

Freddie Mac **Duty to Serve** Underserved Markets Plan

For 2018-2020

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Strategic Priorities Statement

Affordable rural housing is essential to the stability, economic development and viability of rural communities. Through outreach, the FHFA Duty to Serve public listening sessions and public comments on our Plan, Freddie Mac understands that significant challenges exist to supporting affordable rural housing. We repeatedly heard about limited access to financial services, challenging appraisals, poor infrastructure, home overcrowding, a prevalence of substandard housing, and higher-than-average poverty rates. In addition, we learned of specific needs to support rural markets, such as product enhancements, comprehensive education, technical training, and capacity building for non-profits to expand their resources. Almost by definition, there is limited demand for multifamily housing in areas of deconcentrated populations where renters are more often served by single-family rental (SFR) properties.

While the challenges are great and important to understand, we see opportunities to provide liquidity and capital for very low-, low-, and moderate-income households in rural areas over time. Our strategic approach will include significant efforts to increase our understanding of the market, align with experienced strategic partners to increase our impact, leverage technical expertise from industry participants, provide well-researched product enhancements to meet the needs of the market in a safe and sound manner, and maintain or increase the share of quality loans we purchase. Freddie Mac will approach the challenges through both single-family and multifamily initiatives. In so doing, we will be responsive to market needs, while remaining mindful of the appropriate levels of purchases and investments to ensure safety and soundness.

Our outreach also underscored that private stakeholders' and federal agencies' interests frequently align with Freddie Mac's strategic priorities in the rural market. We believe partnerships with these entities will allow us to better implement products and services that will be beneficial to this market and will help maintain housing affordability in these areas. Finally, we see opportunities to engage in Low-Income Housing Tax Credit (LIHTC) equity investments, which will allow us to further invest in areas where debt is not the prevalent source of financing, and explore the single-family rental market to improve affordable housing options for rural renters.

Over the next three years, Freddie Mac will expand our support for the rural housing market in the following ways:

1. Expand our research to better understand the rural market as defined by FHFA and enrich the national conversation by sharing information about the opportunities and underlying challenges involved in supporting the housing needs of rural communities nationwide.
2. Expand our outreach to provide comprehensive homebuyer education to consumers and technical training for industry professionals.
3. Increase financing for both rural homebuyers and rental-housing developers.
4. Develop a robust renovation mortgage product to serve the need for rehabilitation of aging housing stock.
5. Collaborate with the USDA to provide third-party financing for various programs.
6. Re-engage in the LIHTC equity market.
7. Conduct research on SFR market characteristics, develop a new SFR product offering, and make loan purchases to support the SFR market.
8. Conduct research on multifamily housing supporting high-needs regions and populations.
9. Develop a rural mapping tool to promote broader understanding of the rural market as defined by FHFA and to easily identify properties that qualify under the rural definition.

Market Context

Overview

Today, rural areas encompass over 90 percent of our country's landmass, but they are home to less than a quarter of the population.[20] While rural areas are socially, economically and geographically diverse, they face many common challenges. In many rural areas, industries that historically drove the economy—including manufacturing, timber and agriculture—are shrinking. The population is aging as the younger generation leaves in search of job opportunities.[21] As a result, rural areas have disproportionately high rates of unemployment, under-employment and poverty.

According to the 2010 U.S. Census, 42 percent of homes in rural areas were owned "free and clear" versus only 27 percent in urban and suburban areas.[22] This may be in part because homes are less expensive overall[23] or because older populations may have had more time to pay off mortgages or transfer equity from another property. However, there remains an overall need to provide affordable housing due, in part, to poor economic conditions. These economic conditions, in turn, can lead to borrowers with poor credit histories who lack available assets for down payments.[24]

There are approximately 7.1 million renter-occupied units in rural communities, comprising 28.4 percent of the rural and small- town housing stock. The physical composition of rural rental housing differs from rental characteristics nationally. Rural renters are most likely to live in single-family homes or in small multifamily structures rather than large buildings or apartment complexes. Among rural renters, 49 percent live in one-unit, single-family rental homes, while 17 percent live in two- to four-unit rentals, 16 percent in five- to 49-unit multifamily properties, and 3 percent in properties with 50 or more units. The remainder live in manufactured housing rental units.[25] Quick facts about the high-needs rural regions are listed in the table below.[26]

Metric	Total U.S.	Middle Appalachia	Lower Mississippi Delta	Border Colonias	Native American Regions
Population	301,461,533	8,841,811	8,922,311	5,586,664	1,191,561
Poverty Rate	13.5%	17.8%	19.7%	23.8%	24%
Small-Town/ Rural Population	21.2%	54.8%	50.8%	29.8%	Not Listed
Homeownership	66.9%	73.0%	68.0%	67.7%	70.1%
Manufactured Housing	6.8%	20.7%	17.1%	19.2%	15.8%

High-needs rural regions and populations share common characteristics, but they may also have unique social, economic and demographic features that will make it challenging for Freddie Mac to create sustainable mortgage programs to support housing in these areas.

Middle Appalachia Region

The Middle Appalachia region includes 238 counties in Kentucky, North Carolina, Ohio, Tennessee, Virginia and West Virginia. This region is rich in natural resources; it has relied on coal mining and timber for employment for over a century.[27] This has recently shifted, and the main industries are now education and health care.[28] In this region, it is not uncommon for families to live on land that has been in the family for generations.[29] Manufactured housing is very common, but the units may be old and in substandard condition.[30]

The Middle Appalachia region's total population is less than nine million, with a majority (55 percent) living in rural areas.[31] Like many other rural areas, Middle Appalachia is experiencing an aging population and an exodus by the younger workforce. Although a high percentage (73 percent) of households own their homes compared to the national average, the value of the homes is low.[32] Persistently low property values have impeded household asset accumulation.

Lower Mississippi Delta Region

The Lower Mississippi Delta region includes 219 counties in parts of Mississippi, Louisiana, Arkansas, Alabama, Tennessee, Kentucky, Missouri and Illinois. The region encompasses a 200-mile plain that includes over 90,000 miles of rivers and streams and has some of the richest soil in the country. Notwithstanding its richness in natural resources, the region is home to some of the poorest populations in the country.[33] Its residents have suffered through devastating natural and man-made disasters, including multiple hurricanes since the mid-2000s and the Gulf of Mexico oil spill in 2010, which have caused massive property destruction and stalled segments of the economy.

The Lower Mississippi Delta region has a population of slightly less than nine million, with more than half of the residents living in rural areas. According to the 2010 U.S. Census, the population only grew by 1 percent from 2000 to 2010. This region also experiences a large degree of out-migration, with the younger workforce moving to the urban centers for job opportunities. Homeownership rates in this region are high (70.9 percent), and ownership is sought after as a means of stability, investment and asset accumulation.

Colonias

Colonias are located in parts of Arizona, California, New Mexico and Texas along the U.S.-Mexico border.[34] The U.S. Department of Housing and Urban Development (HUD) has designated 86 colonias in Arizona; 1,800 in Texas; 142 in New Mexico; and 15 in California. Although these colonias are classified as one group, they have significant differences both socially and economically. They vary widely in size, population, infrastructure and housing quality. Some colonias have as few as 40 lots, while others have more than 300 lots. However, many share a lack of basic infrastructure, such as potable water and sewage systems.

Colonias residents often live in substandard housing.[35] They continue to live there for a multitude of reasons, including a desire to remain close to relatives, the security of a familiar culture and limited ability to move into other areas of the country. Many of these communities developed because housing was not provided by the agriculture industry that hired residents as seasonal and migrant workers.[36] In addition, land owners in Texas were historically given the legal right to split plots of land into smaller lots without providing the infrastructure to support housing.[37]

Approximately 1.7 million people live in the rural border colonias. Most of the population is foreign-born residents and nearly two-thirds of the adults are U.S. citizens.[38] The residents typically work in manufacturing, government and agricultural jobs outside of the colonias.

A significant portion of residents in colonias have historically been subjected to predatory contract-for-deed (CFD) arrangements. Under this type of contract, the borrower pays a developer directly for housing but, unlike with a mortgage, the title to the property is not placed in the borrower's name until the entire contract price is paid in full.

The CFD industry has historically been rife with abuse. The contracts typically have high interest rates, allow for foreclosure with one late payment and are not recorded in the land records, leaving borrowers with few remedies in case of default. In 1995, Texas passed the Colonia Fair Land Sales Act, which required deeds to be recorded. Since its passage, most developers use a recorded deed with a prescribed foreclosure process. However, approximately 6,500 unrecorded CFDs remain, according to an estimate.[39] The total number of CFDs, including both recorded and unrecorded deeds, is still extremely high due to the difficulty of converting CFDs to regular deeds. As a result, clouded deeds may be a challenge to providing secondary market financing in the colonias.

Federally Recognized Indian Tribe Populations

There are 337 federally recognized Native American tribes, primarily located in the Southwest and the Plains, and 229 federally recognized Alaskan native villages. There are approximately 326 Native American reservations. Historically, there were approximately 1,000 Native American tribes living on more than two billion acres.[40] These populations have declined significantly, and as of 1997, only 54 million acres remain under tribal control. There are currently over two million persons who identify as Native American, but only 23 percent live on Native American lands.[41] Each tribe has a unique culture and history, which makes generalizing about this market difficult. However, through the Housing Assistance Council's (HAC's) research, we have learned that Native American tribes living in rural areas often face substandard housing, lower education levels and persistent poverty.

Each tribe has its own government and, through treaties with the U.S. government, authority over its tribe and land. Land controlled by Native American tribes can be tribal or trust-owned land. Tribal land can be owned by an individual or the tribe, whereas trust land has a title that is held in trust by the federal government. The legal complexities of land titles have made mortgage financing difficult due to, among other things, the inability of a mortgage holder to foreclose on the property in cases of default. "Checkerboarding," a term that is used to describe the variety of land titles used, hampers the ability of the tribes to accumulate land under one type of ownership.

As in other rural areas, there is a larger percentage of owner-occupied housing; approximately 70 percent of homes in Indian areas are owner-occupied. The majority are single-family homes, including manufactured homes. According to the National Congress of American Indians, up to 40 percent of housing located on reservations is considered substandard, and up to one-third is considered overcrowded due to high levels of poverty and the lack of affordable rental housing. In addition, less than half are connected to a public sewage system.[42]

Agricultural Worker Population

The agricultural industry in the U.S. is a multibillion-dollar industry that requires more than two million farmworkers annually to harvest crops.[43] Agricultural workers are considered a high-needs population due to evidence of persistently lower income levels and higher rates of residence in substandard housing. The 25 percent poverty rate is almost twice the national average of 13.4 percent.[44]

Agricultural workers often rely on seasonal or temporary work, requiring them to move from location to location to maintain employment, which can make owning a home impractical. While agricultural workers today move less often than in past decades, many continue to live in poverty.[45] Given their reliance on short-term employment, as well as employment instability and low wages, agricultural workers are frequently renters instead of homeowners.

Freddie Mac's Current Support

Freddie Mac offers a variety of loan products that support rural borrowers. Freddie Mac's Home Possible Advantage® product provides flexible underwriting and low down payment requirements, allows borrowers to obtain their down payment funds from a variety of sources, and permits total loan-to-value ratios up to 105 percent. Home Possible Advantage can also be combined with a USDA Section 502 single-family leveraged second loan, which can be beneficial to rural households. Our HFA Advantage® product is an extension of our Home Possible Advantage product and it includes affordable product features with additional flexibilities provided for housing finance agencies. Additionally, we recently offered guidance to assist with rural property valuations. We recognize, however, that more work remains to be done.

In addition to single-family loan products, Freddie Mac has loan products that are designed for multifamily borrowers. Our ability to serve rural areas is constrained by the small number of multifamily properties to finance as well as a lack of data on the specific needs of borrowers in this market and programs to support. Even so, Freddie Mac has increased our activities in rural markets over the past several years consistent with our community mission and beyond the scope of Duty to Serve. From 2014-2016, we provided $2.6 billion of financing in support of more than 47,000 households living in more than 365 multifamily properties in rural areas.[46] During that period, we roughly doubled our annual purchase activity. We believe that the objectives detailed below will provide the specialized loan products and investment necessary to more effectively support rural markets.

Challenges and Needs

Freddie Mac's outreach to a wide range of rural market participants has identified that challenges in rural regions can be multifaceted and affect virtually all residents, extending beyond housing affordability, and can include persistent poverty, declining employment opportunities, and limited access to financial services, among other factors.

Through our research and outreach, we have gained a deeper understanding of the current challenges facing this market and the unique needs that must be met in order to successfully serve it.

- **Lack of affordable housing and high cost burdens -** Households in rural areas experience a high housing "cost burden," which is defined as housing costs that exceed 30 percent of a family's income. This is one of the most significant barriers to homeownership.[47] Our outreach suggests that this may be due to a combination of four factors: low employment; poor economic conditions that can lead to weaker credit; lack of housing stock due to construction costs; and lack of access to financial services. Many rural areas do not have adequate access to financial services because they are often very remote and have low populations. The comments we received suggested the lack of financial services leads to higher borrowing costs and higher interest rates. Additionally, a significant portion of the population may have poor credit and a higher percentage of owners have high-cost loans in comparison to non-rural areas. High-cost loans result in decreased asset accumulation, higher default rates, and an increased cost burden of ownership.

- **Persistent poverty** - Approximately 16.3 percent of the rural population lives in poverty.[48] As of 2016, there are currently 353 counties in the United States seen as having persistent poverty; 85 percent of these are located outside metropolitan areas.[49] In 2012, while the national median household income was $51,914, the rural median household income was $41,962; 30 percent of rural household incomes are below $25,000.[50] According to the Duty to Serve rule, a county has persistent poverty if 20 percent or more of its population has been living in poverty for the past 30 years.

- **Substandard/Overcrowded housing -** Compared to the national housing market, rural areas have higher rates of substandard housing and overcrowding as well as a shortage of certified professionals to construct and repair homes. Due to higher rates of unemployment and poverty, extended families may live together. These same factors lead to delayed home repairs and deteriorating properties. There are also a high number of abandoned homes and vacant units, as low market values make selling a property uneconomical and households move to find work.

- **Declining employment** - The unemployment rate is higher in rural areas than the national average.[51] The limited growth of traditional rural industries—manufacturing, timber and agriculture—has led to limited employment opportunities. An inconsistent employment history may make it difficult or impossible to access credit.

- **Lack of access to lenders -** Rural borrowers have access to fewer mortgage lenders. Given the relatively low volume of loans in rural areas, it is less profitable for lenders to provide financial services in these areas.

In addition, rural borrowers may not have access to reliable, consistent internet service. As a result, these borrowers may be completely reliant on one or two local lenders, who may have limited loan products and charge higher rates in order to maintain a local presence.

- **Appraisals -** Rural appraisals are challenging for a number of reasons: there are limited comparable sales; those sales may not be similar to the subject property; and those sales may not be physically near the property being appraised. As a result, rural appraisals may take additional time, research and justification to determine an acceptable value for a property. Because of the additional work involved, rural appraisals may also cost more, an expense that is proportionately greater where the property value may be low.

Additional Challenges Facing Middle Appalachia and Lower Mississippi Delta

The Middle Appalachia and Lower Mississippi Delta areas face the same challenges described earlier, but on a greater scale. The economies in these areas lack diversity, which exacerbates unemployment and underemployment. The population centers of these areas are geographically isolated, which makes the lack of available financial services providers more of a concern. This isolation also means that infrastructure may be a problem; a relatively large percentage of homes lack plumbing and electricity. The housing stock is also aging and, combined with a lack of certified professionals to do repairs, more housing is becoming substandard.

Additional Challenges Facing Colonias

Colonias continue to make basic infrastructure improvements and build better quality housing; however, a significant amount of work still needs to be done to address the challenges faced by the residents of these communities. The level of education in the colonias lags behind the national average; only 75 percent of residents graduated from high school versus 84 percent nationally. This lowers their opportunities to secure higher-paying jobs and could decrease the possibility of obtaining a mortgage. Additionally, a significant portion of the population has limited English proficiency and limited access to financial services. In addition, the poverty rate is high; 23.8 percent live below the poverty line. Eight counties in Texas are among the poorest counties in the country.[52] This region also experiences housing-related issues due to the limited presence of financial services, home overcrowding and high housing cost burdens. A large percentage of households pay more than 30 percent of their income towards housing costs.

Additional Challenges Facing Native American Populations

In addition to the challenges common to all rural areas, lending to federally recognized Indian tribe members in an Indian area is difficult for many reasons, including the complexity around land titling, understanding and negotiating with distinct governments, the supply and quality of available housing, the need for flexibility around standard mortgage parameters and the involvement of multiple federal programs.

Access to financial services is especially critical for this population; only 14 percent of Native American communities contain financial institutions. Moreover, only 50 percent of the population can easily access ATMs and 6 percent have to travel more than 100 miles to reach a bank.[53]

Additional Challenges Facing Agricultural Workers

Agricultural workers face many challenges common to rural areas generally and experience hardships including poverty, substandard housing, lower educational levels and home overcrowding. A critical challenge in creating liquidity for the mortgage market for agricultural workers is that data on the population are scarce. Furthermore, although agricultural workers currently are less mobile than they have been historically and may be more likely to stay in one area for longer periods of time, they remain more likely to rent rather than own. As we discussed above, there is limited rental housing in rural areas, and housing dedicated to agricultural workers is an even smaller submarket that is often heavily reliant on LIHTC equity and cannot support debt financing.

Activities and Objectives

Activity 1 – High-Needs Rural Regions: Regulatory Activity

The high-needs rural regions include the Middle Appalachia, Lower Mississippi Delta, colonias and other rural tracts located in persistent-poverty counties not previously included in one of the other three categories. These regions are diverse in their landscapes as well as the economies that support them and their residents. As discussed in more detail above, they share common challenges, notwithstanding their unique characteristics.

Freddie Mac's strategic approach to increasing liquidity and expanding the distribution of capital in high-needs rural regions includes objectives targeted to individual regions as well as challenges faced by multiple regions. During the Plan Term, Freddie Mac intends to engage in the following objectives:

- Increase single-family purchase volume in high-needs rural regions
- Design new product flexibilities to facilitate the origination of mortgages in high-needs rural regions
- Design improved product flexibilities to facilitate financing of renovation costs
- Increase future homebuyer access to education and resources
- Develop a rural mapping tool
- Research the use of LIHTC in support of high-needs rural regions and populations
- Purchase loans to preserve properties with USDA Section 515 debt in high-needs rural areas
- Engage in LIHTC equity investment

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.[54] 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. 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.[55] 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. 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	**2014**	**2015**	**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)	6,850	8,020	7,833
Baseline	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	8,100 – 8,200 loans	8,375 – 8,600 loans

Market Opportunity and Impact

This objective will provide liquidity of more than $850 million per year to financial institutions that serve high-needs rural regions. Targeted loan volume may also include 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.[56] Furthermore, our 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.

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,	**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 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.	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** 1) Provide additional product flexibility to lenders through the Seller/Servicers Guide, addressing underwriting flexibilities related to borrower funds for closing costs. 2) 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). 3) 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. 4) 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.

OBJECTIVE C: DESIGN IMPROVED PRODUCT FLEXIBILITIES TO FACILITATE THE ORIGINATION OF RENOVATION MORTGAGES

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

During our public outreach, we heard that the high-needs rural regions require additional product features that can support renovation of aging housing stock and homes impacted by natural disasters. In response, Freddie Mac intends to undertake a comprehensive review of our current renovation mortgage parameters to determine how we can further enhance this offering to better serve high-needs rural regions.

Freddie Mac intends to partner with other industry participants, including community development financial institutions that are locally based in rural regions and are currently providing renovation financing, to better understand their product efficacy and innovations in this area. Reviewing product parameters and operational execution of what's working in the market today, in addition to purchasing seasoned loans used to finance home improvements, can further inform our product design.

To enhance our offerings to further serve the needs of this market, we will focus our activities on the following actions over the Plan cycle:

- Analyze existing renovation mortgage product features to determine how we will provide new underwriting criteria and operational execution.
- Engage with lenders currently providing rehabilitation/renovation loans in rural regions and purchase renovation loans from select lenders to further inform product design.
- Provide product flexibilities to complement and support self-help programs, where borrowers use sweat equity to construct or renovate homes.
- Provide new and improved renovation mortgage product features to support the financing of renovation costs.

Baseline

Freddie Mac has a renovation mortgage feature that can be used with our affordable product, Home Possible; however, our renovation product feature is not widely used by lenders in part due to limitations on the amount of improvements that can be financed and the operational timeline for completion of work. Our current product will need to be redesigned.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Limited renovation financing support ▪ There is a large percentage of homes in high-needs rural regions that require renovation due to age, deferred maintenance, vacancy and/or lack of certified professionals available to perform rehabilitation at a reasonable cost. ▪ Due to the complexity of administering	**Year 1 – 2018** 1) Conduct an analysis of existing renovation product features to determine underwriting and operational flexibilities needed to support renovation financing in high-needs rural regions for very low-, low- and moderate-income households. The findings will be

construction lending, there is a lack of innovative financing options to assist borrowers that need to renovate a property to bring it up to state and local code requirements and/or habitability.	submitted in a report to FHFA and we will implement resulting policy changes in 2019. 2) Engage with lenders, non-profits, housing finance agencies and community development financial institutions that have successful rehab programs and/or provide direct renovation financing to understand the opportunities to support programs and loan structures. We would also engage mortgage insurers as part of the outreach effort. 3) Purchase renovation loans from at least one regional or national lender or community development financial institution to further inform product design. 4) Provide underwriting flexibilities with lenders via the Seller/Servicers Guide or a negotiated term of business to facilitate borrowers' use of sweat equity and/or participation in self-help programs. **Year 2 – 2019** 1) Complete the product development process based on the results of the renovation product assessment conducted in 2018 to support the renovation of aging housing stock in high-needs rural regions. 2) Implement the product, including updating any supporting processes, and issue new product terms via a negotiated term of business with lenders or via the Seller/Servicers Guide. Freddie Mac will provide product features through a negotiated term of business with select lenders if we need additional data to model risk; however, if the analysis produces sufficient data, we will issue a Seller/Servicers Guide change.

Market Impact

The high-needs rural regions have a large percentage of existing homes that, due to age or deferred maintenance, require a significant amount of renovation. Even though these homes may have an affordable sales price, the overall cost to purchase and renovate is prohibitive and there is a lack of financing solutions to make the cost of repair affordable. By completely redesigning our renovation product, Freddie Mac will have a high impact on the market by bolstering the purchase of homes in need of renovation and increasing affordable housing in high-needs rural regions. This effort will require significant resources by several departments within Freddie Mac, including Single Family teams responsible for affordable lending, seller/servicer relationships, credit decisions, modeling, pricing and product development, to analyze the economics, credit risks, operational and system impacts. We also intend to take short-term, direct measures to enhance product terms to further support borrowers who leverage self-help programs for renovation activity, that will have an immediate and direct impact because it will be rolled out to the broad market.

OBJECTIVE D: INCREASE FUTURE HOMEBUYER ACCESS TO EDUCATION AND RESOURCES

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

Freddie Mac heard many public comments on the draft Plan requesting a comprehensive approach to financial education to strengthen and increase the pool of potential borrowers. Specifically, there was a demand for pre-purchase homebuyer education for potential borrowers, as well as continued education about responsible homeownership. In response, Freddie Mac intends to update our curriculum on financial education. We will also partner with organizations that provide pre-purchase and post-purchase homebuyer education, housing counseling, employment services and credit rebuilding.

To further engage the high-needs rural regions and have a meaningful impact, we intend to continue expanding our footprint in high-needs rural regions by partnering with local non-profits, housing finance agencies and community development financial institutions to increase their capacity to provide homebuyer education and counseling. We will leverage our experience in providing education and solicit feedback from industry leaders on effective content that addresses the regional needs of individual homebuyer-education programs. We also plan to track training outcomes and use the information obtained to adjust our program in the future.

Freddie Mac will expand our existing financial education curriculum to address area-specific challenges, such as the use of contracts-for-deeds in the colonias, promotion of estate planning to create clear title for future generations, and technical training for education providers in specific areas. Freddie Mac will initially expand our education efforts in the Lower Mississippi Delta and the colonias in Texas, and then to Middle Appalachia and other persistent-poverty counties. We intend to partner with non-profits, housing finance agencies and community development financial institutions to conduct outreach regarding borrower needs in these regions. Based on the high demand for such a program, we anticipate that a comprehensive educational curriculum will have a meaningful, positive impact in the high-needs rural regions.

Baseline

Freddie Mac has extensive experience with financial education; our successful CreditSmart® curriculum is available in five languages and has been available for over 15 years. In addition, Freddie Mac provides outreach, homebuyer education and counseling through our Borrower Help Centers and the national Freddie Mac Borrower Help Network that has been in place for the past nine years. We recently opened a new Borrower Help Center in McComb, Mississippi, in partnership with the D&E Power Group, a HUD-approved housing counseling agency.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Need for comprehensive education ▪ The market lacks the full array of services and education to support the very low-, low- and moderate-income households in the high-needs rural regions regarding financial education, credit counseling, employment services, pre-purchase counseling and post-purchase counseling.	**Year 1 – 2018** 1) Conduct research and outreach to assess areas in the colonias in the State of Texas, Lower Mississippi Delta (beyond McComb, MS), Middle Appalachia and persistent-poverty counties in other states to target expansion of homebuyer education and resources. The assessment will include the

	geographic location and availability of potential partners, including housing finance agencies, small or regional lending institutions, non-profit organizations and community development financial institutions providing housing support in the regions. 2) Upon completion of the assessment, Freddie Mac will partner with mission-oriented organizations in these regions that are active in affordable housing and who are closest to the communities to increase their capacity to provide services and education. Freddie Mac will establish at least three additional partnerships with non-profits, housing finance agencies or community development financial institutions serving the colonias in Texas, Lower Mississippi Delta and Middle Appalachia regions that provide homebuyer education, housing counseling, individual development accounts, employment services and related resources that are relevant to very low-, low- and moderate- income individuals. **Year 2 – 2019** 1) Expand financial and homebuyer education curricula in specific persistent-poverty counties by partnering with two additional mission-oriented organizations that support affordable housing activities that benefit very low-, low- and moderate-income individuals. 2) Expand access to homeownership information by holding at least two homebuyer fairs—one in the Lower Mississippi Delta and one in a colonia in Texas. 3) Ask consumers to complete a survey on our financial education and homebuyer education curricula at each session to inform future enhancements. **Year 3 – 2020** 1) Expand financial and homebuyer education curricula in at least two additional persistent-poverty counties by partnering with at least two additional mission-oriented organizations that support affordable housing activities that benefit very low-, low- and moderate-income individuals. 2) Socialize homeownership information by holding at least two additional homebuyer fairs leveraging newly established partnerships in the persistent-poverty

	counties. 3) Ask consumers to complete a survey on our financial and homebuyer education curricula at each session to inform future enhancements. 4) Assess consumer-survey results and adjust education curricula, as appropriate, and submit findings to FHFA.

Market Impact

Research, outreach and public comment suggest comprehensive educational services and resources are lacking in high-needs rural regions. A solid homebuyer education foundation significantly increases the likelihood of sustainable homeownership. This is a substantial challenge in the high-needs rural regions due to the geographic scope and wide variety of needs specific to each region; the cost to develop, update, train and sustain a variety of services and outreach; locations and distance to cover with services and the need for additional training or resources for regional specific challenges. Additionally, once partnerships are developed it will take additional time to train and scale resources and education we plan on offering potential homebuyers and existing homeowners.

Conducting surveys to track success are important to benchmark progress and determine updates needed. These homebuyer educational efforts and other services will have a direct impact in areas where they are being provided and will have a future impact as we expand to additional regions. We believe that providing comprehensive financial and homebuyer education and other support services will lead to an increase in sustainable homeownership in the high-needs rural regions. It is also very important to survey the participants to confirm that Freddie Mac is meeting the needs of the market and providing any necessary adjustments.

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 key stakeholders (research and policy

	organizations, localities, borrowers, seller/servicers) to determine 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, or external vendors. 5) Add capability to identify or link to Freddie Mac 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.

OBJECTIVE F: RESEARCH THE USE OF AND OPPORTUNITY FOR LIHTC IN SUPPORT OF MIDDLE APPALACHIA

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

Low Income Housing Tax Credits (LIHTCs) are the subsidy most commonly used to finance affordable rental housing. They are particularly important for multifamily housing in Middle Appalachia, 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 to best leverage the LIHTC and attract investors to Middle Appalachia. Freddie Mac plans to engage with leading rural LIHTC market participants and researchers and publish a research paper focused on the use of LIHTCs in supporting Middle Appalachia.

Baseline

We have not been able to particpate in the LIHTC market for the last 10 years; therefore, we do not currently have a baseline of experience in LIHTC equity generally, or in Middle Appalachia specifically. In 2017, we have been attending conferences and conversing with leading mission-focused LIHTC syndicators with expertise in Middle Appalachia 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 Middle Appalachia and how to attract more investment ▪ Limited data about the prevalence of LIHTC in Middle Appalachia. 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 in Middle Appalachia will rely heavily on data, and completing the objective within a narrow	**Year 1 – 2018** 1) Engage with at least one syndicator, lender, governmental entity, housing finance agency, and developer who have expertise in Middle Appalachia and LIHTC.[57] 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 Middle Appalachia today and the possible gaps in the market: National Housing

timeframe will be very difficult if data issues are encountered. ▪ Limited tax credit allocations in rural Middle Appalachia 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.	Preservation Database, data.gov, HUD, and Census Bureau. Engage with at least one leading researcher on Middle Appalachia areas to help inform and structure our research and analysis. 3) Include information in the report on the following, based on available data: a. Geographic distribution of properties receiving LIHTC allocations b. Estimated market size c. Percentage of properties receiving allocations in Middle Appalachian 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 4) 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 Multifamily 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 Middle Appalachia, 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 Middle Appalachia 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 Middle Appalachia. 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 Middle Appalachia 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 Middle Appalachian market and will increase their involvement in this area.

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,	**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.[58] 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 to help inform and structure 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

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.	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 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.

OBJECTIVE H: RESEARCH THE USE OF AND OPPORTUNITY FOR LIHTC IN SUPPORT OF PERSISTENT-POVERTY COUNTIES NOT INCLUDED IN OTHER HIGH-NEEDS RURAL REGIONS

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

LIHTCs are the subsidy most commonly used to finance affordable rental housing. They may be particularly important for multifamily housing for persistent-poverty counties, where debt financing is limited outside of highly specialized USDA and HUD programs, and second to equity as the chief source of funding. Despite the importance of LIHTC equity, there is not currently sufficient understanding of how the LIHTC may be used to support persistent-poverty counties not located in other high-needs rural regions. 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 persistent-poverty counties not located in other high-needs rural regions.

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 persistent-poverty counties specifically. In 2017, we have been attending conferences and conversing with leading mission-focused LIHTC syndicators with expertise in persistent-poverty counties in order to understand how we might best support this market.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ Insufficient understanding of how LIHTC may be used to support persistent-poverty counties and how to attract more investment. ▪ Limited data about the prevalence of LIHTC in persistent-poverty counties. 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 research on persistent-poverty counties 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 persistent-poverty counties. **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,	**Year 3 – 2020** 1) Engage with at least one syndicator, lender, government entity, housing finance agency, and developer who have expertise in persistent-poverty counties and LIHTC [59] 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 persistent-poverty counties 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 persistent-poverty counties to help inform and structure our research in these areas. 4) Include information in the report on the following, based on available data: a. Estimated market size b. Geographic distribution of properties

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.	receiving LIHTC allocations c. Percentage of properties receiving allocations in persistent-poverty counties 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 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 persistent-poverty counties, 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 persistent-poverty counties 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 persistent-poverty counties. 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 persistent-poverty counties 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 market in persistent-poverty counties, and will increase their involvement in this area.

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.[60] 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.[61]

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.

OBJECTIVE J: ENGAGE IN LIHTC EQUITY INVESTMENT

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

The LIHTC is perhaps the most important resource for creating affordable housing in the U.S. today. Created by the Tax Reform Act of 1986, the LIHTC program gives state and local LIHTC-allocating agencies the equivalent of nearly $8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. By providing an incentive for private sector investment, the LIHTC has financed nearly three million housing units for low-income households, with approximately 100,000 units added to the inventory each year.

In order to support rural markets with LIHTC equity, we will need to conduct the activity in a safe and sound manner, which will take into account factors such as concentration risk, diversity of investments, and investment at sufficient scale to ensure a stable business platform.

The majority of LIHTC in large and medium-sized metropolitan areas are purchased by financial institutions that are motivated by their Community Reinvestment Act (CRA) requirements. Often, strong competition leads investors to pay high prices. Most of the LIHTC-financed properties that are located within census tracts in the high-needs rural regions are outside of most banks' CRA assessment regions and, thus do not receive the most competitive pricing for their credits.

Therefore, by focusing some of our investment capital in these areas, Freddie Mac will introduce more competition into the rural marketplace, which will improve LIHTC pricing. The higher the LIHTC pricing, the lower the need for a portion of the rent to pay for debt service; thus, increased LIHTC equity pricing makes properties more affordable.

Freddie Mac intends to make LIHTC equity investments in order to help meet the affordable rental housing needs of low-income families in all rural areas, including high-needs regions. In Year 1 of our Plan, we intend to re-enter the LIHTC equity investment market by partnering with at least two LIHTC syndicators and investing in at least one high-needs region LIHTC deal per syndicator. Although Freddie Mac was a substantial LIHTC investor prior to 2008, we have made no LIHTC investments in the interim. Recent disruption in the LIHTC equity market due to uncertainty surrounding the impact of potential changes to corporate tax rates has highlighted the need for Freddie Mac to enter the market as a source of liquidity and stability.

Investing in LIHTC equity will bring many positive changes to the market including the following:

- Stability by making long-term and consistent investments regardless of market volatility
- Liquidity particularly for investments that positively impact low-income renters in underserved areas, such as rural communities, Indian reservation communities, and agricultural worker communities, as well as preservation deals and for any other investment type that may not receive consistent investment interest year after year
- Affordability for investments that may not be as attractive to the largest investors, such as preservation deals, Section 8 deals, and bond deals with high losses-to-LIHTC ratios

To achieve these benefits, we plan to make steady improvements through the three-year Plan. In Year 1, we will increase our knowledge of the LIHTC market, develop product parameters, and build the necessary infrastructure within our production, underwriting, legal, and asset management teams to engage LIHTC equity investing. We will also look to form partnerships with at least two LIHTC syndicators and close at least one high-needs-region LIHTC equity investment with each syndicator. Without recent involvement in this market, it will be difficult to create the necessary internal infrastructure.

Baseline

We have not made any LIHTC equity investments in the last 10 years, so we do not have a baseline for this objective.

Target

Our intention is to partner with at least two syndicators and make investments at an increasing rate each year, starting at two investments in Year 1. This leads to the following targets across all of the high-needs rural regions.

Year	2018	2019	2020
Number of Investments	2	3	4

We believe it reasonable and appropriate to view these targets across all high-needs rural regions, as opposed to within any particular high-needs rural regions at this stage because (1) the market for LIHTC deals in each region is relatively small and not fully known, and (2) it is not clear that there will be both viable projects and sufficient allocations of credits each year in each region to support setting region-specific targets at this time. Moreover, while there are fewer investors in non-CRA markets, it is unlikely that we, or the syndicator with whom we work, will be the only participant; therefore, we have no guarantee that we will win each investment deal on which we bid.

Should we exceed these targets in a material way in the early years of our Plan, and the market allows for it, we will likely revise the Plan to include higher targets. Likewise, if we find there is a smaller-than-anticipated market and fewer-than-anticipated investment opportunities, we will revise our targets downward.

Market Challenges

There are several challenges that will be presented when making LIHTC investments in high-needs rural regions. The primary market challenges are caused by a lack of investment and volatility of LIHTC allocation.

In the LIHTC market generally, there have been significant disruptions in the price of credits.

As 2017 progressed, we have seen more and more examples of large scale LIHTC market disruption, two of which particularly highlight the impact:

1. On March 15, 2017, the California Tax Credit Allocation Committee (TCAC) passed a resolution allowing developers to exchange their 2016 9 percent LIHTC allocation for 2017 LIHTCs. Given delays in finding equity investors, developers found it impossible to close in time to complete construction by the end of 2018 (LIHTC deals must be “placed in service,” meaning 100 percent construction completion and receipt of the certificate of occupancy, by the end of the second year after receiving a LIHTC allocation).

2. In the Midwest, the Ohio Housing Finance Agency (OHFA) had to increase the allocation of LIHTC to deals awarded in 2016 because developers were not getting sufficient equity pricing to allow the deals to be economically feasible. Unfortunately, the additional credits had to come from the 2017 allocation, thus reducing the 2017 pool by approximately 12 percent.

Both examples illustrate how fewer LIHTC-assisted units are likely to be built, ultimately hurting low-income families across the country.

Properties in the rural regions have an additional challenge because they are frequently not in areas that typically attract multiple bids from financial institutions seeking CRA credit. Lack of investor interest lowers LIHTC pricing, which makes the credits less effective. Additionally, State Qualified Allocation Plans (QAP) change annually and rural areas may not be as competitive year in and year out for the limited number of deals that receive a LIHTC allocation.

There is a meaningful difference between a LIHTC deal located in a rural county like Wetzel County, West Virginia, where there is not much CRA-motivated demand for investment, and one in Charlotte, North Carolina. Based on current market information from the Community Affordable Housing Equity Corporation (CAHEC), a Raleigh, North Carolina-based LIHTC syndicator with 25 years' experience and covering the Southeast, a deal in Wetzel County is expected to receive approximately 86 cents on the dollar, while a deal in Charlotte would receive up to 95 cents on the dollar. In a hypothetical transaction with $10 million of debt and a need for $6 million of equity, this difference in tax-credit pricing equates to a $540,000 funding gap, which would require additional tax credits, soft debt, or a deferral of developer fee (with payment from cash flow) to close. This gap financing is often more expensive than LIHTC equity.

There are also several underwriting challenges. Transactions in rural areas often require additional review and analysis. Deals in these areas are frequently in smaller markets, often with marketing and lease-up challenges compared to more urban and suburban properties.

Lastly, resource challenges will hinder our ability to make investments, at least in the early years. The first challenge is our need to develop expertise in these markets. Freddie Mac has not originated new LIHTC investments or had partnerships with LIHTC syndicators in close to 10 years. Therefore, we will develop expertise in-house or hire new talent to support this offering. Additionally, we will need to develop partnership agreements at both syndicator and individual deal levels.

Market Impacts

By initiating investments in the LIHTC market for high-needs rural regions, Freddie Mac will provide stability to the equity market specifically for investments that are directly impacted by the lack of investment due to investors' tax-reform concerns and lack of CRA credit. This is particularly important for LIHTC properties supporting high-needs rural regions due to the volatility in allocation and lack of investors.

Building a LIHTC equity investment team will help to formalize the infrastructure and ensure that each investment is well-structured and underwritten. Engaging outside counsel also will allow us to create a legal infrastructure leveraging the expertise of a lawyer that is experienced in drafting partnership agreements.

Our initial investments will not only provide a meaningful benefit to the people living in rural markets by providing them with safe, decent and affordable housing that is so hard to come by, it will also introduce competition into a segment of the market that lacks it and often lacks investor interest at all. By doing so, we could potentially increase the price per credit, which could make the development of properties viable where they were not previously, or allow developers to create or preserve more units than they would otherwise.

These investments will also set an important precedent as we build out our market presence and lay the foundation for future investment by us and others. To raise awareness of these transactions and potential replicability, we will issue a press release and/or publish news stories on our website highlighting these transactions and their impact.

Activity 2 – High-Needs Rural Populations: Regulatory Activity

High-needs rural populations include federally recognized Indian tribes located in Indian areas and agricultural workers. These populations have unique histories, cultures and economies. However, both face similar challenges that significantly impact their access to credit, including substantially higher poverty rates than the national average and extremely limited access to financial services.[62] Additionally, 40 percent of the housing is substandarda[63] and almost one-third of homes are overcrowded.[64] Approximately 26 percent of the Native American population is living in areas close to Indian areas and may be interested in living in Indian areas if they could obtain mortgage financing.[65]

Freddie Mac's strategic approach to serving high-needs rural populations includes partnering with local non-profits, housing finance agencies, CDFIs and other small financial institutions to provide homebuyer education, and providing technical expertise to lenders and appraisers serving Indian areas. During the Plan Term, Freddie Mac intends to engage in the following objectives:

- Increase access to education and resources for Native Americans planning to buy homes in Indian areas.
- Provide technical expertise to lenders and non-profits serving Native Americans in Indian areas.
- Research the use of LIHTC.
- Develop an LIHTC equity investment offering.
- Engage in LIHTC equity investment

OBJECTIVE A: INCREASE HOMEBUYER ACCESS TO EDUCATION AND RESOURCES FOR MEMBERS OF A FEDERALLY RECOGNIZED INDIAN TRIBE IN INDIAN AREAS

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

Freddie Mac strongly supports responsible lending, homebuyer education and counseling. We believe that well-informed and well-prepared homebuyers are more likely to enjoy successful and sustainable homeownership. We support 14 Borrower Help Centers to provide comprehensive education that includes credit counseling and homebuyer education.

During our outreach and review of public comments on the draft Duty to Serve Plan, we heard requests for a comprehensive approach to homebuyer education for both pre- and post-purchase. Particularly in Indian areas, where land titling can be complex and the cultural approach to land ownership may be distinct from traditional mortgage practices. Freddie Mac intends to address this need by developing a comprehensive set of best practices for non-profits, lenders and appraisers that will include education on credit counseling and home ownership in Indian areas.

To engage the Native American population in Indian areas and provide meaningful impact, we will undertake an analysis to determine the tribal regions we can lend support and partnerships we can establish with non-profits, housing finance agencies and community development financial institutions to expand our homebuyer education and counseling efforts to serve very low-, low- and moderate-income homebuyers in Indian areas. In addition, we will complete homebuyer surveys to monitor the effectiveness of education platforms and adjust our efforts as needed. Through borrower education, we hope to help Native Americans build and maintain credit, understand the steps to sustainable homeownership and increase the demand for homeownership in Indian areas.

Baseline

Freddie Mac has extensive experience with financial education; our successful Credit Smart program is available in five languages and has been taught for over 15 years. In addition, Freddie Mac provides outreach, homebuyer education and counseling through our network of 14 Borrower Help Centers and the national Freddie Mac Borrower Help Network that has been in place for the past nine years. However, for the past three years we have not conducted these services in Indian areas. In addition, we do not have any Borrower Help Centers that specifically serve Indian areas and will need to find additional partners to expand our services. We currently participate in committee meetings on a quarterly basis with the Center for Indian Country Development (CICD) to better understand homebuyer readiness in Indian areas.

Challenges, Actions and Market Impacts

Challenge	Freddie Mac Action
Limited homebuyer education and resources ▪ Homebuyer readiness is one of the most challenging issues facing Native Americans in Indian areas today. The market faces the need for education to initiate the desire for home ownership as a wealth building strategy and then the means to successfully embark on the process to become a homeowner. ▪ In addition, the market has long suffered from a lack of financial institutions to educate the population and promote homeownership. ▪ The lack of education and resources has left a large percentage of Native Americans without the financial knowledge, satisfactory credit, adequate assets and desire to become homeowners. ▪ There are additional challenges that face the Native Americans who want to become homeowners face due to the additional challenges of lending on trust land and understanding the rights and responsibilities of the borrower purchasing property on trust lands and the diverse needs of various tribes.	**Year 1 – 2018** 1) Participate and collaborate monthly on initiatives outlined in quarterly CICD homebuyer readiness subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas 2) Initiate a review of Indian areas to assess where partnerships can be established and begin the design of homebuyer education specific to the Native American market. Establish at least one partnership with a non-profit, housing finance agency or community development financial institution to increase their capacity to provide financial and homebuyer education, housing counseling or other resources. 3) Provide financial and homebuyer education and housing counseling with an established partner in one Indian area. **Year 2 – 2019** 1) Continue to participate and collaborate on initiatives outlined in homebuyer readiness subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas. 2) Establish one additional partnership with a non-profit, housing finance agency or community development financial institution that provides homebuyer education, housing counseling and other resources relevant to potential Native American homebuyers in

one additional Indian area to expand our area of outreach and increase access to financial and homebuyer education to promote sustainable homeownership in Indian areas.

3) Provide financial and homebuyer education and housing counseling with an established partner in one additional Indian area.

4) Ask consumers to complete a survey on our financial and homebuyer education curricula at each session to inform future enhancements.

Year 3 – 2020

1) Continue to participate and collaborate on initiatives outlined in quarterly CICD homebuyer readiness subcommittee meetings to better understand the opportunities and challenges of Native American lending in Indian areas.

2) Establish one additional partnership with a non-profit, housing finance agency or community development financial institution that provides financial and homebuyer education, housing counseling and other resources relevant to potential Native American homebuyers in one additional Indian area to increase their capacity to provide education in Indian areas.

3) Hold at least two homebuyer fairs with established partners to educate consumers on available products, programs and resources.

4) Conduct homebuyer and financial education and housing counseling in the Indian areas selected in 2018 and 2019 to further expand access to education to promote sustainable homeownership.

5) Ask consumers to complete a survey on our education curricula at each session to inform future curricula enhancements.

6) Assess consumer survey results, and adjust homebuyer and financial education curricula as appropriate. Findings on survey results will be included in a report to FHFA.

7) Publish lessons learned from the three-year Plan initiatives and survey results on Freddie Mac’s website.

Market Impact

Providing comprehensive homeownership education will require a significant amount of research and coordination needed internally at Freddie Mac through various divisions including Single-Family teams responsible for affordable lending and relationships with Seller/Servicers, non-profits, housing finance agencies and community development financial institutions. Externally, we need to develop partnerships to successful initiate and later expand into additional Indian areas with various cultures and governments. We also plan to track training outcomes and use the information obtained to adjust the program in the future. We believe the schedule proposed is reasonable as it incorporates time for us to learn more about the specific needs of the target population, and gives sufficient flexibility for us to learn from initial program feedback to make course corrections.

This objective addresses the need for information about financing options developed specifically for members of Indian tribes. We anticipate that the homebuyers' needs will include financial and homebuyer education, pre- and post-purchase counseling and resources, to help them qualify for a mortgage in Indian areas. A successful education program will be a significant development with high impact for this high-needs rural population because it is expected to increase the number of mortgage-ready borrowers that can qualify for financing options that may be available. Given the prevalence of very low-, low- and moderate-income families living in Indian areas, targeting homebuyer education to these areas will be key to increasing sustainable homeownership.

OBJECTIVE B: INCREASE TECHNICAL EXPERTISE IN INDIAN AREAS

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

In order to support increased lending activity in this market, Freddie Mac will engage in efforts to increase understanding the barriers to lending and the priority of needs to develop education for lenders on the unique aspects of lending in Indian areas, including but not limited to education on title processing, deed restrictions, tribal government transition education and default processes. In addition, Freddie Mac will encourage standardization of title search processes with government entities. Doing so will bring efficiency to title processing and expedite the lending process, which should benefit all parties involved. In addition, Freddie Mac will provide training and outreach on our mortgage products that may be useful by Native Americans in Indian areas. Once we complete an analysis on which tribal regions we can lend support during this Plan cycle, we will align our focus for technical assistance in the same geographies we will undertake for providing further access to homebuyer education as referenced in Objective A.

Baseline

Freddie Mac does not currently have best practices and training dedicated to increasing technical expertise for lenders and housing professionals on the intricacies of lending in Indian areas.

Challenges, Actions and Market Impacts

Challenge	Freddie Mac Action
Insufficient support of industry participants ▪ Native Americans in Indian areas experience specific challenges in finding diverse financing options due to the legal intricacies of trust land ownership and the difficulty of finding lenders willing to finance loans on trust land. ▪ Additional challenges involve the title processing along with lease processing and approvals involving the federal government and the lack of capacity of tribal governments. ▪ The tracking of Native American loans on Indian areas is not currently being incentivized or tracked in affordable lending products. ▪ The market suffers from a lack of sustainable capacity and resources to further initiatives that will increase homeownership over the long term. ▪ The market also suffers from a lack of coordination and collaboration to develop and increase the use of best practices to further homeownership.	**Year 1 – 2018** 1) Evaluate and assess by year-end the opportunities and barriers to lending through outreach to three lenders, non-profit organizations or governmental entities. Findings will be submitted in a report to FHFA. 2) Conduct bi-annual outreach to at least two market participants, such as housing finance agencies, community development financial institutions or other Native American organizations, to assist with research on the development of mechanisms to better track conventional purchase volume for loans to members of a federally recognized Indian tribe in Indian areas. 3) Participate in quarterly meetings of the CICD committee, CICD secondary market subcommittee, and CICD lending products subcommittee to better understand the opportunities and challenges of Native American lending in Indian areas and their need for technical support. **Year 2 – 2019** 1) Leverage relationships with partners established in 2018 to develop best practices for lending to Native Americans in Indian areas. Share this information with lenders by publishing best practices for lending to Native Americans in Indian areas on Freddie Mac's website. 2) Provide broad-based product and program support to lenders through industry conferences, website material, and Freddie Mac training programs that is specific to Native Americans in Indian Areas. 3) Provide capacity building with at least one Indian tribe through a partnership with a non-profit, Tribally Designated Housing Entity (TDHE) or housing finance agency to offer resources and assistance related to loan packaging, title clearance or other priorities identified that will increase the efficiency of lending on trust lands. 4) Depending on the results of outreach in 2018, by year-end, complete an evaluation

	of potential changes that allow us to identify membership of borrowers in federally recognized Indian tribes members to track loan purchase activity. Submit findings in report to FHFA. 5) Participate in quarterly meetings of the CICD committee, CICD secondary market subcommittee and CICD lending products subcommittee to better understand the opportunities and challenges of Native American lending in Indian areas. **Year 3 – 2020** 1) Monitor and assess the usage and impact of best practices and training provided to lenders via ongoing outreach to lenders and surveys to obtain feedback. Adjust and re-publish best practices as appropriate. 2) Continue outreach efforts leveraging industry conferences, website material, and Freddie Mac training programs that are specific to Native Americans in Indian areas. 3) Expand capacity building with at least one additional Indian tribe through a partnership with a non-profit, TDHE or housing finance agency for loan packaging, title clearance or other priorities identified that will increase the efficiency of lending on trust lands. 4) Participate in quarterly meetings of the CICD committee, CICD secondary market subcommittee and CICD lending products subcommittee to better understand new opportunities and challenges of Native American lending in Indian areas.

Market Impact

This objective will require significant amount of outreach, research, partner building and coordination that needs to be accomplished to successfully build sustainable capacity. This will entail work with federal government agencies, tribes, non-profits, and other partners to provide resources and capacity in this market. There currently exists an extremely large knowledge gap in the Indians areas due to different cultures, different tribal governments, different operating laws, turnover of leadership, remoteness and distance from other tribal communities. Freddie Mac's efforts and participation through outreach, research and participation in meetings will begin to assist in bridging this gap. It will take a significant level of effort and resources to establish new relationships as we do not currently have established partners in Indian areas. It will also take time to develop and coordinate activities to begin bridging the gap to provide more loan packaging and processing efficiencies. These efforts will have a direct effect as we share best practices and provide capacity support and resources. They will also have an increasing and future impact as they are expanded through the plan period.

OBJECTIVE C: CONDUCT RESEARCH ON TRIBAL LANDS IN ASSOCIATION WITH LIHTC AND OTHER FEDERAL PROGRAMS

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

LIHTCs are the most commonly used subsidy for affordable rental housing. They are particularly important for multifamily housing on tribal lands, where debt financing is limited outside of highly specialized HUD programs. Indeed, most properties cannot support conventional debt at all. Despite the importance of LIHTC equity, there has not been sufficient equity investment to solve the affordable housing challenges on tribal lands. Additionally, LIHTC investments on tribal lands generally do not receive much competition from banks or other investors. This lack of competition results in a lower price per credit, which means it is even harder to amass sufficient equity to finance these properties.

While there are various sources of data and research reports on housing and LIHTC equity on tribal lands, our research will pull together disparate sources of data, identify challenges and opportunities for investment, identify debt financing options and their viability, and popularize this understanding with a broader audience than is currently familiar with the challenges of housing on tribal lands today.

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. In 2017, we have been attending conferences and conversing with leading-mission focused LIHTC syndicators with expertise on tribal lands. We have not performed or published any formal research on this topic.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ Limited data about the prevalence of LIHTCs in support of multifamily housing on tribal lands. 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 tribal land research will rely heavily on data, and completing the objective within a narrow timeframe will be very difficult if data issues are encountered. ▪ Insufficient knowledge of the market size and scope. ▪ Limited opportunities for third party financing. ▪ Geographic challenges; tribal lands are often in remote areas. ▪ Many properties on tribal lands are LIHTC equity driven, which leaves little room for debt financing. ▪ Definition of qualifying tribal lands contains some uncertainty. As a result, there may be some margin of error in our analysis, and the time it takes to perform this analysis will be greater than for areas with more readily defined boundaries. **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** 1) Conduct outreach by engaging with three tribal housing authorities, two syndicators, and two advocacy organizations with expertise in LIHTC and/or the housing needs on tribal lands. 2) Aggregate and align data to determine whether, and how much, sufficient information there is on LIHTC housing for members of Indian tribes living on Indian land today based on definitions provided by FHFA and the possible gaps in the data from the following sources and any others we discover in our research: National Housing Preservation Database, data.gov, HUD, and Census Bureau. 3) Engage with at least one leading researcher on tribal lands to help inform and structure our research and analysis in these areas. 4) Include information in the report on the following, based on available data: a. Estimated equity market size b. The identification and applicability of relevant federal programs, and eligibility for third-party financing to be applied c. Identification of gaps in data that could be closed over time to provide a stronger understanding of this market 5) Publish the report on our website, share it with the organizations involved in our outreach so they can distribute it further, and promote it with a press release.

Market Impact
There is currently limited data about the prevalence of LIHTCs in support of members of Indian tribes on tribal lands. While we understand anecdotally that the market for multifamily properties supporting these populations is very small, we believe this data may reveal opportunities for further investment and draw greater attention to the challenges and opportunities for LIHTC equity investment and multifamily housing on tribal lands. This study will also reveal whether there are opportunities for providing multifamily first mortgage debt financing on tribal lands. By identifying and promoting these opportunities, we are laying the foundation for more competition in the LIHTC market on tribal lands, which can increase the price per credit and, therefore, the effectiveness of LIHTC equity in creating and preserving affordable rental housing on tribal lands.

OBJECTIVE D: DEVELOP LIHTC EQUITY INVESTMENT OFFERING

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	**1**	**VLI, LI**	**Yes**

Freddie Mac intends to develop a product that leverages LIHTC equity investment in order to help meet the affordable rental housing needs of low-income families that are members of Indian tribes in Indian areas as well as agricultural workers in designated rural areas. According to a 2017 Urban Institute study, "during the past two decades, although improvements have been made, the overcrowding and physical housing problems of American Indians and Alaska Natives (AIANs) living on reservations and other tribal areas remain strikingly more severe than those of other Americans. Particular circumstances of tribal areas--remoteness, lack of infrastructure, and complex legal and other constraints related to land ownership--make it extremely difficult to improve housing conditions in those areas."[66] Also, according to the HAC, 52 percent of housing units recently surveyed were overcrowded, which is nearly 10 times higher than the national average. Despite these challenges, the LIHTC program has been effective in producing new affordable units for these underserved populations, particularly in states that set aside tax credits specifically for multifamily properties, though there is still need for more housing.

Freddie Mac anticipates building relationships with experienced LIHTC syndicators that work with established developers that focus on these populations in their affordable housing development businesses. In addition, Freddie Mac will provide direct equity investments in properties where the developer is a Freddie Mac client or has a relationship with one of our existing financing partners. Throughout Year 1 of our Plan, we will research the LIHTC market with a focus on investment opportunities to support high-needs populations as mentioned in Objective C. We will also hire experienced staff, develop internal capacity and controls and introduce our LIHTC equity investment product offering. Ultimately, we will begin investing in order to better understand the market while making a direct impact.

We recognize in creating this LIHTC equity investment offering that the fundamentals described and established here are applicable across all LIHTC equity investments, with some specific terms tailored to the needs of these populations. It will be important to make LIHTC investments that have sufficient geographic diversity to control for concentration risk, invest at a large enough scale to operate a viable and sustainable business that allows us to continually serve these markets, and do so in a safe and sound manner. We will be mindful to make these investments in markets and cases where there is not sufficient CRA-motivated investment already. Indeed, our role will be to support those parts of the market that are underserved by CRA-motived investment.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
Difficulty in developing multifamily housing in tribal areas ▪ This is due to remoteness, lack of infrastructure, and complex legal and other constraints related to land ownership. **Difficulty in developing multifamily housing for agricultural workers** ▪ This is due to limited tenant incomes and cyclical residence, the combination of which require properties that often cannot support first mortgage debt. **Market size** ▪ The ability to make a visible impact in the market may be capped by its small volume. **Cultural effects** ▪ Many tenants who are members of an Indian tribe living on tribal lands prefer single-family homes over multifamily properties.	**Year 1 – 2018** 1) Partner with at least one experienced LIHTC syndicator that focuses on high-needs rural populations. Partnership will be evidenced by an investment agreement. 2) Set up internal infrastructure to enable future LIHTC work.
Underwriting Challenge	**Freddie Mac Action**
▪ Cyclical tenant income among agricultural workers ▪ High turnover rates ▪ Small market size	**Year 1 – 2018** 1) Develop underwriting parameters, as evidenced by internal credit policy and an underwriting checklist. The LIHTC underwriting checklist will include at least the following: a. Developer experience b. LIHTC property management and compliance experience c. Balanced and detailed sources and uses budget d. 15-year operating proforma with rents trending less than operating expenses e. All financing sources have commitments by closing f. Acceptable insurance coverage g. Acceptable Phase 1 environmental assessment h. Acceptable market study

Resource Challenge	Freddie Mac Action
Development of expertise ▪ Freddie Mac has not originated new LIHTC investments in close to 10 years. Therefore, we will develop expertise in-house or hire new talent to support this offering. **Development of partnership agreements at both the syndicator and individual-deal levels** ▪ Freddie Mac has not entered a new partnership with a syndicator in close to 10 years and will need to hire outside counsel to understand the market for LIHTC investors.	**Year 1 – 2018** 1) Create a team to support the production lead including a production analyst and investment underwriting lead. 2) Engage outside counsel to review both syndicator partnership legal documents as well as individual investments at the lower-tier level within each fund. 3) Develop a checklist of important deal points (business issues) and legal points that should be included in all individual LIHTC deals and develop a process for exceptions.

Market Impact
By focusing some of its investment capital in these areas, Freddie Mac will introduce more competition for LIHTC equity investment in properties supporting high-needs populations, which will result in improved LIHTC pricing for these properties. The higher the LIHTC pricing, the greater amount of equity in the financing stack, which decreases pressure on rents, because the borrower needs less income to service the debt. Ultimately, support for LIHTC equity will make properties more affordable, and perhaps enable properties to be built that otherwise would not have been economically viable, thereby creating more affordable housing for some of the hardest to serve populations. We will develop our LIHTC equity investment capabilities and product in accordance with safety and soundness principles, setting strong underwriting parameters that will mitigate the risks of investment in these properties and allow us to responsibly serve these populations and communities.

OBJECTIVE E: ENGAGE IN LIHTC EQUITY INVESTMENT

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

The LIHTC program is perhaps the most important resource for creating affordable housing in the U.S. today. Created by the Tax Reform Act of 1986, the LIHTC program gives state and local LIHTC-allocating agencies the equivalent of nearly $8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. By providing an incentive for private sector investment, the LIHTC has financed nearly three million housing units for low-income households, with approximately 100,000 units added to the inventory each year.

Investing in LIHTC equity will bring many positive changes to the market including but not limited to the following:

1. Stability by making long-term and consistent investments regardless of market volatility.

2. Liquidity, particularly for investments that positively impact low-income renters in underserved areas, such as rural communities, Indian reservation communities, and agricultural worker communities as well as preservation deals, and for any other investment type that may not receive consistent investment interest year after year.

3. Affordability for investments that may not be as attractive to the largest investors such as preservation deals, Section 8 deals, and bond deals with high losses-to-LIHTC ratios.

In years 2 and 3, we intend to measure LIHTC equity investments in support of high-needs rural populations relative to market opportunity.

Baseline

Freddie Mac has not been permitted to make LIHTC equity investments for many years, so our baseline of recent experience is zero investments.

Target

Today, the size of the LIHTC equity market in rural areas with high-needs populations is unknown. As part of our research, described above in Objectives F and G, we intend to estimate the annual market size. Generally, though, we understand it to be very small, with few transactions per year, and to be unpredictable—the amount or presence of LIHTC equity investment opportunities on tribal lands and for agricultural workers may vary. Therefore, in our early years of investment, as we come to better understand this market and develop a presence in it, we intend to make two investments in tribal lands or for agricultural workers in 2019, and three in 2020. As we learn this market better, we may be able to set specific targets for each category, but we believe it is premature to do so at this time.

Year	2019	2020
Number of Transactions	2	3

Challenges

There are several challenges that will be presented when making LIHTC investments for high-needs rural populations.

First, there is a lack of investors in rural areas. Properties in rural areas and those serving high-needs populations are frequently outside of most banks' CRA assessment areas; thus, there is typically far less competition. This lack of competition leads to lower LIHTC pricing, which makes the credits less effective. There is a meaningful difference between a LIHTC deal located in a rural county like Wetzel County, West Virginia, where there is not much CRA-motivated demand for investment, and one in Charlotte, North Carolina. Based on current market information from the Community Affordable Housing Equity Corporation (CAHEC), a Raleigh, North Carolina-based LIHTC syndicator with 25 years' experience and covering the Southeast, a deal in Wetzel County is expected to receive approximately 86 cents on the dollar, while a deal in Charlotte would receive up to 95 cents on the dollar. In a hypothetical transaction with $10 million of debt and a need for $6 million of equity, this difference in tax-credit pricing equates to a $540,000 funding gap, which would require additional tax credits, soft debt, or a deferral of developer fee (with payment from cash flow) to close. This gap financing is often more expensive than LIHTC equity.

Second, there is volatility of LIHTC allocation. Many state housing finance agencies do not have a set-aside for Indian housing or agricultural workers, making them virtually uncompetitive with urban and suburban properties that better meet the requirements of the state Qualified Allocation Plans (QAPs). QAPs change annually and rural areas may not be as competitive year in and year out for the limited number of deals that receive a LIHTC allocation.

Third, we will have resource challenges. We will need to develop expertise. Freddie Mac has not originated new LIHTC investments in close to 10 years, let alone on tribal lands or for agricultural workers. Therefore, we will develop expertise in house or hire new talent to support this offering. We also need to develop partnership agreements at both the syndicator and individual-deal levels. Freddie Mac has not entered a new partnership with a syndicator in close to 10 years and will need to hire outside counsel to understand the current market for LIHTC investors.

Market Impact

By initiating investments in the LIHTC market for high-needs rural populations, Freddie Mac will provide stability to parts of the market that receive less favorable LIHTC pricing due to limited competition, inconsistent allocations, and challenging transactions.

Building a LIHTC equity investment team will help to formalize the Freddie Mac infrastructure and ensure that each investment is well-structured and -underwritten. Engaging outside counsel also will allow us to create a legal infrastructure leveraging the expertise of a lawyer that is experienced in drafting partnership agreements.

Our initial investments will not only provide a meaningful benefit to the hardest to serve segments of the rural population by providing them with safe, decent and affordable housing that is so hard to come by, we will also introduce competition into a segment of the market that lacks it, and often lacks investor interest at all. By doing so, we could potentially increase the price per credit, which could make the development of properties viable where they were not previously, or allow developers to create or preserve more units than they would otherwise.

These investments will also set an important precedent as we build out our market presence and lay the foundation for future investment by us and others. To raise awareness of these transactions and their potential replicability, we will issue at least one press release and/or publish at least one news story on our website, highlighting these transactions and their impact.

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 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 (2014 through 2016), which is 3,894 loans. The numbers represent purchase-money originations and refinances for owner-occupied properties of very low-, low-, and moderate-income borrowers.[67]

Freddie Mac Loan Purchase Volume – Small Financial Institutions[68]			
Year	**2014**	**2015**	**2016**
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 loans	4,250 loans	4,533 loans
Baseline	3,894		

Target

Freddie Mac's purchase share of mortgages in rural areas from small financial institutions has been increasing since 2014 and was boosted by refinance volumes in prior years. Although we anticipate a decline in refinance volume over time, we will aim to gradually increase our purchase 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	4,700 – 4,900 loans	5,000 – 6,000 loans

Market Opportunity and Impact

This objective will provide liquidity of more than $460 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. Targeted loan volume may also include manufactured homes titled as real estate and as personal property (in years 2 and 3) and provides direct liquidity to the market.

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 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.

Activity 4 –Small Multifamily Rental Properties in Rural Areas: Regulatory Activity

Small multifamily rental properties are an important segment of the rural rental market. A sizable portion, particularly those most affordable, are encumbered by USDA debt and at risk of being lost to the market over time as USDA 515 loans mature and properties can exit the program. This is known as the maturing mortgage crisis.

Freddie Mac intends to focus its small rural properties support in the first Plan Term on addressing the maturing mortgage crisis and leveraging USDA programs by:

1. Developing a new offering to preserve properties with USDA section 515 debt
2. Purchasing loans to preserve properties with USDA section 515 debt
3. Researching and developing a new offering to support USDA's 538 program.

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.[69] 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:[70]

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

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<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

</td><td>

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

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<tr><td>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.</td>
<td>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.

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) Update the product sheet and terms based on feedback from stakeholders and the summary report.</td></tr>
<tr><th>Resource Challenge</th><th>Freddie Mac Action</th></tr>
<tr><td>▪ Multiple resources from various teams within Freddie Mac will be essential to ensure success of the actions outlined above.</td>
<td>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

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.</td></tr>
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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.

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.

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. 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:

<table>
<tr><th>Market Challenge</th><th>Freddie Mac Action</th></tr>
<tr><td>
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.
</td><td>
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: 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.
b. 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
b. Geographic distribution of current 538 properties and the geographic scope of the program
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
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	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 to four lenders, and the only secondary market for 538 loans is through Ginnie Mae. This limits 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, and by developing a Freddie Mac execution to support the 538 program, we will 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 risk distribution methods, we will 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.

Activity 5 – Single-Family Rental in Rural Markets: Additional Activity

Based on our research of the rural market, 66 percent of rural renters live in single-family rental (SFR) homes: 49 percent in one unit homes, and 17 percent in two-to-four-unit homes. This important segment of the rural rental market is not specifically defined in the Duty to Serve regulation. However, it is a significant source of housing for rural renters. The market for SFRs lacks standardization, and this lack of standardization leads to variances in tenant opportunities and the quality of SFRs in which they reside.

Under current financing models, SFR renters are generally not served by the GSEs. We believe it is our mission to serve all renters in all areas of the market, and we are well situated to provide financing for this market due to our expertise in managing credit risk and strict property and borrower requirements. Our involvement in the SFR market will lead to greater standardization and more decent affordable housing for its tenants. Our intent is to provide liquidity, stability, and affordability to properties that provide quality affordable housing to the rural rental market. Therefore, in order to more fully support the rural market and provide the benefits of GSE financing to the majority of rural renters, Freddie Mac is including single-family rentals in rural markets as an additional activity.

While the size of the single-family rental market has increased in the years after the economic downturn of the past decade, it has consistently been a large portion of the market. Pre-recession data, from 1985-2005, show that single-family rentals have consistently made up 10-12 million units, or 30-35 percent, of the renter market share. Since 2005, this sector has been the fastest growing segment of rental occupied households, adding an additional four million single-family rental units or up 35 percent in the 10 years ending 2015, per Freddie Mac's tabulations of the American Community Survey.[71]

As the SFR market continues to mature, several distinct stratifications of market participants have emerged. The most sophisticated of these participants are large institutional investors that have entered the SFR business and have established a new institutional asset class that does not replicate the apartment industry or flip houses. However, the institutional participants make up only a small percentage of the total SFR market. Based on discussions with market participants, including lenders and borrowers, and other research, we believe it is appropriate to tier SFR owners as follows:

- Institutional participants:
    - Typically own portfolios of 1,000 or more single-family rentals
    - Estimated total population of 25 investors
    - Estimated to hold approximately 200,000 properties
    - Estimated value of market share of SFR is $30 billion (1 to 2 percent of total market)
- Middle-tier participants:
    - Typically own portfolios of 11 to 1,000 single-family rentals
    - Estimated total population of 77,000 investors
    - Estimated to hold approximately 1.8 million SFR properties
    - Estimated value of market share is $300 billion (10 percent of total market)

- Smaller participants:
    - Typically own portfolios of one to 10 single-family rentals
    - Estimated total population of approximately eight million investors
    - Estimated to hold approximately 13 million SFR properties
    - Estimated value of market share is $2.5 trillion (85 to 90 percent of total market)

With respect to SFRs generally, we see the opportunity to provide standardization and liquidity to the market, and promote better quality standards and affordable housing opportunities for residents, particularly with sponsors who have between 50 and 2,000 properties and five years or more experience. We intend to do this in such a way that we can promote affordability relative to the broader market in which homes are located, as well as improve available rental options. While rural SFRs will be part of a diversified and national SFR business model, in order for a transaction to receive Duty to Serve credit, we will require that (1) a certain share of the units (described below) in a SFR transaction will be located in rural markets and affordable at 100 percent of AMI or below.

Our product development and lending activities will provide longer-term financing than is typically available, which will reduce costs to borrowers and promote greater stability via less-frequent refinancing. We will also place a high priority on establishing industry-leading standards and best practices and imposing those standards on our borrowers, sellers/servicers, and applicable properties. Those standards will be designed to ensure the preservation of the quality of the housing and the neighborhoods in which they are located and underscore our commitment to the highest standard of care in the promotion of safe, decent, high-quality housing. We will focus on property age and condition, borrower experience with SFR, borrower financial stability and covenants, capital reserves and other transaction specific features to ensure long-term stability and quality.

Additionally, Freddie Mac will make commitments to neighborhood stability by seeking to maintain the residential character of the homes and seeking to support, not disrupt, existing communities. If Freddie Mac were to become a key liquidity provider in the SFR market segment, more owners would strive to meet the standards we established. Just as “agency quality” has come to mean decent, well-managed conventional multifamily housing, we would lift the quality of SFR as well.

In years 1 through 3 of our Plan, we intend to explore how to serve rural areas through this activity, through outreach and product development, culminating in loan purchases.

The benefit to tenants is clear: better quality housing, more stable rents, and more affordable rental options across rural America.

OBJECTIVE A: RESEARCH RURAL SFR MARKET CHARACTERISTICS AND OPPORTUNITIES

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

While there is emerging research on the overall SFR market, there is much less work done on SFRs in rural areas. This lack of research makes it harder for us, or other financing providers, to support this market and attract private capital. Therefore, in Year 1 of our Plan, we intend to perform market research and outreach to better understand the nature of, and opportunity for, SFRs in rural areas, including high-needs rural regions. We will publish a report of our market analysis in 2018. Given that we are likely to do market research on the entire SFR market, the report on rural may be a subset of a broader market study. We will also leverage this research and report in our product development efforts.

Baseline

While Freddie Mac has performed research on the SFR market for the purposes of this Plan and for discussion with FHFA, this research has not had a focus on rural markets, the opportunities and challenges presented there, and the particular ways in which we can best support these markets. This study will likely be the first of its kind published for public use, and will provide an important foundation for product development and lending activites.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ Market is in a stage of fragmentation and emerging standardization ▪ Large variations in financing, operating performance, and servicing standards ▪ Difficulty in developing new offerings to support this market ▪ The rural SFR market is not well understood, and there is no major capital distribution framework servicing it today ▪ Data sources on SFRs are limited. 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. Our SFR research will rely heavily on data, and completing the objective 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.	**Year 1 – 2018** 1) Identify and aggregate data on the SFR and rural markets from the Census Bureau and other sources we identify in our research. 2) Engage with at least three operators, three property managers, and three lenders to better understand their interest and activity in rural markets as well as credit standards they apply or operate under. 3) Engage with at least one leading researcher on rural markets or SFRs to better inform our approach and analysis. 4) Publish report on SFR market including a rural focus. The report will likely include the following, though these factors may change as we engage in our research: a. Analysis of market size and opportunities b. Analysis of property types c. Analysis of geographic concentrations d. Analysis of existing credit standards used by lenders in the market today

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.	5) Publish the report on our website and promote it with a press release.
Market Impact	
In rural areas, multifamily properties are not necessarily the preferred rental option, as populations tend to be deconcentrated, and the housing stock leans heavily towards single-family homes. SFRs are an important source of rental housing, but the market is still in a stage of fragmentation and emerging standardization. In the mid-tier market across the country, there are approximately 77,000 different investors who have portfolios of more than 10 SFRS, for a total of 1.8 million properties. In rural markets, that is considerably smaller, though the share is not yet known. The lack of foundational understanding of this market, and the lack of clear financing options for these properties makes it difficult for investors and renters alike to sustain this market. By performing and publishing our foundational research, we will provide clarity of understanding necessary to attract private capital at scale, lend to support SFRs, and distribute risk away from taxpayers. This research will also be fundamental to our product development efforts, especially for rural areas, and will enable us to better set standards for this market that will benefit tenants over time.	

OBJECTIVE B: DEVELOP OFFERING FOR SFR TRANSACTIONS CONTAINING HOMES IN RURAL AREAS

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

In Year 1 of our Plan we intend to develop offering terms for SFR transactions that include, but are not limited to, homes in rural areas, and in Year 2 we will look to execute a sample transaction that includes rural homes. In order to support rural SFRs in a safe and sound manner, it will be important to avoid concentration risk. Therefore, we will look for transactions to have geographic diversity, including beyond rural areas, which will also enable stronger standardization across this asset class, and consequently, enable better terms for rural borrowers and choices and conditions for rural renters. In order for an SFR transaction to receive Duty to Serve credit, however, we will set a minimum concentration of rural units in that transaction. To determine that threshold, we looked at the overall concentration of SFRs in rural markets, then adjusted based on several factors with a goal of being able to support more transactions, and therefore more rural properties over time.

From our tabulations of 2015 American Community Survey data, we understand that 21 percent of all one-to-four-unit SFRs are located in rural markets. Not all of these are likely to be financeable by Freddie Mac, however, for various reasons, such as the quality of individual homes, size and experience of the sponsor, and proximity to other homes. We suspect that many of these are owned by borrowers who do not have a sufficient portfolio size or experience to meet our lending criteria. Also, we suspect that there are very few borrowers or lenders who have a sizable concentration of rural-only or majority-rural portfolios.

Given this, we believe for Duty to Serve credit, it is appropriate to require that the lesser of 50 units or 10 percent of the units in a transaction be located in a Duty to Serve-designated rural area and be affordable at 100 percent of AMI or below as a starting point in our product development efforts. If, in our product development and market research efforts, we find that these parameters need to be adjusted, either upward or downward, in order to better support the rural market, we will update them as necessary.

In developing this offering, we will work with lenders experienced in SFRs, as well as with sponsors who have 50 to 2,000 units of SFRs under management and at least a five-year history of operations. This history of operations is important in assessing the quality of the borrower and their experience both operating a sound business and servicing tenants. In cases where we are working with banks and smaller institutions, our offering will have substantial benefit, as we will enable these institutions to recycle capital for more lending. Today these institutions tend to hold their loans on their balance sheets, which limits new loan production and restricts liquidity. As a secondary participant, Freddie Mac can purchase these loans and create needed liquidity. With our involvement, these institutions will be able to make more loans and support more people and communities.

In Year 2 of our Plan, we will seek to engage in at least one SFR transaction with sufficient units in rural areas. This transaction will allow us to test and refine the offering parameters we develop in 2018, as well as provide valuable information to us and the market about these transactions.

Also in Year 2, with the goal of improving market standardization and sharing best practices, Freddie Mac will collect, analyze and disseminate data relative to the SFR business model for all markets, including a rural market breakout. For the SFR sector, this includes collecting, compiling, and publishing data and research to allow for a better understanding of the sector and its risks in order to facilitate increased investment. We anticipate collecting and evaluating information related to operating expenses, capital expenditures and appropriate replacement reserve levels, occupancy rates by market compared to standard multifamily, rental per square foot, best practices regarding insurance, asset inspections and legal documentation and financing structures. To the extent possible, we will also capture available data related to the impacts of SFR activities on homeownership within various market segments, including homeownership rates, preserving affordability and neighborhood stabilization. Ultimately, Freddie Mac will establish quantitative and qualitative criteria for the deals that we will support and promote those criteria to encourage investors to use them. These criteria will yield high-quality loans with Freddie Mac's investment-quality standards.

By performing this research at the same time as our sample transaction, we will have the ability to contemporaneously learn from analytical work and transaction experience.

Baseline

Freddie Mac does not currently offer a SFR product today. In 2017, we have been developing relationships within the SFR industry as part of expanding our understanding of the SFR market. To date, staff have attended the largest single-family rental conference and have held meetings with owners/operators, valuation and home inspection vendors, securitization agencies, and other industry groups. As a result, Freddie Mac has been able to inspect SFR homes in markets across the country, learn acquisition and exit strategies, explore valuation options and better understand the investment perspective of Middle-Market owners and the SFR securitization market. These relationships have allowed Freddie Mac to better understand the need for long-term financing priced effectively for sponsors with 50 to 2,000 properties.

Challenges, Actions and Market Impacts

Underwriting Challenge	Freddie Mac Action
▪ The SFR market has a unique set of underwriting requirements that are difficult to line up with multifamily approaches and systems. ▪ The property management capabilities of each	**Year 1 – 2018** Meet with at least three operators, three property managers, and three lenders to determine best practices for underwriting, property management, and financing parameters.

SFR sponsor can vary considerably, and need close attention on a case-by-case basis.	1) Attend at least two SFR conferences for education. 2) Establish underwriting parameters as evidenced by a term sheet for a SFR loan product that will contain at least the following elements: a. SFR collateral type b. Loan term c. DCR and LTV loan sizing criteria d. Amortization e. Minimum loan size f. Property release and substitution requirements g. Minimum number or percentage of units in rural areas to receive Duty to Serve credit 3) Establish legal infrastructure to support these transactions in a safe and sound manner.
Market Challenge	**Freddie Mac Action**

▪ There are many factors that place constraints on the market for SFRs:
  ▪ Current market lenders do not support properties with an appraised value of $50,000 or less.
  ▪ Current lenders do not have a viable and scalable secondary market.
▪ Limited understanding of the size and scope of SFRs in rural areas.
▪ There is not a cost-effective inspection and evaluation process given disparate locations.
▪ Appraisals can be challenging in areas where there are limited comparable properties.
▪ There is not a cost-effective legal, title, and insurance review process, given the disparate locations of properties and number of properties included in transactions.
▪ There is currently not an industry standard for risk distribution or connection to the capital markets except in select cases with large institutional investors.
	Year 1 – 2018
	1) Publish a term sheet on our website for a SFR loan product that will contain at least the following elements:
	a. SFR collateral type
	b. Loan term
	c. DCR and LTV loan-sizing criteria
	d. Amortization
	e. Minimum loan size
	2) Directly engage with at least three lenders to promote this product.
	3) This pilot will be available nationally, and will be required to include a portion of the units in rural markets, as described above.
	Year 2 – 2019
	1) Attempt at least one sample transaction under this product with a qualifying sponsor that includes homes in rural markets, as described above.
	2) Collect and analyze data on overall SFR and rural SFR market performance to allow for a better understanding of the sector and its risks in order to facilitate increased investment. Data collected will include the following:
	a. Operating expenses

	b. Capital expenditures and appropriate replacement reserve levels c. Occupancy rates by market compared to standard multifamily properties d. Rental per square foot e. Best practices regarding insurance f. Asset inspections and legal documentation g. Financing structures 3) Draft and publish a report of analysis of data collected above and lessons learned from our sample transaction and how that transaction fits in the context of the data collected. 4) This report will provide a better understanding to the market of standards that could be applied to provide more liquidity and benefit tenants. 5) Report will be published on our website and promoted with a press release. 6) We will view this pilot as successful if we either purchase at least one loan under the offering or receive sufficient market feedback to produce the report described above.
Resource Challenge	**Freddie Mac Action**
▪ SFRs require a dedicated team of producers and underwriters, risk distribution, and servicing professionals with expertise in this market.	**Year 1 – 2018** 1) Assemble a team of production, underwriting, capital markets, and servicing professionals with expertise in the SFR market to ensure that our offering and operations are well considered and can be well executed. 2) Provide one to three training sessions covering product process and parameters, including underwriting and servicing responsibilities to internal staff via webinar or in person training sessions as appropriate for the audience. 3) Provide one to three training sessions covering product process and parameters, including underwriting and servicing responsibilities to seller/servicers via webinar or in person training sessions as appropriate for the audience.

Market Impact

Single-family rental housing is a large fragmented market in need of standardization. To ensure safe, decent, and affordable housing choices for renters across the country, and particularly in rural areas, this market needs liquidity and strong credit standards, the combined effect of which will lead to greater choice for renters and safer, better housing options.

Establishing a new loan product, legal infrastructure, and risk distribution framework will take a great deal of internal effort and deep commitment. To develop this offering, the following must occur: establish underwriting requirements in an unfamiliar market; establish legal, inspection, servicing, and risk distribution standards; create a specialized production, underwriting, and legal team; create a product term sheet, and continue outreach to SFR market participants. This product will be built from the ground up and will be a first of its kind.

Our research and report in Year 2, including our pilot transaction, will be fundamental to market development as well because this information will set standards for how SFRs can be most effectively financed and will better inform our product development efforts. This report will also provide fundamental information to capital markets investors, allowing them to better understand this market. Their improved understanding will enable us to better channel their capital to rural SFRs.

The combination of these efforts will establish an entirely new secondary market for SFRs in rural areas and beyond, providing substantial benefit to renters and communities alike, and promoting necessary underwriting and quality standards across the industry, which will broaden renter choices among safe, decent, and affordable housing options. This product will also allow us to leverage private capital to provide long-term liquidity and stability, while distributing risk away from the taxpayer.

OBJECTIVE C: PURCHASE SINGLE FAMILY RENTAL LOAN(S) SUPPORTING RURAL AREAS

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

In Year 3 of the Plan, we intend to build on our product development efforts and deliberately measure our SFR purchases, with a target of at least five SFR transactions that contain homes in rural markets. Our strategy will be to work with banks who have both a demonstrated history of financing SFR and have a substantial portfolio of SFR properties on their balance sheets and/or, through our seller/servicers network, with borrowers who have financed between 50 and 2,000 properties and have a history of sound operations.

Baseline

This product will be our first involvement in this market, therefore our SFR in rural markets baseline is 0 transactions.

Target

In Year 3, our preliminary target is to complete five SFR transactions with the lesser of 50 rural units or at least a 10 percent share of the units in the whole transaction as rural and be affordable at 100 percent of AMI. If, in our product development and market research efforts, we find that these parameters need to be adjusted, either upward or downward, in order to better support the rural market, we will update these parameters and inform FHFA through a plan modification.

Challenges

The SFR market in rural areas is constrained by several factors. Currently, there is limited debt capital available for longer-term (7 or 10 years) financing needs. Without longer-term capital, properties need to be financed more often, which increases costs to the borrower and puts pressure on rents to cover financing costs. This challenge is exacerbated by the absence of a viable secondary market for SFR loans for sponsors who hold between 50 and 2,000 units. Without a secondary market, banks are not able to lend as much or as freely as they would be required to hold the loans on their balance sheet (which contains their available capital to lend), and tenants do not benefit from the uniform credit standards imposed by Freddie Mac.

There is also uncertainty specifically in the size and scope of the rural SFR market, especially with sponsors who have sufficient portfolio size and experience. In our early stages of engagement in, and standardization of, this market, we expect there will be few transactions until sponsors better understand the offering from Freddie Mac and the benefits we can provide.

Market Impacts

Freddie Mac's commitment to purchase SFR loans with underlying homes in rural areas will start to bring an efficient, assured source of debt capital financing to this segment of the SFR market, and promote standardization and affordability. As noted, there is a need for SFR as an affordable rental option in rural areas due to either limited multifamily supply or SFR as a preferred option for these areas. The varying and costly debt financing options available for these SFR homes today makes it difficult for borrowers and renters alike to provide and find safe and decent affordable housing. By channeling private capital through our innovative risk distribution methods for longer-term loans, we expect over time to promote greater SFR home availability as a desired, safe rental option in rural markets. Without previous experience in the SFR market in rural areas, our involvement in purchasing loans will have a substantial visible impact, and in cases where we are working with banks and smaller institutions, our offering will have additional benefits, as we will enable these institutions to recycle capital for more lending. Today these institutions tend to hold their loans on their balance sheets, which limits new loan production and restricts liquidity. As a secondary market participant, Freddie Mac can purchase these loans and create needed liquidity. With our involvement, these institutions will be able to make more loans and support more people and communities.

These initial transactions, which would be the first of their kind, will be foundational and precedent setting, forming the basis for what we anticipate will be a repeatable program of increasing support for a vital form of rural rental housing. To raise awareness of these transactions and their potential replicability, we will issue a press release or press releases and/or publish one or more news stories on our website highlighting these transactions and their impact.

Activity 6 – LIHTC Investment in All Rural Areas: Additional Activity

OBJECTIVE A: ENGAGE IN LIHTC EQUITY INVESTMENT IN ALL RURAL AREAS

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

LIHTCs are the most commonly used subsidy to finance affordable rental housing. While we recognize the need for LIHTC investment in high-needs rural regions and populations, we believe there is an unmet need to be fulfilled across the rural market that is consistent with the intention of the Duty to Serve regulation.

Fundamentally, properties that are not in CRA footprints receive less competition for tax credits, and therefore receive lower tax-credit pricing. Based on current market information from the Community Affordable Housing Equity Corporation (CAHEC), a deal based in Charlotte, North Carolina, would receive up to 95 cents on the dollar; while a deal based in Wetzel County, West Virginia, would only receive approximately 86 cents on the dollar. In a hypothetical transaction with $100 million of debt and a need of $6 million of equity, this difference in tax credit pricing equates to a $540,000 funding gap. In order to fill this gap, it would require additional tax credits, soft debt, or a deferral of developer fee.

Essentially, this lower price per credit makes it harder to create or preserve affordable rural housing and exacerbates housing affordability. Therefore, by focusing some of our investment capital in these areas, Freddie Mac will introduce more competition into the rural marketplace, which will improve LIHTC pricing. The higher the LIHTC pricing, the lower the need for a portion of the rent to pay for debt service; thus, increased LIHTC equity pricing makes properties more affordable.

Freddie Mac intends to make LIHTC equity investments in order to help meet the affordable rental housing needs of low-income families in all rural areas. Investing in LIHTC equity will bring many positive changes to the market including but not limited to the following:

- Stability by making long term and consistent investments regardless of market volatility.
- Liquidity particularly for investments that positively impact low-income renters in rural markets, as well as preservation deals and for any other investment type that may not receive consistent investment interest year after year.
- Affordability for investments that may not be as attractive to the largest investors such as preservation deals, Section 8 deals, and bond deals with high losses-to-LIHTC ratios.

While the high-needs rural regions need special and deliberate attention, affordable housing across all of rural America is hard to develop and preserve. Whether geographic areas are defined as high-needs, there are properties across the country that function specifically as a result of LIHTC equity. We believe it is our mission to support the needs of low- and moderate-income families across rural America. LIHTC equity is a key method of funding this mission.

We recognize in creating this LIHTC Equity Investment offering that the fundamentals described and established here are applicable across all LIHTC Equity Investments, with some specific terms tailored to the needs of these populations It will be important to make LIHTC investments that have sufficient geographic diversity to control for concentration risk, invest at a large enough scale to operate a viable and sustainable business that allows us to continually serve these markets, and do so in a safe and sound manner. We will be mindful to make these investments in markets and cases where there is not sufficient CRA-motivated investment already. Indeed, our role will be to support those parts of the market that are underserved by CRA-motived investment.

Freddie Mac will achieve this through a variety of actions that will allow for safe and sound investment. Building a LIHTC equity investment team will help to formalize the Freddie Mac infrastructure and ensure that each investment is well structured and underwritten. Engaging outside counsel will also allow Freddie Mac to establish a legal infrastructure leveraging the expertise of lawyers that are experienced in drafting partnership agreements.

For making investments, our strategy will be as follows

- Attend at least one conference focused on affordable rental rural housing to learn more about challenges and opportunities specific to this product type.
- Meet with at least two LIHTC developers to better understand their challenges and opportunities in this product type.
- Engage with at least three LIHTC syndicators and sign an investment agreement with at least one syndicator through which Freddie Mac will identify LIHTC investments in rural areas.

Baseline

We have not made any LIHTC investments in the last 10 years, so our baseline of investments is 0.

Target

The following targets are inclusive of transactions that will be completed in high -needs rural regions and for high-needs rural populations as described elsewhere in the Plan.

Year	2018	2019	2020
Total Rural Transactions	6	9	12

Challenges

There are several challenges that will be presented when making LIHTC investments in rural markets.

The primary *market challenges* are seen in a lack of investment and volatility of LIHTC allocation.

In the LIHTC market generally, there have also been significant disruptions in the price of credits.

As 2017 has progressed, we saw more and more examples of large scale LIHTC market disruption, two of which particularly highlight the impact:

1. On March 15, 2017, the California Tax Credit Allocation Committee (TCAC) passed a resolution allowing developers to exchange their 2016 nine percent LIHTC allocation for 2017 LIHTCs. Given delays in finding equity investors, developers found it impossible to close in time to complete construction by the end of 2018 (LIHTC deals must be “placed in service”- meaning 100 percent construction completion and receipt of the certificate of occupancy- by the end of the second year after receiving a LIHTC allocation).

2. In the Midwest, the Ohio Housing Finance Agency (OHFA) had to increase the allocation of LIHTC to deals awarded in 2016 because developers were not getting sufficient equity pricing to allow the deals to be economically feasible. Unfortunately, the additional credits had to come from the 2017 allocation, thus reducing the 2017 pool by approximately 12 percent.

Both examples illustrate how, without increased stability, fewer LIHTC assisted units are likely to be built, ultimately hurting low- income families across the country.

Properties in the rural regions have an additional challenge, as they are frequently not in CRA areas that typically attract multiple bids from financial institutions. Lack of investor interest lowers LIHTC pricing, which makes the credits less effective. Additionally, state Qualified Allocation Plans (QAPs) change annually and rural areas may not be as competitive year in and year out for the limited number of deals that receive a LIHTC allocation.

There is a meaningful difference between a LIHTC deal located in a rural county like Wetzel County, West Virginia, where there is not much CRA-motivated demand for investment and one in Charlotte, North Carolina. Based on current market information from the Community Affordable Housing Equity Corporation (CAHEC), a Raleigh, NC-based LIHTC syndicator with 25 years' experience and covering the Southeast, a deal in Wetzel County is expected to receive approximately 86 cents on the dollar while a deal in Charlotte would receive up to 95 cents on the dollar. In a hypothetical transaction with $10MM of debt and a need for $6MM of equity, this difference in tax credit pricing equates to a $540,000 funding gap, which would require additional tax credits, soft debt, or a deferral of developer fee (with payment from cash flow) to close. This gap financing is often more expensive than LIHTC equity.

There are also several underwriting challenges. Transactions in rural areas often require additional review and analysis. Deals in these areas are frequently in smaller markets, often with marketing and lease-up challenges compared to more urban/suburban properties.

Lastly, resource challenges will hinder our ability to make investments, at least in the early years. The first challenge is our need to develop expertise in these markets. Freddie Mac has not originated new LIHTC investments in close to 10 years. Therefore, we will develop expertise in-house or hire new talent to support this offering. Additionally, we will need to develop partnership agreements at both syndicator and individual deal levels. Freddie Mac has not entered a new partnership with a syndicator in close to 10 years and needs to hire expertise to understand the market for LIHTC investors.

Market Impacts

By initiating investments in the LIHTC market for rural locations, Freddie Mac will provide stability to the equity market specifically for investments that are directly impacted by the lack of investment due to investors' tax reform concerns and lack of CRA credit. This is as true for LIHTC properties in rural areas as it is for those in the even harder to serve high-needs rural regions and populations due to the volatility in allocation and lack of investors.

Building a LIHTC equity investment team will help to formalize the Freddie Mac infrastructure and ensure that each investment is well structured and underwritten. Engaging outside counsel also allows us to create a legal infrastructure leveraging the expertise of a lawyer that is experienced in drafting partnership agreements.

Our initial investments will not only provide a meaningful benefit to the people living in rural markets by providing them with safe, decent and affordable housing that is so hard to come by—we will also introduce competition into a segment of the market that lacks it, and often lacks investor interest at all. By doing so, we could potentially increase the price per credit, which could make the development of properties viable where they were not previously, or allow developers to create or preserve more units than they would otherwise.

These investments will also set an important precedent as we build out our market presence and lay the foundation for future investment by us and others.

[1] http://www.freddiemac.com/investors/er/pdf/2016er-4q16_release.pdf

[2] Ryan, Doug. "Restoring Neighborhoods Task Force National Housing Conference." November 2016. Presentation.

[3] 2004-2010 Survey of Consumer Finances. Surveys indicated households in manufactured homes had an average total net worth of $26,000 and a median annual income of $34,700, with more than 22 percent of residents at or below the federal poverty level. *See* Bureau of Consumer Fin. Prot., Manufactured-Housing Consumer Finance in the United States 10 (2014), *available at* http://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf. p17.

[4] *See* Bureau of Consumer Fin. Prot., Manufactured-Housing Consumer Finance in the United States 10 (2014), *available at* http://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf. In 112 counties located primarily in southeastern and southwestern states, manufactured housing accounts for over one third of the total housing stock. *Id.* at p. 5.

[5] Robin LaBaron, Fair Mortgage Collaborative, Real Homes, Real Value: Challenges, Issues and Recommendations Concerning Real Property Appraisals of Manufactured Homes 12 (2012), *available at* https://prosperitynow.org/files/resources/Appraising_Manufacture_Housing.pdf

[6] Ryan, *supra* note 2, slide 8.

[7] LeBaron, *supra* note 4 at p. 11.

[8] Chattel financing provided lower closing costs and faster settlement times, but provided fewer borrower protections and interest rates that could be 50-500 basis points higher. Bureau of Consumer Fin. Prot., *supra* note 3, at p. 6.

[9] U.S. Census Bureau, Cost & Size Comparisons: New Manufactured Homes and New Single-Family Site-Built Homes (2007-2015), available at https://www.census.gov/data/tables/2015/econ/mhs/2015-annual-data.html, (2007-2015).

[10] Datacomp/JLT estimates that there may be as many as 40,000 total communities, but those outside of their dataset are likely privately held, not marketed, not financed, and are outside the universe of properties requiring financing. Therefore, we assume that the current market of MHCs is no more than 37,897 communities, per data we have received directly from Datacomp/JLT.

[11] These 10 states are: Florida, California, Michigan, Texas, Arizona, Ohio, Pennsylvania, Indiana, New York, and Illinois.

[12] LeBaron, *supra* note 4, at p. 23.

[13] Virginia Center for Housing Research. "Mobile and Manufactured Homes In Central Appalachia and Alabama: Age, Condition and Need for Replacement." September 2016. Presentation.

[14] *See* Bureau of Consumer Fin. Prot., 2 note 74 at p37.

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

[16] Data is Freddie Mac purchases of owner occupied manufactured housing loans.

[17] Reflation & the Housing Market. Forecast for the decrease in loan origination volume is reflected in Freddie Mac's Economic and Housing Research Outlook, http://www.freddiemac.com/research/outlook/20170228_reflation_and_housing_market.html p. 9

[18] Prosperity Now, State Data Table for "2017 Prosperity Now Scorecard State Outcomes Resident Ownership, Titling and Zoning of Manufactured Homes (State Data Table)", *available at* http://scorecard.assetsandopportunity.org/latest/measure/resident-ownership-titling-and-zoning-of-manufactured-homes.

[19] The 11 states with the top tenant protections are Arizona, California, Colorado, Florida, Illinois, Michigan, Ohio, Oregon, Pennsylvania, Tennessee and Washington.

[20] Housing Assistance Council (HAC), Taking Stock-Rural People, Poverty and Housing in the 21st Century; http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p.2.

[21] Population growth is also below the national average, growing just 3.5 million (5.6%) from 2000 to 2010 according to the 2010 U.S. Census. The overall national growth rate from 2000-2010 grew at 9.7%. http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p.11&12.

[22] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 4.

[23] Manufactured homes are more frequently cited in rural areas and are more likely than stick built homes to be owned outright.

[24] HAC, www.ruralhome.org, Rural Research Note, (October 2014). http://www.ruralhome.org/storage/documents/publications/rrnotes/rrn-rural-mortgages.pdf p. 3

[25] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 36.

[26] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf HAC Tabulations of the American Community Survey 2005-2009 Five Year Estimates, p. 57, 67, 87, and 95.

[27] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p.68.

[28] Today, mineral extraction employs only three percent of the Middle Appalachian population. HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p.68 & 69.

[29] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p.71.

[30] West Virginia has the highest number and percentage of pre-1976 mobile homes in this area with approximately 36,000 units. According to the working paper, approximately 7,351 mobile and manufactured homes in the study area (Middle Appalachia and Alabama) had one or more items considered to be in substandard condition. Mel Jones, Ted Koebel, Andrew McCoy, Spencer Shanholtz and Julia Moeller; *Analysis by the Virginia Center for Housing Research (VCHR) at Virginia Tech; Mobile and Manufactured Homes in Central Appalachia and Alabama: Age, Condition and Need for Replacement (September 2016).* https://prosperitynow.org/files/resources/VCHR_Study_Final.pdf*, p. 15 & 23* .

[31] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 67.

[32] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 71.

[33] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 87.

[34] https://www.dallasfed.org/assets/documents/cd/pubs/lascolonias.pdf

[35] Significant progress has been made in providing the basic infrastructure needed in certain Texas colonias. According to the Federal Reserve Bank of Dallas, in 2006 there were 636 colonias labeled green for their access to water and sewer infrastructure, with another 286 additional communities added for their access by 2014. The green-labeled communities have drinkable water, adequate drainage, wastewater disposal, solid waste disposal, paved roads and legal plats. In 2006, 396 colonias were labeled yellow with access only to drinkable water, wastewater disposal and legal plats; however, by 2014, 555 colonias were classified as yellow. There were 442 colonias having none of the most basic infrastructure (labeled red) in 2006, but by 2014 this number had dropped to 337. *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015*) https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 4.

[36] *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015*) https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 2.

[37] *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015*) https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 2.

[38] *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015*) https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 3.

[39] *Federal Reserve Bank of Dallas; Las Colonias in the 21st Century – Progress along the Texas-Mexico Border; (April 2015*) https://www.dallasfed.org/~/media/documents/cd/pubs/lascolonias.pdf p. 7.

[40] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 94.

[41] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 96.

[42] Office of the Comptroller of the Currency, U.S. Department of Treasury – Community Developments Investments; *Housing Financing in Indian Country Spotlight on HUD's Title VI Program,* Barry Wides, Deputy Comptroller (September 2016). p. 3

[43] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 76

[44] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 79.

[45] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 83.

[46] This support is representative of multifamily activity in all rural areas; it is not limited to the rural Duty to Serve activities.

[47] https://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing

[48] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 3.

[49] Persistent Poverty and Rural Inequality: Where Does Rural Housing Fit in? http://www.ruralhome.org/storage/documents/training_materials/2016-conference/PersistentPoverty.pdf, (2016), p. 1.

[50] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 3.

[51] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 25.

[52] HAC, http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf p. 61.

[53] U.S. Department of Treasury, The Report of the Native American Lending Study, November 2001, https://www.cdfifund.gov/Documents/2001_nacta_lending_study.pdf p. 39.

[54] 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/

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

[56] 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.

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

[58] 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.

[59] 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 Persistent Poverty Counties. Should we learn of additional participants through our outreach, we will expand the scope of our outreach..

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

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

[62]http://nni.arizona.edu/application/files/6514/8642/4513/Accessing_Capital_and_Credit_in_Native_Communities__A_Data_Review.pdf

[63] https://www.huduser.gov/portal/sites/default/files/pdf/HNAIHousingNeeds.pdf.

[64] Office of Comptroller of the Currency – Community Developments Investments, (September 2016)

[65] Native Nations Institute, Access to Capital and Credit in Native Communities, https://nni.arizona.edu/application/files/8914/6386/8578/Accessing_Capital_and_Credit_in_Native_Communities.pdf (2016)

[66] Housing Needs of American Indians and Alaska Natives in Tribal Areas: A Report From the Assessment of American Indian, Alaska Native, and Native Hawaiian Housing Needs: Executive *available at* *https*://www.huduser.gov/portal/sites/default/files/pdf/HousingNeedsAmerIndians-ExecSumm.pdf.

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

[68] 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.

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

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

[71] https://www.census.gov/programs-surveys/acs/

[72] The Joint Center for Housing Studies, "The State of the Nation's Housing 2016," (2016): p10.

http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/ahr2013_05-affordability.pdf

[73] http://www.nhtinc.org/preservation_faq.php.

[74] *See*, supra n. 10.

[75] http://nlihc.org/sites/default/files/Gap-Report_2016.pdf.

[76] https://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/.

[77] A level of 100 represents the historical average for the three-year period from January 2013-December 2015. Source: https://www.redfin.com/blog/2017/01/the-redfin-housing-demand-index-reached-a-new-high-in-december.html

[78] The Joint Center for Housing Studies, "The State of the Nation's Housing 2016," (2016): p10.

[79] http://www.freddiemac.com/singlefamily/factsheets/sell/energy_efficient_properties.html

[80] http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bll1611.pdf

[81] Affordable Housing Finance, http://www.housingfinance.com/finance/lihtc-market-settles-down_o

[82] Affordable Housing Finance, http://www.housingfinance.com/finance/lihtc-market-settles-down_o

[83] http://uli.org/wp-content/uploads/ULI-Documents/Preserving-Multifamily-Workforce-and-Affordable-Housing.pdf.

[84] http://uli.org/wp-content/uploads/ULI-Documents/ULI_NAAHL_Presentation.pdf.

[85] https://energy.gov/public-services/homes/heating-cooling

[86] In 2013, the University of North Carolina published a study that presents a conclusion about improved performance of energy efficiency mortgages. a*vailable at* http://www.imt.org/uploads/resources/files/IMT_UNC_HomeEEMortgageRisksfinal.pdf. It also highlights the study's limitations with regard to the endogeneity issue that borrowers who own energy efficient homes may be more financially able than those who don't. The study identifies a specific market need for future studies: Panel data that track the borrower's income and market conditions, which was not available for the study researchers.

[87] Coalition for Green Capital, "Report: Green Bank Academy," (February 2014): p4.

[88] The lack of comprehensive and up-to-date data on affordable housing preservation presents a challenge to fully understanding this market. The National Housing Preservation Database (NHPD), which was assembled in a joint effort by the Public and Affordable Housing Research Corporation (PAHRC) and the National Low Income Housing Coalition (NLIHC), appears to contain the most complete and extensive data for this market segment, although there are ongoing efforts to improve this data. Private data providers have recently turned their attention to the affordable housing preservation market. REIS, Axiometrics, and Yardi Matrix have recently released initial versions of their affordable housing data services.

[89] The LIHTC market, our baseline, and our activities would be impacted by any changes to the tax code. We would need to reevaluate this activity based on any such changes.

[90] Affordable Housing Finance, http://www.housingfinance.com/finance/lihtc-market-settles-down_o

[91] Affordable Housing Finance, http://www.housingfinance.com/finance/lihtc-market-settles-down_o

[92] The NHPD includes more programs than outside sources which helps explain why there are more properties and assisted units in this database. When only focusing on programs found in other sources, our analysis of the NHPD shows there are 15,700 active project-based Section 8 subsidies with about 1.17 million units.

[93] Section 8 properties are impacted by the LIHTC market. As such, our baseline and our activities would be impacted by any changes to the tax code; therefore, we will need to reevaluate this activity based on any such changes.

[94] For information on all Freddie Mac Securitizations, see the following: http://www.freddiemac.com/multifamily/investors/

[95] http://www.housingfinance.com/finance/lihtc-market-settles-down_o

[96] http://www.housingfinance.com/finance/lihtc-market-settles-down_o

[97] https://www.gpo.gov/fdsys/pkg/FR-2017-08-23/pdf/2017-17857.pdf

[98] http://www.cbpp.org/research/housing/policy-basics-the-housing-choice-voucher-program

[99] https://www.hud.gov/sites/documents/RAD_NEWSLTR_WINTER2017.PDF

[100] The RAD program is impacted by the LIHTC market. As such, our baseline and our activities would be impacted by any changes to the tax code; therefore, we will need to reevaluate this activity based on any such changes.

[101] http://www.housingfinance.com/finance/lihtc-market-settles-down_o

[102] http://www.housingfinance.com/finance/lihtc-market-settles-down_o

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

[104] http://nlihc.org/article/hac-examines-maturing-mortgages-usda-s-section-515-rural-rental-housing-loan-program and

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

[105] 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.

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

[107] 2012 American Community Survey, (5-Year Estimates) Tenure by Units in Structure, 2008–2012, Data Element B25032; Institute for Housing Studies at DePaul University.

[108] *Markowski.* "*Surprise! Most Affordable Rentals Are in Small Buildings*", OCC's Community Developments Investments (May 2015) at https://www.occ.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/small-multifamily-rental-spring-2015/small-multifamily-rental-ezine-article-2-affordable.html.

[109] Office of the Comptroller of the Currency (OCC); *Concentrations of Credit Handbook*. December 2011 at https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/Concentration-HB-Final.pdf

[110] National Mortgage News; *"CRE Could Significantly Shape Bankers Strategies in 2017."* January 23, 2017 http://www.nationalmortgagenews.com/news/compliance-regulation/cre-could-significantly-shape-bankers-strategies-in-2017-1093508-1.html

[111] National Mortgage News; *"CRE Could Significantly Shape Bankers Strategies in 2017."* January 23, 2017 at http://www.nationalmortgagenews.com/news/compliance-regulation/cre-could-significantly-shape-bankers-strategies-in-2017-1093508-1.html.

[112] *Markowski.* "*Surprise! Most Affordable Rentals Are in Small Buildings*", OCC's Community Developments Investments (May 2015) at https://www.occ.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/small-multifamily-rental-spring-2015/small-multifamily-rental-ezine-article-2-affordable.html.

[113] 5-50 unit properties with institutions of an asset cap of $10 billion.

[114] As part of Green Advantage, borrowers must record their annual energy and water consumption information in EPA's portfolio manager tool.

[115] Walls, Margaret, Todd Gerarden, Karen Palmer and Xian Fang Bak. 2017. "Is energy efficiency capitalized into home prices? Evidence from three U.S. cities." *Journal of Environmental Economics and Management* 82: 104-24.

[116] http://www.jchs.harvard.edu/steady-gains-remodeling-activity-moving-2018

[117] Raj Chetty, Nathaniel Hendren, Patrick Kline, Emmanuel Saez, Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States, NBER Working Paper No. 19843 Issued in January 2014, available at http://www.nber.org/papers/w19843

[118] Margery Austin Turner and Lynette Rawlings, Promoting Neighborhood Diversity: Benefits, Barriers, Strategies. Issued August 2009.

[119] http://www.housingfinance.com/finance/lihtc-market-settles-down_o

[120] http://www.housingfinance.com/finance/lihtc-market-settles-down_o

[121] 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

We make home possible®

Freddie Mac makes home possible for millions of families and individuals by providing mortgage capital to lenders. Since our creation by Congress in 1970, we have made housing more accessible and affordable for homebuyers and renters in communities nationwide. We are building a better housing finance system for homebuyers, renters, lenders and taxpayers. Learn more at FreddieMac.com, Twitter @FreddieMac and Freddie Mac's blog FreddieMac.com/blog. Please send us feedback on our Duty to Serve draft plan through our dedicated web page at www.freddiemac.com/dutytoserve.