, these efforts should receive cross-market Duty to Serve credit in energy efficiency because the curricula incorporate the benefits of purchasing energy efficient manufactured housing as part of the borrower’s home selection decision.

FREDDIE MAC

MANUFACTURED HOUSING

2020

ACTIVITY:

2 - Support for Manufactured Housing Titled as Personal Property (Chattel): Regulatory Activity

OBJECTIVE:

B - Develop Initiative Guidelines for Chattel Pilot and Initiate Chattel Purchases

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to remove actions under this objective related to purchasing loans under the pilot to help inform future product design.

Freddie Mac also will make a technical modification to remove from our Plan the 2019 actions that FHFA previously deemed infeasible.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

FHFA deemed 2019 actions under this request infeasible after rejecting Freddie Mac's proposed framework for pursuing a bulk loan purchase transaction. As a result, we were unable to initiate a pilot to purchase loans on manufactured homes titled as personal property (also known as chattel or home-only loans) to inform future capabilities to build a sustainable product for financing that type of loan. Subsequently, Freddie Mac decided to suspend activities around manufactured homes titled personal property and reallocated those resources toward activities intended to increase purchases of loans on manufactured homes titled as real property.

Removing these actions from our Duty to Serve Plan does not affect our general support for manufactured housing. Through our Duty to Serve initiatives, we consistently highlight manufactured housing as an important source of modern, sustainable, energy-efficient, and affordable homeownership.

Activity 2 – Support for Manufactured Housing Titled as Personal Property (Chattel) Regulatory Activity

The manufactured housing industry has seen a continuous and significant increase in chattel financing throughout the last several years. It is unsurprising, then, that we consistently heard a call for GSE support of chattel financing during our outreach to bring affordable lending to the chattel market. Freddie Mac does not currently purchase chattel loans. We do not have the requisite systems in place to purchase chattel loans, nor do we have historical data on chattel loan performance that would allow us to make determinations about whether the purchases of these loans can be made in a safe and sound manner. We appreciate FHFA's efforts to assist us in our information gathering through the Duty to Serve Chattel Pilot Request for Information (RFI)~~ and we are committed to developing and implementing a chattel pilot program that will meet the needs of the market. We reviewed and considered the thoughtful comments received under that RFI as we develop our internal capability to serve this market~~.

Freddie Mac has taken into consideration our lack of experience with chattel loans and being mindful of safety and soundness concerns, Freddie Mac intends to conduct a systematic and incremental review ~~to develop a product before entering the chattel market~~. We are firmly committed to understanding it better~~ and developing a pilot program to test our findings and to apply what we learn~~.

~~Historically, Freddie Mac has provided deep liquidity to the conventional mortgage market and we look forward to bringing this level of expertise to the chattel market. ~~During the Plan Term, Freddie Mac intends to engage in the following objectives in support of chattel:

- Engage in research and due diligence into the chattel market.
- Implement a chattel loan pilot and purchase loans, subject to receipt of FHFA approval.
- ~~Develop homebuyer education and continue market outreach related to chattel financing.~~

OBJECTIVE A: CONDUCT OUTREACH AND RESEARCH ON THE CHATTEL MARKET

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

By partnering with well-established industry participants, Freddie Mac plans to conduct extensive research on the chattel loan market to guide the development of our chattel pilot parameters. Our understanding is that information about the chattel market is currently fragmented and not widely available. With an eye toward future secondary market activity, we plan to focus on gathering information related to performance data, current underwriting parameters, risk offset or credit enhancement options, servicing practices, and consumer protections.

In 2017, Freddie Mac issued a Request for Information (RFI) and followed up with a Request for Proposal (RFP) to find a partner, or partners, to provide data and analytical support to assist in the development of our chattel pilot. The RFI helped us identify the organizations in the marketplace that have the interest and capability to contract with Freddie Mac to develop responsible underwriting parameters and other appropriate requirements for a chattel pilot based on loan-level data and subsequent loan performance. This will allow us to develop sufficient safeguards, along with the analytics necessary to track the performance of the chattel loan pilot. We believe this is a crucial first step. Without this foundational work, we cannot serve the market effectively.

Given the work that will be involved in obtaining and synthesizing data, Freddie Mac intends to expend significant resources to gather and analyze the results of our research. We expect that we will have garnered sufficient information by Year 2 to develop guidelines for a chattel pilot. Freddie Mac will complete sufficient research to enter the chattel market in a safe and sound manner.

Baseline

Freddie Mac does not currently provide liquidity to the chattel market and, therefore, does not have experience serving the market; nor do we have the historical data to model the associated credit risks and develop policies to support the loan life cycle.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Lack of transparency and available data on loan terms and performance ▪ The market lacks transparency and standardization in multiple areas of the chattel loan life cycle, including the loan origination process, loan servicing and loan performance, which inhibits growth in the secondary market.	**Year 1 – 2018** To help inform pilot design, Freddie Mac will conduct research on chattel performance and chattel loan life cycle and complete the initial analysis by year end. 1) Research activities: a. Evaluate chattel loan performance, including finding viable sources for data on loan performance and valuation across agency and proprietary products. b. Establish partnerships with subject matter experts on data analysis. c. Review current underwriting models or underwriting criteria supporting chattel financing. d. Explore credit enhancements and risk sharing solutions. e. Review loan servicing practices,

	including servicing compensation. f. Review disposition activities. g. Review current pricing and explore securitization models. 2) Research activities described above will involve coordination and collaboration to establish additional partnerships and advisors, information collection and sharing: a. Convene the Manufactured Housing Initiative Task Force, Affordable Housing Advisory Council and Next Step SmartMH Task Force at least bi-annually; working subgroups will meet at least quarterly. b. Engage at least six lenders to assist with opportunities and solutions. c. Participate in at least one manufactured housing trade show and four key industry conferences to gather information. 3) Use research findings to inform pilot development. See also Objective B for measurable actions on this pilot.

Market Impact

As FHFA noted in the Duty to Serve rule, there is a significant lack of information on chattel loans, especially relating to loan performance. The results of our research will inform our next steps, including the structure of a pilot. Notwithstanding the difficulty involved in starting from a baseline of zero on loan purchases, we believe that one year is a reasonable timeframe to conduct research and leverage findings to define pilot requirements.

The secondary market for manufactured housing chattel loans is currently very limited. Our success in meeting this objective will have a significant impact on the market. First, we understand that a lack of widely available information is a key challenge. We intend to address this by publishing notable findings from our research as indicated in Objective C. Second, our ability to provide liquidity to this market in a safe and sound manner hinges on gaining a greater understanding of it.

Gaining deep insights into the chattel market will require Freddie Mac to seek additional resources and subject matter experts to assist us with the analysis. We mentioned previously that we have undertaken a RFI and a RFP to find a partner, or partners, to provide data and analytical support. Understanding the loan origination, loan packaging, servicing and disposition processes will also require resources from multiple areas internally to complete varied analyses, including Single-Family teams responsible for affordable lending, credit risk, securities, modeling and analytics, servicing and REO.

OBJECTIVE B: DEVELOP INITIATIVE GUIDELINES FOR CHATTEL PILOT ~~AND INITIATE CHATTEL PURCHASES~~

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

Based on the results of our research and outreach, Freddie Mac will develop a chattel loan pilot. We intend to purchase chattel loans in years two and three of the Plan, subject to FHFA approval. We recognize that the launch date, in Year 2, may be dependent on the FHFA approval process.

The parameters for the chattel pilot will depend upon our research and outreach described in Objective A. Freddie Mac does not have a product to support financing of chattel nor have we purchased chattel loans in the last three years; thus, we have no recent historical data on which we can base assumptions on loan profiles and performance. The scope of the pilot will include these activities:

- Creation of the standards for credit, servicing, pricing and risk structures necessary to support a pilot.
- Loan purchases that we will make using varied purchase execution options (including bulk portfolio transactions) to model risk and assist with product design to support future loan purchase capabilities on a flow basis. A comprehensive effort of marketing quality energy efficient manufactured homes will complement our activities to increase liquidity and promote manufactured housing as a viable investment to attract private capital.

Baseline

Freddie Mac does not have a chattel product. We have not purchased chattel loans in the past three years. Our baseline is zero.

Challenges, Actions and Market Impacts

<table>
<tr><th>Market Challenge</th><th>Freddie Mac Action</th></tr>
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No standardized products

- Products in support of this market vary from lender to lender because most originations are held in retained portfolio due to the proprietary products used to originate loans.
- There is a lack of standard underwriting practices and automated underwriting model will continue to limit growth and private capital in this market.

No standard collateral valuation approach

- There is no consistent approach to assessing property values and current

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Year 1 – 2018

Freddie Mac will develop pilot parameters and determine counterparties for the pilot to support loan purchases.

1) Complete policy parameters to support chattel pilot program:
    a. Underwriting criteria
    b. Credit enhancement and risk sharing structures
    c. Requirements that address consumer protections
    d. Pricing

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</table>

valuation methods, including the use of NADA guides, which are inconsistent with how real property is valued. **Historical perception of manufactured housing as a mobile home or "trailer"** ▪ Manufactured Housing is plagued by the stereotype of the "trailer," even though the new class of homes have standard features and finishes similar to site-built homes and are seldom moved after installation.	e. Delivery criteria f. Quality control g. Servicing and disposition requirements, including servicing compensation h. Exploration of potential securitization structures 2) Determine counterparties to be included in pilot activities. 3) Purchase a set minimum number of loans from at least one regional or national lender to obtain data, such as loan characteristics and performance, to facilitate pilot design, subject to FHFA approval. 4) Develop and implement a marketing campaign to further promote quality energy efficient manufactured housing as a viable source of sustainable and affordable homeownership to increase market opportunities. ~~**Year 2 – 2019**~~ ~~Freddie Mac will request FHFA approval, and begin purchasing loans under the pilot if approval is obtained.~~ ~~1) Request FHFA approval to implement a chattel pilot. In order to initiate purchases under the pilot program we will need an approval no later than the second quarter.~~ ~~2) Implement a chattel pilot with select national or regional lenders.~~ ~~3) Purchase 200 - 500 loans to help inform future product design to build out capabilities for flow path.~~ ~~**Year 3 – 2020**~~ ~~1) Freddie Mac will continue purchasing loans under the pilot. We will purchase 600 – 1,500 loans to help inform future product design to build out capabilities for flow path.~~

Market Impact

Freddie Mac frequently uses pilots to test potential offerings and markets prior to a broad rollout. In our experience, pilots are an efficient and effective tool that permits us to adjust features quickly on a small scale in response to feedback. ~~There is currently a limited secondary market for manufactured housing chattel loans. The results of a pilot program will have a significant impact on manufactured housing titled as personal property because the pilot can assist in the development of a more robust secondary market and will provide Freddie Mac with additional information on how~~

~~to build a sustainable product to support this market.~~

~~The success of the pilot will include providing the market with the framework for consistent standards for credit risk and servicing, including a reliable underwriting and valuation model, a framework for risk sharing and securitization, and consistent requirements for servicing and disposition activities. We anticipate that pilot activities will not only provide the market with immediate liquidity of up to $87 million over the Plan cycle, but also grow the market opportunity.~~

~~Assuming timely FHFA approval, we believe the timeframe is reasonable, given the current outreach efforts and Freddie Mac's high level of commitment. We anticipate that pilot activities will not only provide the market with immediate liquidity, but also grow the market and opportunity to attract private capital.~~

~~Freddie Mac will have limited experience in analyzing chattel loans prior to our purchase activities; therefore, we will be relying on additional resources and partners, selected via a proposal process, to assist with data and analytical support. Additionally, resources from multiple areas internally at Freddie Mac will be relied upon to complete varied analysis, including Single-Family teams responsible for affordable lending, Seller/Servicers relationships, credit decisions, modeling, pricing, securitizations and product development to understand the economics, credit risk and operational impacts, including impacts to our supporting applications.~~

FREDDIE MAC

MANUFACTURED HOUSING

2020

ACTIVITY:

2 - Support for Manufactured Housing Titled as Personal Property (Chattel): Regulatory Activity

OBJECTIVE:

C - Conduct Market Outreach to Support Chattel Pilot and Increased Access to Homebuyer Education

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to remove actions under this objective related to expanding our homebuyer education pilot and adding to the SmartMH℠ network at least one lender that supports chattel (or home-only) financing. We also propose to remove actions related to using results of surveys from consumers who completed the course to inform program changes and gathering industry feedback on the home-only pilot.

Freddie Mac also will make a technical modification to remove from our Plan the 2019 actions that FHFA previously deemed infeasible. As a result, the entire objective will be removed from our Plan.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ N/A – Proposed modifications only address future Plan year(s).

Freddie Mac decided to suspend our pilot on manufactured homes titled personal property based on changing business priorities, following FHFA's rejection of our proposed terms, and instead reallocated those resources to activities intended to increase our purchases of loans on manufactured homes titled as real property. As a result, the outreach activities surrounding the pilot are unnecessary and inappropriate.

Removing these actions from our Duty to Serve Plan does not affect our general support for manufactured housing or homebuyer education. Through our Duty to Serve initiatives, we consistently highlight manufactured housing as an important source of modern, sustainable, energy-efficient, and affordable homeownership. In addition, the online curriculum referenced in Activity 1, Objective C under this market area educates potential homebuyers on financing for manufactured homes—including both home-only and mortgage options. The curriculum will remain available and will continue to include the information on home-only financing to help homebuyers understand the range of options.

~~OBJECTIVE C: CONDUCT MARKET OUTREACH TO SUPPORT CHATTEL PILOT AND INCREASED ACCESS TO HOMEBUYER EDUCATION~~

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

~~Freddie Mac intends to publish findings resulting from our research referenced in Objective A to offer transparency and engagement in the market related to the loan life cycle and performance. This will provide the market with the opportunity to review a broad spectrum of data and analytics to inform lending and appraisal decisions. Further, we will actively and continuously engage the market for feedback pre- and post-chattel pilot implementation to determine best practices and ensure we are aligning with market needs.~~

~~We also plan to develop a homebuyer education curriculum that emphasizes the benefits of manufactured housing, including a discussion on chattel financing that is focused on the underwriting parameters of Freddie Mac's chattel pilot. This objective will target the manufactured housing market titled as personal property. The goal of this objective is to expand on our existing homebuyer education curriculum to focus on pre-purchase education that delves into the unique characteristics of manufactured housing chattel loans along with the benefits of purchasing energy efficient manufactured homes.~~

~~Freddie Mac intends to expand on it's current Next Step® and eHome America pilot efforts by including a discussion in the curriculum on chattel financing that is aligned with our chattel pilot activity. Freddie Mac recently partnered with Next Step® and eHome America to develop an online homebuyer education curriculum that is inclusive of manufactured housing tailored to prospective buyers of manufactured homes in Kentucky. The pilot is Next Step's "SmartMH" program, which aims to expand the opportunity for sustainable homeownership by educating consumers about the benefits of energy efficient manufactured homes, as more fully discussed in Objective C of Activity 1. We will implement the updated curricula in the first quarter of the third year of the plan in the states where the homebuyer education will be available.~~

~~Baseline~~

~~Freddie Mac has not previously published information on chattel financing including the loan life cycle and performance. We do have experience performing outreach as it relates to manufactured housing and we plan to leverage existing advisory groups to assist with information collection and sharing, and, ultimately, feedback on pilot development and implementation. The advisory councils include the Manufactured Housing Initiative Task Force, Next Step SmartMH Task Force, and Affordable Housing Advisory Council. See also Activity 1, Objective B, for meeting frequency and representation. We do not currently have a homebuyer education curriculum that includes chattel financing.~~

~~Challenges, Actions and Market Impacts~~

~~**Market Challenge**~~	~~**Freddie Mac Action**~~

~~**Lack of information and data to support chattel lending**~~
▪ ~~Market research and data to support scalable chattel financing is lacking in the market.~~
▪ ~~Transparency of lending activities, performance and product parameters need to be readily available to the market.~~
~~**Lack of homebuyer education inclusive of manufactured housing**~~
▪ ~~Comprehensive homebuyer education that includes manufactured housing as part of the curriculum inclusive of chattel financing options is rarely available. There is a critical need to provide a sustainable education platform that includes these topics:~~
  ▪ ~~Awareness of the benefits and low costs of manufactured housing~~
  ▪ ~~Available products and options for securing financing~~
  ▪ ~~Emphasis on quality home selection, including energy efficient features that can lower the overall cost of homeownership~~
  ▪ ~~Pre-purchase financial education in addition to housing counseling, if needed, to develop homebuyers who would be eligible for loans~~
  ▪ ~~Post-purchase education and counseling to increase sustainability of homeownership and the future maintenance of a manufactured home~~
	~~**Year 2 – 2019**~~
	~~Freddie Mac will provide transparency to the market with results from our research. We will also continue outreach to obtain feedback on pilot implementation, promote quality manufactured housing and seek additional opportunities to grow the market. Freddie Mac will take these actions:~~
	~~1) Publish key research findings in a white paper related to chattel performance and loan practices on our website to inform the market about chattel financing.~~
	~~2) Socialize key findings of research through convenings with the Manufactured Housing Initiative Task Force and the Next Step SmartMH Task Force at least bi-annually and obtain feedback on pilot implementation to further calibrate requirements as necessary.~~
	~~3) Participate in at least one manufactured housing trade show and four key industry conferences to discuss our efforts to support development of a secondary market for chattel, seek additional opportunities to support the market and gain additional industry knowledge.~~
	~~**Year 3 – 2020**~~
	~~Freddie Mac will provide homebuyer education that includes chattel financing and will achieve the following:~~
	~~1) Expand our homebuyer education pilot that showcases the benefits of manufactured housing and energy efficiency to include chattel financing in the states where the online curriculum~~

	~~referenced in Activity 1, Objective C, has been implemented:~~ ~~a. Provide education inclusive of chattel financing in all states where the manufactured housing online curriculum has been implemented.~~ ~~b. Expand the lender network referenced in Activity 1, Objective, C by at least one lender that supports chattel financing.~~ ~~2) Ask for consumer surveys at each homebuyer education or counseling session. Use survey results to inform future changes to the curriculum and counseling efforts.~~ ~~3) Continue outreach with the Manufactured Housing Initiative Task Force and the Next Step SmartMH Task Force at least bi-annually to obtain feedback on the chattel pilot and to further calibrate requirements as necessary.~~ ~~4) Participate in at least one manufactured housing trade show and four key industry conferences to discuss our pilot activities and seek additional opportunities to support the market and gain additional industry knowledge.~~

~~Market Impact~~

~~Freddie Mac will publish and actively socialize key findings to the market based on extensive research completed in the first year of the Plan. This activity will provide transparency to the market on the chattel loan process and performance that has not been previously available to the public. Given Freddie Mac's limited knowledge about the chattel market, obtaining feedback from market participants about the chattel financing process and ecosystem, including lenders, retailers, manufactured housing trade organizations, community owners, builders of manufactured housing, as well as affordable housing advocates and non-profit organizations, will be critical to the success of the pilot.~~

~~Continued engagement and partnerships with organizations that support manufactured housing will be needed to ensure that we are consistently meeting market need as we undertake loan purchases in a safe and sound manner to build out future capabilities to support the market broadly.~~

~~The market is significantly challenged by an inadequate amount of homebuyer education that provides information about manufactured housing and chattel financing. The lack of capacity and degree of education does not meet the demand of the market and has limited growth in the manufactured housing market.~~

~~It will take a significant level of effort to expand to additional regions, to update our curriculum to include chattel financing solutions that is consistent with the philosophy and policies for how we are considering a chattel loan structure to support loan purchases, and to find additional non-profit partners to administer the curriculum.~~

~~Given that there is not curriculum that focuses on chattel financing options available to the market, we anticipate that our pilot will positively impact homebuyers behavior and outcomes as it relates to home selection, financing and home maintenance.~~

~~Freddie Mac will monitor the feedback on the education materials through surveys to understand additional consumer needs that can be addressed through enhanced platforms. These efforts will have a direct impact on the borrowers who are accessing the services and, through expansion, the market will also experience future impact. These efforts should receive cross-market Duty to Serve credit in energy efficiency because the curriculum incorporates the benefits of purchasing energy - efficient manufactured housing as part of the borrower's home-selection decision.~~

FREDDIE MAC

MANUFACTURED HOUSING

2020

ACTIVITY:
4 - Manufactured Housing Communities with Certain Pad Lease Protections: Regulatory Activity

OBJECTIVE:

C - Purchase Loans that Institute Duty to Serve Tenant Protections

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☒ *Future Plan year(s)*

Freddie Mac is planning on introducing a purchase target for Manufactured Housing Communities that institute Duty to Serve Tenant Protections in the 2020 plan.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☒ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☐ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

In 2019, Freddie Mac developed a pilot offering to encourage borrowers to institute Duty to Serve Tenant Protections as part of Activity 4 Objective B in Manufactured Housing. We have seen continued interest in this offering, and we are still learning about market interest in this pilot offering based on our 2019 accomplishments. We laid a strong foundation for making tenant pad lease protections available to a larger number of MHC residents through our resources and marketing. As a result of our success and progress made under MHC Activity 4 Objective B in 2019, we have decided to modify our 2020 plan to include a loan purchase target for MHC loans with tenant protections.

OBJECTIVE C: PURCHASE LOANS THAT INSTITUTE DUTY TO SERVE TENANT PROTECTIONS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	3 and 4	Affordable	Not applicable

Based on our research and the eight transactions we completed in 2019, we believe we have identified adoptable parameters to provide the full complement of Duty to Serve protections to homeowner tenants in their MHC leases. In 2020 and 2021, we are setting a loan purchase target for this market.

Freddie Mac will work with seller/servicers and MHC owners to continue to offer appropriate terms for borrowers who adopt the full complement of Duty to Serve tenant protections through voluntary adjustments to their homeowner leases. Purchases will count under this objective based on our evaluation of eligibility and the qualifying nature of pads based on the seller representation in concordance with our Manufactured Housing term sheet at the time of our mortgage purchase. In our tenant protections product, we rely on the seller to ensure tenant protections will be in place within a year of implementation, however Freddie Mac is not reviewing individual leases.

We have set a purchase target for 2020 that exceeds 2019 purchase volume despite market uncertainty in relation to COVID-19 risk.

Baseline

We implemented the product in 2019 so we don't have additional historical volume to reference. We funded a total of 8 deals in 2019 and we anticipate volume will continue to expand as more borrowers participate.

Year	2019
Total Loan Amount	$88 million
Loans	8
# of Qualifying Pads*	1,322 units

*Qualifying Pads means pads occupied by a tenant who owns their home at the time of origination. Vacant pads and pads occupied by homes that are rented out are excluded.

2020 and 2021 Target

Based on our success with our pilot offering for MHCs with tenant protections present in our 2018-2020 plan and our 2019 performance in this space, we are adding a 2020 and 2021 purchase target. We have set our 2020 and 2021 targets higher than the achieved volume in 2019.

Should market conditions change, we will work with FHFA to responsibly adjust our targets based on our volume cap, market needs and capacity. We anticipate that we will reach our target goal by leveraging our MHC network.

Year	2020	2021
Target	Lesser of 1,170 pads or 10 deals	Lesser of 1,800 pads or 15 deals

Challenges

It is unclear how the market will recover from the COVID-19 outbreak. Our role, particularly in 2020, will be to focus on being a stable source of liquidity as the market recovers. Affordable housing is likely to remain in very high demand for existing renters, and demand may increase if new renters enter the market due to negative financial impacts of COVID-19. Acquisition might be slow to recover; however, we may see increases in refinances depending on economic indicators at the time. Because of such a substantial market disruption, it is especially difficult to set targets and plan for business opportunities outside of providing continuous liquidity to meet market needs.

Market Impacts

Freddie Mac intends to continue our role of providing liquidity in these hard-to-serve markets though our innovation and dedicated platform, providing support to more families through our MHC tenant protections financing. Our role in establishing a market standard for tenant protections and providing liquidity will continue to have a profound influence on the MHC market—and MHC tenants—in the near-and long-term.

Recognizing the critical role the GSEs may play in providing stable source of capital during this period of market turmoil, we will be mindful of our purchase volume and credit standard are consistent with safety and soundness. In furtherance of this goal, we are also able to distribute risk away from taxpayers through our market-leading credit risk transfer program. This allows us to provide attractive financing and flexible terms to borrowers, channel private capital to support public good efficiently and cost effectively while protecting taxpayers and maintaining safety and soundness.

Freddie Mac Proposed Modifications to the 2018-2020 Duty to Serve Underserved Markets Plan Year 3 - 2020

Rural Housing

FREDDIE MAC

RURAL HOUSING

2020

ACTIVITY:

1 - High-Needs Rural Regions: Regulatory Activity

OBJECTIVE:

A - Increase Single-Family Loan Purchases in High-Needs Rural Regions

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to raise our high-needs rural regions purchase target in 2020.

In addition, Freddie Mac will extend this objective to 2021.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☒ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☐ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

In 2020, the market experienced unprecedented refinance volume. Interest rates continued the decline that began in the second half of 2019, breaking previous record lows. In addition, we continued to engage with lenders more actively. Our Year 3 purchase target reflects our greater success and opportunity in supporting affordable homeownership and increase liquidity in high-needs rural regions.

Freddie Mac’s commitment to increase loan purchases in high-needs rural regions will continue in 2021.

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 and 4**	**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 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 for 2018-2020

The following table reflects Freddie Mac's historical single-family loan purchases in the high-needs rural regions, as described above, from 201~~6~~7 to 201~~8~~9. 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. The income-qualifying loan count is limited to only DTS income-qualifying loan purchase volume located in rural census tracts. The baseline represents a three-year average of income-qualifying loan volume from 201~~6~~7 to 201~~8~~9. In 2020, we reset our baseline, shifting the years averaged, as a first step in raising our purchase target for the year. Because of historically low interest rates combined with our outreach efforts, we met and exceeded our 2020 purchase target by mid-year. Recognizing the impact we were having on the market, we revised our 2020 target upward.

Freddie Mac Loan Purchase Volume – High-Needs Rural Regions			
Year	**~~2016~~2017**	**~~2017~~2018**	**~~2018~~2019**
Income-Qualifying Loan Count **(A three-year average of this loan count was used to establish the baseline)**	~~7,801~~8,505	~~8,505~~9,202	~~9,202~~9,849
Baseline	~~8,503~~9,167		

Baseline for 2021

For 2021, we used the recalculated baseline that we referenced for modifying our 2020 purchase target, as shown in the following table.

Freddie Mac Loan Purchase Volume – High-Needs Rural Regions			
Year	**2017**	**2018**	**2019**
Income-Qualifying Loan Count (A three-year average of this loan count was used to establish the baseline)	8,505	9,202	9,849
Baseline	9,167		

2018-2020 Targets

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.

In 2020, the market experienced unprecedented refinance volume. Interest rates continued the decline that began in the second half of 2019, breaking previous record lows. In addition, we continued to engage with lenders more actively. Our Year 3 purchase target reflects our greater success and opportunity in supporting affordable homeownership and increase liquidity in high-needs rural regions.

Purchase Targets – High-Needs Rural Regions		
Year 1 – 2018	**Year 2 – 2019**	**Year 3 – 2020**
7,900 – 8,000 loans	8,550 – 8,600 loans	~~8,700-9,000~~9,200 – 10,500 loans

2021 Target

Our 2021 purchase target is shown in the following table. We expect that historically low interest rates will continue to drive high refinance volumes for the first few months of the year. However, that level of activity is unsustainable and will decrease. To help maintain momentum in rural areas relative to our historical average, our efforts will focus on increasing our volume of loans that finance home purchases. Examples include conducting outreach, expanding the number of lenders selling loans to us, leveraging various execution options, and providing technical assistance to raise lenders' confidence in lending to very low-, low-, and moderate-income homebuyers and homeowners.

Projected volume for 2021 does not take into account potential market reactions to the interest-rate environment or to the coronavirus pandemic.

Purchase Targets – High-Needs Rural Regions
Year 4 – 2021
10,500 – 12,000 loans

Market Opportunity and Impact

This objective will provide liquidity of more than $911 million per year to financial institutions that serve high-needs rural regions in years 1 through 3. Targeted loan volume may also include loans originated by small financial institutions and loans securing manufactured homes.

Meeting this objective will be difficult due to the high level of need in each region and the unique challenges that face individual regions. 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 in these regions. 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.

As we look ahead to Year 4 from our vantage point in Year 3, Freddie Mac estimates that we could provide more than $910 million in liquidity to the marketplace in 2021. Targeted loan volume may also include loans originated by small financial institutions and loans securing manufactured homes. We will continue our outreach efforts to expand adoption of our offerings and increase loan purchases relative to historical volume in high-needs rural regions, including with small financial institutions.

[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/

FREDDIE MAC

RURAL HOUSING

2020

ACTIVITY:

1 - High-needs Rural Regions: Regulatory Activity

OBJECTIVE:

D - Increase Future Homebuyer Access to Education and Resources

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to remove all 2020 actions under this objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

As the coronavirus pandemic took hold in March and has continued to evolve, Freddie Mac has focused on fulfilling our mission—providing liquidity, stability, and affordability to help minimize disruption to the housing market. We responded quickly to support industry professionals, homeowners, and borrowers. Lenders also have shifted their focus and reallocated resources because of the pandemic in addition to historically low interest rates. Their priorities now center on assisting customers who have been adversely affected by the pandemic, implementing the GSEs' changes to servicing and origination policies, and maintaining service levels for the growing number of refinance customers. Therefore, Freddie Mac will not pursue additional relationships in 2020 with mission-oriented organizations to expand financial and homebuyer education in persistent-poverty counties. Despite this, we surpassed our overall Plan goal for expansion based on our achievements in 2018 and 2019.

Moreover, efforts to contain the pandemic prevent us from holding homebuyer fairs and from collecting enough survey data from people completing financial and/or homebuyer education to make meaningful suggestions for improving the curricula and reporting our findings to FHFA.

By their nature, homebuyer fairs involve large groups of people in a confined space with close personal interactions. Large in-person gatherings have been prohibited to help slow and prevent the spread of this deadly disease, in keeping with Centers for Disease Control and Prevention (CDC) recommendations. The lack of reliable internet access in rural areas precludes holding successful and meaningful virtual events; moreover, our regional business partners may not have the technical platforms to host virtual gatherings.

In addition, non-profit housing counseling agencies have appropriately changed their priorities in response to the pandemic. Supporting foreclosure prevention activities has become their highest priority.

Because holding homebuyer fairs would run counter to limitations on gatherings as well as conflict with and draw resources away from key participants' business priorities in the current environment, we are removing these events from our Plan.

Since the coronavirus outbreak, our housing counseling partners have not conducted the financial and homebuyer education class in which our surveys are distributed. We cannot reach reliable conclusions about the curricula or suggest improvements with survey responses from first quarter alone, nor can we report meaningful findings to FHFA.

We continue to make a wide range of homebuyer resources available through our web site.

OBJECTIVE D: INCREASE FUTURE HOMEBUYER ACCESS TO EDUCATION AND RESOURCES

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	**1~~,~~ and 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)~~1)~~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.~~

FREDDIE MAC

RURAL

2020

ACTIVITY:

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

OBJECTIVE:

I - Purchase Loans to Preserve Properties with USDA Section 515 Debt in High-Needs Rural Regions

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Removal of entire 2020 objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

FHFA determined our development of a USDA 515 product (Rural Activity 4, Objective A) to be infeasible in 2018, as we were unable to come to terms with USDA on a subordination agreement that would meet market standards. The actions planned for this objective were contingent upon the feasibility of the USDA 515 product objective (Rural Activity 4, Objective A) in 2018.

Freddie Mac continues to engage with the USDA in order to determine a path forward on a feasible product solution. Circumstances external to Freddie Mac that led to the initial infeasibility declaration have not yet been resolved. As such, we request to remove this objective from our plan in 2020 though we intend to continue to work with USDA to find a mutually beneficial way to provide liquidity for USDA product preservation.

~~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.~~[i] ~~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.~~[ii]

~~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.~~

FREDDIE MAC

RURAL HOUSING

2020

ACTIVITY:

2 - High-needs Rural Populations: Regulatory Activity

OBJECTIVE:

A - Increase Homebuyer Access to Education and Resources for Members of a Federally Recognized Indian Tribe in Indian Areas

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to remove actions under this objective related to attending the Center for Indian Country Development's (CICD's) Homebuyer Readiness Subcommittee meetings and holding homebuyer fairs in Indian areas.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

The CICD discontinued the Homebuyer Readiness Subcommittee in August 2019. Through Freddie Mac's ongoing work with CICD's Lending Systems Focus Group Subcommittee and our other non-profit partners, we have sufficient channels for exchanging information and ideas and for promoting affordable lending.

As the coronavirus pandemic took hold in March and has continued to evolve, Freddie Mac has focused on fulfilling our mission—providing liquidity, stability, and affordability to help minimize disruption to the housing market. We responded quickly to support industry professionals, homeowners, and borrowers. However, holding homebuyer fairs during the coronavirus pandemic would be irresponsible and dangerous. By their nature, homebuyer fairs involve large groups of people in a confined space and close personal interactions. Large, in-person gatherings have been prohibited to help slow and prevent the spread of this deadly disease, in keeping with Centers for Disease Control and Prevention recommendations.

Moreover, non-profit housing counseling agencies and tribally designated housing entities have necessarily changed their priorities. Supporting foreclosure prevention activities has appropriately become the highest priority. Many reservations also are under quarantine orders to protect their communities and will remain under protective orders for the foreseeable future. These circumstances preclude us from holding homebuyer fairs in Indian areas.

Potential homebuyers in these areas still may have opportunities to work individually with housing counselors and may access the wide range of homebuyer resources that Freddie Mac makes available through our web site.

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.~~ 1) 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.~~ 2) 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. 3) Ask consumers to complete a survey on our education curricula at each session to inform future curricula enhancements. 4) 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. 5) 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.

FREDDIE MAC

RURAL HOUSING

2020

ACTIVITY:

2 - High-Needs Rural Populations: Regulatory Activity

OBJECTIVE:

B - Increase Technical Expertise in Indian Areas

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to remove actions under this objective related to assessing the impact of best practices and training for lenders, as well as performing outreach through industry conferences. We also will clarify our participation in the Center for Indian Country Development's (CICD's) committee and subcommittee meetings, based on decisions that CICD made in 2019.

In addition, Freddie Mac will extend this objective to 2021.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

As the coronavirus pandemic took hold in March and has continued to evolve, Freddie Mac has focused on fulfilling our mission, providing liquidity, stability, and affordability to help minimize disruption to the housing market. We responded quickly to support industry professionals, homeowners, and homebuyers. Lenders have also shifted their focus and resources accordingly. Their priorities now appropriately center on assisting customers who have been adversely affected by the pandemic, implementing the GSEs' changes to servicing and origination policies, and maintaining service levels for the growing number of refinance customers.

Under these circumstances, we will refrain from actively soliciting their feedback on best practices and training. As a result, we will have insufficient information to reach conclusions and recommend updates to our partners who own the best practices and training.

Also, in light of the coronavirus pandemic, industry conferences have been canceled, postponed, or moved on-line. Performing outreach through attendance at conferences is now infeasible. We will continue to perform outreach by providing access to our many on-line resources, including training materials specific to Native Americans in Indian areas.

Freddie Mac continues to participate in CICD forums, but the CICD has discontinued its Homebuyer Readiness Subcommittee, merged it into the Lending Systems/Lending Readiness workstream, and set a quarterly meeting cadence for the combined group; CICD also made changes to other related groups. To align our Plan accordingly, we will remove references to the CICD committee, CICD secondary market subcommittee, and CICD lending products subcommittee and replace them with the CICD Lending Systems Focus Group Subcommittee.

Freddie Mac will continue our efforts to expand technical expertise in Indian areas in 2021. Most mortgage lending in these areas is through HUD's Indian Home Loan Guarantee Program (HUD 184). Our outreach activities will help build a pathway to more conventional lending and increase the flow of liquidity into these communities.

OBJECTIVE B: INCREASE TECHNICAL EXPERTISE IN INDIAN AREAS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	**1, 2, ~~and~~ 3 and 4**	**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 tribe 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)~~1) Continue outreach efforts leveraging ~~industry conferences,~~ website material~~,~~ and Freddie Mac training programs that are specific to Native Americans in Indian areas. ~~3)~~2) 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. 3) Participate in quarterly meetings of the CICD Lending Systems Focus Group ~~committee, CICD secondary market subcommittee and CICD lending products subcommittee~~ to better understand new opportunities and challenges of Native American lending in Indian areas. **Year 4 – 2021** 1) Conduct outreach to train industry professionals on packaging conventional loans for the secondary market to facilitate the use of

	conventional financing in Indian areas. 2) Conduct targeted outreach to engage at least two lenders serving Indian areas to establish a direct or indirect selling relationship that can support future loan purchase activities.

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.

FREDDIE MAC

RURAL

2020

ACTIVITY:

4 - Small Multifamily Rental Properties in Rural Areas: Regulatory Activity

OBJECTIVE:

B - Make Purchases to Preserve Properties with USDA Section 515 Debt

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Removal of entire 2020 objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

FHFA determined our development of a USDA 515 product (Rural Activity 4, Objective A) to be infeasible in 2018, as we were unable to come to terms with USDA on a subordination agreement that would meet market standards. The actions planned for this objective were contingent upon the feasibility of the USDA 515 product objective (Rural Activity 4, Objective A) in 2018.

Freddie Mac continues to engage with the USDA in order to determine a path forward on a feasible product solution. Circumstances external to Freddie Mac that led to the initial infeasibility declaration have not yet been resolved. As such, we request to remove this objective from our plan in 2020 though we intend to continue to work with USDA to find a mutually beneficial way to provide liquidity for USDA product preservation.

~~OBJECTIVE B: MAKE PURCHASES TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT~~

~~Evaluation Area~~	~~Year~~	~~Incomes Targeted~~	~~Extra Credit~~
~~Loan Purchase~~	**~~3~~**	**~~VLI, LI~~**	**~~Not applicable~~**

~~Purchases of loans on properties with USDA 515 debt are an integral part of our strategy of providing liquidity in support of five-to-50-unit properties in rural areas. Indeed, per analysis of the 515 portfolio on data.gov, 93 percent of the 515 properties in rural areas are between five and 50 units.~~

~~After establishing and piloting a loan product for properties with 4 percent tax credits and USDA 515 debt, Freddie Mac will focus on the purchase of loans on these properties. This will provide relief from the maturing mortgage crises and preserve affordability for rural properties. Maintaining long term affordability is key to providing rural areas with a stable source of housing. As a result of our outreach, we have determined that 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.~~

~~Given the many challenges of providing financing for 515 properties, purchasing loans and promoting those purchases and their replicability through press releases or deal stories will be fundamental to growing this market over time.~~

~~Baseline~~

~~We have not made any purchases of loans on properties with Section 515 debt in several years; therefore, we do not have a representative baseline.~~

~~Target~~

~~In Year 3 (2020), we plan to purchase two portfolios of loans on properties with USDA 515 debt that include properties with five to 50 units in rural areas. This target is dependent upon us initiating these transactions in Year 2 (2019). If our loan product requires adjustments, we will likely adjust this target based on market feedback on our product offering.~~

~~Challenges~~

~~There are several challenges involved in purchasing loans on properties with USDA Section 515 debt. These challenges are present both externally in market conditions and internally through necessary underwriting and infrastructure changes.~~

~~First, there are the limited financing sources for these properties. 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. Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. Likely, the Freddie Mac loan product will have a different loan and legal structure than the current financing option to this market.~~

~~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 is different from long-term HAP contracts, which Freddie Mac has a history of doing. 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 Section 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, unlike most markets, where one could expect awareness and 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 thousands and thousands of people and families.~~

~~These transactions will also be precedent setting. 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. Upon completion, we will issue press releases and/or publish news stories on our website that summarize the transactions and promote their replicability, which will lay a foundation for growth in purchases in future years.~~

~~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, 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 around 2028, the market has a well-functioning and well-tested execution in place to preserve a meaningful share of rental homes for tenants in need.~~

FREDDIE MAC

RURAL

2020

ACTIVITY:

4 - Small Multifamily Rental Properties in Rural Areas

OBJECTIVE:

C - Research and Develop a New Offering to Support the USDA Section 538 Program

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Removal of 2020 objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

In 2019, we conducted research and published a report on the development of a new offering to support the USDA Section 538 Program. This research revealed that there exists sufficient liquidity and access to the capital markets for the Section 538 Program at more economical interest rates than Freddie Mac would be able to offer. As such, we would not serve a beneficial role in the market by developing an uncompetitive offering for purchasing Section 538 Guaranteed loans. Therefore, we are modifying the 2020 Duty to Serve plan by removing Activity 4 Objective C.

OBJECTIVE C: RESEARCH AND DEVELOP A NEW OFFERING TO SUPPORT THE USDA SECTION 538 PROGRAM

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

Freddie Mac recognizes that there is a large need to serve small properties in rural areas, which are often associated with USDA subsidies. Outside of the 515 program, the 538 program is the next most prevalent single source of financing for small, five-to-50-unit rural properties. This program has grown in scope and budget in recent years, and has been well adopted. Based on our preliminary discussions with rural mortgage lenders and borrowers, there is some market interest in Freddie Mac purchasing 538 guaranteed loans, whether or not these loans also support 515 properties.

The 538 program has unique parameters that may or may not be compatible with Freddie Mac's infrastructure and risk-distribution network. Moreover, there are nuances to the use of this program that need to be better understood before we can develop a product that will provide additive benefit to the market.

In Year 2 of our Plan, we intend to conduct a research effort to better understand the market for small rural multifamily properties, the role of the 538 program in supporting them, the geographic distribution of 538 loans relative to the need for financing, and the 538 program parameters that might influence where and how this program is used. While we intend to use this research to aid in our product development efforts, we believe it is important to make this research public as well to increase awareness of the financing needs and opportunities in rural markets and attract more private capital to support rural properties and communities. Therefore, we will publish a report on our findings in 2019.

Based on our research completed and published in Year 2, we plan to act upon our findings and develop a loan offering in Year 3 to support properties with USDA 538 debt if our research reveals that there is a role for Freddie Mac. At this time, it is difficult to determine the scope and parameters of the new offering without a better understanding of the market, but the following guiding principles will apply:

1. We will seek to provide additive benefit that extends the reach or scope of the 538 program.
2. We will maintain prudent credit standards to ensure long-term stability and safety and soundness.
3. We will seek to attract private capital to rural markets by leveraging our market-leading risk-distribution methods, such as our K-Deal and PC executions.

By staying true to these principles, we anticipate that our offering will provide the market with greater access to capital to preserve long term affordability of small multifamily properties in rural areas, and enable the further growth of the 538 program.

Baseline

To date, we have had preliminary conversations with rural mortgage lenders and the USDA to understand the 538 program and determine that there is potential for Freddie Mac to have a role supporting this program. We have not performed or published formal research on the 538 program, nor do we have experience purchasing 538 guaranteed loans.

Challenges, Actions and Market Impacts

Supporting small rural properties through the 538 program poses several challenges, from the disparate geographic locations, to borrower awareness, to challenging local economies that may affect the long-term occupancy of small properties. These challenges, as well as the actions we will take to address them, are summarized below:

Market Challenge	Freddie Mac Action
Limited scope and awareness of the 538 program ▪ The 538 program serves an important segment of rural markets, and is well known within the rural financing market. However, it is not so well known in the broader market due to its specialized nature and the closely tied network of lenders and Ginnie Mae investors. This lack of awareness will make it challenging to identify Freddie Mac investors who have an interest in supporting the 538 program. **Product awareness** ▪ Borrowers are accustomed to working specifically with a few lenders to originate 538 loans, only two of which are also Freddie Mac Multifamily seller/servicers. **Lender acceptance** ▪ The level of effort to finance a small property is just as much as to finance a large property, but typical lender compensation structures do not reward them equally for their efforts. This compensation structure creates a disincentive to pursue financing for small properties. Freddie Mac sellers may not be motivated to market and originate this business due to its initial small scale and limited inventory. **Borrower and property features** ▪ The borrower set for this offering may be different than the traditional Freddie Mac borrower. ▪ Rural rental properties cannot benefit from the same economies of scale as urban or suburban properties due to the number of units. Per our analysis of 2015 American Communities Survey data, 83 percent of rural multifamily properties have fewer than 50 units.	**Year 2 – 2019** Build broader market awareness of the 538 program by publishing research in a report on our website. 1) Report will evaluate the scope and potential of the 538 program based on data from sources such as: National Housing Preservation Database, data.gov, HUD, and Census Bureau. 2) In support of our report, we will take the following actions: a. Engage with at least two experienced 538 lenders to understand their use of the program. b. Reach out to at least one investor in securities backed by loans guaranteed by the 538 program to understand their needs. c. Engage with at least one leading researcher on rural markets and the 538 program to help inform our research. 3) Report will include the following: a. Market size estimate for current properties with the section 538 guarantee b. Geographic distribution of current 538 properties and the geographic scope of the program c. An overview of the program and its use in the multifamily rural market 4) Publish a report on our website, promote it with a press release and share on social media so that research organizations, advocacy organizations, and lenders have access to the work. ~~**Year 3 – 2020**~~ ~~Develop and release loan offering to support the 538 program. Product development and roll out will include the following:~~ 1) ~~Implement internal working group to ensure all resources are allocated appropriately and alignment is maintained~~

	~~throughout the product development process.~~ 2) ~~Develop and/or update Freddie Mac legal documents to support the section 538 guarantee.~~ 3) ~~Establish credit parameters as evidenced by a product term sheet.~~ 4) ~~Publish official product term sheet on our website that defines the product and its purpose to enable borrowers and sellers to understand the new loan product. The term sheet will contain at least the following elements:~~ a. ~~Product overview and loan purpose~~ b. ~~Sponsor and/or property eligibility requirement~~ c. ~~Loan-to-Value Limits~~ d. ~~Debt coverage Limits~~ e. ~~Allowable lengths of loan term~~ f. ~~Allowable lengths of amortization~~ 5) ~~Provide one to three training sessions via webinar or in person for Freddie Mac sellers to provide loan offering details, benefits to the borrower, and origination procedures to ensure that Sellers have the knowledge to market the product effectively. To address the seller's concerns information will be provided regarding incentives and origination efficiencies to motivate sellers to originate transactions with USDA 538 debt.~~ 6) ~~Initiate one pilot transaction to test market acceptance—depending on when the product is released and this transaction is initiated, we may not purchase the loan during this Plan Term.~~
Market Impact	
USDA's 538 program has provided meaningful benefits to the rural market, particularly for five-to-fifty unit properties, and has increased in scope since its inception. At present, the primary market for 538 loans is generally comprised of four major lenders (though several other banks have originated the other portion of these loans), and the only secondary market for 538 loans is through Ginnie Mae. This concentration could limit the overall reach of the program and its ability to help more rural renters. By developing a broader market understanding of the 538 program and the benefits it provides, we can help attract broader market attention and understanding and additional investment capital to help support the needs of rural renters. We will use the results of this research and outreach to determine whether there is a viable and beneficial role for Freddie Mac to play in this market through the development of a Freddie Mac execution to support the 538 program. Through our potential loan offering and risk distribution methods, we may be able to attract more private capital to rural markets. Over time, as demand for 538 loans increases, there is potential for the allowable federal authorization	

for the 538 program to increase, which would further help to attract more private capital to support rural markets and provide safe and decent affordable housing to tenants across rural America.

FREDDIE MAC

RURAL

2020

ACTIVITY:

4 - Small Multifamily Rental Properties in Rural Areas

OBJECTIVE:

D - Develop a Tool to Identify LIHTC Properties and Section 8 Properties for Preservation Around the Country (Including DTS Designations)

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

We are planning on introducing a tool to help our seller/servicer network easily identify LIHTC and Section 8 Properties in need of preservation in Rural High Needs Areas.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☒ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☐ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

In order to provide better liquidity to the market, we developed a tool targeted specifically for our seller/servicer network to target LIHTC and Section 8 properties in need of preservation.

By allowing our seller/servicer network to have access to properties in high needs rural regions and properties that are reaching the end of their LITHC compliance period and may be eligible for sale and conversion to market rate, we are making the ability to finance these properties easier for our lenders.

The data we will leverage data will provide specific analytical and categorical capabilities to make it simple for lenders to maximize their attention on LIHTC and Section 8 properties in different markets. This tool will be especially helpful in advancing and financing development in rural micropolitan areas and rural high needs areas as the targeted search options in the tool will allow lenders interested in refinancing properties in need of preservation to target their search in order to best fit their needs. Our lenders will be able to search for properties based on specific features such as subsidy type, subsidy status and subsidy use and appropriately target properties in high needs rural areas.

This tool has a targeted audience for impact-oriented lenders and an intended use, and the prospect of lenders misusing this tool for other reasons other than refinancing subsidized properties is very low. This tool will be password protected and only accessible by a select group of lenders in our network. We have had multiple conversations with National Housing Preservation Database regarding the use of this tool and we have a data licensing agreement with them to ensure security of the data and the tool's purpose.

By providing a tool that aids in allowing our sellers to recapitalize and refinance properties in need of preservation, we are providing more liquidity to the market and creating more affordable housing in high needs rural regions.

OBJECTIVE D: DEVELOP A TOOL TO IDENTIFY LIHTC PROPERTIES AND SECTION 8 PROPERTIES FOR PRESERVATION AROUND THE COUNTRY (INCLUDING DTS DESIGNATIONS)

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

LIHTC and Section 8 are both broadly-defined programs designed to work anywhere and to be paired with specialized programs. Indeed, they are often used together in order to maximize the application of federal subsidies to support more affordable housing units than could have been supported by the programs when used individually. Additionally, the same purposes served by many of the other individual statutory programs identified in the Duty to Serve rule are also served through LIHTC and Section 8 independent of those more specific statutory programs, as many localities include requirements in the qualified allocation plans (QAP) used to award tax credits so they can direct tax-credit properties to meet locally-identified needs. Properties in rural regions and high needs rural regions are often subsidized by federal and state programs, particularly LIHTC and Section 8.

Rural regions and high needs rural regions are often particularly challenging to finance as a result of lack of resources, investment, and education. Preservation-minded borrowers can have a difficult time financing these properties because of lack of data on rural regions and the locations of existing subsidized properties.

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 an accessible way for owners around the country to search for LIHTC and Section 8 units in rural and high needs rural regions. A key component of this effort is the development of a tool that will clearly identify these subsidized properties and their owners in these locations and categorize and label properties so owners, developers, and all participants in our seller/servicer network can better understand precedents, opportunities, and challenges in rural high needs areas. This tool will be inclusive of all rural areas and include filters to specify if a Section 8 or LIHTC property is located in a high-needs rural region.

Baseline

Freddie Mac created our Mission Map™ to identify several different geographic areas, such as Rural Regions and High Needs Rural Regions and properties with major public subsidies located there. We intend to expand upon the impact of our Mission Map™ and create a new tool designed specifically for our seller/servicers that includes analytical features and owner data to allow our seller/servicers to more efficiently pursue rural preservation opportunities. There are currently no equivalent offerings in the market.

Challenges, Actions and Market Impacts

<table>
<tr><th>Market Challenge</th><th>Freddie Mac Action</th></tr>
<tr><td>
Lack of accessible data on LIHTC and Section 8 properties
Within both LIHTC and Section 8 properties, there are some data elements that are difficult or nearly impossible to find. It is also very difficult to duplicate this data, therefore external vendors or databases would need to be utilized.
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
Lenders are often unaware of LIHTC and Section 8 preservation opportunities in rural markets. This tool will eliminate that problem.
Private capital investment is lacking in rural areas.
</td><td>
Year 3 – 2020
1) Create a tool designed specifically for the preservation of LIHTC and Section 8 subsidized properties in rural regions. Initiate a technology project that will ultimately deliver an interactive analytical tool to identify LIHTC and Section 8 properties in rural areas and high-needs rural census tracts for preservation purposes. The tool will include:
a. Duty to Serve Areas: Rural, Middle Appalachia, Lower Mississippi Delta, Persistent Poverty County, ACP, High Opportunity Area
b. Program name or subsidy type associated with the property
c. Use of LIHTC subsidy (new construction, acquisition and rehab, existing) or Section 8
d. Start year and end date of the subsidy
e. The subsidy status of the property
f. Type of ownership of the property
g. Standard property geography, including specifically marked LIHTC and Section 8 properties within micropolitan rural regions
h. Fully restricted properties
i. Name of property owner(s)
</td></tr>
</table>

	j. Number of units and subsidized units k. Any additional programs the property is subsidized with *Note that some filters in the tool are specific to only LIHTC or Section 8 properties.

Market Impact
Through creating a service that will outline which owners have LIHTC and Section 8 properties within rural and high needs rural regions, Freddie Mac is making it easier our seller/servicers to find and finance subsidized properties in need of preservation. By creating this tool designed specifically for our seller/servicer network, we are making financing these properties easier for our lenders. This is especially important for properties in high needs rural regions and for properties that are reaching the end of their LIHTC compliance period and may be eligible for sale and conversion to market rate. This tool will also be instrumental in providing lenders with the opportunity to work with owners in order to refinance and recapitalize on properties using Freddie Mac loans offerings and other programs to preserve affordability for the long term. This new tool will be particularly helpful to owners, as it allows for reasonably resourceful lenders to approach these properties with appropriate financing.

Freddie Mac
We make home possible®

Freddie Mac Proposed Modifications to the 2018-2020 Duty to Serve Underserved Markets Plan
Year 3 - 2020

Affordable Housing Preservation

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

ACTIVITY:

4 - Section 515: Statutory Activity

OBJECTIVE:

B - Make Purchases to Preserve Properties with USDA Section 515 Debt

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Removal of objective.

JUSTIFICATION FOR PROPOSED MODIFICATION

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

FHFA determined our development of a USDA 515 product (AHP Activity 4, Objective A) to be infeasible in 2018, as we were unable to come to terms with USDA on a subordination agreement that would meet market standards. The actions planned for this objective in 2020 were contingent upon the feasibility of the USDA 515 product objective (AHP Activity 4, Objective A) in 2018.

Freddie Mac continues to engage with the USDA in order to determine a path forward on a feasible product solution. Circumstances external to Freddie Mac that led to the initial infeasibility declaration have not yet been resolved. As such, we request to remove this objective from our plan in 2020 though we intend to continue to work with USDA to find a mutually beneficial way to provide liquidity for USDA product preservation.

~~OBJECTIVE B: MAKE PURCHASES TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT~~

~~Evaluation Area~~	~~Year~~	~~Incomes Targeted~~	~~Extra Credit~~
~~Loan Purchase~~	~~3~~	~~VLI and LI~~	~~Not applicable~~

~~Purchases of properties with USDA 515 debt are an integral part of our strategy of providing liquidity in support of the 515 program and the rural multifamily housing market. After establishing and piloting a loan product for properties with four percent tax credits and USDA 515 debt, Freddie Mac will focus on the purchase of loans on these properties. This will provide relief from the maturing mortgage crises and preserve affordability for rural properties. Maintaining long term affordability is key to providing rural areas with a stable source of housing. As a result of our outreach, we have determined that properties with USDA 515 debt are usually originated in portfolios of multiple properties and that it could take as long as three years to originate one portfolio with USDA 515 debt. While approximately 75 percent of USDA 515 properties fall within rural defined areas, there are a substantial amount of properties with 515 debt that exist across the country. To mitigate the risks involved with the maturing mortgage crisis, we will also support financing of properties outside of rural areas.~~

~~Given the many challenges of providing financing for 515 properties, purchasing loans and promoting those purchases and their replicability through press releases or news stories on our website will be fundamental to growing this market over time.~~

~~Baseline~~

~~We have not made any purchases of loans on properties with section 515 debt since 2010, therefore our three-year average baseline is 0.~~

~~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, in Year 3 (2020), we plan to purchase two portfolios of loans on properties with USDA 515 debt. This target is dependent upon us initiating these transactions in Year 2 (2019), as these transactions often take two years to complete. If our loan product requires adjustments, we will likely adjust this target based on market feedback on our product offering.~~

~~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.~~

~~Challenges~~

~~There are several challenges involved in purchasing properties with USDA section 515 debt. These challenges include both external market conditions as well as necessary internal underwriting and infrastructure changes.~~

~~First, there are the limited financing sources for these properties. 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. Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. The Freddie Mac loan product likely will have a different loan and legal structure than the current financing option to this market.~~

~~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 section 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, unlike most markets, where one could expect awareness and 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 thousands and thousands of people and families.~~

~~These transactions will also be precedent setting. 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. Upon completion, we will issue press releases and/or publish news stories on our website that summarize the transactions and promote their replicability, which will lead to a growth in purchases in future years.~~

~~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, 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 around 2028 at 16,000 units per year, the market will have a well-functioning and well-tested execution in place to preserve a meaningful share of rental homes for tenants in need.~~

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

ACTIVITY:

7 - Financing of Energy or Water Efficiency Improvements on Single-Family Properties: Regulatory Activity

OBJECTIVE:

A - Research the Relationship of Energy-efficient Homes to Property Values and Mortgage Performance

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to remove the action under this objective related to disseminating consumer education or information at homebuyer events in partnership with entities supporting homeowners and homebuyers as well as working with our Borrower Help Centers to disseminate energy-efficiency information.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Holding homebuyer fairs during the coronavirus pandemic would be irresponsible and dangerous and would divert attention from counseling agencies' top-priority foreclosure prevention activities. By their nature, homebuyer fairs and the activities conducted during them involve large groups of people in a limited space and close personal interactions. Most state and local governments are prohibiting large in-person gatherings to help slow and prevent the spread of this deadly disease, in keeping with Centers for Disease Control and Prevention (CDC) recommendations. To comply with government and CDC guidelines, non-profit housing counseling agencies are providing remote access to services to the extent they can.

These agencies have also had to change their priorities and their approach to working with homeowners and potential homebuyers. Supporting foreclosure prevention activities has become the highest priority. Housing counselors still are providing homebuyer education and other housing counseling to the extent possible through an on-line platform or by telephone. However, they cannot take the additional time to cover energy-efficient home features and their benefits; in terms of priority, it would be a distraction to add information on that topic to existing curricula.

In addition, having our Borrower Help Centers distribute energy-efficiency information or add it to existing training will conflict with and draw resources away from counselors' priorities in the current environment. Therefore, it is appropriate to remove these actions from our Plan.

OBJECTIVE A: RESEARCH THE RELATIONSHIP OF ENERGY-EFFICIENT HOMES TO PROPERTY VALUES AND MORTGAGE PERFORMANCE

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

In 2016, Freddie Mac established its Energy Efficiency Task Force, a collaborative effort to learn about the energy efficiency market and the issues preventing its growth. Task force members consisted of executive level representatives of leading organizations in this market. During our meetings, we repeatedly heard about the lack of data to be used in product development. Several task force members encouraged us to take on research to help inform the market on the relationship of energy-efficient homes to property values and loan performance—two key factors that would inform future product design and policy decisions. Other than the product features and underwriting flexibilities described in the first section under this activity, Freddie Mac does not have a dedicated product or additional flexibilities to serve this market. Freddie Mac plans to conduct this research and use the findings to design energy efficiency product features and marketing campaigns about the value of energy efficiency.

Specifically, during the first year of the Plan, Freddie Mac will conduct research on of the relationship of energy-efficient homes to their property values and underlying loan performance. We plan to investigate the house price premium associated with energy efficiency improvements or better energy efficiency ratings. House price premiums are important to understand because many of our policy decisions are based on the value of properties that will serve as collateral for loans we purchase and eventually securitize. Further, we plan to compare the default risk for mortgages for energy improvements or on more energy-efficient homes to the default risk associated with other mortgages. This is important to understand because it will allow us to design appropriate requirements or flexibilites to more accurately manage the risk we take on when purchasing loans under this activity. Additionally, Freddie Mac plans to use the results of our research to adjust our product offerings in Year 2 under Objective B. We also intend to conduct periodic trending analysis after Year 3. Freddie Mac is uniquely situated to carry out this objective because we have a national presence, we can leverage larger data sets and we already have access to much of the foundational information needed.

In addition to using our research findings to inform our product design efforts, we also intend to use our findings to promote awareness about energy efficiency across the industry. Market participants told us that consumers have limited access to information about the value of energy efficient homes, and real estate professionals often do not have readily available property-level information. Both groups lack appropriate awareness about financing products available to pay for energy efficiency improvements. A 2012 study by Resource for the Future, a Washington, D.C.-based think tank, indicates that consumer behavior coupled with the absence of good information about the pay-offs from particular investments and the relatively low price of energy, have contributed to the lack of demand. Therefore, Freddie Mac intends to publish our research findings on our website during the second year and incorporate them into our customer training curriculums and industry event presentations during Year 3. In Year 3, we also plan to promote our findings to consumers to increase consumer access to education and information about the benefits of energy efficiency home improvements and first lien mortgage options available to finance them. For this, Freddie Mac will leverage its existing outreach capabilities, dedicated customer education teams and wide-ranging outreach and communications channels.

Baseline

Freddie Mac has never taken on this specific research. Existing studies have explored aspects of home price premiums and loan performance and suggest that the premiums associated with energy efficiency or green labels vary by geography and type.[i] However, existing studies have been conducted with limited scope or data and cannot be used empirically to design standardized requirements or scalable product flexibilities. Therefore, Freddie Mac sees an opportunity to expand house price research to a broader geographic area so we can apply our findings to our product design and policy development efforts described under Objective B. Additionally, a 2013 research report by the University of North Carolina's Center for Community Capital and the Institute for Market Transformation found "default risks are on average 32 percent lower in energy efficient homes even when other loan characteristics are considered. Under this objective, we plan to use this study as a baseline and expand our research scope with more recent data, more complete geographic coverage and more considerations for income and other differences between borrowers with energy efficient homes and those with non-energy efficient homes.

Challenges, Actions and Market Impacts

Challenge	Freddie Mac Action
Limited transaction-level data ▪ There is limited aggregate data to properly assess risks and model performance of properties with energy efficiency features. ▪ There is limited research on the impact of energy efficiency improvements on single family loan performance, property values, and eventually securities comprised of energy efficiency debt. ▪ There is inadequate information about energy-efficient property features. **No standard valuation methodology** ▪ There is no consistent nor widely adopted approach to account for the impact of energy efficiency improvements to property value. ▪ The industry recognizes the sales comparison approach as widely adopted and the preferred approach to support the value of properties. However, there is limited empirical data about the premium associated with energy efficiency home features. **Limited awareness** ▪ There are financing options in the marketplace but consumer awareness about them has remained low even in geographies where renewable energy is largely popular. ▪ Consumers have limited understanding of the benefits of energy-efficient homes. ▪ Real estate professionals have limited access to information about financing products available for energy efficiency improvements.	**Year 1 – 2018** 1) Procure external data and leverage internal data on energy efficiency ratings, property values, and property attributes. Data to be procured includes the following: a. Energy efficiency rating data from various home energy rating entities b. Parcel data c. Property level information, including heating/cooling system types d. Appraisal data e. Home sales data f. Real estate datasets 2) Design new, or leverage existing, internal models and define control group and independent variables needed to complete data analysis. Freddie Mac will seek input from our Energy Efficiency Task Force as these are developed. 3) Construct final sample dataset of statistically appropriate significance. We plan to obtain feedback on the size and characteristics of our final sample from our Energy Efficiency Task Force. 4) Conduct research on how house prices respond to energy efficiency improvements or better energy efficiency ratings by comparing sales prices and property values for energy rated or more energy-efficient homes to less energy-efficient homes, with considerations for property characteristics. Freddie Mac will build upon existing studies done to-date. 5) Evaluate the default risk of mortgages for energy efficiency improvements or on more energy-efficient homes compared to other mortgages by analyzing the likelihood of delinquency or default, with considerations for borrower, loan, and property characteristics. Freddie Mac will build upon existing studies done to-date. **Year 2 - 2019** 1) Provide FHFA a report that describes

	product development decisions or actions to be taken that directly result from research findings. 2) Incorporate research findings into the development of data collection requirements described under Objective C. 3) Publish the results of our analysis of property values and loan performance for mortgages associated with energy efficiency improvements or better energy efficiency ratings in a white paper. 4) Present or disseminate research findings in at least four industry events, during Freddie Mac Customer Advisory Council meetings, and via email to all Single-Family News subscribers. We plan to post the results of our research on our website. We also plan to drive traffic and create awareness about it by publishing at least one news article in our News Center page, publishing at least two blogs in both our consumer and corporate blog sites, and sending emails to all our News Center subscribers 5) Partner with various organizations, lenders, or energy advocacy groups and work with them to create links in their respective webpages that direct individuals to Freddie Mac's pages where our white paper and corresponding news articles and blogs are posted. **Year 3 – 2020** To support our loan purchase targets described in Objective C, we will provide education or information, based on our research findings, about the value of energy efficiency and first lien mortgage options available to consumers: ~~1) Disseminate consumer education or information in at least four homebuyer events in partnership with entities supporting homeowners and homebuyers and work with our Borrower Help Centers to disseminate energy efficiency information to their respective borrowers and prospective borrower clients.~~ ~~2)~~1) Publish a series of consumer-focused blogs on our blog site within Freddiemac.com that presents information derived from our research

	about the benefits of energy efficiency. ~~3)~~2) Incorporate information about energy efficiency product options into our ongoing real estate professional outreach efforts and partner with at least three real estate professional or trade organizations to coordinate outreach activities to their respective membership bases. ~~4)~~3) Conduct marketing campaigns about Freddie Mac product features (to be designed under Objective C) and the benefits of energy efficiency improvements. This is an activity that relates to Objective C but will be built upon the results of our research under this activity. Specifically, we will use the research findings related to loan performance to market our product flexibilities by providing information that will build lender confidence.

Market Impact

Performing this research will provide valuable information that is not currently available and therefore addresses a need that was repeatedly echoed during our outreach. The study’s conclusions will help set the foundation for this market since, by publishing it and through our extensive outreach efforts, it could be used by the industry to design products, collateral valuation methodologies, and underwriting requirements, beyond Freddie Mac’s efforts. Freddie Mac plans to use the research findings to inform our own product design efforts and in the design of our underwriting guidance, policies and product features under Objectives B and C. Although some studies of similar scope have been performed in the past, we plan to create larger datasets, use more recent data, and leverage our significant experience in collateral valuation and loan performance analytics to build upon existing studies. To meet this objective, we will need to obtain wide-ranging and comprehensive data to analyze which, given the lack of data standardization and absent of any single comprehensive data repository, will involve a high level of effort on Freddie Mac’s part. For example, we anticipate a significant effort to consolidate, dissect, clean, and reformat the various datasets we will procure into a usable dataset. Additionally, we anticipate having to spend significant resources mapping data files from datasets we procure into new datasets we will develop. We will leverage our experience in collateral valuation, data analytics, expertise in loan performance assessment and established partnerships with a wide range of energy efficiency participants.

During years 2 and 3, Freddie Mac plans to publish its findings to inform the market, including consumers, through industry outreach and education campaigns, as described under the section above, that will be designed to reach large and small lenders, consumers, real estate professionals, and a broad spectrum of entities. While the white paper will be an academic paper, we plan to summarize our findings for non-academic audiences and write blogs and news articles in consumer and lender-friendlier language to maximize the impact of our outreach and marketing campaigns. We believe these campaigns will directly address the lack of consumer information and industry awareness described above. We also anticipate that our outreach efforts will increase awareness about the benefits of energy efficiency. Educating consumers and real estate professionals about available financing options may also help increase market demand and lender adoption since consumers may start asking more about financing of energy efficiency improvements, real estate professionals may be able to address their customer needs, and consumer interest may prompt more lender participation. We anticipate a significant level of effort during years 2 and 3 given the high level of coordination between carrying out this objective, Objective C and managing all the outreach and communication tactics as described above.

[i] Walls, Margaret, Todd Gerarden, Karen Palmer and Xian Fang Bak. 2017. “Is energy efficiency capitalized into home prices? Evidence from three U.S. cities.” Journal of Environmental Economics and Management 82: 104-24.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

ACTIVITY:

8 - Support for Shared Equity Programs for Affordable Housing Preservation: Regulatory Activity

OBJECTIVE:

A - Develop Product Flexibilities and Guidelines that Facilitate New Mortgage Originations Under Shared Equity Programs

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to remove all 2020 actions under this objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

In response to the coronavirus pandemic, Freddie Mac has necessarily reprioritized system changes, with those required to support our pandemic response at the top of the list. As a result, we must delay our work to assess the comparative impacts of automating product flexibilities that we previously rolled out under this objective until we can prioritize and implement the most beneficial flexibilities.

Also because of the pandemic, shared equity program providers necessarily are focusing their time and resources on their response in support of their clients and partners. Participating in educational events to deepen their understanding of the secondary mortgage market’s lending guidelines would distract program providers from their current priorities. Therefore, we will defer providing that technical assistance.

OBJECTIVE A: DEVELOP PRODUCT FLEXIBILITIES AND GUIDELINES THAT FACILITATE NEW MORTGAGE ORIGINATIONS UNDER SHARED EQUITY PROGRAMS

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

Our Seller/Servicer Guide does not explicitly address many of the shared equity structures found in today's marketplace. Therefore, during the first year, Freddie Mac will focus on updating guidelines, terminology, and underwriting requirements–where appropriate–in alignment with current market practices. The emphasis during Year 1 is to develop product flexibilities that support the market as is (non-standardized) by adapting some of our guidelines to existing market practices and reorganizing some of the contents of our Guide to help lenders and program administrators find our requirements more easily. Although Seller/Servicer Guide updates are usually the broadest vehicle to introduce product flexibilities, we may start with pilots prior to issuing Seller/Servicer Guide updates since many of the new underwriting guidelines we will introduce need to support non-standardized programs and may require further fine-tuning as the market adopts them. Pilots provide us with the greatest flexibility to tailor guidelines to specific programs. They also give us the ability to adjust them as we go and provide us with loan data that we plan to use for further product development.

During Year 1, Freddie Mac will also partner with a leading shared equity trade organization to produce a white paper that will provide a recommended framework with clear distinctions on how shared appreciation structures have been or may be applied to preserve affordability over time. In the prior version of Freddie Mac's Plan, we included an objective to invest in the research and development of a shared appreciation loan fund that was designed to provide homeownership opportunities with lasting affordability to low- and moderate-income homeowners. Partially funded by Freddie Mac, the work to assess the feasibility of such fund started in 2016 and has been ongoing through 2017. During the third quarter of 2017, Freddie Mac was informed about the decision to stop the pursuit of the fund because the latest results of the feasibility study proved the concept, as designed, to be unfeasible in current market conditions. Therefore, Freddie Mac removed it as an objective in this revised Plan but believes the market can benefit from the lessons learned. The paper is intended to provide information to the market that can be used in program and product design based on the results of the research and feasibility assessment performed.

In Year 2, Freddie Mac intends to introduce more comprehensive and standardized product flexibilities that incorporate what we learn from pilots conducted in Year 1 and the analysis of loan pools we would purchase under Objective B. The emphasis during Year 2 is to support standardization and to build on the flexibilities designed in Year 1. For example, we intend to develop uniform legal instruments for the financing of properties under Community Land Trusts and design more explicit guidelines about collateral valuation of properties purchased under shared equity programs. In carrying out this objective, Freddie Mac's goal is to find the right balance between standardization and underwriting flexibility so program stewards have sufficient leeway to tailor programs based on their individual market needs while the loans originated–in aggregate–represent an operationally effective business opportunity for lenders; paving the way for the market to scale. Any guidelines or product flexibilities will be designed consistent with safety and soundness standards.

In addition, through public comments submitted to FHFA, market participants encouraged Freddie Mac to consider incentives to boost lender participation. We agree and believe that without incentives, the low production volumes in this market and the incremental operational burden for lenders to originate loans under eligible programs will continue to discourage lender participation. Freddie Mac acknowledges that niche programs and products are more expensive to implement than standardized ones and often present economically unfeasible value propositions for lenders.

Freddie Mac recognizes that product development along with our efforts to purchase loans, although important and impactful, may not be enough to improve the distribution of capital in this market. Lender participation is vital for shared equity programs to scale. Therefore, to increase lender participation Freddie Mac intends to identify appropriate incentives to encourage adoption of the product flexibilities and underwriting guidelines we plan to design.

While we work on product design and development, Freddie Mac will concurrently work with lenders, Housing Finance Agencies, Community Development Financial Institutions and program stewards to design and test appropriate incentives. Our primary goal will be to design incentives that expand secondary market activity, reduce administrative burdens or increase the economic business opportunity for lenders and other mortgage financing providers.

~~In Year 3, Freddie Mac intends to focus on automation of many of the guidelines introduced in years 1 and 2. Not all the guidelines and product flexibilities we introduce will be automated. Instead, Freddie Mac plans to automate those underwriting flexibilities which would facilitate easier and faster adoption of our product flexibilities by lenders.~~

Freddie Mac intends to automate flexibilities introduced in years 1 and 2 that have the greatest potential to facilitate product adoption. However, because system changes needed to support the company's response to the coronavirus pandemic take priority, automation of flexibilities introduced under this objective will be prioritized when the system update schedule allows.

Baseline

Freddie Mac purchases mortgages secured by properties with resale restrictions, other than age-based restrictions, that terminate at foreclosure and that survive foreclosure when the following requirements are met:

- The mortgage must be either a purchase transaction mortgage or a "no cash-out" refinance mortgage.
- The mortgage must be secured by a one-unit primary residence (not a manufactured home).
- Eligible property types are attached or detached dwelling units located on an individual lot or in a condominium project or planned unit development (PUD).
- The mortgage meets all other Seller/Servicer Guide requirements.

Additionally, for all mortgages secured by properties subject to income-based resale restrictions we only require two comparable sales, instead of three, with similar resale restrictions. Seller/Servicer Guide Sections 4201.17 and 6302.37 and Guide Exhibit 34 contain all other applicable requirements. We also have servicer guidelines in the Seller/Servicer Guide specific to Mortgaged Premises with income-based resale restrictions for when a servicer evaluates a borrower for a short sale or bids at a foreclosure sale that ensure resale restrictions are preserved through these loss mitigation activities.

Lastly, we allow secondary financing providers or another entity to share in the appreciation of the mortgage premises when the secondary financing meets Freddie Mac's Affordable Seconds requirements. The specific requirements are described in Guide Section 4204.1.

Challenges, Actions and Market Impacts

Underwriting Challenge	Freddie Mac Action
Limited or uncertain underwriting policies ▪ Freddie Mac does not explicitly provide guidelines to underwrite loans under shared equity programs. ▪ Freddie Mac allows loans with deed restrictions. However, this guideline when coupled with other traditional underwriting requirements does not enable many of the nuances of shared equity structures. ▪ Traditional collateral evaluation methods do not account for sale or resale price formulas used in shared equity programs. ▪ Without explicit guidance, lenders have concerns related to representations and warranties or repurchase risk. **Shared equity programs are not standard** ▪ Shared equity programs are structured differently and based on individual market needs. Therefore, it is challenging to design "one-size fits all" guidelines. **Manual underwriting** ▪ Given the lack of standardization, limited production volumes, and nuances of shared equity transactions, underwriting is generally done manually. This presents a resource burden for lenders and additional operational risk. Thus, many have opted out of participating in this market. **Lack of market data and information** ▪ Given the lack of standardized data collection mechanisms, data and information to systematically assess risks vs. potential product flexibilities is limited. **Lack of understanding of structures and legal mechanisms** ▪ Shared equity transactions are not widely understood by lenders. Given the non-traditional structure of shared equity loans and the deed covenants in place, many lenders have shied away from originating these loans. **Low production and high costs** ▪ The limited sales and resales data we have	**Year 1 – 2018** 1) Publish updated underwriting flexibilities in the Seller/Servicer Guide that reduce barriers to originating loans under Duty to Serve-eligible shared equity programs and address shared equity programs by type including guidance on which requirements apply to each program type. 2) Reorganize and consolidate applicable and updated shared equity requirements into one section of the Seller/Servicer Guide. This will make the requirements easier to follow. 3) Commission and promote the publication of a white paper that will achieve the following: a. Provide thought leadership to the field on shared equity homeownership structures, b. Provide considerations to address when utilizing subsidy recapture strategies through shared appreciation loans, c. Identify factors that must be addressed in mortgage products to finance shared equity homes, d. Describe market conditions where shared appreciation loan funds are viable. 4) Initiate at least one pilot program with at least five lenders to test concept product features and underwriting guidelines where more data and/or performance information is needed prior to including them in the Seller/Servicer Guide. Specifically, we plan to test features that facilitate underwriting of loans under deed-restricted programs where secondary financing, using a subsidy vehicle, is currently outside of existing underwriting guidelines. We also plan to test lender acceptance and operational execution of uniform legal documents to support the origination of loans made under eligible community land trust programs. The pilot program will be deployed in partnership with shared equity programs serving geographic areas where home prices are least affordable and/or

reviewed point to relatively small production numbers on a yearly basis.

- Low production increases overall transactional costs for lenders. As such, many do not participate in the market.

Limited secondary market activity

- Investor demand to purchase shared equity loans is inadequate so many lenders end up keeping these loans in portfolio which often limits their participation unless they get balance sheet relief.
- Loans held in portfolio are likely to amount to small pools and therefore are not attractive to investors looking to purchase seasoned loans which generally look for more sizable pools to offset transactional costs.

where lender participation has been limited. We will identify programs to partner with in consultation with industry trades and organizations.

5) Develop lender incentives to complement the pilot programs described above. The incentives will be designed to encourage loan originations. Some examples include providing tools that minimize operational burdens, or including economic incentives at the transactional level when appropriate and within safety and soundness standards.

Year 2 - 2019

1) Provide FHFA with a comprehensive operational execution and market acceptance assessment of underwriting requirements, product capabilities and uniform legal documents introduced via pilots in Year 1.
2) Issue new Seller/Servicer Guide underwriting requirements and collateral valuation guidelines, for loans made under Duty-to-Serve eligible deed-restricted programs. These guidelines will build upon our existing requirements the requirements developed and piloted in Year 1, the operational execution and market acceptance assessment described above and the results of our analysis of loans purchased under Objective B. While Freddie Mac will focus on supporting programs as they are currently designed in Year 1, during Year 2, Freddie Mac will also focus on advising a variety of programs on how to restructure their programs so they better align with the new product features and underwriting guidelines we plan to introduce. This effort will help program standardization which, in turn, should help encourage lender adoption.
3) Design uniform legal documents and make them available to lenders in the Seller/Servicer Guide. These will be focused on supporting the origination of loans under Duty-to-Serve eligible community land trust programs and developed based on the results of the pilot conducted in Year 1.

~~**Year 3 – 2020**~~

	1) ~~Provide a report to FHFA that provides a comprehensive assessment of the impact of automating product flexibilities to determine which ones would facilitate more adoption of Freddie Mac's products and reduce operational burdens for lenders more efficiently.~~ 2) ~~Implement and announce automation of the chosen product flexibilities via the Seller/Servicers Guide.~~ 3) ~~Continue working with program administrators by providing technical expertise about secondary guidelines to promote standardization of this market in a way that lender adoption incrementally continues.~~

Market Impact

Introducing underwriting requirements based on how shared equity programs are currently designed (non-standardized) in Year 1 will allow Freddie Mac to enter the market without disrupting the existing progress and market activity. Our research shows that shared equity programs are gaining popularity, albeit slowly. Based on our experience, we understand that introducing drastic changes in Year 1, such as attempting to standardize programs, may compromise market activity because program administrators would have to adapt to how lenders would be reviewing their programs under new underwriting requirements while revising their program parameters. Given the scarce resources and limited funding of these programs, this level of effort may not be feasible. However, we believe that pursuing this objective as described in Year 1, will provide lenders with more confidence and guidance to originate loans, which, coupled with lender incentives, should spur lender participation without disrupting the existing momentum in the market. Additionally, originating loans to Freddie Mac's product guidelines will offer lenders flexibility to sell those loans to Freddie Mac and, therefore, the market should start benefiting from the increased access to liquidity. Our research shows that lenders that are currently participating in this market may be holding loans in portfolio due to the mismatch between our existing product requirements and program structures.

The white paper on shared appreciation loan fund structures we have commissioned will be based on the work done in 2016 and the first half of 2017 which is the only initiative to-date that explored whether shared appreciation loans may be designed with public and private capital to provide homeownership with lasting affordability. Freddie Mac understands that the emerging space of shared appreciation lacks a framework to scale and that the lessons learned from the prior work described above will present valuable information on how shared appreciation has been or may be applied prospectively to preserve affordability over time. The white paper will provide a recommended framework that can be used by Freddie Mac, state and local agencies focused on affordable housing preservation, affordable housing advocates, lenders and experts within housing finance. The paper will also help prevent the market from unnecessarily "reinventing the wheel" when exploring shared equity funding mechanisms and provide useful information that can be built upon to advance shared appreciation loans for affordable housing and its preservation.

Through the design of appropriate incentives, Freddie Mac also hopes to offset some of the barriers lenders are currently faced with. Given the lack of standardization in the market and because of its limited size, we foresee a significant level of effort to find the right incentives, within safety and soundness standards, to improve lender adoption as described in this objective. Nevertheless, we deem this objective to be a key catalyst for market growth. Appropriate incentives coupled with our product development and purchase efforts are likely to jumpstart activity under this market and set it up for incremental growth. The market feedback on incentives is that without them the market will continue to be underserved by lenders or other mortgage finance providers. Therefore, Freddie Mac believes that, although challenging to pursue, this objective represents a meaningful impact in addressing this market's needs.

Our efforts will be substantially greater in Year 2 than in Year 1 since we will not only be designing comprehensive underwriting requirements but we will be working with program stewards and lenders to help standardize this market. This means that while we work with lenders to adopt our underwriting standards, we will also be working with program administrators to help influence changes to their program structures that are in alignment with our new product features. We expect that this level of coordination to standardize the market will help reduce lenders' operational costs, provide more origination confidence and may help alleviate lender repurchase concerns. Therefore, we also expect that lenders would incrementally increase their appetite to originate loans under eligible programs that leverage our underwriting flexibilities and increase deliveries to Freddie Mac. This would result in more liquidity for the market than in Year 1 and it would help inform our future loan purchase goals.

~~By Year 3, we expect to further minimize lenders' operational burdens by automating certain product flexibilities and requirements designed in years 1 and 2 Automation of underwriting flexibilities, given its anticipated system impacts, development costs and system integration needs, is always an arduous undertaking. As such, we intend to approach this effort strategically. Automation will be focused on facilitating adoption by lenders and reducing their operational costs while providing them with more confidence to originate loans.~~ Overall, ~~during the first three years of the Plan,~~ we expect to see gradual adoption of our flexibilities, increased lender interest, incremental loan purchases, and reasonable market growth. We expect all these objectives to lay the foundation to design loan purchase metrics in subsequent years of the Plan.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

ACTIVITY:

8 - Support for Shared Equity Programs for Affordable Housing Preservation: Regulatory Activity

OBJECTIVE:

C - Support Standardization of Data Collection at the Transaction Level

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Freddie Mac proposes to modify the number of program participants in the pilot testing newly developed system capabilities, lowering it to nine from the original target of 10 to 15.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☐ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☒ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

Testing began on newly designed HomeKeeper tool capabilities that will make it easier for shared equity homeownership program providers to gather and transmit information to lenders, with nine community land trust (CLT) program providers completing the effort to date. Additional CLT providers and lenders were scheduled to test the tool in second quarter 2020.

Because of the coronavirus pandemic, lenders have shifted their focus to assisting customers who have been adversely affected and implementing the GSEs' servicing and origination policy changes. In addition, because demand for refinances has grown as interest rates have dropped to historic lows, maintaining service levels has become a higher priority. Lenders are delaying product development and releases, and some have temporarily stopped offering niche products, which includes those that support shared equity homeownership.

CLTs also have shifted their focus to critical housing-related relief efforts that support the people and communities in which they operate. With the development of the tool complete and sufficient testing done to give us and Grounded Solutions Network confidence in the HomeKeeper enhancements, no additional testing by CLT providers is required.

OBJECTIVE C: SUPPORT STANDARDIZATION OF DATA COLLECTION AT THE TRANSACTION LEVEL

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

Freddie Mac understands that the lack of uniformity across shared equity programs has kept the market fragmented. While all shared equity programs are designed with the same objective to maintain affordability—they frequently have unique characteristics and employ a variety of data collection methods and operational processes. This presents a challenge for investors and lenders when trying to evaluate the market because aggregate data and market trends cannot be produced. Additionally, the lack of uniformity across programs makes assessing each program for Duty to Serve eligibility challenging and labor intensive.

Therefore, during the Plan cycle, Freddie Mac plans to partner with a leading shared equity trade organization and various shared equity programs to support the expansion, development and adoption of a web-based application already in use by many shared equity programs. This web-based application will be developed to provide system capabilities to help lenders and Freddie Mac evaluate program and transaction eligibility and allow lenders to access Freddie Mac's future shared equity product flexibilities and guidelines. Shared equity programs who adopt this web-based application will also be able to more easily keep inventory of affordable housing units over time, monitor the units to ensure affordability is preserved over resales, and support the homeowners to promote successful homeownership. Additionally, the application would help programs track borrowers' income levels and monitor refinance activities or lines of credit over time. Freddie Mac intends to use all the data captured through this system to inform its product design efforts under Objective A and over time.

Baseline

This is a new activity for Freddie Mac.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Slow shared equity application adoption ▪ Although the application we plan to support is the most widely adopted application, adoption has been slow. The majority of shared equity programs have yet to adopt it. **Laborious assessment of program eligibility** ▪ Currently there is no systematic way to evaluate program eligibility at the transaction level. Lenders would have to manually evaluate each program to originate loans under it. **Limited transaction-level data** ▪ Since programs are not uniform across the market, there is currently no aggregate dataset available to analyze market trends and mortgage or buyer information at the macro-market level. ▪ There is also no widely-adopted standardized method to collect transaction-level data. **No systematic approach to documenting program features** ▪ Each program has a unique way to document its program characteristics and features. As a result, no aggregate dataset that compiles an inventory of all programs and documents exists. **Lack of standardization** ▪ Shared equity programs are not standard across the market. ▪ Supporting non-standardized programs requires more lender resources, which, coupled with low production volumes, make the cost benefit of lender participation a non-viable economic business opportunity.	**Year 1 – 2018** 1) Partner with a leading shared equity trade organization and targeted shared equity programs to develop system capabilities to: a) document program features that would provide lenders and Freddie Mac with confidence that programs meet the definition of shared equity as set forth in the Duty to Serve regulation, and b) document that individual homebuyers and transactions meet eligibility criteria. 2) Test newly developed system capabilities through a pilot with at least 10 shared equity program administrators and provide adoption incentives to off-set system integration and adoption costs. The pilot will focus on testing operational execution and market acceptance of using a third-party system to track program eligibility and activity. It will also test lender capabilities to leverage system outputs to assess program eligibility with Duty-to-Serve requirements. We will look to align this pilot's targeted geographic markets with the pilots developed under Objective A. However, we may also conduct this pilot in additional markets. **Year 2 – 2019** 1) Prepare a report to be submitted to FHFA summarizing aggregate data and trends for shared equity programs, including mortgage and buyer financial information based on existing closing disclosure data submitted to the web-based application by participating organizations. 2) Use the report to inform the design of comprehensive product features described under Objective A **Year 3 – 2020** 1) Expand the number of program participants in the pilot ~~from 10 to 15~~ to nine to test newly developed system capabilities.

Market Impact

Carrying out this objective is a meaningful attempt to standardize the market and lay the foundation for future market growth, increased lender participation and increased adoption of the web-based application. For Freddie Mac, the execution of this objective will provide essential information and data to inform our product development efforts. It will also allow us to systematically and effectively verify that programs meet the Duty to Serve requirements. For lenders, it will remove barriers related to the manual or laborious assessment of program features or eligibility when originating loans under shared equity programs. And, it will provide incentives for lenders to adopt the application knowing that both they and Freddie Mac would rely on it to understand and document program eligibility at the transaction level.

The application we plan to build upon for this objective is already in use by approximately 70 shared equity program administrators. However, its adoption has been limited given the operational costs of system integration and limited program funding. Freddie Mac's engagement and endorsement of this application will impact the market by spurring adoption of this application which will systematically improve standardization of data collection for product design and future market growth. Additionally, the application as currently designed provides a utility to shared equity program administrators only. Under this objective, Freddie Mac plans to partner with a leading shared equity trade organization to build system capabilities, so the utility of the system also serves lenders by providing assurance that programs meet Duty to Serve requirements, which will be a purchase-eligibility requirement under the product features and underwriting flexibilities we plan to design under Objective A.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

ACTIVITY:

9 - Support for Residential Economic Diversity: Additional Activity: Regulatory Activity

OBJECTIVE:

B - Create a Mapping Tool to Enable Deeper Understanding of the Various Aspects of RED

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

We are planning on adding additional high opportunity indicators to our mapping tool in order to provide a greater impact to the market.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☒ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☐ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

We are planning to add a 2020 objective in Activity 9, Objective B by adding key opportunity indicators to our Mission Map mapping tool.

By expanding the mapping tool to include specific indicators of opportunity, we will be able to provide a greater impact to the market overall. Adding opportunity indicators to the mapping tool will allow for various parties to benefit, including investors, researchers, policy makers, localities and people living in these communities throughout the country.

This tool will be available for free to our network of seller/servicers and owners around the country who will be able to target subsidized properties for preservation and investment efforts. Impact-minded investors will be able to better focus private capital in order to achieve growth in areas of high opportunity and meet social impact goals for their portfolio, which will in turn enable more cost-effective lending over time based on capital markets demand. Further development and rehabilitation of properties in these areas will support more affordable housing and spur development in areas of opportunity.

This addition to the mapping tool can also influence localities and policy makers as we are able to provide a more granular and measured view of opportunity that otherwise would not have existed in this capacity. Policy makers will be able to develop their own programmatic definitions of opportunity and focus their efforts more clearly. By adding high opportunity indicators to the mapping tool, policy makers and localities will be able to better understand the scope of high opportunity areas and take progressive action in order to better influence growth and development in these areas. We plan to continue to work with localities and leverage additional programs along with our loan offerings to support more affordable housing and provide a greater impact in the market.

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

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

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

In the final year of our plan, we intend to expand this mapping tool by adding additional data to incorporate the indicators of opportunity that are most commonly found in LIHTC QAPs based on our analysis in year one of our plan and that have readily available data with national reach. These indicators include: proximity to transit, educational attainment, access to employment, and income.

Baseline

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

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Lack of accessible data on Residential Economic Diversity and housing ▪ Current data on housing and RED is unconsolidated due, in part, to a lack of institutional investment and to the vast scope of this concept. As a result, the locations and characteristics of properties supporting RED are not clearly documented in a consolidated, accessible manner. **Market awareness** ▪ Not all states and localities actively promote Residential Economic Diversity ▪ The public is often unaware of the benefits and methods of achieving Residential Economic Diversity.	1) **Year 1 – 2018** 2) Initiate a technology project that will ultimately deliver an interactive mapping tool to identify FHFA-defined areas of interest for RED, affordable and mixed-income properties in those areas as well as: a. If the property meets regulatory agreements for housing subsidies or is market rate (note that we can only perform this service where the data exists, so we cannot likely capture and provide this information in all cases) b. Contact information for a Freddie Mac representative 3) How the tool will be used: a. The tool will be available to our network of seller/servicers who will be able to target localities that support RED b. Localities will more easily recognize locations that count as FHFA-identified high opportunity areas where Freddie Mac is seeking to provide financing, and can adjust their focus as appropriate. c. Freddie Mac will likely use the tool to locate properties that meet RED requirements and seek to provide financing for them. d. Tool will allow users to query by address or other geographic markers to be determined during development. 4) Take the following steps to achieve this : a. Identify/Develop appropriate software for the tool b. Aggregate and align data for use in mapping tool from a selection of the following sources as well as others we may discover in our work: The National Housing Preservation Database, data.gov, HUD, Harvard's Equality of Opportunity Project, and Census Bureau information.

	c. Test the mapping tool in beta form prior to formal release. 5) Solicit market feedback (from research and policy organizations, localities, borrowers, seller/servicers) and release official product to the public- 6) While this is a one year objective, we plan to make this tool available to the public in Year 2. We will also make changes as necessary based on feedback from seller/servicers, developers, and borrowers. These updates may also include data changes from FHFA, HUD, or external vendors. **Year 3 – 2020** 1) Enhance the mapping tool to include indicators of opportunity: proximity to transit, educational attainment, access to employment, and income. 2) Promote the mapping tool online and through email marketing channels.
Resource Challenge	**Freddie Mac Action**
Deficiency of consolidated data ▪ Gathering the necessary data to create the mapping system will be labor intensive. ▪ We will need to purchase data from external vendors which can be costly. **Software development** ▪ Creating internal software can be a time-consuming process. ▪ Development cycle will require multiple tests to ensure the products' practicality, ▪ There will need to be multiple teams of developers, testers, researchers, and business planners to implement this product	**Year 1 – 2018** 1) Assemble a design team. Bring together the necessary individuals from IT, Research, and Business teams who will design and implement the product. 2) Reach out to external vendors to acquire or purchase the necessary data to build the platform. Note: With any mapping and searching of data, there will be a margin of error in trying to identify exact locations of properties—address mismatches and latitude/longitude imprecisions may create some ambiguity or false positives in a small minority of cases. 3) Identify the needs of stakeholders, including, but not limited to: a. Research and policy organizations b. Localities c. Borrowers d. Seller/Servicers

Market Impact

Residential Economic Diversity is ultimately a method of promoting opportunity and social and economic mobility.

This mapping tool will act as a foundation of research that will broaden the markets' knowledge of economic diversity in housing. Much academic research has been conducted that suggests that promoting economic diversity in neighborhoods leads to healthy and sustainable communities. In creating a mapping service that will outline what properties support and promote RED, Freddie Mac is making it easier for other lenders and developers to engage in RED activities.

We expect that this mapping tool will have multiple uses and therefore benefit various parties, including: researchers, policy makers, localities, developers, and ultimately people and communities around the country. Given the breadth of RED as a concept, it is challenging to focus disparate information and fields of study into tools that will enable concrete actions. We believe this mapping service will establish an important foundation to decrease barriers to public policy decision making and financing decisions and allow for the better focusing of private capital for the purpose of promoting RED. We anticipate that this tool will have a great deal of impact on the market by (1) enabling investors to understand what properties meet the requirements for RED, whether the Duty to Serve definitions of high opportunity area and area of concentrated poverty unintentionally exclude areas that promote economic diversity, (2) enabling researchers to better study the distribution of properties and investment in these areas, and (3) enabling policy makers and localities to learn from each other's efforts and make well-considered decisions about how to best promote RED, (4) enabling our seller/servicer network to deliberately target for financing properties that support RED in these areas, and (5) enabling states who value RED in their QAP but do not have their high opportunity areas mapped to leverage our mapping service— over time we can envision using this tool to map all high opportunity areas prioritized by states in their QAP.

Through these factors, and likely more as the tool is released to the public and gains market adoption, we will enable greater liquidity in the market for properties supporting RED.

Year 3 – 2020

Through adding opportunity indicators to our mapping tool, we expect that this tool will have multiple uses and therefore benefit various parties, including: investors, researchers, policy makers, localities, developers, and ultimately people and communities around the country. We believe this addition to our mapping tool will be an essential service for impact-minded investors looking to better focus private capital for the purpose of achieving growth in areas of high opportunity and meet social impact goals for their portfolios. This can enable more cost-effective lending over time based on capital markets demand. We are also providing localities and policy makers with a more granular view of opportunity, not just through areas that have already been determined by FHFA as high opportunity. This will allow policy makers to leverage our tool, develop their own larger, programmatic definitions of opportunity, and focus their efforts more clearly. We will continue to work with localities and leverage new programs along with our loan offerings to support more affordable housing in high opportunity areas and to help more areas become areas of opportunity.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

ACTIVITY:

9 - Support for Residential Economic Diversity: Additional Activity: Regulatory Activity

OBJECTIVE:

C - Conduct and Publish Three Research Projects on Housing in High Opportunity Areas

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

We are planning to modify Activity 9 Objective C out of our 2020 plan as an additional case study report will not provide additional impact to the market. Instead, we will focus our resources and efforts on expanding our Mission Map as shown in our modification for AHP Activity 9 Objective B.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☒ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☐ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

In 2020, we are seeking to modify our plan to increase and focus our impact on high opportunity areas. We are removing the third year of Activity 9, Objective C because we believe that our paper in 2019 was sufficiently comprehensive, spanning multiple markets and property types, and that an additional series of case studies would not substantially increase the impact on the market. We learned valuable information from our 2019 report, such as the importance of innovative financing through SFIs and CDFIs, which will enable us to have a more successful and improved business model in the future. In 2020, we will focus our resources and efforts on expanding our Mission Map, which will have broad applicability to investors, localities, lenders, borrowers, policymakers, and researchers. An in-depth description of this change can be seen in our modification for AHP Activity 9 Objective B.

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

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

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

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

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

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

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

Our work is summarized as follows:

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

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

~~**Year 3 – 2020.** Since high opportunity neighborhoods are found across the country, in the final year of our Plan, we will conduct three additional case studies on properties in communities not covered in 2019. This will allow for a deeper understanding of the different ways that RED can be furthered nationwide.~~

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

Baseline

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

Challenges, Actions and Market Impacts

Challenges	Freddie Mac Action
Lack of easily accessible data on high opportunity areas and housing ▪ Gathering information that relates to high opportunity areas will be difficult, as there are many disparate sources of data, not all of which are publicly available. Throughout the course of our research there have been instances where data was temporarily unavailable or where combining sources proved to be more difficult than originally anticipated. The wide range of topics that we intend to cover for our high opportunity research will rely heavily on data, and completing the objective within a narrow	**Year 1 – 2018** Leverage data aggregated and aligned in conjunction with the mapping tool described in Objective B above from a selection of the following and other sources we discover in our research to better understand housing in high opportunity areas: The National Housing Preservation Database, data.gov, HUD, Harvard's Equality of Opportunity Project, and Census Bureau, 1) Compare and contrast various definitions of high opportunity areas

timeframe will be very difficult if data issues are encountered.

Public is often unaware of the benefits of Residential Economic Diversity

- Public misconceptions regarding economic diversity and housing may play a role in creating preconceived notions that deter the creation and preservation of affordable housing in high opportunity areas

Definitional challenge

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

Resource challenge

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

2) Publish report on housing in high opportunity areas
3) This report will include at least the following:
    a. Comparison of definitions of high opportunity areas
    b. Analysis of the geographic distribution in high opportunity areas of LIHTC, Section 8, and other programs we may identify in our research, leveraging the data sources identified above
    c. Estimation of market size in high opportunity areas of LIHTC debt, Section 8, and other programs we may identify in our research, leveraging the data sources identified above
4) Report will be published on our website, distributed to research organizations, advocacy organizations, and the seller/servicer network, and will be promoted with a press release.
5) Engage with at least two leading researchers on Residential Economic Diversity to help inform and structure our research and identify communities we should focus on in our case studies.

Year 2 – 2019

1) Identify and analyze three properties financed by Freddie Mac in high opportunity areas that are approaching economic diversity in different ways and conduct individual case studies for each community and property, comparing their approaches and their use of housing as a tool to further economic opportunity.
2) Draft a report on these three case studies. Report will include analysis of the approaches taken by each property in each community, the role of housing and housing programs used to promote Residential Economic Diversity, and the relationship between the specific housing and a selection of measures of opportunity identified in different definitions of high opportunity areas. This report will identify factors that successfully enabled affordable housing to be developed and financed so that these factors may be replicated elsewhere. We will also identify factors that inhibit or make more difficult the promotion of Residential Economic Diversity and pathways to avoid or mitigate these challenges.

	3) Report will be published on our website, promoted with a press release, and shared on social media so that research organizations, advocacy organizations, and lenders have access to the work. 4) Engage with at least two leading researchers on Residential Economic Diversity to review or discuss our research. ~~**Year 3 – 2020**~~ 1) ~~Our research in Year 3 will build off our findings in 2019 regarding steps communities can take to promote RED, by selecting three additional properties financed by Freddie Mac that have successfully promoted Residential Economic Diversity and evaluating how their approaches to economic diversity may be different in various parts of the country.~~ 2) ~~To do this we will identify and analyze three high opportunity areas in which Freddie Mac has provided financing for affordable housing, and draft a report on these three case studies. Report will include analysis in different high opportunity areas for which Freddie Mac has provided financing, how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were effectively leveraged in conjunction with Freddie Mac financing to support these properties. Through these case studies we will identify replicable development models, financing models, and approaches and tools states and localities can use to facilitate development and financing of affordable housing in high opportunity areas. Report will be published on our website, promoted with a press release, and shared on social media so that research organizations advocacy organizations, and lenders have access to the work.~~ 3) ~~Engage with at least two leading researchers on Residential Economic Diversity to review or discuss our research.~~

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

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

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

~~**Year 3 – 2020.** Our publication in Year 3 will build upon our findings in Year 2 as we seek to take the lessons of community development identified in Year 2 and apply them to three additional affordable properties that promote RED. Our focus on replicability, not just of our debt, but also of steps communities can take to further development and make transactions work, will provide a clear signal to the market of how to facilitate more development in support of Residential Economic Diversity, and how to promote greater opportunity for residents in strong, sustainable communities. This will lead to greater liquidity in this market as more developers, lenders, and localities leverage the tools and new standards identified in our analysis.~~

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

ACTIVITY:

9 - Support for Residential Economic Diversity: Additional Activity: Regulatory Activity

OBJECTIVE:

D - Conduct and Publish Three Research Projects on Housing in Areas of Concentrated Poverty (QCTs and R/ECAPs)

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

JUSTIFICATION FOR PROPOSED MODIFICATION:

☒ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☐ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

We are seeking to modify this Objective to increase our impact in the market and build upon our 2019 work under this objective.

Our 2019 research on mixed-income properties within areas of concentrated poverty (ACPs) looked at three case studies and demonstrated that, in the right conditions, mixed-income housing can be successfully developed in ACPs. In our 2019 report, we were able to identify the benefits of the development of mixed-income housing in areas of concentrated poverty, such as an increase in the tax base and the possibility to further other aspects of the market like job opportunities and quality education. We also demonstrated successful financing tools in markets that are not typically thought of as mixed-income areas.

Our 2020 Plan called for us to examine an additional three case studies. We are modifying this objective to have a greater impact on the market by building on the lessons of our prior research to identify the commonalities in successful mixed-income development across all ACPs. We intend to use aggregated data from Yardi Matrix to identify ACPs and then, within that geography, mixed-income development. We will identify market factors that can be leveraged to further RED and opportunity through mixed-income housing in ACPs.

Our goal with this study is to identify several factors in mixed-income ACPs that can help the market better understand how to facilitate more development in support of RED and allow for greater investment and financing efforts to occur in ACPs. Our research will then focus on understanding how those developments succeeded to determine whether and the extent to which that success can be replicated. While our 2019 research focused on learning from in-depth case studies, we now want to understand the broader lens. This will help us – and the market – to focus on common themes and spur development activity in future years. Ultimately, our goal is to help investors identify good candidates for more such development to help deconcentrate poverty and create more affordable housing.

Our 2020 research is focused on helping the market better understand how to facilitate more development in ACPs in support of Residential Economic Diversity. We believe that our research will lead to more liquidity in the market as developers and communities across the country will continue to learn from findings in our research. We anticipate that the lessons learned from our research using Yardi Matrix data will enable us to tailor our offerings to increase liquidity for development in ACPs and further RED.

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

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

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

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

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

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

Our work is summarized as follows:

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

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

- **Year 3 – 2020.** In the final year of our plan, we will conduct research on the landscape of development activity in ACPs. We intend to leverage Yardi Matrix data to identify the prevalence of mixed-income properties across the country, with a special emphasis on ACPs, and further identify the challenges and opportunities for financing mixed-income housing in ACPs. We anticipate that this will lead to more liquidity in the market as other communities and developers learn from successes throughout the country. ~~we will conduct three additional case studies on three more properties to identify the challenges and opportunities for financing mixed-income housing in areas of concentrated poverty. We will examine~~

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

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

Baseline

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

Challenges, Actions and Market Impacts

Challenges	Freddie Mac Action
Promoting economic growth without the displacement of current neighborhood residents ▪ Many community rehabilitation programs have resulted in the displacement of residents that have been living there **Public perception and preference** ▪ Public misconceptions regarding economic diversity and housing may play a role in creating preconceived notions ▪ Higher income residents may be unwilling to live in areas of concentrated poverty without demonstrable local incentives **Definitional Challenge** ▪ Insufficient industry consensus on what is considered an area of concentrated poverty and methods to provide support ▪ Throughout the course of our research there have been instances where data was temporarily unavailable or where combining sources proved to be more difficult than originally anticipated. The wide range of topics that we intend to cover for our areas of concentrated poverty research will rely heavily on data, and completing the objective	**Year 1 – 2018** Leverage data aggregated and aligned in conjunction with the mapping tool described in Objective B above from a selection of the following and other sources we discover in our research to better understand housing in areas of concentrated poverty: National Housing Preservation Database, data.gov, HUD, Harvard's Equality of Opportunity Project, and Census Bureau. 1) Compare and contrast various definitions of areas of concentrated poverty. 2) Publish a report on housing in areas of concentrated poverty. This report will include at least the following: a. Comparison of definitions of areas of concentrated poverty b. Analysis of the geographic distribution in areas of concentrated poverty of LIHTC, Section 8, and other programs we may identify in our research, leveraging the data sources identified above c. Estimation of market size in areas of concentrated poverty for LIHTC debt,

within a narrow timeframe will be very difficult if data issues are encountered.

Resource Challenge

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

Section 8, and other programs we may identify in our research, leveraging the data sources identified above

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

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

Year 2 – 2019

1) Identify and analyze three properties in three different areas of concentrated poverty for which Freddie Mac has provided financing, that are approaching economic diversity, comparing their approaches and their use of housing as a tool to further economic opportunity.

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

3) Publish a report on our website, promote it with a press release, and share on social media so that research organizations, advocacy organizations, and lenders have access to the work.

4) Engage with at least two leading researchers on areas of concentrated poverty to review or discuss our research.

Year 3 – 2020

Identify market factors present in areas of concentrated poverty where there is development with a focus on ~~and analyze three additional areas of concentrated poverty in which Freddie Mac has provided financing for~~ mixed-income housing.

	1) Leverage data from Yardi Matrix to determine the pipeline of partially affordable properties in areas of concentrated poverty. We will analyze this aggregate data across the country in order to estimate the prevalence of mixed-income properties in ACPs.~~Draft a report on these three case studies. Report will include analysis of three properties in different areas of concentrated poverty for which Freddie Mac has provided financing, how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were or were not leveraged in conjunction with Freddie Mac financing to support these properties. Through these case studies we will identify replicable development models, financing models, and approaches and tools states and localities can use to facilitate development and financing of affordable housing in areas of concentrated poverty. This report will also consider different levels of income-mixing on properties~~. 2) Draft a report on ACPs with analysis including but not limited to: population statistics, market factors, concentration of mixed income and ACPs, and commonalities of successful development. This report will evaluate different areas of economic strength in the market and consider different levels of income-mixing on properties. 3) Publish a report on our website, promote it with a press release, and share on social media so that research organizations, advocacy organizations, and lenders have access to the work. 4) Engage with at least two leading researchers on affordable housing to review and discuss our research. ~~areas of concentrated poverty to review or discuss our research.~~

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

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

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

Year 3 – 2020. Our publication in Year 3 will build upon our findings in Year 2 as we seek to take the lessons learned of community development identified in Year 2 and apply them to an additional analysis on broad market factors of development in ACPs. This will help the market better understand how to facilitate more development in support of Residential Economic Diversity. This analysis will allow for greater investment and financing efforts to occur in ACPs as a result of a more thorough understanding of factors and commonalities of development within ACPs and the concentration of existing mixed-income properties in ACPs. ~~Our publication in Year 3 will build upon our findings in Year 2 as we seek to take the lessons learned of community development identified in Year 2 and apply them to an additional three properties that promote RED. . Our focus on replicability, not just of our debt, but also of steps communities can take to further development and make transactions work, will provide a clear signal to the market of how to facilitate more development in support of Residential Economic Diversity, and how to promote greater opportunity for residents, and promote strong, sustainable communities.~~ We expect that the lessons we learn from this research will also enable us to better tailor our financing offerings for the benefit of RED as it relates to areas of concentrated poverty. This will lead to greater liquidity in this market as more developers, lenders, and localities leverage the tools and new standards identified in our analysis.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

ACTIVITY:

9 - Support for Residential Economic Diversity: Additional Activity

OBJECTIVE:

F - Develop a Tool to Identify LIHTC Properties and Section 8 Properties in Areas of Residential Economic Diversity for Preservation Around the Country

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

We are planning on introducing a tool to help our seller/servicer network easily identify LIHTC and Section 8 Properties in need of preservation in areas of Residential Economic Diversity.

JUSTIFICATION FOR PROPOSED MODIFICATION:

☒ *The proposed changes to the Objective will increase our commitment to the underserved market.*

☐ *The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*

☐ *N/A – Proposed modifications only address future Plan year(s).*

In order to provide better liquidity to the market, we developed a tool targeted specifically for our seller/servicer network to target LIHTC and Section 8 properties in need of preservation.

By allowing our seller/servicer network to have access to data about properties in high opportunity areas and properties that are reaching the end of their LITHC compliance period and may be eligible for sale and conversion to market rate, we are making the ability to finance these properties easier for our lenders. Properties in high opportunity areas specifically will benefit from this tool as impact-oriented lenders will have easy access searching for properties in areas that are most in need.

We will leverage data and provide specific analytical and categorical capabilities to make it simple for lenders to maximize their attention on LIHTC and Section 8 properties in different markets. Our lenders will be able to search for properties based on specialized high opportunity areas definitions- QAP or DDA- and will be able to search for properties based on specific features such as subsidy type, subsidy status and subsidy use. This will allow lenders interested in refinancing properties in need of preservation to target their search in order to best fit their needs.

This tool has a targeted audience for impact-oriented lenders and an intended use, and the prospect of lenders misusing this tool for other reasons other than refinancing subsidized properties is very low. This tool will be password protected and only accessible by a select group of lenders in our network. We have had multiple conversations with National Housing Preservation Database regarding the use of this tool and we have a data licensing agreement with them to ensure security of the data and the tool's purpose.

By providing a tool that aids in allowing our sellers to recapitalize and refinance properties in need of preservation, we are providing more liquidity to the market and creating more affordable housing in high opportunity areas.

OBJECTIVE F: DEVELOP A TOOL TO IDENTIFY LIHTC PROPERTIES AND SECTION 8 PROPERTIES IN AREAS OF RESIDENTIAL ECONOMIC DIVERSITY FOR PRESERVATION AROUND THE COUNTRY

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

LIHTC and Section 8 are the two most prominent public subsidy programs that support affordable housing and both are vital to supporting affordable housing in high opportunity areas. However, there is not a simple or direct way for lenders to target loans to properties in these areas because there is not a straightforward way for lenders to access and analyze data about the geographies, properties, and their owners of record.

We intend to support the preservation and recapitalization of these subsidized properties by creating a tool that will help our seller/servicers identify these properties and their owners of record and leverage analytical capabilities to help focus their efforts.

Baseline

Freddie Mac created our Mission Map™ to identify several different geographic areas, such as High Opportunity Indicators and properties with major public subsidies located there. We intend to expand upon the impact of our Mission Map™ and create a new tool designed specifically for our seller/servicers that includes analytical features and owner data to allow our seller/servicers to more efficiently pursue rural preservation opportunities. There are currently no equivalent offerings in the market.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Lack of accessible data on LIHTC and Section 8 properties ▪ Within both LIHTC and Section 8 properties, there are some data elements that are difficult or nearly impossible to find. It is also very difficult to duplicate this data, therefore external vendors or databases would need to be utilized. **Market awareness** ▪ Lenders are often unaware of LIHTC and Section 8 preservation opportunities in-areas of residential economic diversity. This tool will eliminate that problem. ▪ Private capital investment is lacking in rural areas.	**Year 3 – 2020** 1) Create a tool designed specifically for the preservation of LIHTC and Section 8 subsidized properties. Initiate a technology project that will ultimately deliver an interactive analytical tool to identify LIHTC and Section 8 properties in areas of residential economic diversity.The tool will include: a. Duty to Serve Areas: Rural, Middle Appalachia, Lower Mississippi Delta, Persistent Poverty County, ACP, High Opportunity Area b. Program name or subsidy type associated with the property c. Use of LIHTC subsidy (new construction, acquisition and rehab, existing) or Section 8 d. Start year and end date of the subsidy e. The subsidy status of the property f. Type of ownership of the property g. Standard property geography, including metropolitan and micropolitan areas h. Fully restricted properties i. Name of property owner(s) j. Number of units and subsidized units k. Any additional programs the property is subsidized with *Note that some filters in the tool are specific to only LIHTC or Section 8 properties.
Market Impact	
Through creating a service that will outline which owners have LIHTC and Section 8 properties that can further residential economic diversity, Freddie Mac is making it easier our seller/servicers to find and finance subsidized properties in need of preservation. This is especially important for properties in high opportunity areas and for properties that are reaching the end of their LIHTC compliance period and may be eligible for sale and conversion to market rate. This tool will also be instrumental in providing lenders with the opportunity to work with owners in order to refinance and recapitalize on properties using Freddie Mac loans offerings and other programs to preserve affordability for the long term. Our lenders will be able to search for properties based on specialized high opportunity areas definitions and will be able to search for properties based on specific features such as subsidy type, subsidy status and subsidy use. This will allow lenders interested in refinancing properties in need of preservation to target their search in order to best fit their needs. This new tool will also be particularly helpful to owners, as it allows for reasonably resourceful lenders to approach these properties with appropriate financing.	

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

ACTIVITY:

10 - Financing of Single-Family Properties in Opportunity Zones: Additional Activity

OBJECTIVE:

A - Facilitate the Creation and Preservation of Long-term Affordable Housing Units in Opportunity Zones

INNOVATION MODIFICATION:

Freddie Mac will add this objective to our Duty to Serve Plan in 2020 and 2021. Through our unique leadership in the housing industry, we will foster collaboration and cooperation across the ecosystem to sharpen focus on expanding the supply and financing of homes that are affordable for the long term to households earning very low, low, and moderate incomes in selected Opportunity Zones.

Our approach will be multifaceted and will augment activities already under way to lift these communities.

We will facilitate relationships that could lead to creative solutions for addressing the shortage of safe, affordable, adequate single-family housing in Opportunity Zones. Toward that goal, we will create a forum for key stakeholders to share ideas, best practices, and strategies on property disposition and redevelopment. We also will connect industry participants whose partnerships could lead to a greater supply of affordable homes and sustainable homeownership opportunities in these areas, particularly by expanding support for shared equity homeownership and manufactured housing.

We will promote the use of loan products that we developed under our Duty to Serve Plan and our low down payment mortgage products to help create long-term affordable homeownership opportunities. For example, our renovation products finance improvements to homes that are older and/or in disrepair. Our manufactured housing offerings make it easier to finance manufactured homes and help broaden their appeal. And our options for financing shared equity homeownership help more people become homeowners. These products may be combined with Home Possible®, HomeOne℠, and HFA Advantage®.

We will engage with depositories and community development financial institutions (CDFIs) that originate mortgage loans Opportunity Zones in an effort to build relationships that increase access to the secondary mortgage market and boost liquidity in those communities.

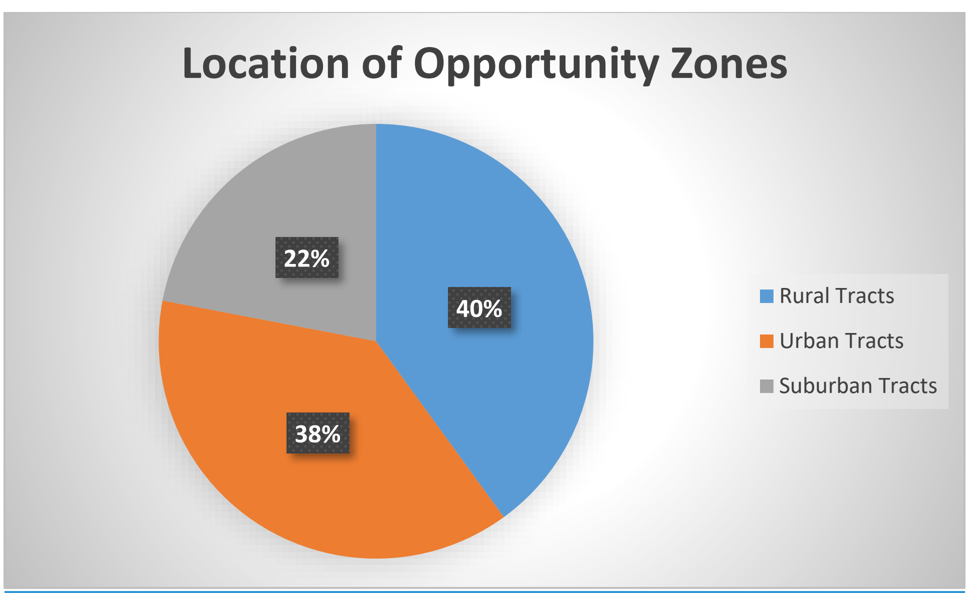
As a result, very low-, low-, and moderate-income households living in the selected Opportunity Zones will be able to reap the benefits of economic and housing development in their communities.

Activity 10 – Financing of Single-Family Properties in Opportunity Zones: Additional Activity

Fifty-two million U.S. households live in economically distressed communities plagued by high levels of poverty and unemployment and a lack of investment capital. The Tax Cuts and Jobs Act of 2017 defined Opportunity Zones, where tax incentives are intended to spur economic development in low-income communities nationwide. Opportunity Zones comprise economically distressed communities in urban, rural, suburban, and tribal areas.[i]

According to the White House Opportunity and Revitalization Council, the Opportunity Zone designation encourages investment by granting investors extensive federal tax advantages for using their capital gains to finance new projects and enterprises (or to substantially improve existing projects and enterprises) within Qualified Opportunity Zones.

Defined at the census-tract level, more than 8,700 Qualified Opportunity Zones are designated across all 50 states, the District of Columbia, and five U.S. territories; 294 of the zones contain Native American lands. State and territory governors as well as the District of Columbia's mayor submitted nominations to the U.S. Department of the Treasury, which then certified the tracts as Opportunity Zones. More than three-quarters of certified tracts lie within metropolitan areas, but Opportunity Zones are nearly evenly split between urban and rural areas, with 22 percent in suburban communities.[ii]



Source: The White House Opportunity and Revitalization Council, April 2019

Though the goal is to improve the economics of distressed communities by creating jobs, increasing employment opportunities, and rehabilitating housing stock, the tax break may not necessarily result in more development of affordable housing units. The construct of the tax break allows for the improvement of real estate but does not require the property to be affordable.[iii]

To preserve affordability in these areas, Freddie Mac will further promote the resources and financing mechanisms that we developed over the past several years to expand access to credit for very low-, low-, and moderate-income individuals within defined Qualified Opportunity Zones. We also are positioned to serve as the catalyst in targeted communities to facilitate dialogue and establish partnerships that lead to a greater number of affordable housing units. Additionally, our active participation in Opportunity Zones will support our current efforts to increase the financing of affordable housing in high-needs rural regions, manufactured housing, and properties under shared equity programs on a broader scale. In fact, certain qualified tracts overlap with Duty to Serve persistent-poverty areas in defined high-needs rural regions and federally declared tribal areas.

We see an opportunity to demonstrate leadership and serve as a catalyst in helping to solve the challenge of preserving affordable housing in these communities over time. Financing solutions and best practices that we developed in the first three years of our Duty to Serve Plan can be extended and disseminated in targeted areas of economic distress to supplement existing efforts to attract private capital to these communities.

During 2020, we will research activity in Opportunity Zones. We will examine where investment is taking place, identify organizations seeking to develop single-family housing, and assess the availability of units for rehabilitation or replacement or vacant land that can be developed for single-family affordable housing. In certain Opportunity Zones, land banks may be created as public entities by a local ordinance that focus on converting vacant, abandoned, and tax-delinquent residential properties and returning those properties into productive use. As opportunities arise to create affordable units, Freddie Mac can bring together stewards of shared equity programs, land banks, developers, real estate professionals, and lenders to consider solutions that foster long-term affordability of the homes. Additionally, manufactured housing, which is typically affordable, can be leveraged as part of a replacement strategy for dilapidated homes that must be razed or a solution for development on vacant lots zoned as residential.

Furthermore, national and regional depositories engaging in collaborative activities with minority-owned depository institutions in Opportunity Zones may be eligible to be considered for Community Reinvestment Act (CRA) credit. There are 32 minority depository institutions with 467 branches located in Opportunity Zones.[iv] Freddie Mac can be strategic in efforts to increase liquidity to depositories – including minority-owned depository institutions – and community development financial institutions (CDFIs) that currently serve communities within qualified Opportunity Zones by pursuing direct selling relationships with them or connecting them with national aggregators that can offer access to financing products and resources that facilitate mortgage originations.

OBJECTIVE A: FACILITATE THE CREATION AND PRESERVATION OF LONG-TERM AFFORDABLE HOUSING UNITS IN OPPORTUNITY ZONES

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	**3 and 4**	**VLI, LI, MI**	**Innovation Credit**

Freddie Mac will establish partnerships and offer financing solutions to jump-start the creation and preservation of affordable housing to help ensure long-term affordability in selected Opportunity Zones.

Our efforts will supplement current activities in certain communities aimed at helping to eliminate blight and stabilize neighborhoods; we intend to work with local organizations who are expert in those areas. Because community plans may not require the improved homes in Opportunity Zones to be affordable to households with very low, low, and moderate incomes, we will promote financing solutions that support long-term affordability, including mortgages on income-based deed-restricted properties and Community Land Trust Mortgages, as we facilitate partnerships with developers, land banks, and stewards of inclusionary housing (such as shared equity homeownership program providers). The goal is to increase awareness of such solutions, share best practices and resources, and host forums for exchanging ideas, thereby assisting with increasing the supply of homes that offer long-term affordability.

Given the wide scope and geographic coverage of Opportunity Zones, Freddie Mac will research which communities are positioned to benefit most from our varied resources and offerings, including those with large minority homeownership gaps. Our focus will center on communities with the following features:

- Planned activities driven by state and local programs that support the development of affordable housing units
- Enough available land or housing units for residential redevelopment
- Established networks of organizations that are interested in and willing to support local redevelopment efforts to increase affordable housing supply

We also will seek opportunities to find communities within a designated Opportunity Zone that intersect with geographies designated as high-needs rural regions under the Duty to Serve rule.

Once we have identified communities on which to focus our efforts, Freddie Mac will proceed to take the following actions:

- Convene active or influential local industry stakeholders for a series of discussions on how to leverage subsidies offered by the state and/or local municipalities to preserve the long-term affordability of single-family housing. We also will share best practices on property disposition and redevelopment strategies that align with local affordable housing objectives in economically distressed communities.
- Facilitate partnerships between land banks and shared equity program stewards to covert vacant, abandoned, or foreclosed properties to long-term affordable units and to incorporate shared equity homeownership programs into land banks' property disposition strategies.
- Engage manufacturers of manufactured housing, manufactured housing retailers in the targeted communities, and lenders that can originate loans on manufactured homes to determine opportunities for infill where permitted.
- Engage minority-owned depositories or CDFIs that can originate mortgages in an Opportunity Zone.

The actions under this objective can advance the preservation and rehabilitation of affordable housing.

Baseline

Freddie Mac has not previously pursued redevelopment activities for single-family properties in areas with a concentration of vacant land or units needing renovation or replacement in an Opportunity Zone. The actions listed below, once completed, will serve to create the baseline for future efforts in Opportunity Zones.

Challenges, Actions and Market Impacts

Challenges	Freddie Mac Action
Insufficient long-term affordable units ▪ Community plans may not require improvement of residential units in Opportunity Zones to be affordable. As communities are revitalized and attract new residents, housing demand could result in families with lower incomes being priced out. ▪ Affordable units being developed in Opportunity Zones may not be affordable in the long term and affordable subsidies can be lost over time as properties transfer ownership.	**Year 3 – 2020** 1) Identify properties within land bank inventories or similar property sources in designated Opportunity Zone census tracts where Freddie Mac can provide strategic thought leadership and consultative support to update disposition strategies to better address local affordable housing preservation issues. 2) Collaborate with organizations that support affordable housing development or rehabilitation initiatives to start a long-term revitalization initiative in select Opportunity Zones. **Year 4 - 2021** 1) Publish an article on FreddieMac.com featuring the results of our research into the selected communities to provide thought leadership in addressing long-term affordable housing preservation issues. 2) Facilitate the creation of at least one partnership between a land bank and a steward of affordable housing preservation that use shared equity homeownership and renovation to convert vacant, abandoned, or tax-delinquent properties into owner-occupied affordable housing units with long-term affordability. To accomplish this, Freddie Mac will host a series of discussions with key stakeholders on the redevelopment or creation of affordable residential units and promote mechanisms (community land trusts and income-based deed restrictions) as solutions that support long-term affordability. 3) Engage at least one depository or CDFI that can lend in an Opportunity Zone, with the aim of purchasing mortgages, by establishing a direct or indirect selling relationship.
Market Impact	
Freddie Mac can serve as the catalyst in certain Opportunity Zones to broker partnerships, promote financing solutions and disseminate best practices on financing the rehabilitation of distressed properties, and effective property disposition strategies (for example, transferring properties to inclusionary housing programs) that preserve home affordability over the long term. If we are successful, communities will benefit in several ways:	

- Help close the homeownership gap for minority residents.
- Encourage investment in quality affordable homes where households with very low, low, and moderate incomes can thrive, raise families, and secure their retirement.
- Increase the supply and preservation of affordable housing for the long term in revitalized communities to help ensure that housing remains in reach over time for lower-income residents.
- Further encourage private investment to promote job creation; preserving affordable housing supply also helps create a diverse workforce who can work where they live.
- Reduce neighborhood blight and increase safety. Homeowners not only invest in their homes, but also their communities.
- Provide liquidity to minority-owned depositories that support the revitalization of communities. These depositories play a vital role in advancing the economic viability of minority and underserved communities.

[i] https://opportunityzones.hud.gov/sites/opportunityzones.hud.gov/files/documents/OZ_One_Year_Report.pdf
[ii] https://opportunityzones.hud.gov/sites/opportunityzones.hud.gov/files/documents/OZ_One_Year_Report.pdf
[iii] https://kinder.rice.edu/urbanedge/2019/02/20/opportunity-zones-gentrification-steroids
[iv] https://www.fdic.gov/communitybanking/2019/2019-10-10-opzones-mdi.pdf