



FHFA Supplement to 2019 Annual Reports Submitted by Freddie Mac

The following summaries were prepared by FHFA and provide additional information on selected objectives in Freddie Mac's Underserved Markets Plan. Discussions with Freddie Mac took place during virtual meetings held the week of July 20, 2020.

Affordable Housing Preservation Market

AHP_MF_Energy_A: Publish an Annual Study of Energy and Water Efficiency Through the Green Advantage Program (Outreach)

Freddie Mac provided information on the types of inquiries it has received about the dataset created under this objective. Freddie Mac has utilized the data collected to date to inform its loan production strategies, develop impact securitizations, and publish external bond impact reports. A data collection guide published by Freddie Mac earlier this year establishes best practices that can be used by the broader industry to collect performance benchmarking data, including overcoming challenges collecting tenant data and working with utility companies.

AHP_RED_E: Conduct and Publish Three Research Projects on States that Prioritize, or Could Prioritize, RED in QAPs (Outreach)

Freddie Mac differentiated the report produced under this objective from the report produced under objective C in the Residential Economic Diversity activity, explaining that while both present case studies of affordable housing developments in high opportunity areas (HOAs), the HOAs are defined by different guidelines: federally-designated Difficult Development Areas (objective C) and state- and locally-determined Qualified Allocation Plans (this objective). The incentives available in these different areas may vary and affect the feasibility of proposed developments. Freddie Mac also described how lessons learned preparing the papers have influenced development of other products, including a sustainability bond framework and mapping tool.

AHP_SF_Energy_A: Research the Relationship of Energy Efficient Homes to Property Values and Mortgage Performance (Loan product)

Freddie Mac described research conducted in 2019 to inform the white paper published under this objective, including a regression analysis isolating the relationship between energy ratings and loan performance when loan attributes related to the borrower are held constant. The report provides reliable, objective data and analysis on mortgage performance for properties with energy-efficiency improvements that helped support market adoption of the GreenCHOICE Mortgages® product. Evidence of better performance on certain energy-rated loans, as compared to unrated loans, informed product changes allowing borrowers to pay off debt previously

incurred to make energy- and water-efficiency improvements as part of a GreenCHOICE refinance transaction.

AHP_SF Energy_B: Develop Valuation Guidelines and Data Collection Requirements (Loan product)

Freddie Mac provided additional insights into the potential value of collecting water- and energy-efficiency data in the Uniform Appraisal Dataset, including improved ability to track and assess loan performance for properties with green features, and to identify properties with green features at loan origination. Freddie Mac also described how feedback from the appraisal industry influenced a decision to provide guidance and training on alternatives to the market approach to valuation to inform the appraisal process.

AHP_Shared Eq_A: Develop Product Flexibilities and Guidelines that Facilitate New Mortgage Originations under Shared Equity Programs (Loan product)

Freddie Mac reiterated that the low volume of loans under its shared equity program stemmed from lender concerns about the amount of work required to begin originating and servicing eligible loans. Freddie Mac said that it was continuing to reach out to potential loan originators, and developing servicing capacity through multiple servicers, to help make the product more attractive to lenders. The continued small volume of loans, however, prevented Freddie Mac from being able to set a purchase target. Freddie Mac hopes that loan volume will increase as lenders take advantage of the standard forms, increased automation, and other resources available to make originating these products easier.

Manufactured Housing Market

MH_Comm Govt_B: Develop A New Offering for Resident-Owned Communities (Loan product)

Freddie Mac explained that the key headwinds it faced in increasing loan purchases for Resident-Owned Communities (ROC) deals was limited market size, complexity, and extended timelines. The MHROC market is made up of only 1,065, or 2.4 percent ROCs out of the approximately 45,600 manufactured housing communities in the United States. In addition, these deals tend to be complex, especially when it comes to acquisitions. Based on Freddie Mac's research paper, "new cooperative formations are difficult due to the many components that must fall into place." Further, Freddie Mac noted that due to the niche nature of the market, time intensity, and complexity, the deals are hard to find and tend to be sourced from brokers. In some cases, the deals require subordinate debt to be finalized. Subordinate debt increases the risk profile of these transactions, which is why subordinate debt is not included on Freddie Mac's MHROC term sheet. Freddie Mac is willing to consider it on a one-off basis. Overall, Freddie Mac's dedication to the MHROC loan offering remains strong, and efforts increased in the last year. Freddie Mac has expanded the number of lenders who have quoted MHROCs to five, which leads to increased opportunity to provide liquidity to this market.

MH_Comm Pad_B: Develop Pilot Offering for Borrowers That Institute Duty to Serve Tenant Protections (Loan product)

Rather than instituting protections on a resident-by-resident basis, Freddie Mac seeks to provide tenant protections throughout the entire manufactured housing community for all homeowner tenants. Additionally, Freddie Mac has built in significant flexibilities to allow communities to incorporate tenant protections during the first year post origination of the loan, rather than all at once. These actions and strategies set the stage for more potential growth of tenant protections in successive years.

Rural Housing Market

R_HN Populations_A: Increase Homebuyer Access to Education and Resources for Members of a Federally Recognized Indian Tribe in Indian Areas (Outreach)

Freddie Mac reiterated that this is a new market for the Enterprise, and it is spending resources to form partnerships and build capacity in this underserved market. The current approach is to build inroads through homebuyer education and marketing in this plan cycle, which will hopefully translate into transactions and liquidity, no earlier than the next plan cycle.

Rural_HN Regions_B: Design New Product Flexibilities to Facilitate the Origination of Mortgages in High-Needs Rural Regions (Loan product)

Freddie Mac worked with the Appraisal Institute and its members on improving appraisals and training in high-needs rural areas. Some of the appraisal challenges in rural areas include differences in property types, similarity of sales, frequency of sales, sales that go beyond typical distance requirements, and length of time between comparable sales. Freddie Mac also obtained more data that helped expand Home Value Explorer[®] coverage. Freddie Mac is also addressing challenges in serving borrowers who have seasonal or fluctuating income, which tend to be more common in high-needs rural areas.

Rural_HN Regions_C: Design Improved Product Flexibilities to Facilitate the Origination of Renovation Mortgages (Loan product)

Freddie Mac provided insights on how its renovation product could be used to provide liquidity in the high-needs rural market. Freddie Mac applied the renovation product to the rural market because research showed a large share of older and dilapidated homes in this market. While initial uptake has been low, Freddie Mac has approved many lenders to offer the single-close solution under the renovation offering. The team is also working to automate more of the data process to avoid the need for a manual adjustment workaround for loan-to-value calculations for this type of loan. Freddie Mac hopes this product will be helpful to serving this underserved area in the future.

Rural_HN Regions_D: Increase Future Homebuyer Access to Education and Resources (Outreach)

Freddie Mac used its resources to increase homebuyer access to education, including reaching 22,000 individuals. The training was mostly classroom style, and the counseling was one-on-one. The training covered financial literacy, pre-purchase and post-purchase education, and foreclosure prevention. Additionally, Freddie Mac expanded its footprint to 19 additional Persistent Poverty Counties. Freddie Mac provided financial assistance to a larger number of groups in 2019 than in 2018, such that the groups supported in 2019 served 350 percent more people than in 2018. Freddie Mac is hopeful this expansion will translate into future loan production.

Rural_HN Regions_J: Engage in LIHTC Equity Investment (Investment)

Freddie Mac provided insight into how it chooses deals and its relationships with sponsors in the rural market for Low-Income Housing Tax Credit (LIHTC) equity investments. Freddie Mac executes transactions with both 9% and 4% LIHTC. Typically, 9% transactions are far more common in rural markets because 9% credits generate substantially more equity. In rural markets, the availability of public subordinate debt—which is necessary for 4% LIHTC transactions—is highly limited, so 4% LIHTC and the associated bonds are not frequently used. As such, the market for 4% deals is small and there are only a few deals in a given year with the USDA Rural Housing Service; these deals can take up to two years to complete. Freddie Mac explained its rural volume makes up 35 percent, while the national average is 27.6 percent per the National Housing Preservation Database (NHPD), and it had a more favorable allocation of investments in rural investments than the overall market.