



FHFA Supplement to 2020 Annual Reports Submitted by Freddie Mac

The following summaries were prepared by FHFA and provide additional information on selected objectives in Freddie Mac's 2020 Underserved Markets Plan. Discussions with Freddie Mac took place during virtual meetings held the week of July 19, 2021.

Affordable Housing Preservation Market

AHP_MF Rental_D: Purchase/Guarantee Seasoned Small Balance Loans from Small Financial Institutions (Loan purchase)

In response to a question from FHFA, Freddie Mac stated that it intended its multifamily loan product for seasoned small balance loan (SBLs) from small financial institutions (SFIs) to be used nationwide. A significant number of small multifamily apartment buildings are located in Los Angeles and San Diego, and so the first Q-deals (Freddie Mac's securitization designation for these loan pools) were with banks in Southern California. Subsequent familiarity with the product among banks reinforces this geographic distribution organically.

Freddie Mac pointed out that it may not always be to a bank's strategic advantage to securitize SBLs, and the decision depends on regulatory pressure, the yield from retaining the loans on balance sheet, the cost of securitization, and how it would use proceeds from securitization. Among SFIs, CDFIs often have the added challenge of needing an extended period of time to aggregate a pool of loans that is sufficiently large to justify putting into a securitization deal. If Freddie Mac determines a bank has appropriate processes and systems in place, the bank may continue servicing loans following securitization.

Asked about the impact of the COVID-19 pandemic, Freddie Mac noted that banks continued to see the need for securitization but were generally focused in ensuring the soundness of their portfolios. Freddie Mac also adjusted some practices, including collecting updated financial information as the deals closed and slightly increasing the size of banks' top-loss obligation for loans in the pool.

AHP_RAD_A: Provide Liquidity and Stability through RAD Loan Purchases (Loan purchase)

Freddie Mac has the capacity to issue forward commitments that lock in a 15- to 18-year permanent financing take-out loan when a RAD deal is first made. In the meantime, the construction and rehab process can take years. In 2020, Freddie Mac sought DTS credit for several transactions in cities that had converted large portfolios of public housing through the RAD program. Given the long lead time before a building is stabilized and eligible for take-out financing, in some cases, these deals had been initiated years earlier. This means loans purchased under this objective in 2020 may have different characteristics than those purchased in prior years, including a high concentration in areas of concentrated poverty and no transactions

in rural areas. Based on its pipeline of deals, Freddie Mac should have a similar volume of transactions in future years but with less concentration in a few jurisdictions.

AHP_RED_F: Develop a Tool to Identify LIHTC Properties and Section 8 Properties in Areas of Residential Economic Diversity for Preservation Around the Country (Loan product)

Freddie Mac demonstrated its mapping tools, which enable targeted affordable housing lenders in its network to identify properties with LIHTC and Section 8 subsidies and apply a variety of filters based on geography, subsidy start year, and other variables. The dataset includes property-level details, including subsidy status, unit count, ownership type, and owner information. The goal of these tools is to provide a user-friendly way for eligible lender partners to easily identify preservation deals that meet their criteria, including in rural markets. Freddie Mac reported that feedback on these tools has been positive, with lenders finding value in being able to access all of the relevant information in one place.

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

Freddie Mac completed some components of this objective in 2019, including publishing updated appraisal guidance and the optional Appraisal Institute Residential Green and Energy Efficient Addendum for properties with energy- and water-efficient features in its Seller/Service guide. In 2020, Freddie Mac focused on increasing lender adoption of its GreenCHOICE mortgage product. Limits on internal capacity prevented Freddie Mac from automating data collection through Loan Product Advisor. However, Freddie Mac began manually extracting loan purchase data to confirm compliance with GreenCHOICE product requirements and learn more about the types of improvements the product is being used to support, including likely impacts on energy- and water-consumption and utility cost savings. Freddie Mac also described reasons for delays in implementation of the Uniform Appraisal Dataset (UAD), which will include an energy-efficiency dataset. Multiple technology platforms will need to be updated to implement the UAD, and in 2020 the COVID-19 pandemic introduced competing priorities that disrupted progress.

AHP_SF Energy_C: Facilitate Financing of Energy Efficiency Improvements and Energy Efficient Homes (Loan product)

Freddie Mac reported that five lenders delivered GreenCHOICE loans for purchase in 2020. In the low interest rate environment, lenders saw GreenCHOICE loans as an opportunity for borrowers to refinance and consolidate debt accrued to finance energy- or water-efficiency improvements, as long as the improvements could be verified by an appraiser. Homeowners can also use the loan product to directly pay for the improvements (rather than first taking out a consumer loan), although this approach requires additional steps by the lender to fund the renovation activity, as well as consumer awareness of this option.

AHP_Shared Eq_C: Support Standardization of Data Collection at the Transaction Level (Loan product)

Freddie Mac responded to questions about the HomeKeeper system and efforts in 2020 to test its functionality to support and streamline shared equity transactions. Freddie Mac had planned to begin testing HomeKeeper with lenders in mid-March 2020; due to competing priorities related to the COVID-19 pandemic, no lenders participated in the testing process. While shared equity program stewards also cited capacity constraints, Freddie Mac was able to test the system with a small number of programs that pulled together sample lender packets with assistance from nonprofit partner Grounded Solutions Network.

Challenges in increasing shared equity homeownership loan purchases persist, as market activity is currently very limited and it is difficult to size the shared equity market. When lenders do not see opportunities to scale their engagement, they may be unwilling to focus resources on serving this market segment. Without lender participation in the HomeKeeper testing process, Freddie Mac looked at other opportunities to reduce special requirements related to shared equity financing and promote greater lender engagement, including by removing product overlays and making other policy changes to streamline underwriting and servicing.

AHP_Opp Zones_A: Facilitate the Creation and Preservation of Long-term Affordable Housing Units in Opportunity Zones (Outreach)

Freddie Mac described the level and the nature of its support for initiatives to expand affordable homeownership preservation through shared equity programs in Milwaukee, Omaha, and Minneapolis. Freddie Mac selected these markets after analyzing locations against three primary factors: (1) presence of a sufficient number of designated Opportunity Zones; (2) low minority homeownership rates; and (3) the presence of municipal or nonprofit support for homeownership with long-term affordability requirements. In all three markets, Freddie Mac connected stakeholders and created opportunities for collaboration around long-term affordable homeownership. Freddie Mac also provided targeted trainings on its product offerings for lenders, nonprofits, land bank organizations, and local officials and worked with partners to support additional technical assistance and trainings on creating and implementing shared equity homeownership programs, using land banks to create affordable homeownership opportunities, and supporting local developers of affordable housing.

Manufactured Housing Market

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

In 2020, Freddie Mac focused on easing the implementation of tenant pad lease protections for lenders and borrowers. Product enhancements included:

- allowing the tenant pad lease protections to be implemented through a manufactured housing community's (MHC) rules and regulations. Previously, the MHC needed to implement the protections through signed updated leases.
- adding "best efforts" language to the loan product terms that allows a borrower to avoid technical default if a *de minimis* number of residents do not agree to sign new leases that include the protections.

Freddie Mac engaged in regular conversations with lenders and borrowers to understand challenges to adoption and implementation of the tenant pad lease protections.

MH_Comm Pad_C: Purchase Loans that Institute Duty to Serve Tenant Protections (loan purchase)

Freddie Mac described its lease audit procedures for MHCs implementing tenant pad lease protections, explaining that servicers conduct the audits, borrowers and servicers certify the results, and Freddie Mac tracks certifications that are due and received. Freddie Mac has received the results of approximately 50 audits to date, and all MHCs have been found to be in compliance. If a loan is noncompliant, the borrower will receive a notice from the servicer and will have a 60-day period to cure the deficiency. If the borrower fails to cure within the 60-day period, it would be subject to penalties.

Freddie Mac also addressed a question from FHFA about the absence of loan purchases under this objective in the Deep South and Appalachia. Freddie Mac explained that, because the program was still being adopted through 2020, many states had not yet done transactions. Freddie Mac noted that there were two deals in process at the time of the meeting. MHC owners in these areas also may choose to work with regional banks and may not be seeking financing from Freddie Mac's lender network.

MH_Real Prop_C: Increase Homebuyer Access to Education and Resources (Outreach)

Freddie Mac provided insight into the operations of the SmartMH Network, a collaboration with Next Step, a non-profit housing counseling agency, and eHome America, the provider of an on-line homebuyer education platform. The SmartMH Network comprised eight non-profit housing counseling agencies, 417 MH retail sales centers, and 33 lender organizations across ten states at the end of 2020. Potential borrowers, including those outside of the geographic range covered by network members, could be referred to a virtual housing counseling agency accessible via a toll-free hotline. Borrowers who needed longer-term assistance were invited to schedule an in-person or virtual one-on-one consultation. One-third of the more than 1,400 borrowers who participated in counseling through the Smart MH Network in 2020 received one-on-one counseling. All participants completed an online curriculum supported by eHome America, followed by an exit interview to address outstanding questions.

Freddie Mac worked with nonprofit Next Step in 2020 to expand the network of participating housing counseling agencies, lenders, and retailers beyond the initial pilot states. Interested

agencies participated in “train-the-trainer” exercises on the counseling curriculum with Next Step. Freddie Mac also worked to ensure these agencies had the technical expertise and capacity to handle increased referrals.

Counseling and education provided under this initiative created an opportunity for manufactured housing consumers to prepare them to achieve and maintain homeownership as well as to navigate the manufactured home financing process. Freddie Mac explained that it is difficult to track outcomes for borrowers who receive housing counseling and education, including determining how many eventually purchase a home, the type of financing they opt for, and the terms they receive.

Rural Housing Market

Rural_HN Populations_B: Increase Technical Expertise in Indian Areas (Outreach)

Freddie Mac’s focus under this objective has been to increase their non-profit partners’ capacity to provide technical assistance to more tribes and tribal members in preparing for successful homeownership. Its support for its technical assistance partners includes providing funding, directing activities to address specific goals, and serving as a facilitator. Freddie Mac also invites subject matter experts and other advisors to contribute their expertise to develop culturally relevant materials to be used during the trainings. Partners who participate in trainings and other initiatives under this objective meet at least monthly to discuss outcomes and review reports on trainings provided.