

Exhibit G:  
**Annual Loan Products Narrative Reporting Template**

FREDDIE MAC

RURAL HOUSING

2018 REPORT

EVALUATION AREA: PRODUCT

**ACTIVITY:**

*Activity 2 – High-Needs rural populations: Regulatory Activity*

**OBJECTIVE:**

*Objective D: Develop LIHTC Equity Investment Offering*

**ACTIONS:**

*In 2018 Freddie Mac dramatically exceeded our Plan targets and introduced a LIHTC Equity investment program that is national in scope and includes focus on high needs rural populations among its priorities. In fact, in order to effectively support high needs populations, it was necessary to develop a program with sufficient scale, scope, and geographic diversity to ensure positive and sustainable economics. FHFA recognized this in their authorization of our LIHTC Equity program, which, while capping our investments at \$500 million per year, included no geographic restrictions on the first \$300 million invested annually by each Enterprise. The remaining \$200 million is required to support housing in rural areas or the Top 10 CRA markets.*

*In our first year, we expended tremendous effort to develop the capabilities necessary to invest at scale and for high needs rural populations. We formed internal LIHTC equity teams, engaged expert outside legal counsel to develop legal documents and support transactions, and we established credit and underwriting parameters and processes. We identified and established investment agreements with six syndicators. Two of these have expertise in transactions on Indian Areas and/or with agricultural worker housing. As a result, we invested \$499 million in less than a full year of operations as we built this business from the ground up and achieved the necessary scale and geographic diversity. Of this, we invested \$375 million in FHFA-designated undeserved markets—far more than the minimum. In DTS rural areas, we made 10 investments supporting 17 properties and 791 units. Our 17 properties in DTS rural regions, out of 45 properties we invested in overall, represents a greater share relative to the national market: 38% (17/45) of our investments were in DTS rural regions while 27.6% of the annual average number of properties placed in service are in DTS rural regions.*

*Five of these investments for \$35 million were in high needs rural regions and covered 249 units. Our pipeline in 2018 included two high needs populations opportunities. One is still in progress, while the other could not pass our underwriting.*

*We did this through a proprietary fund model, which, for reasons outlined below, is an especially challenging and high impact model that necessitates deep involvement in these markets and creates competition for multi-investor funds.*

<b>Planned Actions</b>	<b>2018 Actions</b>
<p>Partner with at least one experienced LIHTC syndicator that focuses on high-needs rural populations. Partnership will be evidenced by an investment agreement.</p>	<p>Freddie Mac partnered with six syndicators in 2018 to support our entire LIHTC Equity investment business, which is national in scope and includes high needs rural populations, high needs rural regions, rural areas generally, and other FHFA-defined investment priorities. Two of these syndicators have extensive experience in closing LIHTC equity investments in Indian Areas and/or for agricultural workers.</p>
<p>Set up internal infrastructure to enable future LIHTC work.</p>	<p>Freddie Mac established a complete internal infrastructure to support LIHTC equity investment. This infrastructure extends well beyond production and underwriting teams. In all, we leveraged the expertise and efforts of 50 individuals across the following 13 business areas to the successful launch and implementation our LIHTC Equity product:</p> <p>Production, Underwriting, Credit Policy, Enterprise Risk Management, Asset Management, Legal, Compliance, Investment Committee, Project Management, Investments and Advisory, Finance, Marketing, and Tax.</p> <p>This infrastructure includes the establishment not just of production and underwriting platforms, but also legal documentation, servicing and reporting procedures, asset management procedures, tax review, and counterparty compliance review.</p>
<p>Develop underwriting parameters, as evidenced by internal credit policy and an underwriting checklist. The LIHTC underwriting checklist will include at least the following: Develop underwriting parameters, as evidenced by internal credit policy and an underwriting checklist. The LIHTC underwriting checklist will include at least the following:</p> <ul style="list-style-type: none"> <li>a. Developer experience</li> <li>b. LIHTC property management and compliance experience</li> <li>c. Balanced and detailed sources and uses budget</li> <li>d. 15-year operating proforma with rents trending less than operating expenses</li> <li>e. All financing sources have commitments by closing</li> <li>f. Acceptable insurance coverage</li> <li>g. Acceptable Phase 1 environmental assessment</li> <li>h. Acceptable market study</li> </ul>	<p>Freddie Mac developed underwriting parameters and an underwriting checklist that that addresses each of the points made in the plan and many more, to support underwriting, construction, and legal due diligence.</p>
<p>Create a team to support the production lead including a production analyst and investment underwriting lead.</p>	<p>Across 13 business areas, we leveraged the expertise and efforts of 50 individuals to the successful launch and implementation of our LIHTC Equity product.</p> <p>Additionally, Freddie Mac created and filled two positions to support the production lead—a senior level producer as well as a production analyst—and hired two LIHTC equity underwriters, while also rebalancing the work of two other underwriters (a director and a senior underwriter) to support the LIHTC equity business.</p>
<p>Engage outside counsel to review both syndicator partnership legal documents as well as individual investments at the lower tier level within each fund.</p>	<p>Freddie Mac engaged one of the premier firms in the country that do LIHTC work at both the lower and upper tier levels. Not only do they review syndicator partnership legal documents and individual investments at the lower tier level of each fund, they were also a tremendous resource from both a legal and business perspective on how other investors in the market approach legal and business issues, supporting us in developing a more effective program.</p>
<p>Develop a checklist of deal and legal points, and develop a process for exceptions</p>	<p>Freddie Mac developed the checklist of deal and legal points that is used on each deal. It is leveraged by our underwriting and legal teams to track deals and issues in deals. Additionally, each upper tier agreement has</p>

	<i>investment guidelines provided to syndicators so they can better source investments for us.</i>
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**SELF-ASSESSMENT RATING OF PROGRESS:**

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

- Objective met
- Objective exceeded
- Objective partially completed:
  - 75-99% (substantial amount)
  - 50-74% (limited amount)
  - 25-49% (minimal amount)
  - 1-24% (less than a minimal amount)
- No milestones achieved

**PARTIAL CREDIT JUSTIFICATION:**

If the self-assessment above indicated that the objective was partially completed, briefly explain the basis for the share of the objective that was completed. In the explanation, include a discussion of the level of effort expended for the completed actions compared to the level of effort required to complete the entire objective.

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

**IMPACT:**

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

- 50 – Substantial Impact
- 40
- 30 – Meaningful Impact
- 20
- 10 – Minimal Impact
- 0 – No Impact

**IMPACT EXPLANATION:**

Answer the following questions.

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

*It was widely agreed by the public who commented on the DTS regulation and the Enterprises’ DTS plan that it was necessary for the Enterprises to reenter the LIHTC equity market, particularly in support of rural high needs markets.*

*We achieved a substantial impact in the market in our first year based on two factors: (A) we were able to develop a viable, scalable LIHTC Equity offering early enough in the year so that we were also able to use our entire \$500 million authorization, which included a highly substantial share of properties in DTS markets (as described above in “Actions”); and (B) we demonstrated market leadership*

through the use of our proprietary fund model, which generates deep focus in these markets by Freddie Mac and our syndicators, and has an impact beyond Freddie Mac's direct involvement.

Typically, investments in the hardest to serve markets are done through multi-investor funds. While these funds certainly make valuable investments, such investments can be done in a lower-touch manner with limited involvement in the market from the end investor.

Under our proprietary fund model, we require deeper understanding and involvement in the market in order to invest. For syndicators to identify and underwrite transactions for us, they need to invest resources to develop relationships with developers in these markets. As a result of our involvement, several of our syndicators are now engaging in rural markets where they had not previously. They will leverage their new relationships to pursue transactions for other investors in addition to Freddie Mac, which increases attention and competition.

Our model also leverages a deeper commitment by Freddie Mac in these markets. It requires a higher touch on individual transactions and a deeper understanding of the market by the investor than a multi-investor fund model does. Each investment made requires Freddie Mac underwriting of specific investments and properties, along with property visits, which, due to remote locations, can take multiple days per property. This level of involvement is valuable not just from an underwriting standpoint, but also because it allows us to become a true presence in these markets and with these developers and enables us to learn the markets better so that over time we may be able to refine parameters or better inform our research and draw more attention to the needs and opportunities in these markets, further attracting investment over time.

Finally, our presence through proprietary funds creates competition for multi-investor funds—which are typically more yield driven and may be able to pass less per credit for investments due to limited competition—and can positively impact LIHTC equity pricing, which will stretch public subsidy further.

2. **Optional:** How do actions under this objective support future actions detailed in the Plan for the underserved market? If there have been any changes in the planned next steps or timeline for work under or related to this objective, describe the changes and provide a brief explanation. (Character limit: 1,500 characters, including spaces)

Establishing our LIHTC Equity Investment offering was necessary for all future LIHTC equity investments that meet DTS criteria and those that extend beyond DTS. Moreover, our proprietary fund model and our investments in DTS markets have prompted our syndicator network to establish new, and deepen existing, relationships. We anticipate that the inroads we, and they, have made in 2018 will support us as we seek to meet or exceed our future investment targets. Beyond that, we have leveraged the expertise of our syndicators in our research work in 2018, where their insights contributed to both of our Spotlight on Underserved Markets papers that focused on LIHTC in high needs rural regions and populations. We will continue to leverage their expertise, and our own garnered through each transaction we do, as we expand our research into the Lower Mississippi Delta and Persistent Poverty Counties markets.

3. **Optional:** Are there any market factors that adversely impacted the actions under this objective? If so, describe. (Character limit: 3,000 characters, including spaces)

There are two significant market factors that adversely affect our ability to support this market at significant scale: (A) the absolute size of the market, which is too small to support a business focused solely on high needs rural populations, and (B) sponsor and credit concerns with a subset of potential investments in specialized markets. As a result of these challenges, it is necessary to focus on more markets than solely high needs rural populations—or even solely rural markets—in order to run an economically viable business. It is only by doing so that we can provide support for high needs rural populations.

- A. Limited market size necessitates the need for a broader investment program:
  - a. Through our outreach and research on LIHTC in Indian Areas, we learned that there are less than 15 Indian Areas properties placed in service each year. Per our analysis of the National Housing Preservation Database, there is an average of only 5 USDA 514 agricultural worker properties placed in service each year. While there may be additional properties in some states, it is not likely to be a large number. Thus there is an absolute limit on the number of investments we could make in support of these populations. Additionally, not every property placed in service would necessarily be a strong investment opportunity with a good credit risk profile.
  - b. Additionally, small properties are costly to pursue and less economical to invest in, leading to less focus for syndicators or investors.
- B. High needs population investment (and rural investment generally) has a high degree of difficulty due to (1) limited population of strong owner/operators, and (2) higher credit risk of very small market transactions:

- a. *For rural high needs populations there is a limited number of experienced sponsors/property owners who have the capacity to meet necessary counterparty risk management parameters. In Indian Areas, there is additional risk that high staff turnover rates and unique leadership structures can affect the ability to develop and operate properties. Additionally, the complexity of the LIHTC program itself can deter tribes from pursuing housing through this program. For Agricultural Worker properties there tends to be a reliance on small sponsors that specialize in this type of housing. As a result of their specialization, these sponsors have limited portfolios of properties under management and limited net worth and liquidity to support scaled investment.*

*Because of these challenges, it is necessary to focus on more markets than solely high needs rural populations—or even solely rural markets—in order to run an economically viable business. This allows us to effectively support high needs rural populations.*

4. **Optional:** How did the actions under this objective contribute to increased or future loan purchases for the underserved market? *(Character limit: 1,500 characters, including spaces)*

*We recognize in creating this LIHTC equity investment offering that the fundamentals described and established here are applicable across all LIHTC equity investments, with some specific terms tailored to the needs of these populations. It is important to make LIHTC investments that have sufficient geographic diversity to control for concentration risk, invest at a large enough scale to operate a viable and sustainable business that allows us to continually serve these markets, and do so in a safe and sound manner. In our first year of business, we were able to effectively manage this business with substantial market impact based both on the structure of our business and our results. In future years we expect to continue this success in accordance with our Plan targets which include a specific target for high needs rural populations in 2019 and 2020.*

*Attach the information detailed in the list of documentation specific to the objective that was provided by FHFA.*

Exhibit C:

**Second Quarter Loan Products Narrative Reporting Template**

FREDDIE MAC

RURAL HOUSING

2Q REPORT

EVALUATION AREA: PRODUCT

**ACTIVITY:**

*Activity 2 – High-Needs rural populations: Regulatory Activity*

**OBJECTIVE:**

*Objective D: Develop LIHTC Equity Investment Offering*

**SUMMARY OF RESULTS:**

LIHTC equity investment is often the most effective way to support affordable housing for high needs rural populations. Since the implementation of our DTS Plan, we have developed product guidelines and built an internal team responsible for LIHTC Equity Investment. We have specifically identified 6 experienced LIHTC syndicators that have a history of working with established developers. We are actively negotiating all Partnership Agreements with the help of our outside counsel, all of which we expect to execute in the 3<sup>rd</sup> quarter. We have also worked to set up internal infrastructure with our underwriting and operational management partners to ensure that we have the capability to implement our offering.

These actions are consistent with our plan to build a strong and sustainable infrastructure with multiple syndicators prior to engaging in investments. We have begun to see a wide range of investment opportunities to support our Duty to Serve. We continue to monitor prospective LIHTC deals that feature strong sponsors, market returns, and have a focus on underserved markets. As a result, we are on track to achieve this objective by year end.

**ACTIONS:**

Action Category	Action Reference – Activity 2; Objective D	Status
Market Actions	Action 1	Partner with at least one Syndicator – Complete
	Action 2	Set up internal infrastructure – Complete

Underwriting Actions	Action 1A-H	Develop UW Parameters – Complete
Resource Actions	Action 1	Create a team of UW and Production – Complete
	Action 2	Engage outside Counsel to review partnerships – Complete
	Action 3	Develop a checklist of deal and legal points, and develop a process for exceptions – In process

**SELF-ASSESSMENT RATING OF PROGRESS:**

*Select the category that best describes progress on this objective for the reporting period.*

- On-target to meet or exceed the objective
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

**ADDITIONAL INFORMATION (IF APPLICABLE):**

N/A

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