FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2019

ACTIVITY:

Activity 4 – USDA Section 515: Statutory Activity

OBJECTIVE:

Objective A: Develop a new offering to preserve properties with USDA Section 515 debt

PROPOSED MODIFICATION:

Removal of year-2 (2019) actions.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to develop a loan offering that would provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2019 were contingent upon the 2018 actions. Therefore, we are seeking to remove 2019 actions under this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

OBJECTIVE A: DEVELOP A NEW OFFERING TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT

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

Freddie Mac has developed a strategy that would address the maturing mortgage crisis by increasing product flexibility and partnering with the USDA to create a sustainable, effective loan product offering. Initially, Freddie Mac will perform a comprehensive review of our current product offerings to determine how we can best leverage our existing products with the market challenges faced by the rural rental housing market. Additionally, we will collaborate with borrowers and our seller/servicers to help design additional features that can be added to support this loan offering. Based on the results of our review and feedback from our collaboration, we intend to make improvements consistent with prudent underwriting standards to ensure safety and soundness. We also intend to leverage our market-leading risk distribution methods that allow us to attract private capital to support these properties, offer competitive terms and flexibility to our borrowers, and transfer risk away from taxpayers. This capability is fundamental to providing persistent liquidity and stability to the market.

While somewhat premature, we expect that these enhancements will cumulatively have a significant impact on the borrowers of rural rental housing by providing a source of stable, efficient, long term private capital which will enable very low-, low-, and moderate-income tenants to remain in their homes without additional rent burden. We expect that, if successful, these improvements will result in increased purchase volume and additional liquidity to this market. Over the two-year period, Freddie Mac plans to build a strong offering foundation by publishing an initial term sheet and completing a pilot transaction to determine market acceptance and long term feasibility of the product offering. We also plan on providing training to our Multifamily seller/servicers to ensure that they are equipped with the information needed to accurately promote and support the offering.

Baseline

While we have originated TEL transactions, we lack the legal infrastructure, agreements with USDA, and stakeholder partnerships to provide a USDA 515 preservation debt offering immediately. We last purchased a loan on a Section 515 property in 2010, so our baseline of recent experience is zero transactions. This is to be expected because the clear majority of transactions involving USDA's Section 515 properties use other USDA programs, such as Section 538 or the Multifamily Housing Preservation and Revitalization Demonstration Program (MPR). [xi]

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Limited financing sources ▪ Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs. **Property features** ▪ 515 properties, given their small size, cannot benefit from the same economies of scale as more typical multifamily urban or suburban properties due to the number of units. Across the 515 portfolio, the average property size in rural markets is 29 units per our analysis of 515 properties from data.gov.	**Year 1 – 2018** Evaluate the barriers limiting private capital in conjunction with USDA's Section 515 program to identify product parameters and legal document requirements. 1) Engage with the following participants to assess and identify areas of opportunity for our product. These participants include: 3 issuers from states with a high concentration of 515 properties, two borrowers from council for affordable and rural housings top 20 borrowers list, two rural advocacy organizations, and two Freddie Mac seller/servicers.

- Smaller rural properties are also distant from major employers and access to other resources that provide occupancy stability to a rental property.

Number of stakeholders

- Through our research, we have learned that each transaction has multiple stakeholders each with their own requirements that impact the loan parameters some of which are conflicting making it difficult to ensure ease of execution for each transaction.

Reliance on USDA 515 debt

- USDA 515 debt ensures that the property maintains rental assistance. Therefore, it is important that any additional financing be compatible with USDA 515 debt.

Reliance on rental assistance

- Many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low and low income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available.

Product awareness

- Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. Likely, the Freddie Mac loan product will have a different loan and legal structure than the current financing option to this market.
- Freddie Mac sellers may not be motivated to market and originate this business due to its initial small scale, limited inventory, and amount of time it takes to originate a loan. From our current outreach, we have heard that it can take from two to five years to complete a rural rental housing transaction.

2) Evaluate and assess alternative loan structures to determine offering parameters, as evidenced by the following term sheet.
3) Evaluate and assess appropriate underwriting parameters to mitigate risk of rental assistance termination. These underwriting parameters will be captured in our internal credit policy and summarized in the product term sheet. Results of this analysis will be included in our term sheet.
4) Publish official product term sheet on our website that defines the product and its purpose to enable borrowers and sellers to understand the new loan product. The term sheet will contain at least the following elements:
    a. Product overview and loan purpose
    b. Sponsor and property eligibility requirement
    c. Loan-to-Value limits
    d. Debt coverage limits
    e. Allowable lengths of loan term
    f. Allowable lengths of amortization
5) Initiate one sample transaction to test market acceptance on the new loan and legal structure introduced to the market. Given the time it takes to complete a transaction, we will not likely make a loan purchase until Year 2.
6) Provide one to three training sessions via webinar or in person for Freddie Mac sellers to provide loan offering details, benefits to the borrower, and origination procedures to ensure that sellers have the knowledge to market the product effectively. To address the sellers' concerns, information will be provided to the sellers regarding incentives and origination efficiencies to motivate them to originate transactions with USDA 515 debt.
7) Negotiate and implement subordination agreement with USDA to ensure USDA 515 debt will stay on the property with the senior Freddie Mac debt. The finalized agreement will be shared with FHFA on an informational basis.

~~**Year 2 – 2019**~~

~~Provide two additional training sessions as needed to ensure Freddie Mac Sellers are well-informed about the Freddie Mac loan offering and can accurately articulate its benefits to their borrowers.~~

1) ~~Complete pilot transaction and initiate two additional pilot transactions for purchase in 2020. Pilot will be deemed successful if either we purchase the loan, or we receive sufficient information to inform a report of lessons learned.~~
2) ~~Draft a summary report of lessons learned based on the pilot transaction for use in product refinements. Summary will be shared with FHFA on an informational basis.~~

	~~Update the product sheet and terms based on feedback from stakeholders and the summary report.~~
Resource Challenges	**Freddie Mac Action**
▪ Multiple resources from various teams within Freddie Mac will be essential to ensure success of the actions outlined above.	**Year 1 – 2018** 1) Implement an internal working group to ensure that all resources are allocated appropriately and alignment is maintained throughout the creation of the new loan product. ~~**Year 2 - 2019**~~ ~~Debrief with Freddie Mac, the borrower, and seller on the pilot transaction to determine positive and negative aspects of the origination process and product structure.~~

Market Impacts

While there are many challenges to developing a product to preserve properties with USDA Section 515 debt, the benefit to the market is great. In the near term, we will lay a strong product foundation and refine it through a pilot transaction. In the long term, we, along with the USDA, will be able provide long-term liquidity and stabilize the 515 preservation market while preserving the rental assistance (subject to continued federal support for these programs). By designing this offering to leverage our market-leading risk distribution methods, we will be able to attract private capital to support 515 properties and the tenants who live in them. In so doing, we will transfer risk away from taxpayers and promote safety and soundness.

The benefit of this offering is clear: through this work, we will enable tenants of very low and even extremely low incomes[xii], many of whom are senior citizens, to be able to continue to live in safe and decent housing that is affordable to them in their communities. Not only does this benefit the tenants themselves, but it also promotes stable communities across the country.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2019

ACTIVITY:

Activity 4 – USDA Section 515: Statutory Activity

OBJECTIVE:

Objective B: Make purchases to preserve properties with USDA Section 515 debt

PROPOSED MODIFICATION:

Removal of entire objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2019 were contingent upon the 2018 actions. Therefore, we are seeking to remove 2019 actions under this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

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

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

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

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

~~Baseline~~

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

~~Target~~

~~Prior to the creation of this third-party financing offering, there is no precedent to accurately determine the market for this product. Also, these transactions are highly complex and slow to develop. Therefore, in Year 3 (2020), we plan to purchase two portfolios of loans on properties with USDA 515 debt. This target is dependent upon us initiating these transactions in Year 2 (2019), as these transactions often take two years to complete. If our loan product requires adjustments, we will likely adjust this target based on market feedback on our product offering.~~

~~As we gain experience in the Section 515 market and more borrowers accept our product, we will have a greater scope and be able to better predict where these purchases will take place. Any purchases in the early years will be precedent setting and will be used to attract developer interest in the products we offer.~~

~~Challenges~~

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

~~First, there are the limited financing sources for these properties. Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs. Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. The Freddie Mac loan product likely will have a different loan and legal structure than the current financing option to this market.~~

~~Second, many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low- and low-income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available. Because the section 521 rental assistance is only available if 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.~~

~~Third, unlike most markets, where one could expect awareness and transactions to be initiated and closed in the same year, this is far less likely to be the case for properties with USDA 515 debt. These transactions are highly complex with multiple parties, multiple properties, and sometimes challenging market conditions. Even once initiated, a transaction can fall through due to many factors, such as disruptions in the LIHTC equity market, rising interest rates, or change in local market conditions.~~

~~Market Impacts~~

~~The immediate benefit of these transactions will be to rehabilitate and preserve safe, decent, and affordable rental homes for tenants who are at risk of becoming homeless if these properties exit the 515 program. This cannot be understated in the near term or in the long term. Indeed, these initial loan purchases lay the foundation for more third-party financing and enable long term, stable liquidity, which is fundamental to providing long-term residence to thousands and thousands of people and families.~~

~~These transactions will also be precedent setting. Through these transactions we will demonstrate to rural developers that there is a new and replicable source of innovative financing for 515 properties that will enable the recapitalization and rehabilitation of these properties. Upon completion, we will issue press releases and/or publish news stories on our website that summarize the transactions and promote their replicability, which will lead to a growth in purchases in future years.~~

~~In so doing, we will introduce new standards and efficiencies into the market. We will also look to attract private capital and promote safety and soundness by leveraging our capital markets infrastructure and risk distribution capabilities.~~

~~We recognize that these innovations will likely take some time to catch on, as each transaction in the early years will likely be slow to develop, and new opportunities will likewise be slow to follow. However, with each transaction, we will preserve more affordable rental homes and build more momentum and market adoption so that by the time 515 properties start to mature at scale around 2028 at 16,000 units per year, the market will have a well-functioning and well-tested execution in place to preserve a meaningful share of rental homes for tenants in need.~~

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2019 - 2020

ACTIVITY:

Activity 9 – Support Residential Economic Diversity: Additional Activity

OBJECTIVE:

Objective C: Conduct and publish three research projects on housing in high opportunity areas

PROPOSED MODIFICATION:

1. *Expand the scope of research in 2019 and amend 2020 to include additional properties that were not covered in 2019.*
2. *Clarify how we will promote our research*
3. *Clarify how we will engage with other researchers*

JUSTIFICATION FOR PROPOSED MODIFICATION:

1. *We are expanding the scope of our research beyond focusing just on communities that promote high opportunity. We are also looking at the financing mechanisms used to support properties in these communities. We are doing this by using properties that Freddie Mac has financed as the basis for our case studies. This affords us greater access to information about the properties and financing behind them. Housing acts as the anchor to promoting Residential Economic Diversity and understanding its role in shaping a neighborhood is central to providing opportunity for residents. In evaluating properties financed by Freddie Mac, we will be able to identify and analyze replicable models of community development rooted in affordable housing and economic diversity, and analyze the financing associated with those models. This will provide greater, and more practicable, insight to the public, which can lead to greater understanding of, support for, and investment in, affordable housing in high opportunity areas. Our research in 2020 will mirror the goals of the research in 2019, but we will look at other communities and properties across the country to allow for a deeper understanding of this market.*
2. *This is a clarification of how we intend to promote our research so that it is more accessible.*
3. *We are updating this section slightly to more precisely reflect the nature of our engagement with external research organizations. Freddie Mac had planned, and will continue, to seek feedback on our work from other researchers in the field.*

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

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

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

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

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

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

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

Our work is summarized as follows:

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

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

Year 3 – 2020. Since high opportunity neighborhoods are found across the country, ~~I~~in the final year of our Plan, we will conduct three additional case studies ~~with a new focus:~~ on properties in communities not covered in 2019. This will allow for a deeper understanding of the different ways that RED can be furthered nationwide. ~~the challenges and opportunities specifically for financing affordable housing in high opportunity areas. We will examine three properties for which Freddie Mac has provided financing, explore how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were effectively leveraged to support these transactions. Through this research, and its publication in 2020, we will identify replicable transaction structures and tools that Freddie Mac and localities can use to further RED and opportunity through affordable housing in high opportunity areas. We anticipate that this will lead to more liquidity in the market as other communities and developers avail themselves of these standards and transaction models.~~

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

Baseline

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

Challenges, Actions and Market Impacts

Challenges	Freddie Mac Action
Lack of easily accessible data on high opportunity areas and housing ▪ Gathering information that relates to high opportunity areas will be difficult, as there are many disparate sources of data, not all of which are publicly available. Throughout the course of our research there have been instances where data was temporarily unavailable or where combining sources proved to be more difficult than originally anticipated. The wide range of topics that we intend to cover for our high opportunity research will rely heavily on data, and completing the objective within a narrow timeframe will be very difficult if data issues are encountered. **Public is often unaware of the benefits of Residential Economic Diversity** ▪ Public misconceptions regarding economic diversity and housing may play a role in creating preconceived notions that deter the creation and preservation of affordable housing in high opportunity areas **Definitional challenge** ▪ Insufficient industry consensus on what is considered high opportunity ▪ Understanding the opportunities that exist to expand this market **Resource challenge** ▪ Throughout the Duty to Serve Plan, we are taking on a considerable number of research efforts, all of	**Year 1 – 2018** Leverage data aggregated and aligned in conjunction with the mapping tool described in Objective B above from a selection of the following and other sources we discover in our research to better understand housing in high opportunity areas: The National Housing Preservation Database, data.gov, HUD, Harvard's Equality of Opportunity Project, and Census Bureau, 1) Compare and contrast various definitions of high opportunity areas 2) Publish report on housing in high opportunity areas 3) This report will include at least the following: a. Comparison of definitions of high opportunity areas b. Analysis of the geographic distribution in high opportunity areas of LIHTC, Section 8, and other programs we may identify in our research, leveraging the data sources identified above c. Estimation of market size in high opportunity areas of LIHTC debt, Section 8, and other programs we may identify in our research, leveraging the data sources identified above 4) Report will be published on our website, distributed to research organizations, advocacy organizations, and the seller/servicer network, and will be promoted with a press release. 5) Engage with at least two leading researchers on Residential Economic Diversity to help inform and

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

structure our research and identify communities we should focus on in our case studies.

Year 2 – 2019

1) Identify and analyze three properties financed by Freddie Mac in high opportunity areas that are approaching economic diversity in different ways and conduct individual case studies for each community and property, comparing their approaches and their use of housing as a tool to further economic opportunity.

2) Draft a report on these three case studies. Report will include analysis of the approaches taken by each ~~community~~property in each community, the role of housing and housing programs used to promote Residential Economic Diversity, and the relationship between the specific housing and a selection of measures of opportunity identified in different definitions of high opportunity areas. This report will identify factors that successfully enabled affordable housing to be developed and financed so that these factors may be replicated elsewhere. We will also identify factors that inhibit or make more difficult the promotion of Residential Economic Diversity and pathways to avoid or mitigate these challenges.

3) Report will be published on our website, ~~distributed to research organizations, advocacy organizations, and the seller/servicer network, and will be~~ promoted with a press release, and shared on social media so that research organizations, advocacy organizations, and lenders have access to the work.

4) Engage with at least two leading researchers on Residential Economic Diversity to ~~help inform and structure our research and identify communities we should focus on in our case studies.~~review or discuss our research.

Year 3 – 2020

1) Our research in Year 3 will build off our findings in 2019 regarding steps communities can take to promote RED, ~~but will focus more specifically on the avenues to finance~~by selecting three additional properties financed by ~~through state and local programs and~~ Freddie Mac that have successfully promoted Residential Economic Diversity and evaluating how their approaches to economic diversity may be different in various parts of the country.

2) To do this we will identify and analyze three high opportunity areas in which Freddie Mac has provided financing for affordable housing, and draft a report on these three case studies. Report will include analysis in different high opportunity areas for which Freddie Mac has provided financing, how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were effectively

	leveraged in conjunction with Freddie Mac financing to support these properties. Through these case studies we will identify replicable development models, financing models, and approaches and tools states and localities can use to facilitate development and financing of affordable housing in high opportunity areas. Report will be published on our website, ~~distributed to research organizations, advocacy organizations, and the seller/servicer network,~~ ~~and will be~~ promoted with a press release, and shared on social media so that research organizations advocacy organizations, and lenders have access to the work. 3) Engage with at least two leading researchers on Residential Economic Diversity to ~~help inform and structure~~ review or discuss our research ~~and identify communities we should focus on in our case studies~~.

Market Impact
Over time, many programs and studies have focused on Residential Economic Diversity and its role in promoting social and economic mobility. Likewise, there have been many ways of understanding what constitutes the fundamentals of opportunity. Our research will build upon the information collected by numerous academic studies, and look beyond this work as it relates to housing and housing finance as an important aspect of furthering Residential Economic Diversity. The results of each of our research efforts will have several market impacts across all three years of our Plan. **Year 1 – 2018.** Our research will build upon the information collected by numerous academic studies, and look beyond this work as it relates to housing and housing finance, an important aspect of furthering Residential Economic Diversity. Better understanding of high opportunity areas, and what can be done to create them, will also ensure that loan purchases we make in these areas have a high level of beneficial impact on communities. The housing market needs access to a consolidated set of research that clearly outlines the benefits of economic diversity in residential communities, and ways in which these may be achieved. This published research will act as a reference for all market particpiants. By working with academic teams and the FHFA, we will be able to refine the definition for high opportunity areas for the use of the housing industry, and, more importantly, for the benefit of the residents in these communities **Year 2 – 2019.** Promoting Residential Economic Diversity in high opportunity areas has been a long-term challenge. Identifying and analyzing communities that have succeeded, and the reasons for their success and the challenges they have faced, is fundamental to enabling more communities to follow suit. We will focus specifically on how Freddie Mac financing and other sources have been leveraged to promote Residential Economic Diversity, and the challenges faced in doing so. In evaluating communities that have made a deliberate effort to further Residential Economic Diversity, we will be able to identify and analyze replicable models of community development rooted in affordable housing and economic diversity. Publishing research on this will provide greater attention to these efforts, and will demonstrate models for other communities to follow. This will in turn help to attract more development and investment supporting Residential Economic Diversity. **Year 3 – 2020.** Our publication in Year 3 will build upon our findings in Year 2 as we seek to take the lessons of community development identified in Year 2 and apply them ~~more specifically to the financing of~~to three additional affordable properties~~housing~~ that promote~~s~~ RED. ~~We will focus specifically on how Freddie Mac financing and other sources have been leveraged to promote Residential Economic Diversity, and the challenges faced in doing so.~~ Our focus on replicability, not just of our debt, but also of steps communities can take to further development and make transactions work, will provide a clear signal to the market of how to facilitate more development in support of Residential Economic Diversity, and how to promote greater opportunity for residents in strong, sustainable communities. This will lead to greater liquidity in this market as more developers, lenders, and localities leverage the tools and new standards identified in our analysis.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2019 - 2020

ACTIVITY:

Activity 9 – Support Residential Economic Diversity: Additional Activity

OBJECTIVE:

Objective D: Conduct and publish three research projects on housing in areas of concentrated poverty (QCTs and R/ECAPS)

PROPOSED MODIFICATION:

1. *Expand the scope of research in 2019 and amend 2020 to include additional properties that were not covered in 2019.*
2. *Clarify how we will promote our research*
3. *Clarify how we will engage with other researchers*

JUSTIFICATION FOR PROPOSED MODIFICATION:

1. *We are expanding the scope of our research beyond focusing just on communities that are ACPs. We are also looking at the financing mechanisms used to support properties in ACPs. We are doing this by using for our case studies properties that Freddie Mac has financed. This affords us greater access to information about the properties and financing behind them. Housing acts as the anchor to promoting Residential Economic Diversity and understanding its role in shaping a neighborhood is central to providing opportunity for residents. In evaluating properties financed by Freddie Mac, we will be able to identify and analyze replicable models of community development rooted in affordable housing and economic diversity, and analyze the financing associated with those models. This will provide greater, and more practicable, insight to the public, which can lead to greater understanding of, support for, and investment in, housing that promotes RED in ACPs. Our research in 2020 will mirror the goals of the research in 2019, but we will look at other communities and properties across the country.*
2. *This is a clarification of how we intend to promote our research so that it is more accessible.*
3. *We are updating this section slightly to more precisely reflect the nature of our engagement with external research organizations. Freddie Mac had planned, and will continue, to seek feedback on our work from other researchers in the field.*

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

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

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

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

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

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

Our work is summarized as follows:

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

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

- **Year 3 – 2020.** In the final year of our plan, we will conduct three additional case studies ~~with a new focus~~on three more properties to identify~~:~~ the challenges and opportunities ~~specifically~~ for financing mixed-income housing in areas of concentrated poverty. We will examine three additional properties for which Freddie Mac has provided financing, though perhaps in different range of income-mixing than FHFA has defined depending on availability in our recently-financed loan portfolio, explore how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were (or were not) leveraged to support these transactions. Through this research, and its publication in 2020, we will identify replicable transaction structures and tools that Freddie Mac and localities can use to further RED and opportunity through mixed-income housing in areas of concentrated poverty. We anticipate that this will lead to more liquidity in the market as other communities and developers avail themselves of these standards and transaction models.

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

Baseline

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

Challenges, Actions and Market Impacts

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

Resource Challenge

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

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

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

Year 2 – 2019

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

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

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

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

Year 3 – 2020

Identify and analyze three additional areas of concentrated poverty in which Freddie Mac has provided financing for mixed-income housing.

1) Draft a report on these three case studies. Report will include analysis of three properties in different areas of concentrated poverty for which Freddie Mac has provided financing, how these properties supported RED and opportunity in their communities, and how federal, state, and/or local programs and flexibilities were or were not leveraged in conjunction with Freddie Mac financing to support these properties. Through these case studies we will identify replicable development models, financing models, and approaches and tools states and localities can use

	to facilitate development and financing of affordable housing in areas of concentrated poverty. This report will also consider different levels of income-mixing on properties. 2) Publish a report on our website, ~~distribute it to research organizations, advocacy organizations, and the seller/servicer network, and~~ promote it with a press release, and ~~h~~share on social media s~~p~~o that research organizations, advocacy org~~n~~anizations, and lenders have access to the work. 3) Engage with at least two leading researchers on areas of concentrated poverty to ~~help inform and structure~~review or discuss our research~~ and identify communities we should focus on in our case studies~~.

Market Impact

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

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

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

Year 3 – 2020. Our publication in Year 3 will build upon our findings in Year 2 as we seek to take the lessons learned of community development identified in Year 2 and apply them ~~more specifically to the~~to an additional three properties ~~financing of mixed-income housing~~ that promote~~s~~ RED. ~~We will focus specifically on how Freddie Mac financing, and perhaps other sources, have been leveraged to promote Residential Economic Diversity~~. Our focus on replicability, not just of our debt, but also of steps communities can take to further development and make transactions work, will provide a clear signal to the market of how to facilitate more development in support of Residential Economic Diversity, and how to promote greater opportunity for residents, and promote strong, sustainable communities. We expect that the lessons we learn from this research will also enable us to better tailor our financing offerings for the benefit of RED as it relates to areas of concentrated poverty. This will lead to greater liquidity in this market as more developers, lenders, and localities leverage the tools and new standards identified in our analysis.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2019 - 2020

ACTIVITY:

Activity 9 – Support Residential Economic Diversity: Additional Activity

OBJECTIVE:

Objective E: Conduct and publish three research projects on states that prioritize, or could prioritize, RED in QAPs

PROPOSED MODIFICATION:

1. *Clarify how we will promote our research*
2. *Clarify how we will engage with other researchers*

JUSTIFICATION FOR PROPOSED MODIFICATION:

1. *This is a clarification of how we intend to promote our research to ensure that it is accessible.*
2. *We are updating this section slightly to more precisely reflect the nature of our engagement with external research organizations. Freddie Mac had planned, and will continue, to seek feedback on our work from other researchers in the field.*

OBJECTIVE E: CONDUCT AND PUBLISH THREE RESEARCH PROJECTS ON STATES THAT PRIORITIZE, OR COULD PRIORITIZE, RED IN QAPS

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

There have been many states and localities that have made it their policy to support Residential Economic Diversity, some in ways that meet FHFA's qualifications, some in ways that do not, while others have not overtly stressed RED at all. The extent to which states support this idea is not widely known or researched. Over the next three years, we will conduct and publish three research projects to better understand the following:

- Year 1 - 2018: What states are emphasizing in their furtherance of RED through QAPs, what are the leading factors in their furtherance of RED, and what is the market size and opportunity;
- Year 2 - 2019: How Freddie Mac financing can be leveraged into replicable programs with these states; and
- Year 3 - 2020: In states that are not emphasizing RED to the degree FHFA views as qualifying for Duty to Serve credit, how might they do so, and how might Freddie Mac financing be aligned with their efforts for the furtherance of RED?

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

Through these efforts individually and in the aggregate, we anticipate that we will enable more states to prioritize RED, be able to better tailor our loan offerings to support them (and how they might tailor theirs to work better with us), and provide more liquidity to support RED.

Baseline

Freddie Mac has not explicitly worked with the identified states with the goal of studying and furthering RED in this context.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Deficiency of research on the involvement of states and localities in RED ▪ It is unclear how states and localities support RED **External factors outside of housing** ▪ How public policy has contributed to concentrations of unsustainable neighborhoods ▪ Our ability to affect conditions outside of housing is very limited ▪ Development of jobs, highways, and other infrastructure is not in our control but is essential for community growth **Resource Challenge** ▪ Throughout the Duty to Serve Plan, we are taking on a considerable number of research efforts, all of which require extensive planning, as well as collaboration with key stakeholders, and analysis. The design and research of all of these objectives will have many unique components, and will leverage the expertise and skills of our internal research organization, whose focus extends beyond the scope of the Duty to Serve Plan.	**Year 1 – 2018** Create and/or assign an internal team to contact and meet with states and localities regarding their involvement in Residential Economic Diversity. 1) Conduct outreach to states and localities that are involved in promoting RED to determine how we can provide financing to complement their efforts. 2) Aggregate and align data from a selection of the following and other sources we discover in our research as it relates to states identified by FHFA as having QAPs that emphasize RED: The National Housing Preservation Database, data.gov, HUD, Harvard's Equality of Opportunity Project, and Census Bureau information 3) Publish a report of our findings that will include at least the following: a. Leading factors that states prioritize in promoting RED b. Analysis of the distribution of LIHTC, Section 8, and others we may identify in our research, leveraging the data sources identified above in states identified by FHFA as having QAPs that emphasize RED 4) Publish report on our website, distribute to research organizations, advocacy organizations, and the seller/servicer network, and promote with a press release. 5) Engage with at least two leading researchers on state QAPs to help inform and structure our research and identify communities we should focus on in our case studies. **Year 2 – 2019** 1) Identify and analyze three states in which Freddie Mac has provided financing for affordable housing that supports RED. 2) Draft a report on these three case studies. Report will include analysis of three properties in states for which Freddie Mac has provided financing, how these properties supported RED and opportunity in their communities, and how they have done so in the context of state QAPs and other state or local efforts. Through these case studies we will identify replicable development models, financing models, and approaches and tools states and localities can use to facilitate development and financing of affordable housing in high-opportunity areas. 3) Publish the report on our website, and share on social media so that research organizations, advocacy organizations, and lenders have access to the work.~~distribute it to research organizations,~~

	~~advocacy organizations, and the seller/servicer network, and promote it with a press release.~~ 4) Engage with at least two leading researchers on RED to ~~help inform and structure~~review or discuss our research~~ and identify communities we should focus on in our case studies~~. **Year 3 – 2020** 1) Identify and analyze three states that either do not currently prioritize RED or do not meet FHFA's definition for a qualifying QAP. 2) Draft a report on these three case studies. Report will include analysis of these state's QAPs and how they differ from FHFA's standard and how they could meet that standard, as well as analysis of properties that may be considered as supporting RED for which Freddie Mac has provided financing in these states, the financing used along with state or local programs, and the replicability of the model. 3) Publish the report on our website, and share on social media so that research organizations, advocacy organizations, and lenders have access to the work. 4) ~~distribute it to research organizations, advocacy organizations, and the seller/servicer network, and promote it with a press release. Engage~~ Engage with at least two leading researchers on RED to review or discuss our research. ~~with at least two leading researchers on RED to help inform and structure our research and identify communities we should focus on in our case studies.~~

Market Impact

With respect to Residential Economic Diversity, it is important to examine how states and localities have been involved in supporting economic and social mobility. Freddie Mac is committed to outreach with these entities—both those whose QAPs meet FHFA's standard for promoting RED, and those whose QAPs do not, to thoroughly understand their role in this market, and to identify and support emerging standards. Our three research projects will have distinct benefits independently, and their combined effect will likely be even greater.

1. In 2018, our work will not only reveal the property makeup and distribution in states with qualifying QAPs, it will also identify emerging standards and illustrate how other states may follow suit.
2. In 2019, our report will identify replicable financing models that pair Freddie Mac debt with state and local programs, including LIHTC, to further RED and bring more private capital into this space.
3. In 2020, our work will enable more states to meet FHFA's standard for QAPs that prioritize RED, which will lead to more deliberate financing opportunities and more liquidity across a broader RED-focused market.

From our findings and our outreach, we can demonstrate to other states and localities how they can promote RED. Additionally, in the aggregate, consistent outreach to states and localities will enable us to further understand their financing needs, which will allow us to tailor our products (and them to tailor theirs) to support RED in a manner befitting the needs and objectives of their communities while channeling private capital at a growing scale through our risk-distribution methods.

[i] There are more than 2,294 Texas colonias, located primarily along the state's 1,248-mile border with Mexico. Texas Secretary of State, http://www.sos.state.tx.us/

~~[ii] Data includes loan purchases for both conventional and government loan types for very low-, low-, and moderate-income borrowers.~~

~~[iii] Forecast for the decrease in loan origination volume is reflected in Freddie Mac's Economic and Housing Research Outlook, http://www.freddiemac.com/research/pdf/201702-Outlook-02-28-2017.pdf, p. 9.~~

[iv] Given the limited size of this market and the lack of repeat borrowers, we intend to work with experienced participants who have an extensive track record in the Lower Mississippi Delta. Should we learn of additional participants through our outreach, we will expand the scope of our outreach.

~~[v] http://www.ruralhome.org/storage/documents/policy-notes/rpn_maturing-mortgages-usda-2016.pdf.~~

~~[vi] HAC, Rural Policy Note, Aug. 29, 2016 *available at* http://www.ruralhome.org/storage/documents/policy-notes/rpn_maturing-mortgages-usda-2016.pdf.~~

[vii] Data includes loan purchases for both conventional and government loan types for very low-, low-, and moderate-income borrowers.

[viii] Data is Freddie Mac owner-occupied purchase volume of small financial institutions ~~(banks and credit unions only)~~ with asset sizes of less than $304 million.

[ix] HAC, http://hac.maps.arcgis.com/home/item.html?id=362d12b9a06b41b1a7d76260ddd9fb00

[x] HAC, http://hac.maps.arcgis.com/home/item.html?id=362d12b9a06b41b1a7d76260ddd9fb00

[xi] As a point of comparison, USDA's MPR, which was designed specifically to support 515 properties, produced 133 loans across 4,115 units. 2016 was the first year that the entire allocated budget was used.

[xii] The average income of tenants living in 515 properties is under $14,000 per year.

[xiii] Weiss, Marc A. "The Origins and Legacy of Urban Renewal". *In Federal Housing Policy and Programs*: *Past and Present,* edited by J.P. Mitchell. New Brunswick: NJ: Rutgers University Press, 1985.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2019 - 2020

ACTIVITY:

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

OBJECTIVE:

Objective C: Support standardization of data collection at the transaction level

PROPOSED MODIFICATION:

Freddie Mac proposes to revise the completion date for expanding the number of program participants that would test newly developed system capabilities to track shared equity program eligibility and features.

JUSTIFICATION FOR PROPOSED MODIFICATION:

Freddie Mac's Duty to Serve Plan describes our plans to conduct a pilot during which we would develop and implement new system capabilities that would provide program administrators and lenders with a tool for tracking shared equity program eligibility, features, and activity. In 2018, we initiated testing of the tool with 10 shared equity program providers to assess their compliance with the DTS rule and to determine enhancements that needed to align with our Selling Guide requirements. The tests resulted in changes to the original concept of the tool's use and capabilities that would need further development in 2019 to enable expansion of testing and usage to additional participants, including lenders.

Updates to the proposed application are under way and the current schedule puts implementation for both lenders and program administrators to further test capabilities in 2020. As a result, we have revised the plan to reflect that we will expand testing to additional program participants in 2020 rather than in 2019.

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

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

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

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

Baseline

This is a new activity for Freddie Mac.

Challenges, Actions and Market Impacts

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

Market Impact
Carrying out this objective is a meaningful attempt to standardize the market and lay the foundation for future market growth, increased lender participation and increased adoption of the web-based application. For Freddie Mac, the execution of this objective will provide essential information and data to inform our product development efforts. It will also allow us to systematically and effectively verify that programs meet the Duty to Serve requirements. For lenders, it will remove barriers related to the manual or laborious assessment of program features or eligibility when originating loans under shared equity programs. And, it will provide incentives for lenders to adopt the application knowing that both they and Freddie Mac would rely on it to understand and document program eligibility at the transaction level. The application we plan to build upon for this objective is already in use by approximately 70 shared equity program administrators. However, its adoption has been limited given the operational costs of system integration and limited program funding. Freddie Mac's engagement and endorsement of this application will impact the market by spurring adoption of this application which will systematically improve standardization of data collection for product design and future market growth. Additionally, the application as currently designed provides a utility to shared equity program administrators only. Under this objective, Freddie Mac plans to partner with a leading shared equity trade organization to build system capabilities, so the utility of the system also serves lenders by providing ~~lenders with~~ assurance that programs meet Duty to Serve requirements, which will be a purchase-eligibility requirement under the product features and underwriting flexibilities we plan to design under Objective A. ~~Freddie Mac's level of effort under this activity during Year 1 is expected to be moderate because the focus during the first year will be on designing product flexibilities under Objective A. In Year 2, Freddie Mac's level of effort is likely to be moderately high because we will be concurrently working on this objective in alignment with multiple deadlines to coordinate efforts under all the objectives highlighted in this Plan including the use of the web-based application described herein. Freddie Mac views the implementation of this objective as a key element to bring all our other objectives together.~~

FREDDIE MAC

MANUFACTURED HOUSING

2019

ACTIVITY:

Activity 3 – Manufactured Housing Communities Owned by a Governmental Entity, Non-Profit Organization, or Residents: Regulatory Activity

OBJECTIVE:

Objective A: Promote Understanding of the Resident-Owned Communities Market

PROPOSED MODIFICATION:

1. *Replace the words "ownership structures" with "models for converting/purchasing ROCs."*
2. *Clarify how we will promote our research.*
3. *Expand the scope of our research to include a discussion of different methods of financing ROCs.*

JUSTIFICATION FOR PROPOSED MODIFICATION:

1. *This is a clarification to the plan to accurately reflect the intent of our research. Our intention in drafting the plan was to analyze different models for purchasing MHCs and converting them to ROCs (such as the market rate model or the limited equity/ROC USA model).*
2. *This is a clarification of how we intend to promote our research so that it is more broadly accessible and will reach more market participants.*
3. *Through our research and outreach, we have identified some different approaches to financing ROCs. We intend to include a discussion of these in our paper.*

OBJECTIVE A: PROMOTE UNDERSTANDING OF THE RESIDENT-OWNED COMMUNITIES MARKET

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	**1 and 2**	**Affordable**	**Not applicable**

In order to provide long-term, consistent liquidity to the ROC market, it is necessary to better understand this market and promote this understanding to both improve ROCs' abilities to meet requirements for financing and attract private capital to support them at scale. We will do this over two years of deliberate, foundational research. To begin understanding the scope and variety of MHC ownership structures, Freddie Mac will commission data-gathering across the known MHC market. This will enable us to define the size of the MHC market generally and better understand what is needed to help it grow. Because of the size and methodology of this survey, which will attempt to reach all known MHCs, it will take a full year to complete.

In Year 2 of the Plan, we will publish a report that identifies the size of the ROC market and the geographic distribution of ROCs based on the year one survey. In this report, we will also analyze various ~~ROC ownership structures~~models for purchasing MHCs and converting them to ROCs and identify best practices and standards around which the market can scale and attract further capital.

Based on the utility of these findings and the lessons we learn from our first survey, we will assess how we might improve the survey and/or report in order to best benefit the market. Though we will not seek Duty to Serve credit for doing so, we will look to continue this survey on an annual basis. In both the data gathering and analysis, we plan to work with leading industry partners.

Baseline

Today, there is no available comprehensive understanding of the ROC market. Current research efforts tend to focus on specific or localized cases but do not take a national view of the market, its challenges, and the opportunities for financing. Our research will be the first of its kind.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Actions
▪ Market for ROCs is limited. ▪ There is currently no broad view of existing ROCs. ▪ The market has unique financing and technical assistance requirements. ▪ No comprehensive dataset is available on ROCs. **Resource Challenge** ▪ Throughout the Duty to Serve Plan, we are taking on a considerable number of research efforts, all of which require extensive planning, collaboration with key stakeholders, and analysis. The design and research of all of these objectives will have many unique components and will leverage the expertise and skills of our internal research organization, whose focus extends beyond the scope of the Duty to Serve Plan.	**Year 1 – 2018** 1) Design and commission research on ROC market size, ownership structures of MHCs and market needs. Survey will cover all 50 states and include at least the following data points, if available: a. Location b. Ownership type c. Community size (total number of pad sites) d. Percent resident owned e. Percent of community as rental units f. Length of resident ownership period g. Age of community h. Whether community Has debt financing i. Property value j. Pad rents

	k. Community fees l. Age restrictions m. Rent restrictions ▪ Note: Due to the extensive scope of surveying more than 30,000 MHCs across all 50 states, this survey will take a full year to complete and will rely on the support of third-party organizations. **Year 2 – 2019** 1) Receive full survey results, analyze results, and publish report. 2) Report will include a summary of survey results, an estimate of overall ROC market size and characteristics, the geographic distribution of ROCs, analysis of ~~ROC ownership structures~~models for purchasing MHCs and converting them to ROCs, ~~as well as~~ a description of best practices and ~~new~~ standards that will enable future purchases, and a review of a selection of existing financing options for ROCs. In completing this report, we will engage with leaders in the ROC market to inform our analysis and observations. 3) Report will also include any lessons learned from attempted pilot transactions under the loan offering described in Objective B below. 4) Report will be published on our website~~; distributed to manufactured housing research organizations, advocacy organizations, and the MHC seller/servicer network;~~ and promoted with a press release and through our social media outlets so that market participants have access to the work.

Market Impact
The ROC market is currently very limited, is not comprehensively researched, and relies on unique financing agreements that are not conducive to attracting private capital at sufficient scale to grow the market. Our research will help to define the ROC market and its characteristics, lay out new standards and best practices, and provide the foundation for scalability to attract private capital. Year 1 – 2018. Our survey will set a first of its kind baseline by analyzing the state of the market and establishing a foundation for future growth. Achieving this will require an extensive effort to reach all known MHCs across all 50 states. Our research will be difficult to complete because it may involve challenges with response rates from MHCs and other resource obstacles. This research and subsequent publication of what we learn will enable a broader understanding of the market, set a foundation for attracting more capital, and help bring standards and more technical assistance to these communities. Ultimately, this research will identify what is needed for the market to be able to grow. Year 2 – 2019. The publication of our report in Year 2 will have three substantial benefits to the market. First, it will ~~reveal~~ describe the market size and geographic ~~location~~ distribution of all ~~surveyed~~ identified ROCs for the first time. Second, it will identify and analyze different models for ~~ROC ownership~~ purchasing MHCs and converting them to~~structures~~ ROCs identified in our ~~survey~~survey and/or outreach. Third, it will identify ~~new~~ standards and best practices that can be leveraged to better formalize ROC ownership structures around which we, and the market generally, can direct capital. By publishing standards and best practices learned from our research, we will enable more ROCs across the country to follow these standards, which will enable them easier access to financing. We will also leverage the lessons learned from our survey and analysis, as well as the best practices and standards, to inform key criteria in our product development efforts as we refine our ROC loan offering described in Objective B below. This report will also allow us to direct the attention of our seller/servicer network to ROCs around the country to pursue financing opportunities with them using our newly designed offering. Through the standards identified in our analysis and leveraged for our ROC loan offering, and by generating more loans to ROCs based on these standards, we will be able to apply our market-leading risk-distribution methods to attract private capital to support ROCs, enabling this market to grow in a safe and sound manner.

FREDDIE MAC

MANUFACTURED HOUSING

2019 - 2020

ACTIVITY:

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

OBJECTIVE:

Objective B: Design new product flexibilities to facilitate the origination of mortgages securing manufactured housing titled as real property

PROPOSED MODIFICATION:

Freddie Mac proposes to remove actions in 2019 and 2020 stating that we will provide additional product flexibility related to borrower funds for closing costs through our Seller/Servicer Guide*. We introduced initiatives in 2018 that provided lenders with additional underwriting flexibility to support borrowers who are mortgage ready but need additional support to produce the down payment and closing costs required to complete a purchase transaction. The introduction of Freddie Mac's BorrowSmart℠ initiative and the enhancement to Home Possible® to expand use of sweat equity improve affordability by providing additional solutions that offer borrowers closing cost assistance on a purchase transaction.*

JUSTIFICATION FOR PROPOSED MODIFICATION:

In 2018, Freddie Mac introduced solutions that directly assist borrowers in need of additional funds to cover the minimum down payment or required closing costs on purchase transactions.

- *The Freddie Mac BorrowSmart initiative provides incentives for income-qualifying very low-, low-, and moderate-income borrowers, including those purchasing manufactured homes titled as real property. The incentive is cash assistance that the borrower can use to cover closing costs or the minimum down payment or to permanently buy down the note rate, provided the borrower completes housing counseling through a HUD-approved housing counseling agency.*
- *Freddie Mac's Home Possible sweat equity parameters now enable a borrower to make home improvements before closing on the home and to use the value of the labor and the money spent on materials to cover all or part of both the required down payment and closing costs in lieu of cash.*

Because these offerings sufficiently help homebuyers bridge gaps in gathering required down payment and closing costs, we concluded that no additional policy or underwriting flexibilities are necessary at this time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Baseline

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

Challenges, Actions and Market Impacts

<table>
<tr><th>Market Challenge</th><th>Freddie Mac Action</th></tr>
<tr><td>**Limited product usage and product awareness**

▪ There are limited conventional product features and incentives available to support the financing of manufactured homes for very low-, low- and moderate-income borrowers. Access to credit is further limited by a lack of lending on small loan sizes and unique borrower profiles, including those with limited credit histories. To increase originations of manufactured housing titled as real property, lenders need solutions that address lending costs and product flexibilities that are more closely aligned with product requirements of site-built homes.

▪ Freddie Mac’s product features in support of manufactured housing may not be obvious to market participants and difficult to distinguish from site-built requirements.

▪ Conventional financing requirements supporting the construction costs of manufactured-home siting and installation are more onerous than the requirements for site-built homes. Borrowers may encounter less-favorable terms if lenders opt for portfolio products to finance homes.

Historical perception of manufactured housing as a mobile home or “trailer”

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

Appraisal and valuation impediments

▪ Some of the barriers to obtaining conventional financing on a manufactured home titled as real estate include, but are not limited to, lack of guidance and underwriting flexibility on appropriate comparable sales, no recognition of energy efficiency improvements in the valuation, titling the home as real property, lending restrictions on unit size, land ownership and zoning that may exclude homes titled as real estate.

▪ Real estate appraisers attempting to value a manufactured home are challenged by a lack of data about manufactured-home sales. Transactions are not always listed in the Multiple Listing Service, and the difficulty is exacerbated when the home is in a rural market that has few overall home sales.</td><td>**Year 1 – 2018**

Freddie Mac will focus on increasing awareness of product features, research opportunities to improve collateral valuations, test new product features, leverage purchases to inform product design and conduct a product assessment to determine opportunities for new or updated product features to support the financing of manufactured homes. Freddie Mac will take these actions:

1) Publish to the Selling Guide and Freddie Mac website an update of our current product features and highlight at least one new product feature in support of manufactured housing to make the requirements more obvious to the market and to clarify the availability of product features to Seller/Servicers to increase awareness in the market.

2) Develop and implement a marketing campaign to promote quality energy efficient manufactured housing and de-emphasize the perception of manufactured housing as “trailers,” highlighting it as a viable source of sustainable and affordable homeownership.

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

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

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

c. Researching available property databases or data sources to determine whether sufficient</td></tr>
</table>

- There is a lack of appraisers that are experienced in assessing value of manufactured homes also impacts access to credit because it limits financing options, which leads to higher lending costs.

State titling variations add complexity

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

Limited down payment assistance and funds for closing

- Underlying challenges exist related to availability of programs that provide down payment and closing cost assistance to support manufactured housing as an eligible property type.

Product support for housing finance agencies (HFAs)

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

Lack of market data and information

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

Limited renovation financing support

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

data is available to support automated valuations on manufactured housing titled as real property and to further inform solutions on aggregation of data.

d. Conducting collateral policy assessment on manufactured-housing property characteristics to identify the policies that need to be adjusted in support of additional appraisal guidance and best practices, including valuation of energy efficient features, eligible manufactured housing collateral, titling the home as real property, property use restrictions and land ownership. Freddie Mac will work in partnership with at least one appraiser, lender and appraisal trade organization to develop a comprehensive curriculum for lenders on eligible manufactured housing collateral. This outreach activity will further inform additional collateral guidance that can be published to the Selling Guide.

e. Purchasing more manufactured housing loans to obtain data on loan characteristics and performance to increase understanding of product flexibilities being provided by other lending institutions to further inform product enhancements. See also Objective A, Increase Single-Family Loan Purchases, for measurable purchase actions.

f. Conducting quarterly outreach with market participants, such as lenders, housing finance agencies, appraisers, community development financial institutions, manufactured housing trade organizations and non-profits, via at least four industry events to understand the barriers to financing and related opportunities.

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

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

Year 2 - 2019

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

1) Issue at least one change to the Seller/Servicers Guide to support manufactured housing financing for existing homeowners and potential homebuyers, based on results from the assessment of existing program policies conducted in 2018.

	2) Complete renovation mortgage product development leveraging outreach and assessment conducted in 2018 to support manufactured housing. Updated product enhancements will be issued via a negotiated term of business with select lenders or via the Seller/Servicers Guide depending on whether additional data is needed. 3) Initiate a consumer research project that will entail a variety of outreach components, including a survey, to gather data on consumers' choices in manufactured housing financing. 4) Use results and learnings from the collateral policy assessment conducted in 2018 to achieve the following: a. Develop best practices and a training curriculum for lenders on manufactured housing valuations and titling homes as real property and implement it by conducting a training session with at least five lenders. Freddie Mac anticipates expansion of a comprehensive curriculum to all lenders in 2020. b. Publish at least one policy change to the Seller/Servicers Guide giving additional underwriting guidance on acceptable collateral and valuation of a manufactured home. 5) Update our valuation model and incorporate changes in applicable applications (e.g.., Loan Advisor Suite®) for lender use, if research conclusions related to available data sources for manufactured housing support an update to our valuation methodology. ~~Initiate policy development on underwriting flexibilities related to required borrower funds for closing costs (includes planning for updates to Loan Advisor Suite); policy changes will be published in the Selling Guide in 2020.~~ 6) Assess the effectiveness of a pilot related to down payment assistance issued in 2018 to determine the impact on purchase volume for very low-, low- and moderate-income households. Gather industry feedback from at least five lenders and one non-profit to gauge success and market reaction. Findings will be submitted in a report to FHFA. 7) Issue at least one negotiated term of business to each Freddie Mac-approved housing finance agencies that provide additional product support of manufactured housing titled as real property so they may assist more very low-, low- and moderate-income households. 8) Assess historical loan performance and effectiveness of Freddie Mac's current manufactured housing policy by using available public data and data on our existing loan portfolio. Analyze the impact on housing affordability for very low, low- and

	moderate-income borrower segments and geographic distribution, including high-needs rural regions. Freddie Mac will document results and publish a report on our website. 9) Socialize product changes with market participants by publishing updated collateral material to our website, Freddie Mac's News Center, and Freddie Mac blogs and via email to all Single-Family News subscribers and present the changes at least six industry events. 10) Hold at least one meeting with our Affordable Housing Advisory Council and/or servicing advisory boards to discuss manufactured housing, in addition to bi-annual meetings of the Manufactured Housing Initiative Task Force and the Next Step SmartMH Task Force, to obtain feedback and further calibrate product features. 11) Develop best practices for lenders related to underwriting, appraisal and settlement criteria obtained from outreach activities. Publish the summary of best practices along with product features in a fact sheet on Freddie Mac's dedicated manufactured housing webpage by year-end. 12) Provide ongoing manufactured housing training to lenders on best practices and product features via on-demand webinars and/or scheduled quarterly webinars. **Year 3 – 2020** Freddie Mac will focus on implementing remaining policy changes related to funds for closing, publishing research findings on consumer behavior related to financing, ramping up increase in purchases, and conducting initial assessments of changes implemented in 2018 and 2019. Freddie Mac will take these actions: ~~Provide additional product flexibility to lenders via the Seller/Servicers Guide or negotiated terms of business to select lenders addressing underwriting flexibilities related to borrower funds for closing costs~~. 1) Assess the effectiveness of policy changes made in 2018 and 2019 by obtaining market feedback from at least five lenders for any changes issued broadly via the Seller/Servicers Guide, analyzing internal data including impact on purchase volume and income-eligible borrower segments. Freddie Mac will document results and provide a report to FHFA. 2) Conduct ongoing surveys with lenders on the manufactured housing lender curriculum and the web-based training to gather feedback on the effectiveness of the lender curriculum. 3) Complete a research project on manufactured housing consumer financing selections, analyze

	the information and data from the research project and publish findings on Freddie Mac's website. 4) Convene our Affordable Housing Advisory Council, Manufactured Housing Initiative Task Force and the Next Step SmartMH Task Force at least bi-annually to obtain feedback and further calibrate product features.

Market Impact

The manufactured housing market currently makes limited use of conventional financing for either the purchase or refinance of a manufactured home titled as real property. Providing product adjustments that increase a borrower's entry into conventional financing will have a significant impact on lenders and housing finance agencies as they look for liquidity rather than holding manufactured housing loans in portfolio.

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

- Enhancing products will allow the collection of automated property values where none exist currently. Furthermore, we expect sharing best practices and training for lenders on eligible collateral will provide more confidence in lending, which increases liquidity and homebuyers' entry into the real property financing market.
- Providing new incentives and underwriting flexibilities with respect to manufactured housing via HFA Advantage to housing finance agencies will have a material impact on very low-, low- and moderate-income consumers as it can translate to lower lending costs (housing finance agencies typically cap the fees that can be charged to a borrower).
- Increasing the data available to inform property values increase confidence in lending against the collateral, may reduce the time and cost to obtain a property value, and address a primary obstacle to lending in this market.
- Increasing knowledge and understanding of the market by sharing information regarding the efficacy of manufactured housing products and consumer behavior on financing can lead to significant innovations by Freddie Mac and other industry participants in lending products and increase usage of our product.
- Providing immediate alternatives and assistance for down payment and closing costs will have a dramatic impact by increasing a qualified borrower's ability to purchase by closing the asset gap that is significant in the very low-, low- and moderate-income homebuying market.
- Supporting renovation activity will ultimately reduce barriers to entry to conventional financing for existing homeowners of manufactured housing, including homeowners in rural markets who can benefit from energy-efficiency retrofits if their utility costs are making housing unaffordable.

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

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

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

FREDDIE MAC

RURAL HOUSING

2019 - 2020

ACTIVITY:

Activity 1 – High-Needs Rural Regions: Regulatory Activity

OBJECTIVE:

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

PROPOSED MODIFICATION:

Increase purchase targets of single-family loans in high-needs rural regions.

JUSTIFICATION FOR PROPOSED MODIFICATION:

Freddie Mac proposes to revise its single-family purchase targets to provide additional liquidity to high needs rural regions for 2019 and 2020. We believe that this is appropriate given our outreach efforts are culminating in an increase in loan purchases to Freddie Mac. Purchase volume in 2018 exceeded our target by 11% and we are on track to exceed our established target in 2019.

Additionally, in our Plan we sought credit for rural housing loan purchases solely by activity within an underserved market; our baseline and targets were exclusive of purchases that could also qualify for credit in another objective within the rural market.

To more accurately reflect our support for the market and account for the increasing trend of loan purchases, we are revising our baseline and targets. Our baseline increases from 7,833 loans to 8,503 loans and we have increased our targets to purchase 775 additional loans over the remaining Plan cycle, which provides an additional $83 million to the market.

Freddie Mac Loan Purchase Volume – High Needs Rural Regions			
Year	*2016*	*2017*	*2018*
Income-Qualifying Loan Count	*7,801*	*8,505*	*9,202*
Baseline	*8,503*		

Purchase Targets – High Needs Rural Regions	
Year 2 - 2019	*Year 3 - 2020*
8,550 – 8,600	*8,700 – 9,000*

OBJECTIVE A: INCREASE SINGLE-FAMILY LOAN PURCHASES IN HIGH-NEEDS RURAL REGIONS

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

Freddie Mac intends to increase purchases of single-family mortgage loans in certain high-needs rural regions each Plan year to increase liquidity in these markets. For purposes of this objective, we are focusing specifically on the rural census tracts in the following high-needs regions: 1) persistent poverty counties; (2) Lower Mississippi Delta, (3) Middle Appalachia; and (4) colonias in the Texas counties of El Paso, Cameron, Hidalgo, Starr, Webb and Maverick. We will focus our efforts to increase purchase volume in these Texas counties because they have both the largest number of colonias and the largest relative colonia population. This combination increases the likelihood that our activities will have impact and yield purchase volume.[i] We have limited the target areas in the colonias for this objective so that we can appropriately deploy resources to support our plans. Over time, we intend to extend our efforts to additional colonias in other states.

Baseline

The following table reflects Freddie Mac's historical single-family loan purchases in the high-needs rural regions, as described above, from ~~2014 to~~ 2016 to 2018. Our baseline for performance in this market is a three-year average of all Freddie Mac loans purchased that meet the Duty to Serve income-qualifying definition of very low-, low- and moderate-income borrowers. ~~The overall loan count includes purchase-money originations and refinances for owner-occupied properties in rural tracts in the region without regard to the borrower's income.[ii] The overall loan count includes all loans purchased in the high-needs rural regions without regard to income.~~ The income-qualifying loan count is limited to only DTS income-qualifying loan purchase volume located in rural census tracts. The baseline represents a three-year average of income-qualifying loan volume from 2016 – 2018. ~~2016 loan purchase volume of 7,833 was used to establish the baseline as it was higher than the three-year average of loan production for years 2014 – 2016~~.

Freddie Mac Loan Purchase Volume – High-Needs Rural Regions			
Year	**2016~~2014~~**	**2017~~2015~~**	**2018~~2016~~**
~~Overall Loan Count~~	~~19,694~~	~~24,234~~	~~24,626~~
Income-Qualifying Loan Count **(A three-year average of this loan count was used to establish the baseline)**	7,801~~6,850~~	8,505~~8,020~~	9,202~~7,833~~
Baseline	8,503~~7,833~~		

Target

Our purchase targets over the Plan Term are set forth in the following table. Purchase volume in prior years reflects an increasing trend, and we anticipate that our purchase volume will continue to increase as we deploy a variety of tactics, including expanding the number of lenders, leveraging various purchase-execution options (including selling for cash, bulk portfolio sales and flow purchases), conducting outreach, enhancing our product features and providing technical training that enables lenders to lend confidently to very low-, low-, and moderate-income homebuyers.

Projected volume for the first two years of the Plan takes into account that not all of the activities intended to promote purchases will have been implemented by that time. Using a three-year historical average as a benchmark will ensure that we have set realistic targets as we implement activities to grow our share and gradually increase our loan purchases.

Purchase Targets – High-Needs Rural Regions		
Year 1 – 2018	**Year 2 – 2019**	**Year 3 - 2020**
7,900 – 8,000 loans	8,550~~8,100~~ – 8,600~~8,200~~ loans	8,700~~8,375~~ – 9,000~~8,600~~ loans
	Proprietary Actual Target - 8,600	Proprietary Actual Target - 8,800

Market Opportunity and Impact

This objective will provide liquidity of more than $~~850~~911 million per year to financial institutions that serve high-needs rural regions. Targeted loan volume may also include loans originated by small financial institutions and loans securing manufactured homes~~ titled as real property and as personal property~~.

Meeting this objective will be difficult due to the high level of need in each region and the unique challenges that face individual regions. ~~Freddie Mac's forecast for 2018 relative to 2016 takes into account market developments such as higher interest rates, continued reduction in refinance share, higher consumer prices and a 25 percent decrease in single-family origination volume, all of which contribute to making it a challenge to meet the targets.[iii] Furthermore, O~~Oour ability to meet this objective will be somewhat dependent upon our ability to meet our other objectives, as well as the ability of our existing seller/servicers to increase purchase activity. Developing relationships with new counterparties will require a significant investment in resources to support and sustain the level of purchase growth targeted in the Plan cycle. Further, it will take time to onboard new seller/servicers as approved counterparties before we can realize any purchases from them. After establishing multiple partnerships, we will increase our outreach in Year 2 in specific regions anticipating that this activity will result in increased purchases in years 2 and 3.

However, Freddie Mac plans to engage with lenders that are already active in this market and seeks to increase the purchase of both new and seasoned rural housing loan originations. We also intend to expand our outreach to increase support of small financial institutions, including community development financial institutions and housing finance agencies. This will provide these institutions with access to capital and further capacity, which, in turn, can help grow loan volume and serve very low-, low- and moderate-income homebuyers. Accordingly, notwithstanding the challenges, we believe the targets we have set are reasonable.

FREDDIE MAC

RURAL HOUSING

2019 - 2020

ACTIVITY:

Activity 1 – High-Needs Rural Regions: Regulatory Activity

OBJECTIVE:

Objective B: Design new product flexibilities to facilitate the origination of mortgages in high-needs rural regions

PROPOSED MODIFICATION:

Freddie Mac proposes to remove actions in 2019 and 2020 stating that we will provide additional product flexibility related to borrower funds for closing costs through our Seller/Servicer Guide. We introduced initiatives in 2018 that provided lenders with additional underwriting flexibility to support borrowers who are mortgage ready but need additional support to produce the down payment and closing costs required to complete a purchase transaction. The introduction of Freddie Mac's BorrowSmart℠ initiative and the enhancement to Home Possible® to expand use of sweat equity improve affordability by providing additional solutions that offer borrowers closing cost assistance on a purchase transaction.

JUSTIFICATION FOR PROPOSED MODIFICATION:

In 2018, Freddie Mac introduced solutions that directly assist borrowers in need of additional funds to cover the minimum down payment or required closing costs on a purchase transaction.

- *The Freddie Mac BorrowSmart initiative provides incentives for income-qualifying very low-, low-, and moderate-income borrowers, including those in high-needs areas within designated rural tracts. The incentive is cash assistance that can the borrower can use to cover closing costs or the minimum down payment or to permanently buy down the note rate, provided the borrower completes housing counseling via a HUD-approved housing counseling agency.*

- *Freddie Mac's Home Possible sweat equity parameters now enable a borrower to make home improvements before closing on the home and to use the value of their labor and the money spent on materials to cover all or part of both the required down payment and closing costs in lieu of cash.*

Because these offerings sufficiently help homebuyers bridge gaps in gathering required down payment and closing costs, we concluded that no additional policy or underwriting flexibilities are necessary at this time.

OBJECTIVE B: DESIGN NEW PRODUCT FLEXIBILITIES TO FACILITATE THE ORIGINATION OF MORTGAGES IN HIGH-NEEDS RURAL REGIONS

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

Through our public outreach and review of public comments on the draft Duty to Serve Plan, we understand that the high-need rural regions require additional underwriting flexibility that takes into consideration the varied borrower profiles that are in these regions and the challenges with obtaining property valuations. In response, Freddie Mac intends to undertake a comprehensive review of our current loan products and underwriting parameters to determine how we can enhance our product offerings to better serve high-needs regions.

To further engage the underserved rural regions and produce meaningful impact, we will undertake an assessment to determine how we will enhance our offerings to further serve the needs of this market, including reviewing our requirements related to the following:

- Borrower qualification
- Collateral valuation
- Down payment and closing costs
- Pricing criteria

In making any product adjustments to borrower qualifying criteria, we intend to incorporate changes into our automated underwriting tools. Providing automated underwriting solutions will promote lender confidence in making loans to very low-, low-, and moderate-income borrowers who are in high-needs rural regions as it provides representation and warranty relief on certain components of the underwriting decision. We also plan to research ways to enhance current product requirements and methodologies around finding similar and recent comparable sales to support rural valuations.

Freddie Mac intends to look beyond our current products to innovations from other industry participants, such as housing finance agencies, appraisal trade organizations and small financial institutions. We also plan to enhance our product training for lenders so they can help more borrowers in rural communities purchase or refinance a home.

Freddie Mac will share key information, research and data with FHFA and the public to provide support and transparency to high-needs rural regions to encourage additional innovation and investment.

Based on the results of the review of products currently in the market, feedback from both market participants and communities, and the needs of the market, we intend to make loan product enhancements and underwriting changes that are consistent with prudent underwriting and safety and soundness. We believe that a strategic enhancement of Freddie Mac's overall product line that supports the rural underserved markets will increase liquidity for high-needs rural regions.

Baseline

Freddie Mac has fixed- and adjustable-rate mortgage options and an affordable product suite with Home Possible® and Home Possible Advantage® that offers low down payment options for very low-, low- and moderate-income borrowers, including borrowers in rural underserved communities. Home Possible Advantage can also be combined with a USDA Section 502 single-family leveraged second loan. In addition, we have a HFA Advantage® product that provides additional flexibility and enhancements to our affordable product for housing finance agencies, which are mission-oriented institutions that offer a broad spectrum of support to the affordable housing market.

Freddie Mac has conventional loan products that serve rural populations, but the market can benefit from additional flexibilities in mortgage and borrower eligibility and simplification of operational processes if we can support policy changes through further automation. A comprehensive review of product parameters and the purchase of portfolio loans from lenders with products serving high-needs rural regions will help determine the product adjustments needed to deliver the greatest impact to the market and increase in loan purchases. Additionally, Freddie Mac currently has criteria to determine collateral value for properties in rural regions; however, the market will benefit from any additional guidance and training we can provide that will facilitate more confidence in lending and valuations.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Limited product usage and product awareness ▪ Lenders may not be making full use of conventional product features in high-needs rural regions due in part to a lack of awareness of financing options available to very low-, low- and moderate-income rural borrowers. Limited product usage may also be due to a need for additional product flexibilities, such as financing solutions for small balance loans, borrowers with resolved financial hardships and limited or non-traditional credit profiles. **Appraisal and valuation impediments** ▪ There are a variety of challenges facing appraisers attempting to value rural properties -- lack of available comparable(s), lack of similar comparable(s), distance of comparable(s) and age of comparable(s). **Limited cash for home purchase** ▪ Many low- and moderate-income households in high-needs rural regions are challenged by the cash required to purchase a home, including the down payment and closing costs.	**Year 1 – 2018** 1) Update Freddie Mac's product features in the Selling Guide and on Freddie Mac's website to make the requirements more obvious to the market and to increase awareness of current product features. 2) Evaluate and assess the effectiveness of all Freddie Mac products that serve rural borrowers to determine the parameters that hinder the very low-, low- and moderate-income households' ability to purchase or refinance a home in high-needs rural regions. The results of this assessment will inform an action plan to address product parameters that will have the greatest impact on the market. The assessment will include these activities: a. Conducting an analysis of historical mortgage performance in high-needs rural regions and correlating performance to opportunities regarding credit terms and pricing. b. Conducting a policy assessment related to down payment requirements and options for down payment assistance that can assist borrowers in high-needs rural regions. To inform policy design, Freddie Mac will initiate at least one pilot to assist borrowers with options for down payment assistance with at least three lenders (national and regional) and at least one non-profit. c. Researching available property databases to determine whether there is sufficient data available to support increased output of automated valuations in rural regions. d. Conducting a policy assessment on rural property characteristics and Freddie Mac's collateral policy parameters to determine additional collateral guidance and potential

	flexibilities that would provide clarification and support to lenders. Freddie Mac will conduct outreach with appraisers, lenders and appraisal trade organizations to develop a comprehensive curriculum for lenders on rural appraisals and acceptable collateral guidelines for rural properties. e. Purchasing more loans in high-needs rural regions to obtain data on loan characteristics and performance that will increase our understanding of product flexibilities being provided by other lending institutions and further inform product enhancements. See also Objective A, Increase Single-Family Loan Purchases, for measurable purchase actions. f. Conducting quarterly outreach with market participants, such as lenders, housing finance agencies, appraisers, community development financial institutions, rural trade organizations and non-profits via industry meetings and our Affordable Housing Advisory Council, to understand the opportunities, barriers to financing and challenges that are specific to residents in the various geographies of the high-needs rural regions. 3) Submit findings and an action plan to FHFA once the assessment is completed and implement resulting policy changes in 2019 and 2020. **Year 2 – 2019** 1) Issue one or more changes to the Seller/Servicers Guide in support of financing for existing homeowners and potential homebuyers in high-needs rural regions, based on results from the assessment of existing program policies conducted in 2018. 2) Use results from the 2018 product assessment on rural property characteristics to achieve the following: a. Develop a training curriculum and best practices for lenders on rural housing valuations. We will implement this by conducting training sessions with at least five lenders. Freddie Mac anticipates broad expansion of this comprehensive curriculum to all lenders in 2020. b. Publish in the Seller/Servicers Guide additional guidance on appraising rural properties. 3) Analyze available rural property databases and update our valuation model if the research conclusions support such a change. Incorporate changes in applicable

	applications (e.g.., Loan Advisor Suite®) for lender use. 4) Publish relevant findings about the high-needs rural regions on our website, based on our 2018 assessment of product needs, to provide further transparency on mortgage access in the regions. 5) Assess the effectiveness of the pilot issued in 2018 for down payment assistance to determine the impact on purchase volume for very low-, low- and moderate-income households in markets where implemented. Gather industry feedback from at least three non-profits and at least 10 lenders to gauge success and market reaction. Findings will be submitted in a report to FHFA. 6) Socialize product changes to the market through our website, sharing product changes and market updates to at least four industry events, providing updates during Freddie Mac Affordable Housing Advisory Council meetings, Freddie Mac's Single-Family News Center, Freddie Mac blogs and email to all Single-Family News subscribers, which currently circulates to approximately 7,000 lenders. **Year 3 – 2020** ~~Provide additional product flexibility to lenders through the Seller/Servicers Guide, addressing underwriting flexibilities related to borrower funds for closing costs.~~ 1) Finalize a rural appraisal curriculum and release it as part of a rural tutorial series, to include focus on product features that can be leveraged with appraisal best practices and rural property scenarios. Roll it out broadly on Freddie Mac's website to all seller/servicers and socialize availability as set forth in our communications plan (including industry forums, advisory meetings, Single-Family News Center updates). 2) Assess the effectiveness of policy changes made in 2019 to determine whether the change(s) did or will increase participation and production in the market. Analyze internal data, including the impact on purchase volume and income-eligible borrower segments. Obtain market feedback from at least 10 participating seller/servicers for changes issued broadly via the Seller/Servicers Guide. Freddie Mac will provide results in its report to FHFA. 3) Increase our focus on loan purchases. Enhance product adoption through the development and release of updated marketing material that supports lenders,

	housing finance agencies, housing counselors, and other industry professionals. See also Objectives A and D for measurable actions on loan purchases and homebuyer outreach.

Market Impact
The challenges for high-needs rural markets include a general lack of low-priced capital and liquidity for mission-oriented institutions serving the regions, a lack of knowledge of available financial products and programs, difficulty in appraising rural properties, and a lack of available product flexibilities that can facilitate financing of homes for very low-, low- and moderate-income households. Although Freddie Mac has loan initiatives that serve rural populations, the market can benefit from additional flexibilities in mortgage and borrower eligibility and simplification of operational processes. A comprehensive review of product parameters and the purchase of portfolio loans from lenders with products serving high-needs rural regions will help determine the product adjustments needed to deliver the greatest impact to the market and increase in loan purchases. The market is also challenged by the difficulty experienced in appraising rural properties due to the expansive geography of rural regions, uniqueness of homes and lack of comparable sales. These challenges can increase the cost of appraisals in high-needs rural regions. The market also lacks a coordinated and informed platform with sufficient information to provide a confident collateral value. Researching additional databases or data sources may result in the ability to incorporate more data into Freddie Mac's valuation model. As a result, this activity could improve our model, which may result in Freddie Mac's ability to further support lenders financing rural properties in high-needs rural regions. Conducting research and outreach will inform additional guidance and opportunities. Another substantial obstacle for very low-, low- and moderate-income homebuyers is the cash required for the down payment and closing costs on a home. To address these challenges and have a sizable, immediate impact on the market, a multi-prong approach will be undertaken. We will review opportunities within our product features and underwriting requirements, and review down payment assistance programs to determine synergies between our product and available programs. ~~We will also review opportunities within our product line regarding requirements related to required funds for closing costs and look for automated solutions that can directly serve this market in 2020.~~ Providing these initiatives and enhancements will take significant efforts including both internal and external coordination at Freddie Mac. Internal coordination on product enhancements include engaging Single-Family teams responsible for affordable lending, seller/servicer relationships, credit decisions, modeling, pricing and product development, to analyze the economics, credit risks, operational impacts, counterparties and support application adjustments. External coordination with stakeholders will also require a significant level of effort due the geographic span of the rural regions. Freddie Mac will update the Seller/Servicers Guide where data supports a change will benefit the borrower and meets the requirements of safety and soundness. We may use a negotiated term of business with select lenders to test product features in limited cases where we need additional data to inform product development and support a product change with the intention of publishing future Guide adjustments once we have sufficient data to make informed policy decisions. These actions will have a high level of impact on the market by providing further transparency on options for financing and liquidity to lenders serving the regions which increases purchase opportunities in the long term. Freddie Mac plans to follow a strategic and progressive schedule in conducting our review so that incremental product enhancements and underwriting guidelines can be efficiently and effectively launched and adopted by the market. We believe the schedule proposed is reasonable given our current strategic focus on the rural housing market challenges and the significant level of effort already underway. By sharing what we learn through our outreach and requesting feedback from industry participants including seller/servicers, appraisers and non-profits, we will develop partnerships with relevant parties and encourage innovative solutions to the challenges facing these regions.

FREDDIE MAC

RURAL HOUSING

2019

ACTIVITY:

Activity 1 – High-needs rural regions: Regulatory Activity

OBJECTIVE:

Objective E: Develop a rural mapping tool

PROPOSED MODIFICATION:

1. *Replace action item relating to hosting "feedback sessions" with the option for users to directly submit feedback within the tool, as this will reach a broader set of potential feedback providers.*
2. *Include a link to Freddie Mac TAH product term sheets rather than identifying specific products for each property*

JUSTIFICATION FOR PROPOSED MODIFICATION:

1. *We are replacing the actions relating to hosting a feedback session with key stakeholders in our plan with a mechanism in the mapping tool itself that allows us to continually receive feedback from all users, including key stakeholders. This will enable us to receive a broader range of feedback over time and allow more stakeholders to provide feedback as they use the tool in real time. We believe this will result in more useful and practical feedback from a greater pool of constituencies.*
2. *We are clarifying language to reflect our intention to provide a link to all TAH product term sheets, which are broadly applicable to different borrower purposes for affordable housing preservation. This will allow borrowers and their lenders to determine which loan product best fits their needs and allow them to easily explore the full extent of our offerings.*

OBJECTIVE E: DEVELOP A RURAL MAPPING TOOL

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	**1 and 2**	**VLI, LI, MI**	**Yes – HNRR**

There are many definitions of "rural" for purposes of defining the market, which creates market confusion. A lack of market research in rural regions contributes to this confusion. The FHFA Duty to Serve definition takes significant steps to solve this problem. We intend to build upon this foundation and provide further clarity. To define the scope of the market consistently and allow market participants and our network of seller/servicers to better support this market, Freddie Mac intends to create a rural property mapping tool. This mapping tool will be inclusive of all rural areas and include filters to specify if a property is located in a high-needs rural region.

Baseline

Freddie Mac does not currently offer such a mapping tool. There are other mapping services in the market, but, to our knowledge, none of them have the foundation that is specific to rural regions and the distinct areas they represent as well as the foundational infrastructure to include the layers of information that we intend to build.

Challenges, Actions, and Market Impacts

Market Challenge	Freddie Mac Action
Lack of readily accessible rural data ▪ Current rural data is unconsolidated due, in part, to a lack of institutional investment. As a result, the locations and characteristics of these properties are not clearly documented. **Market awareness** ▪ Private capital investment is lacking in rural areas. **Lack of data for high-needs rural populations** ▪ We recognize that targeting high-needs rural populations is important to success under the Duty to Serve rule; however, there is not sufficient data available to efficiently define and understand these markets.	**Year 1 – 2018** 1) Initiate a technology project that will ultimately deliver an interactive mapping tool to identify rural areas and high-needs rural census tracts for internal and public use. The tool will also allow users, such as Seller/Servicers, borrowers, and lenders, to query by address or other geographic markers to be determined during development. Steps to achieve this in 2018: a. Identify/Develop appropriate software for the tool. b. Aggregate and align data from a selection of the following and other sources we discover in our research for use in the mapping tool: National Housing Preservation Database, data.gov, HUD, and Census Bureau c. Test the mapping tool in beta form prior to formal release. d. Solicit market feedback from seller/servicers, syndicators, and rural research organization(s). e. Note: With any mapping and searching of data, there will be a margin of error in trying to identify exact locations of properties—address mismatches and latitude/longitude imprecisions may create some ambiguity or false positives in a small minority of cases.

	Year 2 - 2019 1) Release the tool for public use. Note that, depending on data licenses, this release may have a mix of public and private components. 2) Develop enhancements to the mapping tool that will outline further areas of interest for high-needs rural regions (and all rural regions). This may include income distributions, zoning information, and population density. A final list will be determined based on feedback, analysis, the availability of data, and technical constraints of the tool. 3) ~~Host a feedback session with~~The tool will include an avenue for ~~key~~ users, including key stakeholders (research and policy organizations, localities, borrowers, seller/servicers) to ~~determine~~ provide feedback for additional enhancements. 4) Refine the tool based on input from seller/servicers, syndicators, and rural research organization (s) and incorporate data updates from FHFA, ~~HUD~~census bureau, ~~or external vendors~~and/or the National Housing Preservation Database as appropriate. 5) Add capability to identify or link to Freddie Mac term sheets for TAH offerings~~products that may be applicable to a certain property~~.
Resource Challenge	**Freddie Mac Action**
Deficiency of consolidated data ▪ Gathering the necessary data to create the mapping system will be labor intensive. ▪ We will need to purchase data from external vendors, which can be costly. **Software development** ▪ Creating an internal software can be a time-consuming process. ▪ The development cycle will require multiple tests to ensure the product's practicality. ▪ There will need to be multiple teams of developers, testers, researchers, and business planners to implement this product.	**Year 1 – 2018** 1) Assemble a design team, bringing together the necessary individuals who will design and implement the product from IT, Research, and business areas. 2) Reach out to external vendors to acquire or purchase the necessary data to build the platform. 3) Identify the needs of stakeholders including: a. Research organizations b. Trade organizations c. Borrowers d. Seller/Servicers **Year 2 – 2019** 1) Refine the tool based on changing needs of stakeholders.

Market Impact

During our outreach in rural areas, we repeatedly heard that the lack of a consistent definition of "rural" was a barrier to the creation of a secondary market. Multiple definitions with different purposes added an unnecessary level of complexity to structuring efficient and effective financing for multifamily properties.

While the Duty to Serve rule provides a clear definition of "rural" around which the industry can now standardize, stakeholders will need tools to be able to easily and quickly identify whether a property falls within that definition. Creating this tool and making it available to the entire industry will provide the market with an understanding of the geographic parameters and promote better channeling of rural housing financing. An entirely public mapping tool will eliminate barriers that are associated with rural housing financing such as identifying properties, developers and investors in rural areas. This tool will reduce the time-consuming burdens that come along with serving rural markets by making it easier to locate and define properties based on the FHFA definition and take advantage of Freddie Mac's offerings in support of rural markets. Therefore, financing will be expedited throughout the process.

Today, there are no comparable mapping tools in the market. We expect that development of a rural mapping tool will require a significant dedication of resources and a high level of effort. Multiple collaboration sessions to identify stakeholder needs and incorporate them into our requirements are critical to the success of this tool. In order for it to be effective, the tool must be user-friendly. We expect that such a tool will have multiple uses. These include 1) enabling investors to understand which properties lie in rural areas and see the extent to which investment in rural areas differs from urban and suburban properties and 2) enabling researchers to better study the distribution of properties and investment in rural areas. Given the current lack of standardization around rural housing and the need for data and information, we believe that an effective rural properties mapping tool lays the groundwork for other rural lending activities because it will decrease barriers to financing and allow for the better focusing of private capital in rural areas in the future by Freddie Mac and other industry players.

FREDDIE MAC

RURAL HOUSING

2019

ACTIVITY:

Activity 1 – High-Needs Rural Regions: Regulatory Activity

OBJECTIVE:

Objective G: Research the Use of and Opportunity for LIHTC in Support of the Lower Mississippi Delta

PROPOSED MODIFICATION:

1. *Remove "government entity" from the list of entities with which we will engage in outreach.*
2. *Clarify how we will promote our research*
3. *Clarify the parameters used to identify a researcher to review or discuss our work and clarify how we intend to engage with that researcher*

JUSTIFICATION FOR PROPOSED MODIFICATION:

1. *Governmental entity is duplicative with Housing Finance Agency, which is often a government entity*
2. *This is a clarification of how we intend to promote our research so that it is more accessible.*
3. *We are updating this section slightly to more precisely reflect the nature of our engagement with external research organizations. Freddie Mac had planned, and will continue, to seek feedback on our work from other researchers in the field, ideally speaking with a researcher who has covered the Lower Mississippi Delta. Because there has been little prominent research focused on housing in the Lower Mississippi Delta, we are broadening our criteria of potential researchers to engage with to include researchers well versed in affordable housing generally. Much of our other outreach provides local insight from practitioners, so we believe that insights from a researcher in affordable housing more broadly will add equally important and helpful perspective.*

OBJECTIVE G: RESEARCH THE USE OF AND OPPORTUNITY FOR LIHTC IN SUPPORT OF THE LOWER MISSISSIPPI DELTA

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

LIHTCs are the subsidy most commonly used to finance affordable rental housing. They are particularly important for multifamily housing for the Lower Mississippi Delta, where debt financing is limited outside of highly specialized USDA and HUD programs. Indeed, many properties cannot support debt at all, so they must be funded entirely with LIHTC equity. Despite the importance of LIHTC equity, there is not currently sufficient understanding of how the LIHTC may be used to support these high-needs rural areas. Freddie Mac plans to partner with leading rural LIHTC market participants and experts to publish a research paper focused on the use of LIHTCs in supporting the Lower Mississippi Delta.

Baseline

We have not been able to particpate in the LIHTC equity market for the last 10 years; therefore, we do not currently have a baseline of experience in LIHTC equity generally, or in the Lower Mississippi Delta specifically. In 2017, we have been attending conferences and conversing with leading mission-focused LIHTC syndicators with expertise in the Lower Mississippi Delta in order to understand how we might best support the market.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ Insufficient understanding of how LIHTC may be used to support the Lower Mississippi Delta and how to attract more investment. ▪ Limited data about the prevalence of LIHTC in the Lower Mississippi Delta. Throughout the course of our research, there have been instances where data was temporarily unavailable or where combining sources proved to be more difficult than originally anticipated. The wide range of topics that we intend to cover for our research on the Lower Mississippi Delta will rely heavily on data, and completing the objective within a narrow timeframe will be very difficult if data issues are encountered. ▪ Limited tax-credit allocations in rural Lower Mississippi Delta relative to non-rural areas. **Resource Challenge** ▪ Throughout the Duty to Serve Plan, we are taking on a considerable number of research efforts, all of which require extensive planning, as well as collaboration with key stakeholders, and analysis. The design and research of all of these objectives will have many unique components and will leverage the expertise and skills of our internal research organization, whose focus extends beyond the scope of the Duty to Serve Plan.	**Year 2 – 2019** 1) Engage with at least one syndicator, lender, ~~government entity,~~ housing finance agency and developer who have expertise in the Lower Mississippi Delta and LIHTC.[iv] 2) Leverage data aggregated and aligned in conjunction with the mapping tool described in Objective E above from a selection of the following and other sources we discover in our research in order to explore how LIHTCs are used in the Lower Mississippi Delta today and the possible gaps in the market: National Housing Preservation Database, data.gov, HUD, and Census Bureau. 3) Engage with at least one leading researcher on the Lower Mississippi Delta and/or affordable housing to ~~help inform and structure~~review or discuss our research in this area. 4) Include information in the report on the following, based on available data: a. Estimated market size b. Geographic distribution of properties receiving LIHTC allocations c. Percentage of properties receiving allocations in Lower Mississippi Delta states that are in rural versus urban and suburban locations

	d. Percentage of properties receiving allocations that also receive other major subsidies, such as USDA 515, 538, or Section 8 5) Publish a report on our website, promote it with a press release and share on social media so that research organizations, advocacy organizations, and lenders have access to the work. ~~Publish the report on our website, share it with the organizations involved in our outreach so they can distribute it further, share it with our seller/servicer network, and promote it with a press release.~~

Market Impact

There is currently limited analytical work about the prevalence of LIHTCs in support of the Lower Mississippi Delta, and data that is available is contained in disparate sources that are not necessarily easy to reconcile. While we understand anecdotally that the market for multifamily properties supporting the Lower Mississippi Delta is small, we believe this data may reveal opportunities for multifamily support.

We intend to leverage these various sources of data, our analytical capabilities and our relationships with various parties, such as syndicators, HFAs, and seller/servicers to provide the rural housing industry and LIHTC investors with a baseline understanding of the ways tax credits are being used in both the debt and equity arenas, and the opportunities provided there.

Our outreach will allow us to further define our other objectives in support of the Lower Mississippi Delta. The results of our research will be foundational to determining the extent to which Freddie Mac, as well as states and allocating agencies, can leverage LIHTCs to bring more liquidity to the Lower Mississippi Delta in a safe and sound manner. As a result of our research, we believe other industry participants, such as borrowers and seller/servicers, will gain the foundational understanding of the Lower Mississippi Delta market, and will increase their involvement in this area.

FREDDIE MAC

RURAL HOUSING

2020

ACTIVITY:

Activity 1 – High-needs rural regions: Regulatory Activity

OBJECTIVE:

Objective I: Purchase loans to preserve properties with USDA Section 515 debt in high-needs rural regions

PROPOSED MODIFICATION:

Removal of entire 2020 objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2020 were contingent upon the 2018 actions. Therefore, we are seeking to remove this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

~~OBJECTIVE I: PURCHASE LOANS TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT IN HIGH-NEEDS RURAL REGIONS~~

~~Evaluation Area~~	~~Year~~	~~Incomes Targeted~~	~~Extra Credit~~
~~**Loan Purchase**~~	~~**3**~~	~~**VLI, LI**~~	~~**Yes**~~

~~USDA's Section 515 program is vital for the preservation of highly affordable rural multifamily housing. It provides rental assistance to ensure that tenants pay no more than 30 percent of their income toward rent. According to an analysis by the Housing Assistance Council (HAC), the USDA has financed approximately 28,000 multifamily properties with over 533,000 units through the Section 515 program.[v] As of early 2016, there were approximately 13,830 properties with 416,000 units still in the program. HAC has determined that the following number of units will exit the 515 program by 2040 based on their loan maturity dates.[vi]~~

~~Years~~	~~2017-2027~~	~~2028-2032~~	~~2033-2040~~
~~**Annual Unit Loss**~~	~~1,800 units~~	~~16,000 units~~	~~22,600 units~~
~~**Cumulative Units Lost Per Period**~~	~~18,000 units~~	~~64,000 units~~	~~158,200 units~~
~~**Cumulative Units Lost**~~	~~**18,000 units**~~	~~**82,000 units**~~	~~**240,200 units**~~

~~When these units exit the program, affordable housing is lost in rural areas because owners will no longer be able to access the rental assistance that enables them to preserve rents at affordable levels to residents making very low incomes for their area while maintaining the property. This is often referred to as the "maturing mortgage crisis." We have repeatedly heard from advocacy groups that USDA's annual budget is not sufficient to preserve this number of properties at the rate at which they would exit the program. Therefore, the introduction of private capital is necessary to recapitalize and preserve these properties to maintain this important housing stock for rural communities.~~

~~Despite the small market size, purchases of loans on properties with USDA 515 debt are an integral part of our strategy of providing liquidity in support of the 515 program and the high-needs rural multifamily housing market. We will leverage our loan product offering for properties with 4 percent tax credits and USDA 515 debt to purchase loans on properties that are in the rural housing regions. In addition to the loan offering, we will also leverage the research being done to better serve the regions through the creation of our loan offering. Maintaining long-term affordability is key to providing the rural regions with a stable source of housing. As a result of our initial outreach, we have determined that loans on properties with USDA 515 debt are usually originated in portfolios of multiple properties and it could take as long as three years to originate one portfolio with USDA 515 debt.~~

~~Understanding that this process can take multiple years, we plan on using the lessons learned from our first USDA 515 preservation transaction, and hope to initiate one more transaction, initiated in Year 2 and funded in Year 3, to further prove to the market that the loan offering is efficient and repeatable. This new transaction will include properties that are in one or more high-needs rural regions.~~

~~Baseline~~

~~We last purchased a loan on a Section 515 property in 2010, so our baseline of recent experience is zero transactions. This is to be expected because the vast majority of transactions involving USDA's Section 515 properties use other USDA programs, such as Section 538 or the preservation and rehabilitation (MPR) program.~~

~~Target~~

~~Prior to the creation of this third-party financing offering, there is no precedent to accurately determine the market for this product. Also, these transactions are highly complex and slow to develop. Therefore, during Year 3 we plan to execute one multi-property portfolio with USDA 515 debt that will contain properties located in at least one of the high-needs rural regions, but will not be limited to these areas.~~

~~We believe one such transaction is an appropriate initial target given (1) the limited number of units in high-needs rural regions generally; (2) the even smaller number of properties that are likely to mature, be ready for recapitalization, or experience a transfer of ownership during this time period, which limits the likelihood of a transaction occurring at all; and (3) the multi-year lead time for any transaction. This combination leads to high unpredictability and limits our ability to deliberately target properties in any particular geographic locations.~~

~~As we gain experience in the Section 515 market and more borrowers accept our product, we will have a greater scope and be able to better predict where these purchases will take place. Any purchases in the early years will be precedent setting and will be used to attract developer interest in the products we offer.~~

~~Market Challenges~~

~~There are several challenges to making loan purchases to preserve properties with USDA Section 515 Debt in rural regions.~~

~~First, there are limited financing sources. Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs.~~

~~Second, many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low- and low-income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available. Because the USDA 521 rental assistance is only available if 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.~~

~~Third, there is a very small market for 515 properties in high-needs rural regions. Per our analysis of USDA data from data.gov, within the total 515 portfolio, approximately 19 percent are located in high-needs locations: 5 percent in Middle Appalachia, 8 percent in the Lower Mississippi Delta, and 6 percent in persistent-poverty counties not located in other high-needs rural regions. We found that, on average, these properties were built in 1988 or 1989, which means that, with up to a 50-year USDA 515 loan, they are not likely due to mature until well into the future. Therefore, in the near term, the market for these properties is likely to be even smaller and limited to prepayments, recapitalizations, and transfers of ownership.~~

~~Fourth, unlike most markets, where one could expect transactions to be initiated and closed in the same year, this is far less likely to be the case for properties with USDA 515 debt. These transactions are highly complex with multiple parties, multiple properties, and sometimes challenging market conditions. Even once initiated, a transaction can fall through due to many factors, such as disruptions in the LIHTC equity market, rising interest rates, or change in local market conditions.~~

~~Market Impacts~~

~~The immediate benefit of these transactions will be to rehabilitate and preserve safe, decent, and affordable rental homes for tenants who are at risk of becoming homeless if these properties exit the 515 program. This cannot be understated in the near term or in the long term. Indeed, these initial loan purchases lay the foundation for more third-party financing and enable long-term, stable liquidity, which is fundamental to providing long-term residence to many thousands of households. Upon completion, we will issue a press release and/or publish a news story on our website that summarizes the transaction and promotes its replicability, which will lead to a growth in purchases in future years.~~

~~Through these transactions, we will demonstrate to rural developers that there is a new and replicable source of innovative financing for 515 properties that will enable the recapitalization and rehabilitation of these properties. In so doing, we will introduce new standards and efficiencies into the market. We will also look to attract private capital and promote safety and soundness by leveraging our capital markets infrastructure and risk distribution capabilities.~~

~~We recognize that these innovations will likely take some time to catch on, especially in the very small high-needs rural market, as each transaction in the early years will likely be slow to develop and new opportunities will likewise be slow to follow. However, with each transaction, we will preserve more affordable rental homes and build more momentum and market adoption so that, by the time 515 properties start to mature at scale, the market has a well-functioning and well-tested execution in place to preserve a meaningful share of rental homes for tenants in need.~~

FREDDIE MAC

RURAL HOUSING

2019 - 2020

ACTIVITY:

Activity 1 – High-Needs Rural Regions: Regulatory Activity

OBJECTIVE:

Objective J: Facilitate thought leadership and research related to housing and mortgage financing in rural communities

INNOVATION MODIFICATION:

Freddie Mac proposes to add this objective to our Duty to Serve Plan. Freddie Mac will host an annual rural symposium over the remaining years of the plan cycle to encourage thought leadership and research from a diverse audience on housing and mortgage financing in rural communities. By bringing together leading researchers and market stakeholders with insights on rural housing, we will promote transparency and education to affordable housing practitioners in both the single-family and multifamily markets and help build powerful partnerships. As a result, we anticipate stimulating further research into how effectively existing mortgage products and services support rural markets, who uses those products and services, and their effects on communities, consumers, and financial institutions. Ultimately, the new insights and relationships can lead to the development of innovative mortgage solutions that enhance support for rural markets.

OBJECTIVE J: FACILITATE THOUGHT LEADERSHIP AND RESEARCH RELATED TO HOUSING AND MORTGAGE FINANCING IN RURAL COMMUNITIES

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

Baseline

Few opportunities exist today to share research and discuss opportunities related to housing and finance in rural communities. However, such interaction is vital to inform development of innovative solutions that can help meet rural America's housing needs. The housing industry would benefit from an annual forum with the purpose of stimulating research, promoting information sharing, and discussing potential solutions for increasing access to affordable housing and homeownership in rural markets. Freddie Mac has not previously held such a forum but can lead the industry forward by hosting a Rural Research Symposium that increases transparency and offers varied perspectives into market activity as well as promotes thought leadership on challenges such as improving housing supply and access to mortgage financing for consumers in rural regions.

Market Challenge	Freddie Mac Action
Need for research ▪ Research that provides insight into affordable housing trends and access to financing in rural markets is limited and narrowly available.	**Year 2 – 2019** • Host an inaugural Rural Research Symposium that focuses on rural mortgage markets to better understand who is being served and the effectiveness of mortgage products, services, and financing as well as the effect on communities, consumers, and financial institutions. **Year 3 – 2020** • Host a second annual research symposium that focuses on rural mortgage markets to better understand who is being served and the effectiveness of mortgage products, services, and financing. The second annual symposium will focus on new research and insights developed since the 2019 symposium.

Market Impact
Freddie Mac is uniquely positioned to attract a broad spectrum of housing experts—such as members of the academic community, government agencies, lenders, policy makers, and non-profit organizations-- to discuss research findings that can inspire new ideas and solutions toward tackling persistent challenges to renting and owning homes in rural communities. Providing a forum for sharing and exploring a diversity of thought leadership on rural housing and finance will increase the visibility of research in this field and make it available to more leaders as well as across the housing industry. It also will help build cross-disciplinary relationships and reinforce the affordable lending ecosystem. As a result, the symposium will motivate additional research, collaboration, and innovation that is not possible today but greatly needed to help overcome housing challenges that distress rural residents and communities nationwide.

FREDDIE MAC

RURAL HOUSING

2019 - 2020

ACTIVITY:

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

OBJECTIVE:

Objective A: Increase loan purchases from small financial institutions serving rural regions

PROPOSED MODIFICATION:

Freddie Mac proposes to revise our Single-Family loan purchase baseline and targets for small financial institutions serving rural regions for 2019-2020.

JUSTIFICATION FOR PROPOSED MODIFICATION:

In our Plan, we stated that we would enhance our reporting capabilities to reflect all lenders and their activity that meet the small financial institution definition. In 2018, we invested in enhancements to our reporting infrastructure to effectively identify small originators in rural areas. This allowed us to reflect purchase activity from institutions, including community development financial institutions and federally insured banks and credit unions, that are selling loans to us via a Freddie Mac-approved seller/servicer (aggregator) as well as those delivering to us directly.

At the end of 2018, FHFA provided to the Enterprises a new data file identifying small financial institutions it viewed as Duty to Serve qualifying. FHFA provided this file to promote consistency between the Enterprises and clearly identify the market. We were instructed to use that data file going forward in 2019. Analyzing the eligible population of institutions identified in FHFA's data file, we note that, of the original 9,147 eligible lenders we identified in 2016, 1,030 lenders have either (a) increased in asset size or (b) experienced a merger and/or acquisition and no longer report financial data. FHFA has also indicated that these institutions are no longer eligible for credit, which is inconsistent with previous guidance. An additional 67 institutions became eligible small financial institutions in the ensuing time period. We have revised our baselines to reflect volume from institutions identified by FHFA's new file.

Our revised loan purchase targets from rural small financial institutions remain challenging and reflect the impact of FHFA's new file as well as the difficulties of purchasing loans as the number of eligible small financial institutions continues to shrink.

When we analyzed the impact of implementing the new loan file, we found that the 1,030 lenders that are no longer eligible were providing us with a large number of qualifying purchase volume. We compared the 2019 purchase volume year-to-date using the prior data file to the purchase volume using FHFA's new data file. We see a 23 percent drop in qualifying purchase loans. The precipitous decline in volume based solely on events (such as an institution's asset size increasing or a merger or acquisition) beyond Freddie Mac's control reflects the significant challenge with setting three-year targets where we will be assessed against shifting criteria. The loan purchases from the 67 new eligible Seller/Servicers and the loans that we counted from aggregators is insufficient to make up for this drop.

Our 2019-2020 targets were set using FHFA's data file as provided for 2019 of eligible small financial *institutions and assuming a 4 percent decrease in eligible lenders year-over-year as it is expected that loan purchases will continue to decline as fewer eligible lenders will continue to exist. This is a conservative reduction; trends from recent years suggest that the decrease could be closer to 10 percent.*

Our purchase volume targets remain ambitious and we remain committed to bringing liquidity to this market.

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

A small financial institution is defined for Duty to Serve purposes as one with less than $304 million in assets. During the FHFA listening sessions and our public outreach, we heard that, in many rural areas, these institutions are the only source of financial services. They are well-positioned to understand the needs and know the stakeholders in their communities.

Freddie Mac is committed to partnering with small financial institutions to leverage their market knowledge, experience and stakeholder network and to maximize the secondary market impact in the rural housing market.

During the Plan Term, Freddie Mac intends to increase purchase volume of loans on rural housing made by small financial institutions.

OBJECTIVE A: INCREASE LOAN PURCHASES FROM SMALL FINANCIAL INSTITUTIONS SERVING RURAL REGIONS

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

Freddie Mac intends to increase purchases of rural housing loans made by small financial institutions with assets of less than $304 million to generate 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 both new and seasoned 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. We believe that our incremental and strategic approach will increase our purchase share.

Baseline

The table below reflects Freddie Mac's actual purchase volume of mortgages in rural areas from community development financial institutions, and federally insured ~~depositories, and federal insured~~banks and credit unions ~~depositories only (banks and credit unions)~~ that we could identify as having an asset size of less than $304 million. ~~In the future, we will enhance our reporting capabilities in this segment to reflect all lenders that meet the small financial institution definition. The overall loan count represents Freddie Mac's market volume of loans from small financial institutions in rural areas excluding the high-needs rural regions without a limiter for the Duty to Serve qualifying-income segment of very low-, low- and moderate-income volume.~~ The income-qualifying loan count represents only the population of loans that meet the Duty to Serve qualifying-income segment of very low-, low- and moderate-income volume. ~~It should be noted that the historical loan volume previously represented in Freddie Mac's initial draft Plan did not distinguish the loan population by qualifying income, but instead included all conventional loans on owner-occupied properties from small financial institutions that are in rural regions.~~

The baseline for this objective is an average of the loans Freddie Mac purchased from small financial institutions that meet income-qualifying criteria for Duty to Serve in the last three years (2016~~2014~~ through 2018~~2016~~), which is 4,340~~3,894~~ loans. The numbers represent purchase-money originations and refinances for owner-occupied properties of very low-, low-, and moderate-income borrowers.[vii]

Freddie Mac Loan Purchase Volume – Small Financial Institutions[viii]			
Year	**~~2014~~ 2016**	**~~2015~~ 2017**	**~~2016~~ 2018**
~~Overall Loan Count~~	~~6,474~~	~~9,655~~	~~10,951~~

Income-Qualifying Loan Count **(A three-year average of this loan count was used to establish the baseline)**	~~2,899~~ 4,872	~~4,250~~ 4,269	~~4,533~~ 3,880
Baseline	~~3,894~~ 4,340		

Target

Freddie Mac's purchase share of mortgages in rural areas from small financial institutions has been decreasing~~increasing~~ since 2016. The loan purchase volume in 2016 was largely due to high refinance volume.~~2014 and was boosted by refinance volumes in prior years. Although we anticipate a decline in refinance volume over time, w~~We will aim to gradually increase the volume of ~~our purchase~~mortgages used for home purchases to increase the overall volume of loans in rural regions over the Plan cycle. We intend to use a variety of tactics with small financial institutions, including leveraging various execution options for loan purchase including purchasing loans via our bulk execution path where feasible, conducting outreach, offering technical training and providing toolkits that enable these lenders to lend confidently to very low-, low-, and moderate-income homebuyers.

Freddie Mac will commit to achieving the following loan purchases in rural regions for very low-, low-, and moderate-income borrowers in the following years:

Purchase Targets – Small Financial Institutions		
Year 1 – 2018	**Year 2 – 2019**	**Year 3 – 2020**
4,550 – 4,700 loans	3,700~~4,700~~ – 3,900~~4,900~~ loans	3,600~~5,000~~ – 3,900~~6,000~~ loans
	Proprietary: Actual Target – 3,700	Proprietary: Actual Target – 3,600

Market Opportunity and Impact

This objective will provide liquidity of more than $~~460~~420 million per year to small financial institutions that serve high-needs rural regions. Freddie Mac believes that deliberately increasing our engagement with small financial institutions to provide liquidity will notably improve access to credit in rural markets because we have heard that these lenders are limited in resources, available products and outreach capacity.

Freddie Mac's increased market share will benefit these markets by improving the availability of affordable financing, including Freddie Mac's Home Possible and Home Possible Advantage mortgages. We anticipate this objective will be very challenging due to the varied operational systems used by small financial institutions; different missions and levels of financing; distinct financial products offered; and the large number of geographic areas served. Furthermore, Freddie Mac ~~'s forecast for~~ anticipates that approximately 4% of the eligible lender population will stop reporting financial data due to continuous mergers and acquisitions in this segment. ~~2018 relative to 2016 includes higher interest rates, continued reduction in refinance share, higher consumer prices and a 25% decrease in single-family origination volume, all of which contribute to making it a challenge to meet the targets reflected above.~~ 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.

Freddie Mac believes our commitment to outreach and support for seller/servicers with experience and good track record in rural areas will expand this market in a safe and sound manner.

FREDDIE MAC

RURAL HOUSING

2019

ACTIVITY:

Activity 4 – Small multifamily rental properties in rural areas: regulatory activity

OBJECTIVE:

Objective A: Develop a new offering to preserve properties with USDA Section 515 debt

PROPOSED MODIFICATION:

Removal of year-2 (2019) activities.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to develop a loan offering that would provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2019 were contingent upon the 2018 actions. Therefore, we are seeking to remove 2019 actions under this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

OBJECTIVE A: DEVELOP A NEW OFFERING TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	**1 ~~and 2~~**	**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.[ix] As of early 2016, there were approximately 13,830 properties with 416,000 units still in the program. HAC has determined that the following number of units will exit the 515 program by 2040 based on their loan maturity dates:[x]

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 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.

In response, Freddie Mac has developed a strategy that would address the maturing mortgage crisis by increasing product flexibility and partnering with the USDA to create a sustainable, effective loan product offering. Initially, Freddie Mac will perform a comprehensive review of our current product offerings to determine how we can best leverage our existing products with the market challenges faced by the rural rental housing market. Additionally, we will collaborate with borrowers and our seller/servicers to help design additional features that can be added to support this loan offering. Based on the results of our review and feedback from our collaboration, we intend to make improvements consistent with prudent underwriting standards to ensure safety and soundness. We also intend to leverage our market-leading risk-distribution methods that allow us to attract private capital to support these properties, offer competitive terms and flexibility to our borrowers, and transfer risk away from taxpayers. This capability is fundamental to providing persistent liquidity and stability to the market.

While somewhat premature, we expect that these enhancements will cumulatively have a significant impact on the borrowers of rural rental housing by providing a source of stable, efficient, long term private capital which will enable very low-, low-, and moderate-income tenants to remain in their homes without additional rent burden. We expect that, if successful, these improvements will result in increased purchase volume and additional liquidity to this market. Over the two-year period, Freddie Mac plans to build a strong offering foundation by publishing an initial term sheet and completing a pilot transaction to determine market acceptance and long term feasibility of the product offering. We also plan on providing training to our seller/servicers to ensure that they are equipped with the information needed to accurately promote and support the offering.

Baseline

While we have originated Tax-Exempt Loan transactions, we lack the legal infrastructure, agreements with USDA, and stakeholder partnerships to leverage this execution for a successful loan offering for portfolios with USDA 515 debt. We last purchased a loan on a Section 515 property in 2010, so our baseline of recent experience is zero transactions. This is to be expected because the vast majority of transactions involving USDA’s Section 515 properties use other USDA programs, such as Section 538 or the preservation and rehabilitation (MPR) program.

Challenges, Actions and Market Impacts

<table>
<tr><th>Market Challenge</th><th>Freddie Mac Action</th></tr>
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Limited financing sources

- Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs.

Property features

- 515 properties, given their small size, cannot benefit from the same economies of scale as more typical multifamily urban or suburban properties due to the number of units. Across the 515 portfolio, the average property size in rural markets is 29 units, per our analysis of 515 properties from data.gov.
- Smaller rural properties are also distant from major employers and access to other resources that provide occupancy stability to a rental property.

Number of stakeholders

- Through our research, we have learned that each transaction has multiple stakeholders, each with its own requirements that impact the loan parameters and some of which are conflicting, making it difficult to ensure ease of execution for each transaction.

Reliance on USDA 515 debt

- USDA 515 debt ensures that the property maintains rental assistance. Therefore, it is important that any additional financing be compatible with USDA 515 debt.

Reliance on rental assistance

- Many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low- and low-income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available.

Product awareness

- Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. Likely, the Freddie Mac loan product will have a different loan and legal structure than the current financing option to this market.

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Year 1 – 2018

1) Evaluate the barriers limiting private capital in conjunction with USDA's Section 515 program to identify product parameters and legal document requirements.
2) Engage with the following participants to assess and identify areas of opportunity for our product: three issuers from states with a high concentration of 515 properties, two borrowers from the Council for Affordable and Rural Housings top 20 borrowers list, two rural advocacy organizations, and two Freddie Mac Seller/Servicers.
3) Evaluate and assess alternative loan structures to determine offering parameters, as evidenced by the following term sheet.
4) Evaluate and assess appropriate underwriting parameters to mitigate risk of rental assistance termination. These underwriting parameters will be captured in our internal credit policy and summarized in the product term sheet. Results of this analysis will be included in our term sheet.
5) Publish an official product sheet on our website that defines the product and its purpose to enable borrowers and sellers to understand the new loan product. The term sheet will contain at least the following elements:
   a. Product overview and loan purpose
   b. Sponsor and property eligibility requirement
   c. Loan-to-Value Limits
   d. Debt coverage Limits
   e. Allowable lengths of loan term
   f. Allowable lengths of amortization
6) Initiate one sample transaction to test market acceptance of the new loan and legal structure introduced to the market. Given the time it takes to complete a transaction, we will not likely make a loan purchase until Year 2.
7) Provide one to three training sessions via webinar or in person for Freddie Mac sellers to provide loan offering details, benefits to the borrower, and origination procedures to ensure that sellers have the knowledge to market the product effectively. To address the sellers' concerns, information will be provided to the sellers regarding incentives and origination efficiencies to motivate them to originate transactions with USDA 515 debt.

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▪ Freddie Mac sellers may not be motivated to market and originate this business due to its initial small scale, limited inventory, and amount of time it takes to originate a loan. From our current outreach, we have heard that it can take from two to five years to complete a rural rental housing transaction.	8) Negotiate and implement subordination agreement with USDA to ensure USDA 515 debt will stay on the property with the senior Freddie Mac debt. The finalized agreement will be shared with FHFA on an informational basis. ~~**Year 2 – 2019**~~ ~~1) Provide two additional training sessions as needed to ensure Freddie Mac sellers are well informed about the Freddie Mac loan offering and can accurately articulate its benefits to their borrowers.~~ ~~2) Complete a pilot transaction and initiate two additional pilot transactions for purchase in 2020. The pilot will be deemed successful if either we purchase the loan, or we receive sufficient information to inform a report of lessons learned.~~ ~~3) Draft a summary report of lessons learned based on the pilot transaction for use in product refinements. The summary will be shared with FHFA on an informational basis.~~ ~~4)~~1)~~Update the product sheet and terms based on feedback from stakeholders and the summary report.~~
Resource Challenge	**Freddie Mac Action**
▪ Multiple resources from various teams within Freddie Mac will be essential to ensure success of the actions outlined above.	**Year 1 – 2018** ~~1)~~ Implement an internal working group to ensure that all resources are allocated appropriately and alignment is maintained throughout the creation of the new loan product. ~~2) **Year 2 - 2019**~~ 1) ~~Debrief with Freddie Mac, the borrower, and the seller on the sample transaction to determine positive and negative aspects of the origination process and product structure.~~

Market Impacts

While the challenges are many, the benefit to the market is great, both in the near term, as we lay a strong product foundation and refine it through a pilot transaction, and in the long term, as we, along with the USDA, are able to provide long-term liquidity and stabilize the 515 preservation market while preserving the rental assistance (subject to continued federal support for these programs). By designing this offering to leverage our market-leading risk-distribution methods, we will be able to attract private capital to support five-to-50-unit 515 properties in rural markets and the tenants who live in them. In so doing, we will transfer risk away from taxpayers and promote safety and soundness.

Ultimately, though, the benefit of this offering is clear: Through this work, we will enable tenants of very-low and even extremely-low income, many of whom are senior citizens, to be able to continue to live in safe and decent housing that is affordable to them in their communities. Not only does this benefit the tenants themselves, but it also promotes stable communities across rural America.

FREDDIE MAC

RURAL HOUSING

2020

ACTIVITY:

Activity 4 – Small multifamily rental properties in rural areas: regulatory activity

OBJECTIVE:

Objective B: Make purchases to preserve properties with USDA Section 515 debt

PROPOSED MODIFICATION:

Removal of entire 2020 objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2020 were contingent upon the 2018 actions. Therefore, we are seeking to remove this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

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

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

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

~~After establishing and piloting a loan product for properties with 4 percent tax credits and USDA 515 debt, Freddie Mac will focus on the purchase of loans on these properties. This will provide relief from the maturing mortgage crises and preserve affordability for rural properties. Maintaining long term affordability is key to providing rural areas with a stable source of housing. As a result of our outreach, we have determined that properties with USDA 515 debt are usually originated in portfolios of multiple properties and it could take as long as three years to originate one portfolio with USDA 515 debt.~~

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

~~Baseline~~

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

~~Target~~

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

~~Challenges~~

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

~~First, there are the limited financing sources for these properties. Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs. Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. Likely, the Freddie Mac loan product will have a different loan and legal structure than the current financing option to this market.~~

~~Second, many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very-low and low-income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program is different from long-term HAP contracts, which Freddie Mac has a history of doing. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available. Because the Section 521 rental assistance is only available if 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.~~

~~Third, unlike most markets, where one could expect awareness and transactions to be initiated and closed in the same year, this is far less likely to be the case for properties with USDA 515 debt. These transactions are highly complex with multiple parties, multiple properties, and sometimes challenging market conditions. Even once initiated, a transaction can fall through due to many factors, such as disruptions in the LIHTC equity market, rising interest rates, or change in local market conditions.~~

~~Market Impacts~~

~~The immediate benefit of these transactions will be to rehabilitate and preserve safe, decent, and affordable rental homes for tenants who are at risk of becoming homeless if these properties exit the 515 program. This cannot be understated in the near term or in the long term. Indeed, these initial loan purchases lay the foundation for more third-party financing and enable long-term, stable liquidity, which is fundamental to providing long-term residence to thousands and thousands of people and families.~~

~~These transactions will also be precedent setting. Through these transactions we will demonstrate to rural developers that there is a new and replicable source of innovative financing for 515 properties that will enable the recapitalization and rehabilitation of these properties. Upon completion, we will issue press releases and/or publish news stories on our website that summarize the transactions and promote their replicability, which will lay a foundation for growth in purchases in future years.~~

~~In so doing, we will introduce new standards and efficiencies into the market. We will also look to attract private capital and promote safety and soundness by leveraging our capital markets infrastructure and risk-distribution capabilities.~~

~~We recognize that these innovations will likely take some time to catch on, as each transaction in the early years will likely be slow to develop, and new opportunities will likewise be slow to follow. However, with each transaction, we will preserve more affordable rental homes and build more momentum and market adoption so that by the time 515 properties start to mature at scale around 2028, the market has a well-functioning and well-tested execution in place to preserve a meaningful share of rental homes for tenants in need.~~

FREDDIE MAC

RURAL HOUSING

2019

ACTIVITY:

Activity 4 – Small multifamily rental properties in rural areas: regulatory activity

OBJECTIVE:

Objective C: Research and develop a new offering to support the USDA Section 538 program

PROPOSED MODIFICATION:

We propose four modifications to the 2019 objective: (1) slight clarification regarding use of external data, (2)the addition of an overview of the program and its use in the multifamily market, (3) the addition of outreach to an investor in securities backed by 538 guaranteed loans to support the report, and (4) the removal of an assessment within the research paper of Freddie Mac's potential role in the 538 market.

JUSTIFICATION FOR PROPOSED MODIFICATION:

1. In our initial plan, we said we would leverage data from several sources and listed those sources, unintentionally implying that we would necessarily use data from all of them. Though we intend to include all applicable data, we may not use every source listed as not every source may be required to inform our paper. This change is consistent with other research objectives.

2. In the process of gathering data, we have been unable to obtain a shapefile containing rural boundaries as defined by the USDA. Therefore, any estimation of market size for potential properties that could be secured by the section 538 guarantee would be inaccurate.

3. In completing this research, we have found that a general understanding for the program may be lacking in the market, therefore we are including a high-level overview of the program and its benefits to lenders, investors, and developers.

4. Because the capital markets play a role in the 538 program, we engaged with a top investor in the securities backed by this guarantee to understand how the capital markets view of the guarantee program, and what impact the presence of the 538 guarantee has on the attractiveness of rural loans to the capital markets, which are necessary in providing liquidity to rural markets.

5. We decided to remove the assessment of opportunities for Freddie Mac to work with the 538 program. We will conduct the assessment but have determined it is appropriate for the public report This was intended to a market research paper. While this research will help us assess if there is a beneficial role we can play in the 538 market, we believe this assessment does not fall within the spirit and purpose of the market research paper. Rather, such an assessment is business matter that should be addressed directly with FHFA and/or other industry stakeholders.

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

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

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

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

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

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

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

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

Baseline

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

Challenges, Actions and Market Impacts

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

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

1) Implement internal working group to ensure all resources are allocated appropriately and alignment is maintained throughout the product development process.

2) Develop and/or update Freddie Mac legal documents to support the section 538 guarantee.

3) Establish credit parameters as evidenced by a product term sheet.

4) Publish official product term sheet on our website that defines the product and its purpose to enable borrowers and sellers to understand the new loan product. The term sheet will contain at least the following elements:

   a. Product overview and loan purpose

   b. Sponsor and/or property eligibility requirement

   c. Loan-to-Value Limits

   d. Debt coverage Limits

   e. Allowable lengths of loan term

   f. Allowable lengths of amortization

5) Provide one to three training sessions via webinar or in person for Freddie Mac sellers to provide loan offering details, benefits to the borrower, and origination procedures to ensure that Sellers have the knowledge to market the product effectively. To address the seller’s concerns information will be provided regarding incentives and origination efficiencies to motivate sellers to originate transactions with USDA 538 debt.

6) Initiate one pilot transaction to test market acceptance—depending on when the product is released and this transaction is initiated, we may not purchase the loan during this Plan Term.

Market Impact

USDA’s 538 program has provided meaningful benefits to the rural market, particularly for five-to-fifty unit properties, and has increased in scope since its inception. At present, the primary market for 538 loans is ~~limited~~ generally comprised of~~to~~ four major lenders (though several other banks have originated the other portion of these loans), and the only secondary market for 538 loans is through Ginnie Mae. This c~~ould~~oncentration could limit~~s~~ the overall reach of the program and its ability to help more rural renters. By developing a broader market understanding of the 538 program and the benefits it provides, we can help attract broader market attention and understanding and additional investment capital to help support the needs of rural renters. ~~While w~~We will use the results of this ~~If we determine through our~~ research and outreach to determine whether ~~that~~ there is a viable and beneficial role ~~that~~for Freddie Mac ~~can~~to play in this market through the development of~~, , and by developinwe will g seek to develop~~ a Freddie Mac execution to support the 538 program. ~~we which will have the potential towill extend both the primary market for these loans, as we release the offering to our Targeted Affordable seller/servicer network and add lenders to the 538 market, and the secondary market through Freddie Mac.~~ Through our potential loan offering and risk distribution methods, we ~~will~~ may be able to attract more private capital to rural markets. Over time, as demand for 538 loans increases, there is potential for the allowable federal authorization for the 538 program to increase, which would further help to attract more private capital to support rural markets and provide safe and decent affordable housing to tenants across rural America.