

Exhibit E:  
**Annual Loan Purchase Narrative Reporting Template**

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2019

PURCHASE

**ACTIVITY:**

3 - HUD Rental Assistance Demonstration Program: Regulatory Activity

**OBJECTIVE:**

A - Provide Liquidity and Stability Through RAD Loan Purchases

**SUMMARY OF RESULTS:**

	<b>RAD Units</b>	<b>Properties</b>
<b>Baseline (2014-2016)</b>	1,079	8
<b>2019 Target (lesser of)</b>	2,000	15
<b>2019 Actual Volume</b>	2,073	15
<b>Incomes Targeted</b>	As required by the RAD program	

In 2019, Freddie Mac had a very strong year supporting the RAD program. We exceeded our loan purchase targets for units and met the target for properties. We did so by providing long term debt for renovation and preservation of units that were in great need of substantial renovation. The 15 properties we supported in 2019 were predominantly located in San Francisco, California, with two others located in Ohio and Alabama.

In our 2019 DTS Plan, we set our baseline based on our 3-year average from 2014-2016, and ambitiously set our target above our baseline as the lesser of 15 properties or 2,000 units. We established our target recognizing the complexities of rebuilding and preserving public housing. Even though we had begun working on a RAD portfolio in advance, the ability to complete rehabilitations and apply permanent debt in 2019 would require efforts far beyond those required for a typical multifamily loan. Our success came from deliberate focus on RAD since the inception of the program, working closely with HUD to adapt our loan offerings to work with RAD requirements, and building a strong pipeline of high impact, precedent setting projects. Supporting the RAD market goes beyond simply purchasing loans. These transactions can take years of effort and require strong partnership between housing authorities, developers, construction companies, construction lenders, permanent debt lenders, localities and Freddie Mac to help keep properties on track and complete the rehabilitations and place permanent Freddie Mac debt on the property.

Through the volume of loans we purchased, we helped to improve properties that required extreme transformation. In the case of the San Francisco RAD program, it was the largest conversion from public housing to private ownership to date. These projects, and our financing of them, set a precedent for other cities to follow.

**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

**IMPACT:**

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

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

**IMPACT EXPLANATION:**

Answer the following questions.

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

In 2010, HUD commissioned a study that concluded its aging public housing stock had an estimated \$25.6 billion in unmet capital needs. The dollar amount alone does not do justice to the need for improvement at many properties and has likely increased in the 10 years since the study was published. Through our RAD loan purchases, which provide long-term debt necessary to support the rehabilitation of public housing, we saw first-hand the impact our loan purchases can have. For example, in San Francisco, we supported the rehab and conversion of the city's entire public housing portfolio, the rehabilitations transformed housing with mold and mildew issues, dated finishes, and inefficient plumbing and electrical systems that had forced tenants to face multiple health issues such as Chronic Obstructive Pulmonary Disease (COPD) and asthma. A resident was interviewed after a conversion was completed. Reflecting on the previous living conditions the resident stated, "people don't move from here, they die here," as she recalled nearly dying of COPD due to the mold on the walls in her bedroom.<sup>1</sup>

Our support for RAD, particularly in San Francisco, demonstrated to the market that Freddie Mac can support large, transformative RAD conversions for those most in need; that we have competitive, attractive loan products; and that we can work with Public Housing Authorities (PHAs) and for profit and non-profit developers to accomplish substantially impactful work.

<sup>1</sup>Video produced during the commencement of the conversion project <https://www.youtube.com/watch?v=gdFnlnQEvdK>

While San Francisco (and El Paso before it) were early adopters of large-scale RAD conversions, there are other cities that have not yet rehabilitated and converted their units. Our success in San Francisco established a model for large-scale or wholesale RAD conversions that other cities can follow. This model is already being followed elsewhere, as exemplified through our work with the New York City Housing Authority (NYCHA). They took note of our ability to recapitalize properties and began their RAD conversion process, with Freddie Mac scheduled to purchase loans on NYCHA RAD properties in the coming years.

Our impact was not limited to large-scale conversions. We were also able to support small RAD properties, such as those in Ohio and Alabama. This demonstrates that we can work with properties of varying sizes, in markets across the country, whether or not they are undergoing large-scale RAD conversions.

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

Our work supporting RAD conversions in the past several years taught us how challenging these efforts can be. Projects in San Francisco required a deep commitment from multiple parties, including developers, the City of San Francisco, the San Francisco Housing Authority, the construction lender and Freddie Mac to ensure that the rehabilitation could be completed, and the properties could be converted.

Even with collaboration, properties took longer to complete than planned. In 2019, 10 of the 13 conversions we completed in San Francisco required at least one extension of the construction period before the property was ready for permanent debt. Challenges included construction delays, subsidy payments not received, and delays with receipt of property insurance. Further, RAD conversions often require multiple levels of financial support, from LIHTC equity, state/local subordinate debt, construction loans, and permanent debt from Freddie Mac. Additionally, support from HUD throughout the process is necessary, as HUD manages the program and the RAD contract process.

To address these challenges, we built into our offering the ability to extend our commitment and pricing to provide greater certainty to borrowers, LIHTC equity investors, and construction lenders. We also worked closely with HUD on subordination agreement terms and other procedural matters in advance to build a strong foundation for collaboration and reduce barriers to success on individual transactions.

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

Not applicable

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

# Quarterly Loan Purchase Narrative Reporting Template

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

1Q 2019 REPORT

EVALUATION AREA: PURCHASE

## ACTIVITY:

*Activity 3 – HUD Rental Assistance Demonstration Program: Regulatory Activity*

## OBJECTIVE:

*Objective A -- Provide liquidity and stability through RAD loan purchases*

## SUMMARY OF RESULTS:

	<b>Units</b>	<b>Properties</b>
<b>Baseline</b>	1,079	8
<b>2019 Target (lesser of)</b>	2,000	15
<b>1Q 2019 Volume</b>	304	3

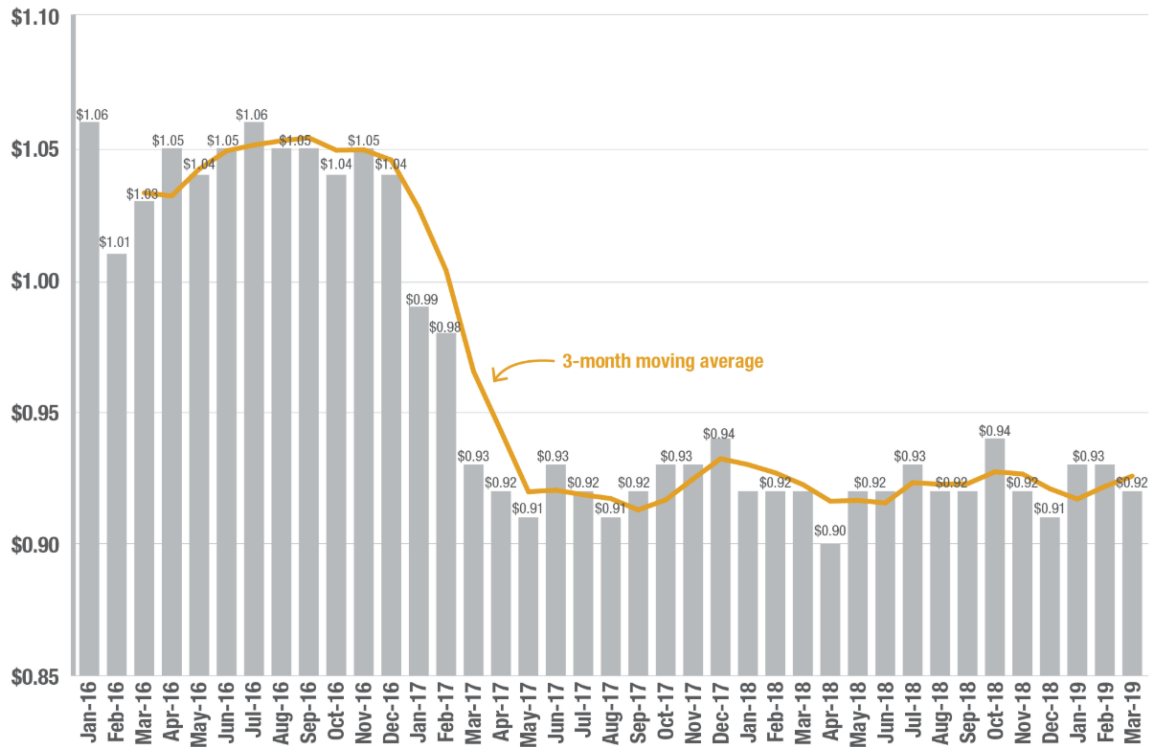
We are on track to meet or exceed our RAD loan purchase targets as a result of deliberate efforts to build a strong pipeline through partnerships with our Optigo lenders, PHAs, HUD, and experienced developers.

While we anticipate that we will complete our planned transactions for 2019, this objective is especially challenging for two reasons: (1) there are a limited number of viable RAD properties ready for permanent debt, and (2) the conversion process for public housing is time-intensive, complex, and unpredictable. These challenges are exacerbated by several market factors, including decreased LIHTC equity pricing and rising construction costs and construction labor shortages. Additionally, the number of units eligible for conversion was capped at 40,000. That cap was raised before 2018, but because of the lengthy process for proposals, approvals, construction and permanent debt, any additional units would not have been in scope for 2018, or likely even until 2021.

These transactions can take years of effort and require strong partnership between housing authorities, developers, construction companies, construction lenders, permanent debt lenders, localities and Freddie Mac to help keep projects on track and complete the conversion and place permanent Freddie Mac debt on the property.

# Low-Income Housing Tax Credit Equity Pricing per Credit

January 2016-March 2019



## 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