

FREDDIE MAC

MANUFACTURED HOUSING

2020

**ACTIVITY:**

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

**OBJECTIVE:**

C - Purchase Loans that Institute Duty to Serve Tenant Protections

**PROPOSED MODIFICATION:**

*The proposed modifications would amend the Plan in:*

- The current Plan year*
- Future Plan year(s)*

Freddie Mac is planning on introducing a purchase target for Manufactured Housing Communities that institute Duty to Serve Tenant Protections in the 2020 plan.

**JUSTIFICATION FOR PROPOSED MODIFICATION:**

- The proposed changes to the Objective will increase our commitment to the underserved market.*
- The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*
- N/A – Proposed modifications only address future Plan year(s).*

In 2019, Freddie Mac developed a pilot offering to encourage borrowers to institute Duty to Serve Tenant Protections as part of Activity 4 Objective B in Manufactured Housing. We have seen continued interest in this offering, and we are still learning about market interest in this pilot offering based on our 2019 accomplishments. We laid a strong foundation for making tenant pad lease protections available to a larger number of MHC residents through our resources and marketing. As a result of our success and progress

made under MHC Activity 4 Objective B in 2019, we have decided to modify our 2020 plan to include a loan purchase target for MHC loans with tenant protections.

### OBJECTIVE C: PURCHASE LOANS THAT INSTITUTE DUTY TO SERVE TENANT PROTECTIONS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	3 and 4	Affordable	Not applicable

Based on our research and the eight transactions we completed in 2019, we believe we have identified adoptable parameters to provide the full complement of Duty to Serve protections to homeowner tenants in their MHC leases. In 2020 and 2021, we are setting a loan purchase target for this market.

Freddie Mac will work with seller/servicers and MHC owners to continue to offer appropriate terms for borrowers who adopt the full complement of Duty to Serve tenant protections through voluntary adjustments to their homeowner leases. Purchases will count under this objective based on our evaluation of eligibility and the qualifying nature of pads based on the seller representation in concordance with our Manufactured Housing term sheet at the time of our mortgage purchase. In our tenant protections product, we rely on the seller to ensure tenant protections will be in place within a year of implementation, however Freddie Mac is not reviewing individual leases.

We have set a purchase target for 2020 that exceeds 2019 purchase volume despite market uncertainty in relation to COVID-19 risk.

#### Baseline

We implemented the product in 2019 so we don't have additional historical volume to reference. We funded a total of 8 deals in 2019 and we anticipate volume will continue to expand as more borrowers participate.

Year	2019
<b>Total Loan Amount</b>	\$88 <u>million</u>
<b>Loans</b>	8
<b># of Qualifying Pads*</b>	1,3 <u>22</u> units

\*Qualifying Pads means pads occupied by a tenant who owns their home at the time of origination. Vacant pads and pads occupied by homes that are rented out are excluded.

#### 2020 and 2021 Target

Based on our success with our pilot offering for MHCs with tenant protections present in our 2018-2020 plan and our 2019 performance in this space, we are adding a 2020 and 2021 purchase target. We have set our 2020 and 2021 targets higher than the achieved volume in 2019.

Should market conditions change, we will work with FHFA to responsibly adjust our targets based on our volume cap, market needs and capacity. We anticipate that we will reach our target goal by leveraging our MHC network.

Year	2020	2021
<b>Target</b>	Lesser of 1,170 pads or 10 deals	Lesser of 1,800 pads or 15 deals

## Challenges

It is unclear how the market will recover from the COVID-19 outbreak. Our role, particularly in 2020, will be to focus on being a stable source of liquidity as the market recovers. Affordable housing is likely to remain in very high demand for existing renters, and demand may increase if new renters enter the market due to negative financial impacts of COVID-19. Acquisition might be slow to recover; however, we may see increases in refinances depending on economic indicators at the time. Because of such a substantial market disruption, it is especially difficult to set targets and plan for business opportunities outside of providing continuous liquidity to meet market needs.

## Market Impacts

Freddie Mac intends to continue our role of providing liquidity in these hard-to-serve markets through our innovation and dedicated platform, providing support to more families through our MHC tenant protections financing. Our role in establishing a market standard for tenant protections and providing liquidity will continue to have a profound influence on the MHC market—and MHC tenants—in the near-and long-term.

Recognizing the critical role the GSEs may play in providing stable source of capital during this period of market turmoil, we will be mindful of our purchase volume and credit standard are consistent with safety and soundness. In furtherance of this goal, we are also able to distribute risk away from taxpayers through our market-leading credit risk transfer program. This allows us to provide attractive financing and flexible terms to borrowers, channel private capital to support public good efficiently and cost effectively while protecting taxpayers and maintaining safety and soundness.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2020

**ACTIVITY:**

9 - Support for Residential Economic Diversity: Additional Activity: Regulatory Activity

**OBJECTIVE:**

D - Conduct and Publish Three Research Projects on Housing in Areas of Concentrated Poverty (QCTs and R/ECAPs)

**PROPOSED MODIFICATION:**

*The proposed modifications would amend the Plan in:*

- The current Plan year*
- Future Plan year(s)*

**JUSTIFICATION FOR PROPOSED MODIFICATION:**

- The proposed changes to the Objective will increase our commitment to the underserved market.*
- The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*
- N/A – Proposed modifications only address future Plan year(s).*

We are seeking to modify this Objective to increase our impact in the market and build upon our 2019 work under this objective.

Our 2019 research on mixed-income properties within areas of concentrated poverty (ACPs) looked at three case studies and demonstrated that, in the right conditions, mixed-income housing can be successfully developed in ACPs. In our 2019 report, we were able to identify the benefits of the development of mixed-income housing in areas of concentrated poverty, such as an increase in the tax base and the possibility to further other aspects of the market like job opportunities and quality education. We also demonstrated successful financing tools in markets that are not typically thought of as mixed-income areas.

Our 2020 Plan called for us to examine an additional three case studies. We are modifying this objective to have a greater impact on the market by building on the lessons of our prior research to identify the commonalities in successful mixed-income development across all ACPs. We intend to use aggregated data from Yardi Matrix to identify ACPs and then, within that geography, mixed-income development. We will identify market factors that can be leveraged to further RED and opportunity through mixed-income housing in ACPs.

Our goal with this study is to identify several factors in mixed-income ACPs that can help the market better understand how to facilitate more development in support of RED and allow for greater investment and financing efforts to occur in ACPs. Our research will then focus on understanding how those developments succeeded to determine whether and the extent to which that success can be replicated. While our 2019 research focused on learning from in-depth case studies, we now want to understand the broader lens. This will help us – and the market – to focus on common themes and spur development activity in future years. Ultimately, our goal is to help investors identify good candidates for more such development to help deconcentrate poverty and create more affordable housing.

Our 2020 research is focused on helping the market better understand how to facilitate more development in ACPs in support of Residential Economic Diversity. We believe that our research will lead to more liquidity in the market as developers and communities across the country will continue to learn from findings in our research. We anticipate that the lessons learned from our research using Yardi Matrix data will enable us to tailor our offerings to increase liquidity for development in ACPs and further RED.

**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
<b>Outreach</b>	<b>1, 2 and 3</b>	<b>VLI, LI, MI</b>	<b>Yes</b>

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 20<sup>th</sup> 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<sup>19</sup> ~~exist~~.

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. 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 research on the landscape of development activity in ACPs. We intend to leverage Yardi Matrix data to identify the prevalence of mixed-income properties across the country, with a special emphasis on ACPs, and further identify the challenges and opportunities for financing mixed-income housing in ACPs. We anticipate that this will lead to more liquidity in the market as other communities and developers learn from successes throughout the country. we will conduct three additional case studies on three more properties to identify the challenges and opportunities 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
<p><b>Promoting economic growth without the displacement of current neighborhood residents</b></p> <ul style="list-style-type: none"> <li>▪ Many community rehabilitation programs have resulted in the displacement of residents that have been living there</li> </ul> <p><b>Public perception and preference</b></p> <ul style="list-style-type: none"> <li>▪ Public misconceptions regarding economic diversity and housing may play a role in creating preconceived notions</li> <li>▪ Higher income residents may be unwilling to live in areas of concentrated poverty without demonstrable local incentives</li> </ul> <p><b>Definitional Challenge</b></p> <ul style="list-style-type: none"> <li>▪ Insufficient industry consensus on what is considered an area of concentrated poverty and methods to provide support</li> <li>▪ 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</li> </ul>	<p><b>Year 1 – 2018</b></p> <p>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.</p> <ol style="list-style-type: none"> <li>1) Compare and contrast various definitions of areas of concentrated poverty.</li> <li>2) Publish a report on housing in areas of concentrated poverty. This report will include at least the following:             <ol style="list-style-type: none"> <li>a. Comparison of definitions of areas of concentrated poverty</li> <li>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</li> <li>c. Estimation of market size in areas of concentrated poverty for LIHTC debt,</li> </ol> </li> </ol>

within a narrow timeframe will be very difficult if data issues are encountered.

### 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.

Section 8, and other programs we may identify in our research, leveraging the data sources identified above

- 3) Report will be published on our website, distributed to research organizations, advocacy organizations, and the Seller/Service 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, 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, 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 review or discuss our research.

### Year 3 – 2020

Identify market factors present in areas of concentrated poverty where there is development with a focus on and analyze three additional areas of concentrated poverty in which Freddie Mac has provided financing for mixed-income housing.



- 1) Leverage data from Yardi Matrix to determine the pipeline of partially affordable properties in areas of concentrated poverty. We will analyze this aggregate data across the country in order to estimate the prevalence of mixed-income properties in ACPs. 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) Draft a report on ACPs with analysis including but not limited to: population statistics, market factors, concentration of mixed income and ACPs, and commonalities of successful development. This report will evaluate different areas of economic strength in the market and consider different levels of income-mixing on properties.
- 3) 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.
- 4) Engage with at least two leading researchers on affordable housing to review and discuss our research. areas of concentrated poverty to review or discuss our research.

### 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 to an additional analysis on broad market factors of development in ACPs. This will help the market better understand how to facilitate more development in support of Residential Economic Diversity. This analysis will allow for greater investment and financing efforts to occur in ACPs as a result of a more thorough understanding of factors and commonalities of development within ACPs and the concentration of existing mixed-income properties in ACPs. ~~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 to an additional three properties that promote RED. 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**

**2020**

**ACTIVITY:**

9 - Support for Residential Economic Diversity: Additional Activity

**OBJECTIVE:**

F - Develop a Tool to Identify LIHTC Properties and Section 8 Properties in Areas of Residential Economic Diversity for Preservation Around the Country

**PROPOSED MODIFICATION:**

*The proposed modifications would amend the Plan in:*

- The current Plan year*
- Future Plan year(s)*

We are planning on introducing a tool to help our seller/servicer network easily identify LIHTC and Section 8 Properties in need of preservation in areas of Residential Economic Diversity.

**JUSTIFICATION FOR PROPOSED MODIFICATION:**

- The proposed changes to the Objective will increase our commitment to the underserved market.*
- The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*
- N/A – Proposed modifications only address future Plan year(s).*

In order to provide better liquidity to the market, we developed a tool targeted specifically for our seller/servicer network to target LIHTC and Section 8 properties in need of preservation.

By allowing our seller/servicer network to have access to data about properties in high opportunity areas and properties that are reaching the end of their LITHC compliance period and may be eligible for sale and conversion to market rate, we are making the

ability to finance these properties easier for our lenders. Properties in high opportunity areas specifically will benefit from this tool as impact-oriented lenders will have easy access searching for properties in areas that are most in need.

We will leverage data and provide specific analytical and categorical capabilities to make it simple for lenders to maximize their attention on LIHTC and Section 8 properties in different markets. Our lenders will be able to search for properties based on specialized high opportunity areas definitions- QAP or DDA- and will be able to search for properties based on specific features such as subsidy type, subsidy status and subsidy use. This will allow lenders interested in refinancing properties in need of preservation to target their search in order to best fit their needs.

This tool has a targeted audience for impact-oriented lenders and an intended use, and the prospect of lenders misusing this tool for other reasons other than refinancing subsidized properties is very low. This tool will be password protected and only accessible by a select group of lenders in our network. We have had multiple conversations with National Housing Preservation Database regarding the use of this tool and we have a data licensing agreement with them to ensure security of the data and the tool's purpose.

By providing a tool that aids in allowing our sellers to recapitalize and refinance properties in need of preservation, we are providing more liquidity to the market and creating more affordable housing in high opportunity areas.

**OBJECTIVE F: DEVELOP A TOOL TO IDENTIFY LIHTC PROPERTIES AND SECTION 8 PROPERTIES IN AREAS OF RESIDENTIAL ECONOMIC DIVERSITY FOR PRESERVATION AROUND THE COUNTRY**

<u>Evaluation Area</u>	<u>Year</u>	<u>Incomes Targeted</u>	<u>Extra Credit</u>
<u>Loan Product</u>	<u>3</u>	<u>VLI, LI, MI</u>	<u>Yes</u>

LIHTC and Section 8 are the two most prominent public subsidy programs that support affordable housing and both are vital to supporting affordable housing in high opportunity areas. However, there is not a simple or direct way for lenders to target loans to properties in these areas because there is not a straightforward way for lenders to access and analyze data about the geographies, properties, and their owners of record.

We intend to support the preservation and recapitalization of these subsidized properties by creating a tool that will help our seller/servicers identify these properties and their owners of record and leverage analytical capabilities to help focus their efforts.

**Baseline**

Freddie Mac created our Mission Map™ to identify several different-geographic areas, such as High Opportunity Indicators and properties with major public subsidies located there. We intend to expand upon the impact of our Mission Map™ and create a new tool designed specifically for our seller/servicers that includes analytical features and owner data to allow our seller/servicers to more

efficiently pursue rural preservation opportunities. There are currently no equivalent offerings in the market.

## Challenges, Actions and Market Impacts

<u>Market Challenge</u>	<u>Freddie Mac Action</u>
<p><b><u>Lack of accessible data on LIHTC and Section 8 properties</u></b></p> <ul style="list-style-type: none"> <li>▪ <u>Within both LIHTC and Section 8 properties, there are some data elements that are difficult or nearly impossible to find. It is also very difficult to duplicate this data, therefore external vendors or databases would need to be utilized.</u></li> </ul> <p><b><u>Market awareness</u></b></p> <ul style="list-style-type: none"> <li>▪ <u>Lenders are often unaware of LIHTC and Section 8 preservation opportunities in-areas of residential economic diversity. This tool will eliminate that problem.</u></li> <li>▪ <u>Private capital investment is lacking in rural areas.</u></li> </ul>	<p><b><u>Year 3 – 2020</u></b></p> <p>1) <u>Create a tool designed specifically for the preservation of LIHTC and Section 8 subsidized properties. Initiate a technology project that will ultimately deliver an interactive analytical tool to identify LIHTC and Section 8 properties in areas of residential economic diversity. The tool will include:</u></p> <ol style="list-style-type: none"> <li>a. <u>Duty to Serve Areas: Rural, Middle Appalachia, Lower Mississippi Delta, Persistent Poverty County, ACP, High Opportunity Area</u></li> <li>b. <u>Program name or subsidy type associated with the property</u></li> <li>c. <u>Use of LIHTC subsidy (new construction, acquisition and rehab, existing) or Section 8</u></li> <li>d. <u>Start year and end date of the subsidy</u></li> <li>e. <u>The subsidy status of the property</u></li> <li>f. <u>Type of ownership of the property</u></li> <li>g. <u>Standard property geography, including metropolitan and micropolitan areas</u></li> <li>h. <u>Fully restricted properties</u></li> <li>i. <u>Name of property owner(s)</u></li> <li>j. <u>Number of units and subsidized units</u></li> <li>k. <u>Any additional programs the property is subsidized with</u></li> </ol> <p><u>*Note that some filters in the tool are specific to only LIHTC or Section 8 properties.</u></p>
<b><u>Market Impact</u></b>	
<p><u>Through creating a service that will outline which owners have LIHTC and Section 8 properties that can further residential economic diversity, Freddie Mac is making it easier our seller/servicers to find and finance subsidized properties in need of preservation. This is especially important for properties in high opportunity areas and for properties that are reaching the end of their LIHTC compliance period and may be eligible for sale and conversion to market rate. This tool will also be instrumental in providing lenders with the opportunity to work with owners in order to refinance and recapitalize on properties using Freddie Mac loans offerings and other programs to preserve affordability for the long term. Our lenders will be able to search for properties based on specialized high opportunity areas definitions and will be able to search for properties based on specific features such as subsidy type, subsidy status and subsidy use. This will allow lenders interested in refinancing properties in need of preservation to target their search in order to best fit their needs. This new tool will also be particularly helpful to owners, as it allows for reasonably resourceful lenders to approach these properties with appropriate financing.</u></p>	

FREDDIE MAC

RURAL

2020

**ACTIVITY:**

4 - Small Multifamily Rental Properties in Rural Areas

**OBJECTIVE:**

C - Research and Develop a New Offering to Support the USDA Section 538 Program

**PROPOSED MODIFICATION:**

*The proposed modifications would amend the Plan in:*

- The current Plan year*
- Future Plan year(s)*

Removal of 2020 objective.

**JUSTIFICATION FOR PROPOSED MODIFICATION:**

- The proposed changes to the Objective will increase our commitment to the underserved market.*
- The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*
- N/A – Proposed modifications only address future Plan year(s).*

In 2019, we conducted research and published a report on the development of a new offering to support the USDA Section 538 Program. This research revealed that there exists sufficient liquidity and access to the capital markets for the Section 538 Program at more economical interest rates than Freddie Mac would be able to offer. As such, we would not serve a beneficial role in the market by developing an uncompetitive offering for purchasing Section 538 Guaranteed loans. Therefore, we are modifying the 2020 Duty to Serve plan by removing Activity 4 Objective C.

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

Evaluation Area	Year	Incomes Targeted	Extra Credit
<b>Loan Product</b>	<b>2 and 3</b>	<b>VLI, LI, MI</b>	<b>Not applicable</b>

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
<p><b>Limited scope and awareness of the 538 program</b></p> <ul style="list-style-type: none"> <li>▪ 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.</li> </ul> <p><b>Product awareness</b></p> <ul style="list-style-type: none"> <li>▪ 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.</li> </ul> <p><b>Lender acceptance</b></p> <ul style="list-style-type: none"> <li>▪ 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.</li> </ul> <p><b>Borrower and property features</b></p> <ul style="list-style-type: none"> <li>▪ The borrower set for this offering may be different than the traditional Freddie Mac borrower.</li> <li>▪ 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.</li> </ul>	<p><b>Year 2 – 2019</b></p> <p>Build broader market awareness of the 538 program by publishing research in a report on our website.</p> <ol style="list-style-type: none"> <li>1) Report will evaluate the scope and potential of the 538 program based on data from sources such as: National Housing Preservation Database, data.gov, HUD, and Census Bureau.</li> <li>2) In support of our report, we will take the following actions:             <ol style="list-style-type: none"> <li>a. Engage with at least two experienced 538 lenders to understand their use of the program.</li> <li>b. Reach out to at least one investor in securities backed by loans guaranteed by the 538 program to understand their needs.</li> <li>c. Engage with at least one leading researcher on rural markets and the 538 program to help inform our research.</li> </ol> </li> <li>3) Report will include the following:             <ol style="list-style-type: none"> <li>a. Market size estimate for current properties with the section 538 guarantee</li> <li>b. Geographic distribution of current 538 properties and the geographic scope of the program</li> <li>c. An overview of the program and its use in the multifamily rural market</li> </ol> </li> <li>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.</li> </ol> <p><del><b>Year 3 – 2020</b></del></p> <p><del>Develop and release loan offering to support the 538 program. Product development and roll out will include the following:</del></p> <ol style="list-style-type: none"> <li>1) <del>Implement internal working group to ensure all resources are allocated appropriately and alignment is maintained</del></li> </ol>



~~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 generally comprised of 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 concentration could limit 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. We will use the results of this research and outreach to determine whether there is a viable and beneficial role for Freddie Mac to play in this market through the development of a Freddie Mac execution to support the 538 program. Through our potential loan offering and risk distribution methods, we 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.

FREDDIE MAC

RURAL

2020

**ACTIVITY:**

4 - Small Multifamily Rental Properties in Rural Areas

**OBJECTIVE:**

D - Develop a Tool to Identify LIHTC Properties and Section 8 Properties for Preservation Around the Country (Including DTS Designations)

**PROPOSED MODIFICATION:**

*The proposed modifications would amend the Plan in:*

- The current Plan year*
- Future Plan year(s)*

We are planning on introducing a tool to help our seller/servicer network easily identify LIHTC and Section 8 Properties in need of preservation in Rural High Needs Areas.

**JUSTIFICATION FOR PROPOSED MODIFICATION:**

- The proposed changes to the Objective will increase our commitment to the underserved market.*
- The proposed changes to the Objective are in response to special circumstances, such as a significant change in interest rates or other market conditions or a regulatory decision by FHFA, that materially alter our ability to execute the Objective through the actions in our Plan.*
- N/A – Proposed modifications only address future Plan year(s).*

In order to provide better liquidity to the market, we developed a tool targeted specifically for our seller/servicer network to target LIHTC and Section 8 properties in need of preservation.

By allowing our seller/servicer network to have access to properties in high needs rural regions and properties that are reaching the end of their LITHC compliance period and may be eligible for sale and conversion to market rate, we are making the ability to finance these properties easier for our lenders.

The data we will leverage data will provide specific analytical and categorical capabilities to make it simple for lenders to maximize their attention on LIHTC and Section 8 properties in different markets. This tool will be especially helpful in advancing and financing development in rural micropolitan areas and rural high needs areas as the targeted search options in the tool will allow lenders interested in refinancing properties in need of preservation to target their search in order to best fit their needs. Our lenders will be able to search for properties based on specific features such as subsidy type, subsidy status and subsidy use and appropriately target properties in high needs rural areas.

This tool has a targeted audience for impact-oriented lenders and an intended use, and the prospect of lenders misusing this tool for other reasons other than refinancing subsidized properties is very low. This tool will be password protected and only accessible by a select group of lenders in our network. We have had multiple conversations with National Housing Preservation Database regarding the use of this tool and we have a data licensing agreement with them to ensure security of the data and the tool’s purpose.

By providing a tool that aids in allowing our sellers to recapitalize and refinance properties in need of preservation, we are providing more liquidity to the market and creating more affordable housing in high needs rural regions.

**OBJECTIVE D: DEVELOP A TOOL TO IDENTIFY LIHTC PROPERTIES AND SECTION 8 PROPERTIES FOR PRESERVATION AROUND THE COUNTRY (INCLUDING DTS DESIGNATIONS)**

<u>Evaluation Area</u>	<u>Year</u>	<u>Incomes Targeted</u>	<u>Extra Credit</u>
<u>Loan Product</u>	<u>3</u>	<u>VLI, LI, MI</u>	<u>Yes- HNRR</u>

LIHTC and Section 8 are both broadly-defined programs designed to work anywhere and to be paired with specialized programs. Indeed, they are often used together in order to maximize the application of federal subsidies to support more affordable housing units than could have been supported by the programs when used individually. Additionally, the same purposes served by many of the other individual statutory programs identified in the Duty to Serve rule are also served through LIHTC and Section 8 independent of those more specific statutory programs, as many localities include requirements in the qualified allocation plans (QAP) used to award tax credits so they can direct tax-credit properties to meet locally-identified needs. Properties in rural regions and high needs rural regions are often subsidized by federal and state programs, particularly LIHTC and Section 8.

Rural regions and high needs rural regions are often particularly challenging to finance as a result of lack of resources, investment, and education. Preservation-minded borrowers can have a difficult time financing these properties because of lack of data on rural regions and the locations of existing subsidized properties.

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 an accessible way for owners around the country to search for LIHTC and Section 8 units in rural and high needs rural regions. A key component of this effort is

the development of a tool that will clearly identify these subsidized properties and their owners in these locations and categorize and label properties so owners, developers, and all participants in our seller/servicer network can better understand precedents, opportunities, and challenges in rural high needs areas. This tool will be inclusive of all rural areas and include filters to specify if a Section 8 or LIHTC property is located in a high-needs rural region.

## Baseline

Freddie Mac created our Mission Map™ to identify several different geographic areas, such as Rural Regions and High Needs Rural Regions and properties with major public subsidies located there. We intend to expand upon the impact of our Mission Map™ and create a new tool designed specifically for our seller/servicers that includes analytical features and owner data to allow our seller/servicers to more efficiently pursue rural preservation opportunities. There are currently no equivalent offerings in the market.

## Challenges, Actions and Market Impacts

<u>Market Challenge</u>	<u>Freddie Mac Action</u>
<p><b><u>Lack of accessible data on LIHTC and Section 8 properties</u></b></p> <ul style="list-style-type: none"> <li>▪ <u>Within both LIHTC and Section 8 properties, there are some data elements that are difficult or nearly impossible to find. It is also very difficult to duplicate this data, therefore external vendors or databases would need to be utilized.</u></li> </ul> <p><b><u>Lack of readily accessible rural data</u></b></p> <ul style="list-style-type: none"> <li>▪ <u>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.</u></li> </ul> <p><b><u>Market awareness</u></b></p> <ul style="list-style-type: none"> <li>▪ <u>Lenders are often unaware of LIHTC and Section 8 preservation opportunities in rural markets. This tool will eliminate that problem.</u></li> <li>▪ <u>Private capital investment is lacking in rural areas.</u></li> </ul>	<p><b><u>Year 3 – 2020</u></b></p> <ol style="list-style-type: none"> <li>1) <u>Create a tool designed specifically for the preservation of LIHTC and Section 8 subsidized properties in rural regions. Initiate a technology project that will ultimately deliver an interactive analytical tool to identify LIHTC and Section 8 properties in rural areas and high-needs rural census tracts for preservation purposes. The tool will include:</u> <ol style="list-style-type: none"> <li>a. <u>Duty to Serve Areas: Rural, Middle Appalachia, Lower Mississippi Delta, Persistent Poverty County, ACP, High Opportunity Area</u></li> <li>b. <u>Program name or subsidy type associated with the property</u></li> <li>c. <u>Use of LIHTC subsidy (new construction, acquisition and rehab, existing) or Section 8</u></li> <li>d. <u>Start year and end date of the subsidy</u></li> <li>e. <u>The subsidy status of the property</u></li> <li>f. <u>Type of ownership of the property</u></li> <li>g. <u>Standard property geography, including specifically marked LIHTC and Section 8 properties within micropolitan rural regions</u></li> <li>h. <u>Fully restricted properties</u></li> <li>i. <u>Name of property owner(s)</u></li> </ol> </li> </ol>

j. Number of units and subsidized units

k. Any additional programs the property is subsidized with

\*Note that some filters in the tool are specific to only LIHTC or Section 8 properties.

**Market Impact**

Through creating a service that will outline which owners have LIHTC and Section 8 properties within rural and high needs rural regions, Freddie Mac is making it easier our seller/servicers to find and finance subsidized properties in need of preservation. By creating this tool designed specifically for our seller/servicer network, we are making financing these properties easier for our lenders. This is especially important for properties in high needs rural regions and for properties that are reaching the end of their LIHTC compliance period and may be eligible for sale and conversion to market rate. This tool will also be instrumental in providing lenders with the opportunity to work with owners in order to refinance and recapitalize on properties using Freddie Mac loans offerings and other programs to preserve affordability for the long term. This new tool will be particularly helpful to owners, as it allows for reasonably resourceful lenders to approach these properties with appropriate financing.