Underserved Market Plan Modification Request Template

FREDDIE MAC

MANUFACTURED HOUSING

2022

ACTIVITY:

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

OBJECTIVE:

A - Increase Single-Family Loan Purchases of Manufactured Housing Titled as Real Property

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☐ *Future Plan year(s)*

Increase the 2022 loan purchase target for manufactured housing titled as real property.

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 will increase our purchase target for the 2022 Plan year, strengthening our commitment to this market. As a result, we expect to provide more than $3 billion in liquidity over the Plan cycle to lenders originating mortgages securing manufactured housing titled as real property. We have been deliberate in growing our share of the business. Continued industry outreach and policy changes have resulted in an increase of lenders selling mortgages securing manufactured housing to Freddie Mac.

However, we anticipate that the rate of growth in the overall market is slowing, which will cause volume to contract. The current market environment for loan volume is very dynamic; the rise in interest rates and home prices has made it difficult to forecast potential volume in future years. We will continue to monitor market activity to determine the feasibility of increasing purchase targets for Plan years 2023 and 2024.

OBJECTIVE A: INCREASE SINGLE-FAMILY LOAN PURCHASES OF MANUFACTURED HOUSING TITLED AS REAL PROPERTY

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

Freddie Mac plans to use various tactics to increase our purchases of loans on manufactured housing titled as real property. Building on the momentum achieved during our 2018-2021 Duty to Serve Underserved Markets Plan, our efforts will include enhancing our existing secondary market offerings, conducting and publishing research, conducting outreach, as well as expanding our seller/servicer network.

Baseline

The following table reflects Freddie Mac's single-family purchases of loans on manufactured homes from 201~~6~~7 through 202~~0~~1. Our baseline for performance in this market is the average of all Freddie Mac manufactured home loans purchased during that time span that meet Duty to Serve income-qualifying definitions of very low-, low-, and moderate-income borrowers. The loan counts include purchase-money originations and refinances for owner-occupied properties only.

~~Freddie Mac Single-Family Loan Purchase Volume – Manufactured Housing~~					
~~**Year**~~	~~**2016**~~	~~**2017**~~	~~**2018**~~	~~**2019**~~	~~**2020**~~
~~**Income-Qualifying Loan Count**~~ ~~**(A five-year average of this loan count was used to establish the baseline)**~~	~~3,071~~	~~3,824~~	~~3,601~~	~~4,390~~	~~6,634~~
~~**Baseline**~~	~~4,304~~				

Freddie Mac Single-Family Loan Purchase Volume – Manufactured Housing					
Year	**2017**	**2018**	**2019**	**2020**	**2021**
Income-Qualifying Loan Count	3,824	3,601	4,390	6,634	12,788

(A five-year average of this loan count was used to establish the baseline)					
Baseline	6,247				

2022-2024 Targets

Our single-family purchase targets for real-property manufactured home loans that meet the Duty to Serve income-qualifying definition for very low-, low-, and moderate-income borrowers are set forth in the following table. We used a five-year historical average to help ensure that we have set realistic targets as we implement Plan activities to increase our loan purchases.

~~As rates hold steady for an extended period, w~~We anticipate that origination volume will eventually contract, and the significant spike of refinance volume will abate during the 2022-2024 Plan cycle. ~~According to Freddie Mac's forecast[i], overall single-family mortgage origination activity will decline from $4.5 trillion in 2021 to $3.1 trillion in 2022. Rising mortgage rates will dampen overall mortgage origination activity.~~ Our Economic & Housing Research group estimated in July 2022[ii] that ~~strong home sales and house price growth will lift purchase mortgage originations from $1.9 trillion in 2021 to $2.1 trillion in 2022; however, refinance originations will fall from $2.6 trillion in 2021 to less than $1 trillion in 2022.~~ U.S. home prices will increase almost 13 percent in 2022 and another 4 percent in 2023, driving down home sales from 6.9 million in 2021 to 6 million in 2022 and 5.4 million in 2023. Total 2022 home sales were down 17 percent through June. Based on market conditions and patterns, we anticipate the dollar amount of total home-purchase loan originations will stay fairly stable, going from slightly more than $2 billion in 2021 to slightly less than $2 billion in 2022 and $1.9 billion in 2023. On the other hand, we anticipate that refinance originations may decrease from $2.8 trillion in 2021 to $885 billion in 2022 and $463 billion in 2023.

Also, the low volume of new manufactured housing continues to limit market growth. Manufacturers have been impacted by the pandemic, supply chain issues, rising cost of building materials, and a lack of skilled labor, which have increased production times and costs. In addition to the low volume of new units, a limited number of units are available for resale because of financing issues on older units and title constraints.

Therefore, our purchase targets will increase meaningfully relative to our historical average but are not expected to reach the levels achieved in 2020. To build on our momentum, we will deploy various tactics to expand lender adoption and usage of Freddie Mac's mortgage offerings, including the product flexibilities introduced under our Duty to Serve program to help create more homeownership opportunities for very low-, low-, and moderate-income households nationwide.

Projected volume does not take into account potential market reactions to changes in the interest-rate environment, the coronavirus pandemic, or other market disruption. It also does not take into account the possibility of slower-than-expected adoption of product enhancements we may introduce. Lenders' business priorities and the complexities of their internal processes affect the rate of adopting new or updated mortgage offerings, even when lenders understand the value of offerings and are anxious to incorporate them into their businesses.

Single-Family Loan Purchase Targets – Manufactured Housing		
Year 1 – 2022	**Year 2 – 2023**	**Year 3 – 2024**
~~5,000-5,800~~ 8,000-8,500 loans	5,800-6,300 loans	6,300-7,500 loans

Market Opportunity and Impact

We estimate that we will provide lenders with an average of more than $3 billion~~700 million~~ in liquidity ~~each year of the~~over the Plan cycle to finance manufactured housing titled as real property. Because manufactured housing is more prevalent in rural areas, the rural market will benefit as well. Our loan purchases will expand access to credit for qualified borrowers and help create affordable, sustainable homeownership opportunities.

We expect that continuing our efforts – begun in earlier Plan years – to engage lenders already active in the MH market as well as to encourage additional lenders to participate will lead to wider distribution of liquidity. Because of the relatively small size of the market, any increase in origination volume for loans secured by manufactured housing titled as real property will be significant in terms of market impact and encourage lending in the market.

Demand for MH is strong. However, rising material costs, labor shortages, as well as pandemic-related plant closures, absenteeism, and supply chain disruptions have driven up home prices and caused manufacturing backlogs of six to 12 months, according to the Manufactured Housing Institute. As a result, some potential MH buyers may delay their purchases or choose an alternate housing option.

Increasing the amount of data available on MH owners who entered forbearance plans and the performance of their mortgage loans after the forbearance has ended will provide insights that will enable the industry to better support MH owners who may be struggling to sustain homeownership. Understanding the efficacy of the forbearance and post-forbearance options available to MH owners will be first-of-its-kind research. Information gleaned from it could give lenders information they need to have confidence in participating in the market and may lead to product enhancements that contribute to safety and soundness.

In addition, bringing together industry participants to share the findings of our 2021 market-based research and informing them on the potential benefits of manufactured housing to their communities will help increase understanding of market opportunities. From that base, the collaboration triggered through the convenings will help spur development of strategies to expand the use and acceptance of manufactured housing into additional geographies. This will increase affordable housing supply where it is needed, improve MH's image as an attractive housing option, and create opportunities for affordable lending and homeownership.

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[i] ~~http://www.freddiemac.com/research/forecast/20211015_quarterly_economic_forecast.page?~~
[ii] https://www.freddiemac.com/research/forecast/20220720-quarterly-forecast-market-slowdown-will-continue-high-rates-and-prices-exacerbate

FREDDIE MAC

MANUFACTURED HOUSING

2022

ACTIVITY:

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

OBJECTIVE:

A - Purchase Loans that Institute Duty to Serve Tenant Pad Lease Protections

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *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).*

Over the last several years, we have laid a strong foundation for making tenant pad lease protections available to a larger number of MHC residents through our resources and marketing and have seen a considerable increase in adoption in the market. We restructured our business to focus on Duty to Serve MHCs with tenant protections, with greater strategic oversight on each transaction. This restructuring, and the product refinements made with FHFA, has been a major contributing factor to the substantial increase in tenant protection business. Further, on September 13, 2021, we announced that any new transactions must qualify for DTS credit under the requirements for manufactured housing communities with pad lease protections. Due to the scaled adoption of these protections and the business we have seen in 2022, we are choosing to increase our manufactured housing communities tenant pad lease protections target for this year. Raising our tenant pad lease protections target in 2022 represents our continued commitment to serving the underserved market. Should market conditions warrant an increase in future years, we will consider modifications at that time.

OBJECTIVE A: PURCHASE LOANS THAT INSTITUTE DUTY TO SERVE TENANT PAD LEASE PROTECTIONS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	**1, 2 and 3**	**Affordable**	**Not applicable**

Based on our research, our successful loan offering in 2019, and our ability to complete 22 transactions through our loan purchase objectives in 2019 and 2020, and our increased loan purchases in 2021, we believe we have identified adoptable parameters to provide the full complement of Duty to Serve protections to homeowner tenants. In 2021 we implemented a requirement that DTS tenant protections must be included on all new MHC transactions.

Loan purchases will count under this objective based on the borrower's commitment to implement tenant pad lease protections in accordance with our Manufactured Housing term sheet at the time of our mortgage purchase.

Baseline

We implemented our tenant pad lease protections product offering in 2019, with a subsequent loan purchase objective for 2020 and 2021 due to the success of this offering and increased market adoption. Through our 2019 and 2020 loan purchase objectives, we provided tenant protections to a total of 2,560 tenant pad leases across 13 states, with a total of approximately $160 million in financing for 22 loans and set an important precedent for more impact over time.

Year	2019	2020
Total Loan Amount	$88 million	$71.6 million
Properties	8	14
# of Qualifying Pads*	1,322 pads	1,238 pads

*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 are excluded.

Based on the averaging of our 2019 and 2020 activity, our baseline for 2022-2024 is 11 properties and 1,280 qualifying pads.

Market Challenges

We have demonstrated in 2021 that Duty to Serve tenant protections can be adopted at meaningful scale. As of September 13, 2021, we have implemented a requirement that all new MHC transactions include these protections. Since that announcement we have seen continued adoption by community owners through new loans. However, we were the first capital provider with this requirement. MHCs can obtain loans from life insurance companies, banks, CMBS conduits, housing finance agencies, and

CDFIs. Because these institutions do not require additional protections for tenants above and beyond state law, communities may prefer to obtain financing from these entities instead. We are encouraged, however, by the success of our offering, and anticipate that we will continue to have a strong presence in the MHC market and increase protections for tenants nationwide.

2022-2024 Targets

Based on our success in 2021 in purchasing loans with Duty to Serve tenant protections, we have set our targets well above our baseline, with intended increases each year under the Plan. We anticipate that – even with increased competition from lenders that do not require protections – we will meet or exceed these targets.

Year	2022	2023	2024
Target	Lesser of 110~~100~~ properties or 11,000~~10,000~~ pads	Lesser of 105 properties or 10,500 pads	Lesser of 110 properties or 11,000 pads

Market Impact

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 pad lease protections financing. As a result of our MHCs offering and partnership with our lender network, we have increased the protections for tenants in MHCs across the country above and beyond existing tenant protection laws in all 50 states. This represents a potential sea change in the MHC market, where we support not just affordability for tenants, but also a better tenant experience. As we continue to purchase loans requiring these tenant protections, we will further improve the standards provided to MHC tenants nationwide.

Recognizing the critical role the GSEs may play in providing a stable source of capital, we will be mindful that 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 maintain safety and soundness.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2022

ACTIVITY:

3 - Section 515: Statutory Activity

OBJECTIVE:

A - Purchase Loans to Preserve Properties with USDA Section 515 Debt

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *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).*

Preserving the viability and long-term affordability of USDA Section 515 properties is an important objective. Many of these properties need recapitalization and preservation — with new first mortgage debt in front of USDA 515 loans. -We have devoted considerable time in developing the capability to support this goal. Over the course of our first Duty to Serve plan cycle, we worked with USDA to develop a standard subordination agreement and have incorporated our capability to work with USDA to preserve these properties into our core products, such as our Tax-Exempt Loan and our Cash Loan for Affordable Housing Preservation.

While initial feedback from stakeholders suggested there was extensive need for private capital to support this market, as a result of our product development efforts, our research, and our extensive outreach to lenders, borrowers and intermediaries in this market, we have learned that borrowers' need for debt financing is being met by current USDA loan offerings. Borrowers are accustomed to working specifically with USDA lenders and the USDA Section 538 program and leverage it as the primary source of new debt on existing properties.

Because this market's need for debt financing is being met, we are submitting a modification to remove the loan purchase objective AHP Activity 3 Objective A from the 2022-2024 Duty to Serve plan for this year and for future plan years, though we will remain committed to pursuing and considering any opportunities to support USDA 515 properties, consistent with our role at Freddie Mac to provide liquidity and to have capabilities to support the market at a high degree at the times that we are needed. Because we have embedded the capability to provide financing to USDA 515 properties into our core loan offerings, we will continually have this available in the market to provide support if and when current debt financing offerings cannot meet the market need. Additionally, we have a history of supporting USDA 515 properties under our LIHTC Equity investment program, and will continue to engage as a LIHTC equity investor to support the recapitalization and rehabilitation of these properties.

~~OBJECTIVE A: PURCHASE LOANS TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT~~

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

~~Baseline~~

~~We did not purchase any loans from 2018-2020 with USDA Section 515 debt, yielding a baseline of 0 transactions. In 2021 we purchased our first USDA 515 loan on a property in Utah which, per the DTS definition, was not rural. That same year we completed negotiations on a form subordination agreement with USDA, introduced our loan product offering, amended relevant loan product term sheets, and notified our seller/servicer network of our ability to purchase loans with USDA 515 subordinate debt.~~

~~Market Challenges~~

~~There are several challenges involved in purchasing properties with USDA Section 515 debt.~~

~~First, there are 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 has a different loan and legal structure than the current financing option to this market. Developers experienced with the USDA 515 program are accustomed to and well-versed in the USDA Section 538 program, and leverage it as the primary source of new debt on~~

~~existing properties. It may take time for developers to consider alternative financing and become accustomed to the Freddie Mac's loan structure and benefits.~~

~~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 the tenants in a designated number or percentage of 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 USDA 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.~~

~~Third, 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. Consequently, these transactions are far less likely than those involving most other markets to be initiated and closed in the same year.~~

~~2022-2024 Targets~~

~~Transactions could come in two forms – single loans on individual properties or a pool of loans spanning multiple properties. In the early stages of our entry into this market, we are setting our targets as inclusive of both types of transactions, as both are highly impactful and establish further precedents in the market.. Because pooled transactions have properties in multiple markets, it is possible that not all properties in the transaction would be located in a rural area per the DTS definition. Therefore we are setting our targets using transactions, not loans, to account for this possibility.~~

~~We anticipate that market adoption of our loan offering will take several years. In addition to the long lead time for each transaction described above, we see an additional significant challenge to the adoption of our offering. Based on our outreach to market stakeholders, we understand that borrowers in this market are highly accustomed to using USDA 538 for their debt financing needs. Therefore, we have set our targets as follows, growing our commitment over time as more market participants become familiar with the structure and benefits of our offering.~~

~~**Year**~~	~~**2022**~~	~~**2023**~~	~~**2024**~~
~~**Purchase Target**~~	~~One transaction~~	~~Two transactions~~	~~Four transactions~~

~~Market Impact~~

~~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 rural multifamily housing market. This will provide relief from the maturing mortgage crisis and preserve affordability for multifamily housing in the affordable preservation market. As a result of our work, we, along with the USDA, will be able provide long-term liquidity and stabilize the 515 preservation market, while preserving the 521 rental assistance (subject to continued federal support for these programs).~~

~~The transactions we hope to complete will 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 preservation of properties in need.~~

~~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 benefit cannot be understated in the near term or in the long term. Indeed, these 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 of individuals and families.~~

Underserved Market Plan Modification Request Template

FREDDIE MAC

RURAL HOUSING

2022-2024

ACTIVITY:

3 – Financing by Small Financial Institutions of Rural Housing: Regulatory Activity

OBJECTIVE:

A – Increase Loan Purchases from Small Financial Institutions Serving Rural Regions

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in:

☒ *The current Plan year*

☒ *Future Plan year(s)*

Resize the 2022-2024 targets for loan purchases from small financial institutions (SFIs) serving rural regions. Revise the objective title to align with the resizing.

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 proposes resizing our 2022-2024 target loan volume from SFIs in rural regions due to changed market conditions and revising our targets to include only home-purchase mortgages. Freddie Mac's original plan targets were aggressive relative to the housing market forecasts in early 2022. The current market environment, current purchases, forecasts, and outreach to eligible SFI lenders indicate a sharply lower origination market. Additionally, forecasting refinance volume in a rising interest rate environment and under such unprecedented circumstances is especially challenging. Given these circumstances, our rural SFI purchase targets for this Plan cycle will consist only of home-purchase mortgages. This change does not diminish our commitment to purchasing refinance originations or to supporting rural SFIs.

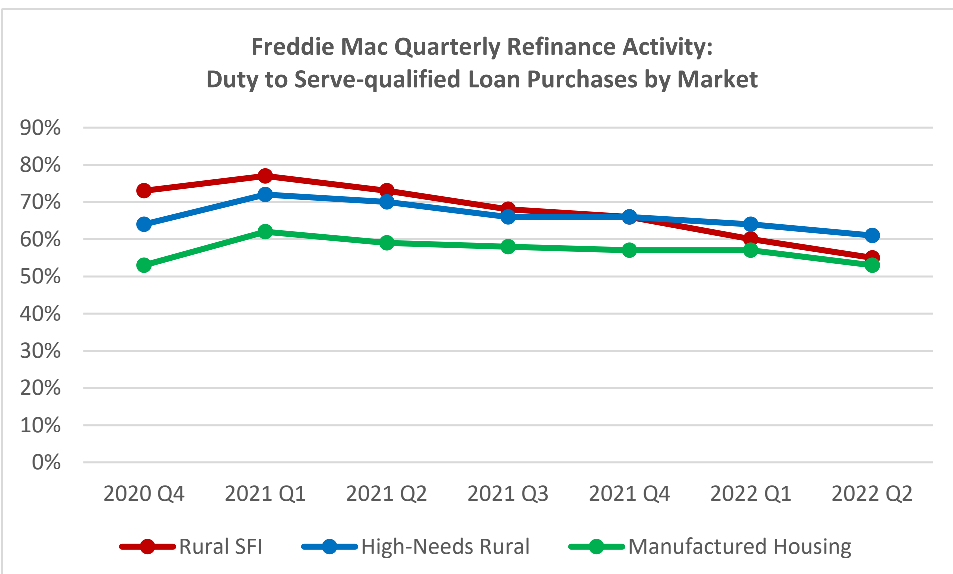
Freddie Mac is executing a multi-pronged approach to increase loan purchases from rural SFIs to meet our 2022 purchase target. This includes:

- Conducting outreach to SFI lenders
- Providing market pricing incentives to lenders in support of originating eligible loans
- Continuing efforts to promote direct selling channels to lenders

We are observing the following:

- Eligible lenders are experiencing a significant drop in overall originations.
- Many lenders are shifting to adjustable-rate mortgages and holding loans in portfolio.
- Some loans are shifting outside of the Freddie Mac credit box.
- Commitment volume is showing some improvement as a result of pricing incentives; however, volumes will not be sufficient to meet our original purchase targets.

Several factors contribute to the change in the market environment. The rise in mortgage rates and home prices have exacerbated affordability challenges and slowed home sales. Freddie Mac's Primary Mortgage Market Survey® showed that mortgage rates increased from 3.8% in the first quarter of 2022 to 5.9% as of September 8. Consequently, many homeowners are choosing not to refinance their mortgages; the pool already was shrinking because record numbers refinanced while rates were exceptionally low. Duty to Serve refinance volume reflects this situation. In the first half of 2022, refinance volume from SFIs fell 63% from the same period in 2021. Refinances as a share of total loan purchases from SFIs dropped from a high in Q1 2021 of 78% to 55% in Q2 2022 (see chart).



On top of rising rates, the FHFA House Price Index rose more than 18% from May 2021 to May 2022 as demand continued to outpace supply, pushing home purchases beyond many potential homebuyers' reach. Labor and materials shortages have expanded the time and costs of building new and repairing or renovating existing homes. As a result, construction activity has remained too low to help narrow the housing supply gap. According to the U.S. Census Bureau, construction of smaller, more affordable homes is at a 50-year low. Further constraining supply in rural areas is the lower-than-average resale rate. Homeowners there tend to stay in the same home longer and are more likely to age in place than elsewhere.

High inflation rates also may keep potential homebuyers on the sidelines. The Consumer Price Index rose more than 9% over the last 12 months through June 2022, according to the U.S. Bureau of Labor Statistics. Higher costs for food, gasoline, and other products could make some households less confident and/or able to take on the responsibilities of homeownership. Freddie Mac research showed 68% of renters surveyed became less likely to buy homes in the last year.

According to Freddie Mac's July 20 quarterly forecast, U.S. home prices are forecast to increase almost 13% in 2022 and another 4% in 2023, driving down home sales from 6.9 million in 2021 to 6 million in 2022 and 5.4 million in 2023. Total 2022 home sales were down 17% through June.

We forecast the dollar amount of total home-purchase loan originations will stay fairly stable, going from slightly more than $2 billion in 2021 to slightly less than $2 billion in 2022 and $1.9 billion in 2023. Refinance originations, however, will drop from $2.8 trillion in 2021 to $885 billion in 2022 and $463 billion in 2023.

Another pressure: The continuing loss of eligible lenders through closures, mergers, and acquisitions. At least 7% of the banks and credit unions on the list received from FHFA are no longer active.

Therefore, we are modifying our 2022-2024 loan purchase targets to reflect the current and forecasted market conditions. We are revising the objective title accordingly, to highlight providing market liquidity rather than increasing loan purchases. We will consider similarly revising our loan purchase targets for other Duty to Serve markets in the future.

OBJECTIVE A: ~~INCREASE LOAN PURCHASES FROM~~PROVIDE LIQUIDITY TO SMALL FINANCIAL INSTITUTIONS SERVING RURAL AREAS

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

Freddie Mac intends to ~~increase purchases~~provide liquidity to ~~of rural housing loans made by~~ small financial institutions with assets of less than $304 million ~~to provide liquidity and expand the distribution of capital~~. We plan to engage more deeply with small financial institutions that are already approved Freddie Mac seller/servicers to increase the purchase of rural housing loans. We also intend to expand our outreach and support to increase the number of small financial institutions that can be approved as direct Freddie Mac seller/servicers or that sell to us through an aggregator. Our approach will increase the financing options for these institutions and our purchase volume.

Baseline

The following table reflects Freddie Mac's historical single-family home-purchase loan purchases from small financial institutions serving rural areas from 201~~6~~7 to 202~~0~~1. To calculate a baseline, we used a five-year historical average of our volume to normalize the record amount of refinance volume we purchased in 2020 and 2021 as a result of the historically low interest-rate environment.

Using the ~~2021~~ reference file of eligible institutions provided by FHFA for the 2022-2024 DTS plan cycle, refinance volume from 2017-2019 accounted for 46 percent of total Duty to Serve-qualifying loan deliveries from small financial institutions serving rural areas; however, in 2020, refinances composed 72 percent of total qualifying volume and in 2021 jumped to 78 percent before sliding to 64 percent by year-end. At the same time, buying homes in rural areas has become increasingly difficult. The combination of a shortage of affordable homes in rural areas, years of rapid home price increases, and rising mortgage interest rates have prevented many potential homebuyers from buying homes. Additionally, prior to the refinance boom that started in late 2019 ~~and 2020~~, volume from small financial institutions had been decreasing due to the loss of eligible lenders through mergers and acquisitions. Overall qualifying loan volume in these areas from eligible lenders decreased at a rate ranging from 8-10 percent between 2016 and 2018 – a stark contrast to the 137 percent increase that was realized from 2019 to 2020.[i]

For these reasons, Freddie Mac's loan purchase targets include only home-purchase loans. Our baseline calculation reflects this focus.

~~Freddie Mac Single-Family Loan Purchase Volume – Small Financial Institutions Serving Rural Areas~~					
~~Year~~	**~~2016~~**	**~~2017~~**	**~~2018~~**	**~~2019~~**	**~~2020~~**
~~Income-Qualifying Loan Count~~ **~~(A five-year average was used to establish the baseline)~~**	~~4,318~~	~~3,863~~	~~3,567~~	~~4,401~~	~~10,428~~
~~Baseline~~	~~5,315~~				

Freddie Mac Single-Family Loan Purchase Volume – Small Financial Institutions Serving Rural Areas					
Year	**2017**	**2018**	**2019**	**2020**	**2021**
Income-Qualifying Loan Count **(A 5-year average was used to establish the baseline)**	2,205	2,222	2,382	3.023	3,391

Baseline	2,645

2022-2024 Targets

Our single-family purchase targets over the Plan cycle are set forth in the following table. We intend to use various tactics to meet our targets. ~~increase loan purchases relative to our historical volume from small financial institutions,~~ These may ~~including~~ include leveraging various execution options where feasible, conducting outreach, and offering technical training to raise lenders' confidence in lending to very low-, low-, and moderate-income homebuyers and homeowners.

~~As rates hold steady for an extended period, we anticipate that origination volume will eventually contract, and the significant spike of refinance volume likely will abate during the 2022-2024 Plan cycle.~~ Our Economic & Housing Research group estimated in July 2022[ii] that U.S. home prices will increase almost 13 percent in 2022 and another 4 percent in 2023, driving down home sales from 6.9 million in 2021 to 6 million in 2022 and 5.4 million in 2023. Total 2022 home sales were down 17 percent through June. Based on market conditions and patterns, we forecast the dollar amount of total home-purchase loan originations will stay fairly stable, going from slightly more than $2 billion in 2021 to slightly less than $2 billion in 2022 and $1.9 billion in 2023. On the other hand, refinance originations will drop from $2.8 trillion in 2021 to $885 billion in 2022 and $463 billion in 2023.~~refinance originations will fall from $2.6 trillion in 2021 to less than $1 trillion in 2022. Continued strong home sales and robust home price growth are expected to help boost purchase originations from $1.9 trillion in 2021 to $2.1 trillion in 2022. According to Freddie Mac's forecast, overall single-family mortgage origination activity will decrease from $4.5 trillion in 2021 to $3.1 trillion in 2022.~~

In addition, FHFA provided to the Enterprises a new data file identifying small financial institutions it viewed as qualifying under Duty to Serve. When we analyzed the impact of implementing the new loan file, we found that a significant portion of lenders that are no longer eligible have been providing us with a large number of qualifying purchase volume. The remaining lenders are not in a position to make up the difference.

Therefore, our purchases ~~targets will increase meaningfully over our baseline but~~ are not expected to reach the levels achieved in 2020 or 2021. Instead, they likely will be more in line with our performance in earlier years and fall below the baseline.

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

Single-Family Loan Purchase Targets – Small Financial Institutions Serving Rural Areas		
Year 1 – 2022	**Year 2 – 2023**	**Year 3 – 2024**
~~6,000-6,300~~2,390-2,450 loans	~~6,350-6,600~~ 2,400-2,450 loans	~~6,500-7,000~~ 2,420-2,500 loans

Market Opportunity and Impact

We estimate that we will provide an average of more than $389 million~~1.3 billion~~ in liquidity each year of the Plan cycle to small financial institutions that serve rural areas. Deliberately increasing our engagement with small financial institutions to provide liquidity will notably improve access to credit in rural markets because we have heard from lenders that they are limited in resources, available products, and outreach capacity.

Freddie Mac's increased purchase volume will benefit these markets by improving the availability of affordable financing, including Freddie Mac's low down-payment mortgages, Home Possible® and HFA Advantage®. Through our outreach efforts, more lenders also will become able to sell their loans into the secondary market either directly or indirectly, with some lenders becoming direct Freddie Mac seller/servicers.

We anticipate that achieving this objective will be very challenging because of lenders' competing internal priorities, potential operational complexities, differing financing options, distinct financial products offered, and the large number of geographic areas served. Furthermore, Freddie Mac anticipates that approximately 4 percent of the eligible lender population will stop reporting financial data and/or no longer be considered rural small financial institutions under the Duty to Serve definition due to continuous mergers and acquisitions in this segment that occurred in the prior Plan cycle; this will shrink the pool of Duty to Serve-eligible loans in this market. Developing relationships with small financial institutions not currently doing business with Freddie Mac will require a significant investment in resources to support and sustain the level of purchase growth targeted in the Plan cycle. Additionally, as we add new lenders to our customer base, it will take time before we realize loan purchases while lenders navigate through the onboarding process.

In addition, rural areas may not experience some economic opportunities available elsewhere. Exacerbating these circumstances, the coronavirus pandemic has been causing unemployment and underemployment to rise, primarily in service-related industries. As a result, many potential homebuyers may remain on the sidelines and homeowners may be challenged to stay in their homes and/or holding off on investing in home improvements.

We will continue to actively engage with small financial institutions to increase liquidity and access to credit in rural markets and expand lenders' ability to support affordable homeownership opportunities.

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[i] Overall qualifying loan volume is based on FHFA's 2021 reference file for small financial institutions on FHFA's web site: https://www.fhfa.gov/DataTools/Downloads/Pages/Duty-to-Serve-Data.aspx. The list consists primarily of depository institutions, credit unions, and community development financial institutions. The list does not include non-depository mortgage banks. The list also includes several Agricultural Credit Associations (ACAs).

[ii] ~~http://www.freddiemac.com/research/forecast/20211015_quarterly_economic_forecast.page?~~ https://www.freddiemac.com/research/forecast/20220720-quarterly-forecast-market-slowdown-will-continue-high-rates-and-prices-exacerbate

FREDDIE MAC

RURAL HOUSING

2022

ACTIVITY:

5 - Support Multifamily Properties in All Rural Areas: Additional Activity

OBJECTIVE:

A - Purchase Loans to Preserve Properties with USDA Section 515 Debt

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *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).*

Preserving the viability and long-term affordability of USDA Section 515 properties is an important objective. Many of these properties need recapitalization and preservation — with new first mortgage debt in front of USDA 515 loans. -We have devoted considerable time in developing the capability to support this goal. Over the course of our first Duty to Serve plan cycle, we worked with USDA to develop a standard subordination agreement and have incorporated our capability to work with USDA to preserve these properties into our core products, such as our Tax-Exempt Loan and our Cash Loan for Affordable Housing Preservation.

While initial feedback from stakeholders suggested there was extensive need for private capital to support this market, as a result of our product development efforts, our research, and our extensive outreach to lenders, borrowers and intermediaries in this market, we have learned that borrowers' need for debt financing is being met by current USDA loan offerings. Borrowers are accustomed to working specifically with USDA lenders and the USDA Section 538 program and leverage it as the primary source of new debt on existing properties.

Because this market's need for debt financing is being met, we are submitting a modification to remove the loan purchase objective Rural Activity 5 Objective A from the 2022-2024 Duty to Serve plan for this year and for future plan years, though we will remain committed to pursuing and considering any opportunities to support USDA 515 properties, consistent with our role at Freddie Mac to provide liquidity and to have capabilities to support the market at a high degree at the times that we are needed. Because we have embedded the capability to provide financing to USDA 515 properties into our core loan offerings, we will continually have this available in the market to provide support if and when current debt financing offerings cannot meet the market need. Additionally, we have a history of supporting USDA 515 properties under our LIHTC Equity investment program, and will continue to engage as a LIHTC equity investor to support the recapitalization and rehabilitation of these properties.

~~OBJECTIVE A: PURCHASE LOANS TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT~~

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

~~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. As of early 2018, there were approximately 13,000 properties with 415,000 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.~~

~~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**~~

~~Per our analysis of the 515 portfolio on data.gov, we estimate that 75 percent of these units are in rural areas. And among rural 515 properties, 94 percent have between five and 50 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 low and 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.~~

~~Baseline~~

~~We did not purchase any loans from 2018-2020 with USDA Section 515 debt, yielding a baseline of 0 transactions. In 2021 we purchased our first USDA 515 loan on a property in Utah which, per the DTS definition, was not rural. That same year we completed negotiations on a form subordination agreement with USDA, introduced our loan product offering, amended relevant loan product term sheets, and notified our seller/servicer network of our ability to purchase loans with USDA 515 subordinate debt.~~

~~Market Challenges~~

~~There are several challenges involved in purchasing properties with USDA Section 515 debt.~~

~~First, there are limited financing sources for these properties. Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, very few outside debt sources are 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 has a different loan and legal structure than the current financing option to this market. Developers experienced with the USDA 515 program are accustomed to and well-versed in the USDA Section 538 program, and leverage it as the primary source of new debt on existing properties. It may take time for developers to consider alternative financing and become accustomed to Freddie Mac's loan structure and benefits.~~

~~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 the tenants in a designated number or percentage of 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 USDA 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.~~

~~Third, 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. Consequently, these transactions are far less likely than those involving most other markets to be initiated and closed in the same year.~~

~~2022-2024 Targets~~

~~Transactions could come in two forms – single loans on individual properties or a pool of loans spanning multiple properties. In the early stages of our entry into this market, we are setting our targets as inclusive of both types of transactions, as both are highly impactful and establish further precedents in the market. Because pooled transactions have properties in multiple markets, it is possible that not all properties in the transaction would be located in a rural area per the DTS definition. Therefore, we are setting our~~

~~targets using transactions, not loans, to account for this possibility.~~

~~We anticipate that market adoption of our loan offering will take several years. In addition to the long lead time for each transaction described above, we see an additional significant challenge to the adoption of our offering. Based on our outreach to market stakeholders, we understand that borrowers in this market are highly accustomed to using USDA 538 for their debt financing needs. Therefore, we have set our targets as follows, growing our commitment over time as more market participants consider our offering.~~

~~**Year**~~	~~**2022**~~	~~**2023**~~	~~**2024**~~
~~**Purchase Target**~~	~~One transaction including at least one property in a DTS rural market~~	~~Two transactions, each including at least one property in a DTS rural market~~	~~Four transactions, each including at least one property in a DTS rural market~~

~~Market Impact~~

~~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 rural multifamily housing market. This will provide relief from the maturing mortgage crisis and preserve affordability for multifamily housing in the affordable preservation market. As a result of our outreach, we along with the USDA, will be able provide long-term liquidity and stabilize the 515 preservation market, while preserving the 521 rental assistance (subject to continued federal support for these programs).~~

~~The transactions we hope to complete will 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 preservation of properties in need.~~

~~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 benefit cannot be understated in the near term or in the long term. Indeed, these 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 of individuals and families.~~

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2022

ACTIVITY:

5 –Support Multifamily Rental Properties in Rural Areas: Regulatory Activity

OBJECTIVE:

B - Develop Multifamily Correspondent Lender Program for Community Development Financial Institutions, Minority Depository Institutions and Small Lenders Provide Financial Empowerment Offerings for Rural Renters through Credit Building On-time Rent Reporting and CreditSmart

PROPOSED MODIFICATION:

The proposed modifications would amend the Plan in: (check all that apply)

☒ *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 making a technical modification to Rural Activity 5 Objective C to replace references to incentives with references to promotion. We have seen a proliferation of firms that have developed and are offering these services. Use of the term incentive could be counterproductive to the market, and suggests that providers of these services that depend upon GSE subsidy to develop and market these offerings.

OBJECTIVE C: PROVIDE FINANCIAL EMPOWERMENT OFFERINGS FOR RURAL RENTERS ~~THROUGH CREDIT BUILDING FROM ON-TIME RENT REPORTING AND CREDITSMART~~

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

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Individuals with lower credit scores or those who are credit invisible face greater barriers to housing opportunity and wealth building than those with higher credit scores. These individuals may face higher risk of being screened out of rental applications (i.e., tenant screening services often rely on credit scores as a factor) and have greater difficulty accessing credit, thus hindering their ability to obtain a mortgage, rent a house or apartment, buy a car, get insurance and even secure employment. The single largest and most consistent debt payment that most renter households make — their rent — is not captured in today's traditional credit scoring model. Renters have much lower credit scores (638 – "Poor") than homebuyers (717 – "Good"). Poor credit scores directly contribute to the growing wealth gap that exists today and can be harmful to renters' financial future.

Renters can benefit from both financial capability resources and an efficient process that captures credit data to better help them manage their finances, plan for the future, and achieve homeownership capabilities.

Baseline

In November 2021, Freddie Mac announced its Credit Building program, which programmatically incentivizes multifamily borrowers to report on-time rent payments to credit bureaus. ~~We began our work testing this capability by engaging Esusu Financial, Inc. – a fintech firm that provides software to capture on-time rent payments and report them to the three major credit bureaus.~~ This program was originally designed to support properties on which we provide debt financing, and has not yet been extended to our LIHTC equity investment properties.

Freddie Mac also provides a proprietary financial empowerment curriculum called CreditSmart, which is free and robust. Lessons start with setting financial goals and put the power in the consumers' hands to better understand concepts ranging from how to build a household budget, to saving for rainy day expenditures, to buying or leasing a vehicle. For renters, CreditSmart can guide users through creating household budgets, determining how much to spend on rent and what their tenant rights and obligations are before entering into a lease. While this program is available to the general public, it has not been promoted directly to renters in Freddie Mac properties through our loan offerings or LIHTC equity investments.

Market Challenges

As described above, rent payments do not count towards renter credit scores, thus inhibiting the potential opportunities associated with higher scores. While there is growing attention paid to this issue, and both legislative and technological solutions are emerging, there is still not widespread adoption.

Actions

Our goal in Year 1 is to expand our rollout of Credit Building and CreditSmart to LIHTC properties in rural markets. Our current promotion strategy~~and incentive approach~~ ~~is tailored to~~has been focused around our role as a capital source for debt financing. In 2022, we will explore and implement an appropriate promotion strategy ~~and/or incentive strategy~~ suitable for our role as LIHTC equity investor. Adoption of these services will be reported on under our LIHTC equity investment targets described in this Plan.

Period	Key Action Items	Targets
Year 1 – 2022	• Design promotion strategy~~incentive package~~ for Credit Building and CreditSmart features for our LIHTC equity investments. • Develop marketing materials. • Promote Credit Building and CreditSmart features to our syndicator network.	• Complete development and rollout of Credit Building and CreditSmart features for our LIHTC equity investments.

Market Impact

By year end 2021, more than 73,000 tenant households had been offered this program across 284 properties. So far, we've helped establish credit scores for more than 6,000 individuals who were previously credit invisible. Participants with existing credit scores who saw an improvement in their score, improved their scores by an average of 43 points. Stronger credit scores open doors for tenants such as access to short-term credit options for emergency situations, qualifying for lower interest rates resulting in higher savings, providing economic mobility and improving their opportunity to become homeowners. To date, this has been marketed through our loan offerings, which typically do not reach the hardest to serve rural markets where properties generally cannot support first lien debt. Marking Credit Building and CreditSmart through our LIHTC Equity Investment offerings will allow us to further financial empowerment for rural renters.