

# Doing More for Underserved Markets



Duty to Serve  
**YEAR ONE**

  
We make home possible®



**In 2018,** Freddie Mac took a wide variety of concrete, meaningful steps to take Duty to Serve from a concept to a workable and impactful part of our expanded mission.



## Duty to Serve **YEAR ONE**

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## Duty to Serve YEAR ONE

### Letter from the CEO

Since Congress chartered Freddie Mac in 1970, our mission has been to provide liquidity, stability and affordability to the U.S. housing market. In 2008, Congress strengthened that mission to include a specific focus on serving three markets identified as deserving of additional support by the two Government-Sponsored Enterprises. In enacting that “Duty to Serve,” policymakers challenged Freddie Mac to increase the availability of **manufactured housing**, a vital source of affordable housing. They called on us to increase responsible homeownership and affordable rental opportunities in **rural areas**. And, they challenged us to preserve and expand our nation’s precious stock of **affordable housing**.

Working with the Federal Housing Finance Agency (FHFA) under the Duty to Serve rule, we are responsibly increasing liquidity and improving the distribution of investment capital to serve very low-, low-, and moderate-income families. Over the past year, Freddie Mac took a wide variety of concrete, meaningful steps to take Duty to Serve from a concept to a workable and impactful part of our expanded mission. To that end, I am pleased to present our first annual report on our 2018 activities supporting our Duty to Serve Underserved Markets Plan.

In 2018, we increased liquidity and stability in the **manufactured housing** market in a variety of ways. For example, we purchased \$372 million in real property manufactured home loans, reflecting a 10 percent year-over-year increase in such funding. We introduced CHOICEHome, which enables lenders to use the same underwriting and collateral valuation flexibilities for certain factory-built homes titled as real property previously only allowed for site-built homes. We also launched our “MHROC” loan product, which provides funding for resident-owned manufactured housing co-op communities. Our first MHROC loan purchase was to refinance the World Marine Estates in American Canyon, California, where residents pay considerably less to live compared to the market; our financing will help to preserve that affordability long-term.

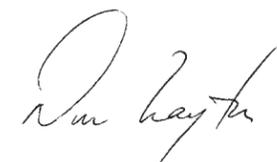
In the **rural housing** market, we purchased more than \$1.5 billion in single family loans in specifically-defined rural areas, including \$960 million in high-needs rural regions. We also successfully invested \$500 million in Low Income Housing Tax Credit Equity, with nearly 40 percent of the properties supported in Duty to Serve rural markets. Additionally, we expanded our sweat equity parameters so that borrowers, especially those in rural markets, have more options to responsibly achieve homeownership.

In addition, we created several new offerings that helped us to far exceed many of our purchase targets for **affordable housing** preservation. We deployed nearly \$7.7B in loan purchase and guarantee volume to support multifamily DTS affordable housing preservation,

exceeding all of our targets. Our new Targeted Affordable Housing Express program provides a streamlined process for the preservation of smaller, affordable rental properties, resulting in 1,100 units supported in 2018. We provided \$420 million in liquidity in support of DTS-qualifying small balance loans with small financial institutions. We also expanded our support for certain targeted home equity homeownership programs and began purchasing Community Land Trust mortgages to promote the preservation of affordable housing.

These are just a few of the highlights from our first year responsibly implementing our Duty to Serve plan, and we expect more great work in the years to come. Duty to Serve presents an opportunity—one that the people of Freddie Mac welcome—to partner with a broad cross-section of the mortgage industry in developing effective and sustainable solutions to the affordability challenges in some of the nation’s most underserved markets.

I am proud of our Freddie Mac employees and partners who are responsible for delivering the transformational housing solutions contained in this report.



Donald H. Layton  
Chief Executive Officer



## Executive Summary

One year into our Duty to Serve Plan, we've made tremendous progress with high-impact results in some of the most challenging underserved markets across America.

Our work under Duty to Serve builds on our comprehensive community mission, which includes our affordable housing goals and contributions to national affordable housing funds, and continues with our efforts to stabilize communities, prevent foreclosures, responsibly expand access to credit and educate consumers. Continuing to innovate and build a better housing finance system that reaches more people, communities and markets throughout the country is also central to our community mission.

Through our three-year Duty to Serve Plan, we're tackling our nation's most persistent housing challenges in three critically underserved markets: manufactured housing, rural housing and affordable housing preservation. Addressing these challenges will take years of concerted effort from a multitude of people and organizations.

In the first year of our Plan, we've woven Duty to Serve into the fabric of our community mission—it's integral to our everyday business. We dedicated staff and resources, stretching above and beyond many of our target goals. We're working alongside key community players across the country because we know that we cannot tackle these challenges alone. We developed new, innovative offerings to create and preserve more affordable housing. We conducted in-depth research and offered practical guidance that will continue to shape our work and help others in the industry reach deeper into these markets. And we have done all this while continuing to protect taxpayers. In fact, 95% of multifamily Duty to Serve



loans have already undergone risk transfer or have risk transfer pending, and we created offerings that help lower barriers to homeownership, without lowering our quality standards.

Securing a safe and affordable place to call home is essential for positive life outcomes, but is a steep challenge for millions of people, especially in the underserved markets highlighted through Duty to Serve. Freddie Mac commits every day to help make home possible for more people and to strengthen communities. Our 2018 Duty to Serve achievements laid a strong foundation to do even more for underserved markets and populations. We will continue to build on these early successes to make a positive difference across the nation in the years ahead.

## Duty to Serve YEAR ONE | Manufactured Housing Highlights

In 2018, we increased liquidity and stability to the manufactured housing market through strong loan purchase activity, comprehensive consumer education, broader investor understanding of the market and much-needed standardization. We established and cultivated relationships with key partners as we conducted research and developed our manufactured housing product offerings. These new product offerings are important steps in helping expand financing opportunities for borrowers who previously had very few options.

### Single-Family Highlights

**We are changing minds and increasing affordable homeownership opportunities with our CHOICEHome<sup>SM</sup> offering.**

- Factory-built homes have come a long way over the years in terms of quality, energy efficiency and style. However, traditional perceptions of poor quality and limited financing options have deterred many from considering today's modern factory-built home, which is an important affording housing option for many families. Our CHOICEHome offering aims to change these negative perceptions, improve financing options and the mortgage process, and educate prospective homebuyers about factory-built homes.



- A CHOICEHome looks a lot like a site-built home. It offers modern, innovative, high-quality features and construction: higher-pitch roof lines, a permanent foundation, drywall throughout, energy-efficient features and even a garage or carport.
- Financing a CHOICEHome is like financing a site-built home. Homebuyers may use almost any of our loan offerings, including construction conversion mortgages, Home Possible<sup>®</sup> and HomeOne<sup>SM</sup>.

**We have educated nearly 400 prospective homebuyers through our Next Step SmartMH<sup>SM</sup> partnership.**

- Our partnership with Next Step began in 2016 with the goal of broadening access to homebuyer education and housing counseling for people in Kentucky. Through our Duty to Serve efforts, we have expanded the program to North Carolina and Tennessee.
- Next Step's SmartMH network brings together lenders, retailers, manufacturers, housing counseling agencies and public stakeholders committed to increasing opportunities to own energy-efficient manufactured homes.
- Network lenders and manufactured housing retail sales centers engage with prospective manufactured homebuyers to connect them with a HUD-certified, not-for-profit housing counseling organization that provides access to homebuyer education on factory-built housing. These lenders then work directly with prospective homebuyers to get them pre-approved to purchase modern, energy-efficient manufactured homes and prepare them for successful homeownership.

### Multifamily Highlights

**We launched our first Manufactured Housing Resident Owned Community (MHROC) loan product to provide funding for resident-owned manufactured housing co-op communities.**

- Under this model, the residents are shareholders in a cooperative, not-for-profit corporation that owns the entire community. Each shareholder owns their own home and the ownership of the shares allows them to use one of the pad sites.
- These loans will help provide affordable housing options nationwide, especially in rural and non-metro areas, where MHROCs are a critical source of affordable housing.



- Through this offering, we purchased a \$5 million, fixed-rate 15-year loan to refinance the World Marine Estates in American Canyon, CA for its resident shareholders. Residents pay considerably less to live at World Marine Estates compared to other housing options in the area. In addition, because the community is organized as a cooperative, it is governed by a Board of Directors chosen by the residents, instead of a third-party owner/operator.

<sup>1</sup> Research can be found at <https://mf.freddie.com/research/insight/20181023-duty-to-serve-series.html>  
<sup>2</sup> 12 CFR 1282.33(c)(4)

# Manufactured Housing Highlights



**We published foundational research that details statewide tenant protections for households living in manufactured housing communities (MHCs).<sup>1</sup>**

- There are unique challenges inherent in the ownership and rental structure of MHCs, where tenants often own their home but rent the land on which the home is located. As a result, the Federal Housing Finance Agency identified eight recommended Duty to Serve (DTS) tenant protections.<sup>2</sup>
- Our research finds that states have taken varying approaches to addressing the hybrid rental/ownership structure in MHCs.
  - Not a single state has implemented the entire slate of DTS tenant protections.
  - One state has adopted more than 75 percent of the DTS tenant protections, with the bulk of states (37) having adopted 49 percent or less of the tenant protections.
  - Owner/Operators of MHCs view half of the DTS tenant protections as onerous or difficult to put into practice.
- We are looking for opportunities to work directly with MHC owners on the implementation of tenant protections, since they can voluntarily include them in their leases.

## Duty to Serve YEAR ONE | Rural Housing Highlights

We did a significant amount of work in 2018 to increase our understanding of the needs in rural markets. We identified and aligned ourselves with strategic partners working in these rural communities, which was particularly important to the development of our product offerings. Through these new offerings we have increased liquidity and affordable housing opportunities in high-needs rural regions, with specific emphasis on small financial institutions and small multifamily properties. We also made a considerable effort to invest in the financial education of prospective homebuyers and current homeowners in need of additional help.

# Rural Housing Highlights



## Single-Family Highlights

**We are helping prospective homebuyers and financially distressed homeowners with Home Possible® loans address their employment challenges through a partnership with NextJob.**

- NextJob works closely with Freddie Mac servicers and housing counseling partners — CDC in Texas; D&E in Mississippi; Fahe in Kentucky’s Appalachia region; and HOPE Enterprise Corporation in Mississippi — to identify and refer homeowners and prospective homebuyers to the program.
- NextJob also provides job-search assistance to aspiring homeowners who hope to increase their income to a level that will help qualify them for Freddie Mac affordable loan offerings.

**We expanded our sweat equity parameters to offer prospective homebuyers additional financing options to make buying a home more affordable.**

- Saving for a down payment can be a real challenge. To make it easier, borrowers may now apply their construction skills – “sweat equity” – in place of cash.
- Borrowers always had the option to use sweat equity toward their down payment, but still had to contribute five percent in personal funds. Now, sweat equity may be used for all down payment and/or closing costs.
- While this expanded sweat equity offering is broadly available in tandem with our Home Possible mortgage, we expect it to be particularly helpful for borrowers in rural markets.
- There is no limit on how much sweat equity a borrower may apply to their down payment and/or closing costs, as long as it is documented in the contract and appraisal. The borrower may use the value of the sweat equity to cover a down payment as low as three percent or complete a major renovation that would equal a significant down payment on the home purchase.

**With the help of Freddie Mac’s pre-purchase program with NextJob, Ta-Tisha worked with a personal coach to successfully land a full-time career opportunity at a local hospital.**

### Coaching Success

Ta-Tisha was referred to a personal coach at NextJob through a case manager at the Fairmont Housing Authority. At the time, Ta-Tisha was unemployed and looking for support in finding new employment.

Ta-Tisha began working right away with Norma, a personal coach at NextJob, on interview prep for a job at a local hospital. Ta-Tisha recounts that Norma did a great job at preparing her, citing newfound confidence and interview skills. Ta-Tisha was invited back immediately for a second interview, and shortly after was offered the job.

### Ta-Tisha’s Thanks

Upon receiving her offer of employment, Ta-Tisha wrote to Norma at NextJob: “Thank you so much for your time and assistance with everything! You are great at what you do.” She followed up by saying she was very thankful to Freddie Mac and to the Fairmont Housing Authority for the opportunity with NextJob.

### View Ta-Tisha’s video

<https://vimeo.com/322904704/4cf5a5e144>



## Multifamily Highlights

**In our first year reentering the Low Income Housing Tax Credit (LIHTC) equity market we closed on \$500 million in investments, with nearly 40 percent of the properties supported in Duty to Serve rural markets.**

- We created six investment funds in 2018 to provide highly targeted affordable housing to underserved communities across the country.



Breaking ground for 40 new units in Summit County, CO

- Our first investment fund with Enterprise Community Investment is helping to build 40 new units in rural Summit County, Colorado, for families who make between 30 and 60 percent of Area Median Income (AMI).
- A partnership with Hudson Housing Capital is investing \$18 million in LIHTC equity investment to build affordable housing in San Antonio for residents earning between 50 and 60 percent of AMI.
- With Boston Financial Investment Management, we closed on an equity investment in Russellville, Arkansas, to acquire and renovate a project-based Section 8 property. Improvements will be energy efficient and include a community room, fitness and business centers, a library and accessible units for residents with disabilities.

**We completed industry-leading research on the use of LIHTC in Middle Appalachia and Indian Areas.<sup>3</sup>**

- We published two research papers to fill gaps in knowledge on the use of LIHTC in rural Middle Appalachia and in Indian Areas, and show the critical role that LIHTC plays in these markets.
- These papers highlight widespread and persistent challenges of providing affordable housing in both markets, with above-average levels of poverty, substandard housing, and inadequate infrastructure. LIHTC supports a relatively high percentage of multifamily rental housing in these markets due to the limited viability of market-rate rental housing and a large need for housing for lower income households.
- In Middle Appalachia, LIHTC developments commonly rely on multiple subsidies, including Section 8, HOME, Sections 515 and 538 Housing Service programs, and state housing authority initiatives.
- In Indian Areas, the poverty rate and unemployment rate are more than double the national average, and household incomes are 31 percent lower than the national average. LIHTC development is challenged by low population density, subpar or incomplete infrastructure, high poverty rates and low incomes, as well as limited allocations of tax credits.

<sup>3</sup> Papers can be found at <https://mf.freddie.com/research/insight/20181023-duty-to-serve-series.html>

## Duty to Serve YEAR ONE | Affordable Housing Preservation Highlights

In 2018, we developed several new and innovative product offerings that helped us to far exceed many of our purchase targets for the affordable housing preservation market. These offerings are already contributing to the preservation needs of communities across the country at all income levels, including extremely low-income populations. We also conducted important foundational research in a variety of areas to enrich the understanding of preservation needs in America.

### Single-Family Highlights

**We expanded our support for shared equity homeownership programs and began purchasing Community Land Trust (CLT) mortgages to promote the preservation of affordable housing nationwide.**

- In an era of tight housing inventory and rising home prices, shared equity homeownership offers prospective buyers a path to homeownership and lenders an opportunity to support underserved communities.
- Our offering simplifies lender requirements for evaluating CLTs and for obtaining and using the property valuation of a property held in a CLT. These enhancements, among others, give lenders more confidence to participate in this market.
- CLT mortgages improve communications between the servicer and the CLT, giving the CLT more time and opportunity to help prevent foreclosure if a homeowner defaults on the mortgage. That's one important way to preserve affordability over time and keep affordable homes in the CLT's inventory.
- We partnered with national, state and local community organizations, including Grounded Solutions Network, City First Enterprises and the Florida Housing Coalition, to help ensure that our offering addresses market challenges and can advance the preservation of affordable housing through shared equity homeownership.

**We expanded our support for financing energy-efficient improvements that reduce utility costs with GreenCHOICE Mortgages<sup>SM</sup>.**

- GreenCHOICE Mortgages build on the options that we always offered borrowers for financing improvements that make their homes more energy and water efficient. By spending less on utilities, borrowers might be able to absorb a somewhat higher monthly mortgage payment, put money aside for home maintenance, pay other expenses or save for the future.
- The goal of this offering is to make it easier and more cost-effective to install features (such as programmable thermostats, replacement doors and windows, solar water heaters, a replacement heating/cooling system for high efficiency) that boost home affordability. To make upgrades more affordable, an energy report only needs to be done if the total project cost exceeds \$6,500.
- GreenCHOICE Mortgages may be used with most of our eligible fixed- and adjustable-rate mortgages.<sup>4</sup> The lender receives a \$500 credit to credit fees in price.
- Research that we are conducting into the impact of energy-efficient improvements on property values will deliver brand-new insights that could lead to a more consistent approach to appraising energy-efficient features and heighten interest in financing upgrades among borrowers and lenders.

<sup>4</sup> GreenCHOICE Mortgages cannot be combined with seller converted mortgages or construction and renovation conversion mortgages.

# Affordable Housing Preservation Highlights



### Multifamily Highlights

**We launched Targeted Affordable Housing Express (TAH Express) to provide faster, simpler, and less expensive financing for the preservation of smaller, affordable rental properties.**

- TAH Express is designed to provide borrowers with more predictability as well as lower transaction costs by making the prescreening process quicker, simplifying the legal documents needed, and standardizing the underwriting process. We also provide a flexible prepayment option for these smaller loans.
- TAH Express is available for properties with a loan amount of \$10 million or less and must also have at least one of the following characteristics: tax abatement, Section 8 Vouchers or a housing assistance payments contract, low-income housing tax credit properties in at least year 11 of compliance period or a regulatory agreement that imposes rent or income restrictions.
- We funded 12 TAH Express loans in 2018 for a total of \$50 million in investment supporting 1,100 units, and have a growing pipeline of TAH Express business entering 2019.



**We conducted industry-leading research on affordable housing demographics in high opportunity areas, and on the role of mixed-income housing in areas of concentrated poverty (ACP).<sup>5</sup>**

- Our research paper on affordable housing in high opportunity areas uncovered that these communities account for just 7.5 percent of the nation's land but are home to over 56 million people (18 percent of the population).
  - There is a drastic shortage of affordable housing units in these neighborhoods, with just seven percent of the nation's nearly 75,000 subsidized affordable housing properties located in these areas.
  - Affordable housing shortfalls in these communities are driven by challenges with zoning requirements, local resistance, high costs, and a lack of buildable land.
- Our research paper on the role of mixed-income housing in ACPs highlighted that 19 percent of the nation's population lives in an ACP and that nearly a third of the population within ACPs lives in poverty.
  - In these communities, renting is common and subsidized housing makes up a disproportionately large share of renter households.
  - We tracked the use of mixed-income development from the 1960s to today and find that although economic integration can improve schools and employment opportunities, there is also an increased risk of resident displacement.

<sup>5</sup> These papers can be found at <https://mf.freddie.com/research/insight/20181023-duty-to-serve-series.html>

Duty to Serve  
**YEAR ONE**

# Single-Family 2018 At-a-Glance

**We're tackling our nation's most persistent housing challenges** in three critically underserved markets: manufactured housing, rural housing and affordable housing preservation.



## Manufactured Housing

- Purchased \$372 million in loans, reflecting a 10% year-over-year rise in funding for home purchases
- Introduced flexibilities to make the mortgage process for a CHOICEHome<sup>SM</sup>, a new generation of high-quality factory-built home, more like the one for a site-built home
- Enabled homebuyers to save time and money with a single, streamlined closing process for financing the construction, purchase, and installation of a manufactured home titled as real property
- Expanded the Next Step SmartMH<sup>SM</sup> homebuyer education and counseling program to two additional states
- Conducted in-depth research and extensive outreach to prepare for entering the chattel mortgage market

## Rural Housing

- Purchased more than \$1.5 billion in loans in rural areas, including \$960 million in high-needs rural regions
- Expanded homebuyer education and resources for members of federally recognized Native-American tribes through new strategic alliances
- Lowered barriers to homeownership by allowing “sweat equity” to cover down payment and closing costs on Home Possible<sup>®</sup> mortgages
- Joined forces with NextJob, a national re-employment solutions company, to offer a program designed to help financially distressed, eligible borrowers address their employment challenges

## Affordable Housing Preservation

- Launched GreenCHOICE Mortgages<sup>SM</sup> to make it easier to finance energy-efficient improvements when buying or refinancing a home
- Developed an offering to help Community Land Trusts preserve homeownership affordability
- Created an initiative to improve property appraisals for homes with energy-efficient features
- Performed research into the value of energy-efficient features on property values, filling a gap in market data
- Produced research and industry thought leadership on shared equity homeownership frameworks

# Single-Family



Duty to Serve  
**YEAR ONE**

# Multifamily 2018 At-a-Glance

## Securing a safe and affordable place to call home is

essential for positive life outcomes, but is a steep challenge for millions of people, especially in the underserved markets highlighted through Duty to Serve.



## Manufactured Housing

- Introduced a Manufactured Housing Resident Owned Communities (MHROC) offering to support refinances or conversions of MHROCs
- Published foundational research on tenant protections in manufactured housing communities

## Rural Housing

- Fully utilized our Low Income Housing Tax Credit Equity cap to fund \$500 million in investment, with nearly 40 percent supported in DTS rural markets
- Published industry-leading research on the use of Low Income Housing Tax Credits in Middle Appalachia and Indian Areas
- Conducted industry-leading research on the evolution of the Single Family Rental (SFR) market and the role of SFRs in rural communities

## Affordable Housing Preservation

- Deployed nearly \$7.7B in loan purchase and guarantee volume to support multifamily DTS affordable housing preservation, exceeding all of our targets
  - Funded approximately 40,000 Low Income Housing Tax Credit units across 284 properties
  - Funded approximately 22,000 Section 8 units across 174 properties
  - Helped to preserve over 1,150 federally subsidized low-income units across 11 properties under the U.S. Department of Housing & Urban Development's Rental Assistance Demonstration
  - Funded over 3,350 affordable housing units in high opportunity areas across 25 properties
  - Provided approximately \$420 million of liquidity for DTS-qualifying small balance loans with small financial institutions
  - Created Targeted Affordable Housing Express to make small cash preservation deals easier; funded 12 loans at \$50 million total, supporting 1,100 units in 2018
  - Created Mezzanine Loans, a voluntary offering to help borrowers keep rents affordable for low-income families
- Conducted industry-leading research on 1) mixed-income housing in areas of concentrated poverty, 2) affordable housing in high opportunity areas, 3) opportunity incentives in states' qualified allocation plans, and 4) green improvements in workforce housing
- Conducted research on our existing Green Advantage loan portfolio of 367,000 units across 1,300 properties to provide insights into cost-effective green practices that benefit tenants



# Multifamily



## Duty to Serve **YEAR TWO**

These are just a few highlights of what's to come in 2019

**Our 2018 Duty to Serve achievements laid a strong foundation** to do even more for underserved markets and populations. We will continue to build on these early successes to make a positive difference across the nation in years ahead.



### Single-Family Highlights

#### **Manufactured Housing:**

Initiate a chattel pilot program to support chattel loan purchases

#### **Rural Housing:**

Design improved product flexibilities to facilitate the origination of renovation mortgages

#### **Affordable Housing Preservation:**

Design improved product flexibilities to facilitate the origination of renovation mortgages

### Multifamily Highlights

#### **Rural Housing:**

Increase our LIHTC equity market goals in rural markets in order to meet critical affordable housing needs, as well as conduct new research on the use of and opportunity for LIHTC in support of the Lower Mississippi Delta

#### **Manufactured Housing:**

Develop incentives for manufactured housing community borrowers that implements the Duty to Serve tenant protections identified by FHFA

#### **Affordable Housing Preservation:**

Increase our support for small financial institutions as well as conduct further research to inform the market and attract much-needed capital for preservation

# Duty to Serve **YEAR ONE**

For more information visit  
[FreddieMac.com/about/duty-to-serve/](http://FreddieMac.com/about/duty-to-serve/)

  
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