



FREDDIE MAC

Equitable Housing Finance Plan

Our Commitment to **Making Home Possible** Equitably

June 2022

**Freddie Mac**
We make home possible®



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Implementation of the activities and objectives in Freddie Mac’s Equitable Housing Finance Plan may be subject to change based on factors including FHFA review for compliance with Freddie Mac’s statutory charter, specific FHFA approval requirements and safety and soundness standards, FHFA guidance and directives, regulatory requirements, Senior Preferred Stock Purchase Agreement obligations, and adverse market or economic conditions, as applicable.



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Introduction

Too often, many communities of color, specifically Black and Latino communities, face difficulty accessing a quality, affordable place to call home that enables intergenerational wealth and mobility. Decades of discriminatory housing policies and practices directed at Black and Latino families effectively isolated and prevented them from renting or owning an affordable home in the neighborhood of their choice or accumulating wealth through homeownership. The cumulative effect of these historical practices has impacted equity in housing, creating gaps in homeownership, wealth and opportunity that persist today.

Freddie Mac was chartered by Congress in 1970 to provide liquidity, stability and affordability to all corners of the U.S. housing market. For more than 50 years, we have been working continuously to fulfill our mission of making home possible for millions of renters and homeowners across the nation. However, there is more work to be done. Today, we extend our commitment of serving homebuyers and renters across all markets and dimensions, including, but not limited to, race, ethnicity, sexual orientation and accessibility, to focus specifically on furthering equity in housing.

We recognize this is a challenge too big to be addressed lightly. We must act both directly to address unique challenges and broadly to remediate systemic issues in the housing market. We are focused on improving access to credit, housing choice, economic mobility, financial empowerment and assistance from trusted housing professionals. We will undertake actions that tackle the housing supply challenge, expand credit responsibly and promote sustainable housing opportunities in a safe and sound manner.

This Equitable Housing Finance Plan underscores Freddie Mac's commitment to work across the industry and with FHFA to create opportunities for all families to access quality and affordable housing and to set new standards that bring more individuals closer to their American Dream.

“Freddie Mac’s Equitable Housing Finance Plan looks closely at current housing environment and puts forth meaningful and challenging solutions that advance equitable and sustainable ownership and rental opportunities for all. It is part of Freddie Mac’s effort to serve our mission expansively by increasing access, expanding credit responsibly and bringing greater access to the American Dream.”



– Michael J. DeVito, CEO



SECTION 2

Barriers to Equitable Housing

› Freddie Mac studied the long history of racial housing discrimination and examined its effects that persist today. We scrutinized internal research, industry feedback and deep external ethnographic analysis to understand the unique experiences of Black and Latino communities as they relate to housing.

Additionally, we reviewed comments submitted in response to FHFA's Equitable Housing Finance Plan Request for Information (RFI) regarding the state of equitable housing in the market, and we incorporated this input into our approach and the specific activities included in the plan.

The following sections detail the foundation and persistence of housing inequity and the five most common systemic barriers present in today's market.



2.1: The Foundation of Inequity in Housing

The history of housing in the United States is one of wealth and opportunity — and inequity and exclusion. From the start of the modern American housing market in the early 20th century, homeownership and wealth-building were granted overwhelmingly and intentionally to white households. The adoption of discriminatory practices was apparent in the public domain (i.e., federal/local laws and practices) and in the private sector, including the mortgage industry.

Five high-profile examples demonstrate the scope and impact still felt today:



Redlining



Deed Restrictions and Restrictive Covenants



Discrimination in Access to Housing Subsidies



Exclusionary Zoning



Urban Renewal





Redlining – Redlining as a matter of federal policy (as opposed to solely a pernicious practice) started and was codified in the Federal Housing Administration lending policies and the Homeowner’s Loan Corporation (HOLC) residential security maps, which prevented the provision of government-backed financing in many neighborhoods with minority residents.¹ Generations of minority households could not purchase homes or move to emerging suburban neighborhoods. Public-sponsored practices at all levels (federal, state and local) and private market discriminatory practices in mortgage lending reinforced and continued to exacerbate the disparities and cut off access to wealth building, economic mobility and social mobility for future generations.

Deed Restrictions and Restrictive Covenants – Redlining practices and housing segregation were often cemented through deed restrictions and restrictive covenants on properties themselves.² This practice prevented the sale of homes to minority buyers. Homeowners’ associations and other local groups enforced these restrictions and the status quo of segregated neighborhoods.³

Discrimination in Access to Housing Subsidies – A long history of discrimination in access to housing subsidies exists in the United States, beginning in redlined neighborhoods and extending into the Servicemen’s Readjustment Act of 1944 (G.I. Bill). The Veterans Administration, established under the G.I. Bill, adopted the Federal Housing Administration’s (FHA’s) racial exclusion programs when insuring mortgages for returning veterans.⁴ For example, large developments in prominent areas such as Levittown, NY and San Francisco, CA were financed by the Veterans Administration and upheld the same racial restrictions. While the G.I. Bill itself did not include exclusionary language, the underwriting manual of the FHA included language stating that “incompatible racial groups should not be permitted to live in the same communities” and prevented loans to Black veterans from being insured.⁵

1 <https://www.nber.org/papers/w29244>

2 “Racially restrictive covenants were meant to keep [non-white] individuals out of neighbourhoods by blocking them from purchasing or occupying a home.”
Gaucher, Hayley. “Book Note: Saving the Neighborhood: Racially Restrictive Covenants, Law, And Social Norms, by Richard RW Brooks and Carol M Rose.”
Osgoode Hall Law Journal 51.2 (2014): 717-719

3 Id.

4 <https://www.history.com/news/gi-bill-black-wwii-veterans-benefits>

5 <https://www.npr.org/transcripts/526655831>



Zoning – Zoning ordinances were used to prevent racial and ethnic minorities from moving into certain neighborhoods, whether through minimum lot size and square footage requirements or limits on building heights.⁶ Housing segregation was extended to property types. Multifamily rental properties and manufactured housing were often prohibited in predominantly white communities. Apartments were described as “a parasite” that would lead to the ultimate destruction of neighborhoods by the landmark 1926 Supreme Court case *Village of Euclid v. Ambler Realty*⁷ which enabled the locality to establish and enforce zoning ordinances. While much has changed since 1926, the persistent use of zoning to maintain development patterns often results in perpetuation of existing economic and de facto racial segregation.

Urban Renewal – Urban renewal and highway development increased segregation. As public works projects were developed, it was common practice to displace minority residents, build through minority communities and disconnect communities from social and economic opportunities. Often, displacement was coupled with the construction of high-density “towers in the park” public housing that further disconnected minority residents. Underfunding of urban renewal programs over time led to a deterioration of the properties and the living experience.

Laws, policies and practices such as these created nearly insurmountable hurdles to an equitable housing market. Although many of the last century’s discriminatory practices and standards have been formally repealed or declared illegal or unconstitutional, they persist in new and subtle ways.



⁶ <https://pubs.aeaweb.org/doi/pdfplus/10.1257/app.20140430>
⁷ *Village of Euclid, Ohio v. Ambler Realty Co.*, 272 U.S. 365 (1926)



2.2: The Persistence of Inequity

The persistent effects of inequitable housing policies and practices can be seen throughout the housing experience — from homeownership rates and credit gaps to geographic underinvestment and exposure to climate risk.

Homeownership Gap – As of the first quarter of 2022, the Black homeownership rate (44.7 percent) and Latino rate (49.1 percent) were below the non-Latino white rate (74 percent).⁸ These homeownership gaps are significant and underscore the need for us all to do better.

Segregation – The level of residential segregation has not changed materially over the last hundred years. Additionally, exclusionary zoning disproportionately and negatively impacts communities of color.⁹

8 <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>

9 <https://tcf.org/content/facts/understanding-exclusionary-zoning-impact-concentrated-poverty/?agreed=1&session=1>



Wealth & Income Inequality – Generations of segregation and disparities in economic and social mobility resulted in deep wealth gaps, impeding equitable access to sustainable housing. The average white family has accumulated seven times the wealth of the average Black family and five times that of the average Latino family.¹⁰ As a result, Black and Latino borrowers are less likely to receive assistance or inheritance from their family for home purchase down payments.¹¹ This wealth gap is tied to the homeownership gap, as renters generally have less net worth than homeowners. In 2019, homeowners had 40 times the net worth of renters.¹² Income inequality persists as well. The 2019 Black median household income was \$43,862 and the Latino median income was \$55,658, as compared to white median income of \$71,644.¹³ Further, more than half of Black and Latino renters were cost-burdened just prior to the COVID-19 pandemic and are now at increased risk of missing rental payments and/or facing eviction.¹⁴

Credit Building Inequity – Disparities in credit scores and the ability to obtain credit negatively influence housing access. High credit scores positively affect borrowing power and the cost of financing, yet Black and Latino residents are more likely to be unbanked,¹⁵ have lower average credit scores and face barriers to credit building.

10 <https://apps.urban.org/features/wealth-inequality-charts/>

11 https://www.urban.org/sites/default/files/publication/104134/an-essential-role-for-down-payment-assistance-in-closing-americas-racial-homeownership-and-wealth-gaps_0.pdf

12 <https://www.federalreserve.gov/publications/files/scf20.pdf>

13 https://www.urban.org/research/publication/closing-gaps-building-black-wealth-through-homeownership/view/full_report
Source: Urban Institute calculations from the 1962 Survey of Financial Characteristics of Consumers (December 31), the 1963 Survey of Changes in Family Finances and the 1983–2019 Surveys of Consumer Finances

14 <https://www.jchs.harvard.edu/blog/black-and-Latino-renters-face-greatest-threat- eviction-pandemic>

15 <https://www.fdic.gov/analysis/household-survey/2019report.pdf>



Discrimination – Black and Latino Americans are more likely to report experiencing discrimination when renting or buying a home. Per a Freddie Mac survey completed in 2020, 42 percent of Black Americans and 29 percent of Latino Americans have felt discriminated against when renting or buying a home, compared to 11 percent of white Americans. When looking to the future, 44 percent of Black renters and 39 percent of Latino renters expect to feel discriminated against the next time they rent, compared to 16 percent of white renters. Black and Latino homebuyers are more likely to feel discriminated against when buying a home: 51 percent of Black homebuyers and 42 percent of Latino homebuyers versus 18 percent of white homebuyers.

Undervaluation & Underinvestment – Redlining and segregated housing coincided with undervaluation and underinvestment in Black and Latino communities — affecting both residents and properties. Access to credit is often tied to geography, and predominantly Black and Latino communities often find themselves in credit deserts, making them less likely to benefit from credit-building opportunities.¹⁶ Today, we continue to see the effects of redlining and systemic underinvestment in historically redlined communities. Freddie Mac research finds that communities of color are more likely to receive home appraisal values below contract price.^{17 18}

Climate Risk Inequity – Black and Latino households are disproportionately subject to climate and environmental risks and hazards. When analyzing flood risk in 38 major metropolitan areas, 8.4 percent of homes in formerly redlined areas face high flood risk compared to 6.9 percent of homes that were deemed desirable in historical redlining maps.¹⁹ The net effect of this was apparent after Hurricane Katrina. Four of the seven zip codes that faced the costliest flood damage from Hurricane Katrina were at least 75 percent Black.²⁰



16 <https://www.consumerfinance.gov/about-us/blog/new-research-report-geography-credit-invisibility/>

17 https://www.freddiemac.com/research/insight/20210920_home_appraisals.page?

18 <https://www.redfin.com/news/redlining-flood-risk/>

19 <https://www.freddiemac.com/research/insight/20220510-racial-ethnic-valuation-gaps-home-purchase-appraisals-modeling-approach>

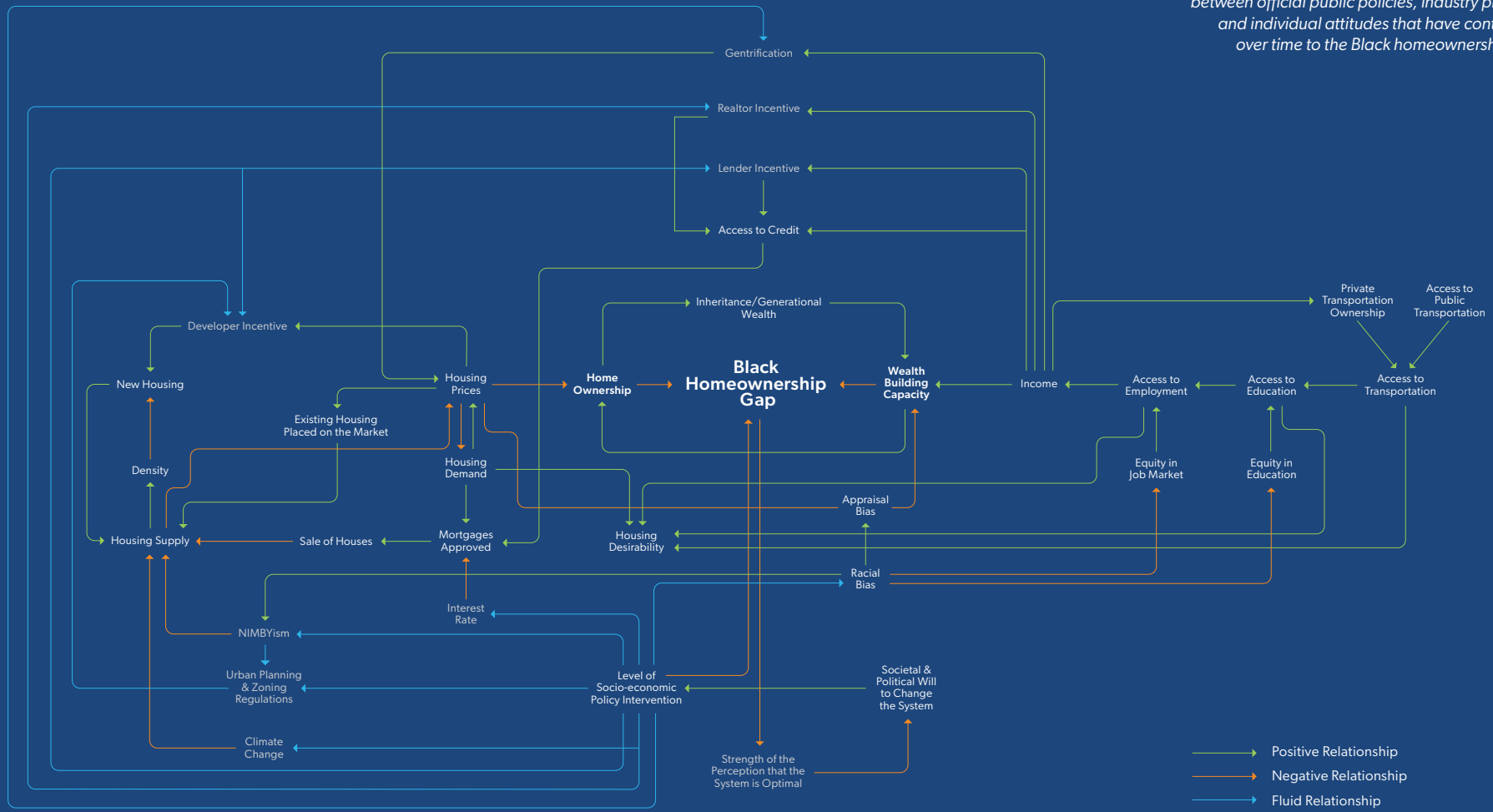
20 <https://www.scientificamerican.com/article/flooding-disproportionately-harms-black-neighborhoods/>

2.3: Systemic Barriers

Considerable historical data is available on the topic of housing inequity among renters and homebuyers in Black and Latino communities. As shown in the image below, this is a complex ecosystem. To fully understand its depth and to develop a robust plan to improve equitable housing, Freddie Mac believed the subject warranted listening personally to first-hand accounts — the contemporary voices behind the data.

Contributors to the Black Homeownership Gap

This graphic represents the intricate relationship between official public policies, industry practices and individual attitudes that have contributed over time to the Black homeownership gap.





Five Barriers to Equitable Housing

From August 2021 through October 2021, Freddie Mac led an extensive research project combining human-centered ethnography with quantitative surveys at scale, as well as subject-matter-expert interviews to build a deeper understanding of the equitable housing challenge.

The results of this project revealed that racial disparities in the housing market are driven by five barriers to equitable housing.

Members of Black and Latino communities have disproportionately experienced one or more of the following five barriers:

Click on each header to go to that section.

1 Individual Bias and Discrimination

Examples: Appraisal Bias | Tenant Screening Discrimination | Discriminatory Evictions | NIMBYism | Realtor Steering

2 Institutional/Policy Bias and Discrimination

Examples: Credit Assessment Methods | Land Use and Exclusionary Zoning | Equality-focused Policy | Profit-maximizing Incentive Structures

3 Economic Disadvantage

Examples: Generational Wealth Gap | Asymmetric Resilience | Access to Education and Employment

4 Limited Supply and Quality of Housing

Examples of Supply Gaps: Size of Affordable Housing Gap | Decline in Construction of Affordable Units | Median House Price Growth (vs. Income) | Vulnerable Groups

Examples of Root Causes and Friction Points: Impacting Housing Supply and Quality | Cost of Land | Zoning & Permitting | Cost of Construction Materials | Labor Shortage | Economics of Affordable Housing Project | Pockets of Financial Illiquidity | Quality and Lack of Services

5 Negative Buyer/Renter Sentiment

Examples: Lack of Trust in Financial Institutions | Homebuyer Confidence | Pervasive Fear



Barrier 1 – Individual Bias and Discrimination

Key Insights

- Freddie Mac ethnographic research finds that Black and Latino communities report experiencing microaggressions that erode trust across the homeownership and rental journey. These issues are not only systemic, but also personal. They affect the emotional readiness and willingness to continue (or even initiate) the homebuying process.
- Black and Latino buyers report navigating a general feeling of knowing where they are welcome and where they are not. For some it's a non-issue, but for many it is a factor that further limits desirable inventory.



Research Findings

Freddie Mac is focused and very intentional in its approach to eliminate disparities in homeownership. We conducted two studies to determine whether minorities are more likely to receive an appraisal value that is lower than the contract price during purchase transactions (referenced as “Appraisal Gap”).^{21,22} Our studies found:

- Appraisers’ opinions of home value are more likely to fall below the contract price in Black and Latino census tracts, and the extent of the gap increases as the percentage of Black or Latino people in the tract increases.
- Black and Latino applicants receive lower appraisal values than the contract price more often than white applicants.
- Properties in Black and Latino tracts receive appraisal values lower than the contract price more often than those in white tracts. As the concentration of Black or Latino individuals in a census tract increases, the appraisal gap increases.
- Our modeling results show that after controlling for a list of appropriate factors:
 - Properties in Black and Latino tracts receive appraisal values lower than the contract price more often than those in white tracts.
 - The likelihood for properties in Black tracts and Latino tracts to receive “appraisal value lower than contract price” increases as the Black or Latino concentration increases in the tracts.
 - When “appraisal value lower than contract price” takes place, houses in Black tracts are appraised slightly lower relative to comparable homes in White tracts in terms of the percent difference between the appraisal value and the contract price.

Freddie Mac continues to be a proactive industry player in seeking to analyze and better understand factors contributing to the results found in these appraisal reports. We remain fully committed to testing and learning with the goal of achieving more consistent valuation outcomes across all communities, including reliance on automated valuation-based solutions.

²¹ http://www.freddiemac.com/research/insight/20210920_home_appraisals.page?

²² <https://www.freddiemac.com/research/insight/20220510-racial-ethnic-valuation-gaps-home-purchase-appraisals-modeling-approach>



Barrier 2 – Institutional / Policy Bias and Discrimination

Key Insights

- Continued reliance on FICO® scores across industries disfavors Black and Latino households whose credit scores are often lower. This is due in part to their largest continual payment — rent — not being reported to credit bureaus.
- Land use and exclusionary zoning raise the cost of land and limit accessibility of higher-opportunity neighborhoods for lower-income families.
- State and local jurisdictions too often establish a low standard for tenant rights or allow landlords to deny tenants’ applications based on their source of income.
- Ecosystem actors are hesitant to build and launch equity-driven programs that provide affirmative support to minorities due to a lack of clear guidance regarding how those activities would be interpreted considering anti-discrimination aspects of The Fair Housing Act and Equal Credit Opportunity Act (ECOA).²³
- Lenders and real estate agents have the greatest impact on homebuyers’ experience, and ideally would have commensurate incentive to deliver equitable service. For example, to expedite the home selection process, agents may steer minority homebuyers, thereby reducing their housing choice and their trust in the process.



²³ <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm>



Barrier 3 – Economic Disadvantage

Key Insights

- The gap in generational wealth between minorities and non-minorities is a key economic disadvantage that perpetuates the homeownership gap. Programs that focus solely on equal opportunity are unlikely to succeed in closing racial homeownership gaps.
- Black and Latino families on average have less in emergency savings and are less likely to have a friend or family member who can offer financial help.²⁴
- Asymmetric resilience — when system shocks, like natural disasters, public health emergencies and economic downturns occur, marginalized communities are prone to experiencing compounded negative impacts as it relates to financial health and secure housing and may face a limited range of quality home buying options or challenges in retaining homeownership.
- Minority homebuyers often lack the same level of access to information and/or social networks about navigating the homebuying journey as most white homebuyers and may make detrimental buying and/or financing decisions as a result.

²⁴ <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm>



Barrier 4 – Limited Supply and Quality of Housing

Key Insights

- Housing supply remains a core economic barrier. The overall supply and demand gap for housing units in the U.S. has been growing at a rate of ~600,000 units per year (or ~7 Million total) and ~325,000 units per year for affordable housing units (~3.5 Million) since 2010.²⁵
- Construction of affordable housing units has declined — construction of entry level homes declined by 5 percent and of rental affordable homes by 7 percent since 2010. At the same time, the number of low- to-moderate income (LMI) households increased, especially non-white households increased by 112 percent.²⁶
- Existing stock has become out of reach for LMI households as housing costs significantly outgrew incomes. Median house prices have grown 4 times faster than median household incomes since 1970 and median monthly rents have grown 2 times faster than the incomes of the lowest quintiles during the same period.²⁷
- As a result, 1 in every 3 U.S. households continues to be cost burdened with limited disposable income to spend on other basic needs. The housing affordability crisis is a nationwide phenomenon, not just a coastal problem, as home prices continue appreciating and affordable rentals decrease across most states.²⁸
- Three groups have been disproportionately affected by the affordability crisis: Black/Latino households, families with children and people with disabilities.
 - Black and Latino renters remain ~10 percent more cost-burdened than white renters and Black/Latino households are ~25-30 percent less likely than white households to own their home. The gap impacts the ability of Black and Latino households to create generational wealth. Black households have 3 times less median household wealth than white households.²⁹
 - Among homeowners, households with children are ~2.4 times more likely to defer mortgage payment and among renters, households with children are ~2 times more likely to defer rent payment.³⁰
 - Likewise, people with disabilities are disproportionately affected, earning 40 percent lower median income with insufficient accessibility to housing. Two percent of total housing inventory is accessible for people with mobility disabilities, while 14 percent of Americans have mobility disabilities.³¹



25 U.S. Census Bureau; Joint Center for Housing Studies of Harvard University, National Association of Realtors, Pew Research Center, Yardi Matrix
26 U.S. Census Bureau; Joint Center for Housing Studies of Harvard University, Metropolitan Policy Program at Brookings, National Association of Realtors, Pew Research Center, Yardi Matrix, BCG analysis/poverty/?agreed=1&session=1
27 U.S. Census Bureau
28 U.S. Census Bureau; Joint Center for Housing Studies of Harvard University, National Low Income Housing Coalition
29 U.S. Census Bureau; Joint Center for Housing Studies of Harvard University
30 U.S. Census Bureau
31 U.S. Census Bureau, National Center on Birth Defects and Developmental Disabilities, Center for Disease Control and Prevention



Barrier 5 – Negative Buyer and Renter Sentiment

Key Insights

- Surveys and ethnographic research indicate significant consumer distrust in the U.S. Banking System and mortgage lending companies on behalf of minorities, which is likely to be a barrier to distributing programs through those channels. Non-Black, non-community banks' share of lending to Black consumers dropped by nearly half from 80 percent to 42 percent between 2007–2018.³²
- A lack of confidence about the homebuying process inhibits minorities from taking the first steps towards homeownership. Even though about half of low- to moderate-income homeowners and renters are aware of financial assistance programs, 14 percent of homeowners and 27 percent of renters apply, as most do not believe they qualify.
- Whether it is fear from a previous experience, fear of the responsibility of maintaining a home, fear of not having family or a partner to fall back on during hard times, it can take longer for some to feel comfortable with venturing into homeownership.

“I have two checking [accounts] – one I spend from, and one I put money in for bills, and one savings account, no credit cards...I can’t get a loan, I’m invisible.”

– Prospective homebuyer, Freddie Mac ethnographic research

“I’ve been through a lot even outside of this. As much as I’ve been through with this process, yeah I’m angry and it left me jaded, but I’ve been through worse.”

– Prospective homebuyer, Freddie Mac ethnographic research



³² FDIC data and Urban Institute Calculations, “Share of mortgage origination to the Black Community 2007-2018”



SECTION 3

Plan Overview

- > Many barriers to equity affect individuals and communities in unique ways and must be addressed directly. Others are systemic and must be addressed broadly through efforts that can reform fundamental aspects of housing.

In our Equitable Housing Finance Plan, we take both a direct approach — through Special Purpose Credit Programs and other means — and a systemic approach — through broader efforts such as helping to address the affordable housing supply shortage or establishing new standards in opportunities for renters. We must pursue both approaches to effectively address housing cost burden and limitations in housing choice and opportunity disproportionately experienced by Black and Latino renters and homeowners. Through combined efforts, we can reduce the impact of individual and institutional discriminatory policies and practices and bring real change to the housing market.



Plan Overview

1



Address the Homeownership Gap

Freddie Mac will address the homeownership gap for Black and Latino borrowers through responsible and impactful initiatives that expand access to credit, implemented primarily through Special Purpose Credit Programs.

2



Address Systemic Underinvestment within Formerly Redlined Areas

The vestiges of legalized redlining remain, evidenced by underinvestment and undervaluation within many Black and Latino communities nationwide. We will strengthen support for underserved renters and multifamily borrowers, expanding financing for affordable housing developers and helping Community Development Financial Institutions funds (CDFI), minority depository institutions (MDI) and smaller banks with improved access to capital.

3



Finance the Creation and Preservation of Affordable Housing

The profound shortage of affordable housing in the U.S. disproportionately affects Black and Latino households. As a result, high rents and high home prices depress the ability to access opportunities for social and economic mobility. Freddie Mac plans to leverage private, global investments to create and preserve vital, affordable housing. These efforts will consider the need to preserve — and not displace — the communities intended to benefit from new investments.

4



Increase Opportunities for Renters

Too often renters have fewer opportunities than homeowners for social and economic mobility. This gap disproportionately affects Black and Latino households. Freddie Mac will increase opportunities for renters at multifamily properties and from within renters' communities. Efforts will focus on mainstreaming financial empowerment, wealth building opportunities, tenant protections and resident services for renters within Freddie Mac financed rental communities and ultimately the multifamily industry at large.

5



Eliminate Disparities Among Members of Black and Latino Communities

Freddie Mac's ethnographic research surfaced the wide array of disparities reported by Black and Latino communities. We commit to (re)building trust in the housing ecosystem, as demonstrated by our actions and by inviting the experiences of Black and Latino communities into our approach. For example, we will create opportunities and access to capital for emerging diverse multifamily developers, in order to increase wealth-building opportunities and enhance the ability for people to invest in and grow their communities. We will continue to set standards in both renter support and renter protections.



SECTION 4

Special Purpose Credit Programs

- This section of our Equitable Housing Plan demonstrates our targeted approach through Special Purpose Credit Programs (SPCPs) that are necessary to address mortgage lending barriers and eliminate disparities facing Black and Latino homebuyers and renters.



Market Challenges and Barriers

As a result of residential segregation and lack of access to credit, it is increasingly difficult for historically underserved communities to build wealth through homeownership. The gaps between white and Black homeownership rates today are the largest since 1890, at a 30+ percentage point difference. According to the Home Mortgage Disclosure Act (HMDA) data, conventional loan denial rates in 2020 were 25 percent for Black applicants, 19 percent for Latino applicants and 12 percent for non-Latino white applicants.³³

The ECOA allows for-profit and not-for-profit organizations to develop SPCPs to expand access to credit to a class of persons who, under the organization's traditional standards of creditworthiness, would not be able to obtain credit or would receive it on less favorable terms than are customary. Under an SPCP, characteristics that are otherwise prohibited in considering the extension of credit, such as race and ethnicity, can be considered, provided the organization has conducted an assessment and found evidence of a special social need for this class of persons, and provided that the need is tied to the organization's customary credit standards. An SPCP may include benefits, such as down payment assistance, reduced pricing, or expanded credit eligibility. As the U.S. Department of Housing and Urban Development (HUD) recently clarified:

SPCPs offered by non-profit organizations to serve economically disadvantaged classes and those offered by for-profit organizations to meet special social needs that are carefully tailored and targeted to meet ECOA and Regulation B's specifications will generally not "discriminate" within the meaning of the [Fair Housing] Act, just as they do not constitute discrimination under ECOA.³⁴

A well-designed SPCP offers the opportunity to address special social needs, such as the homeownership gap for minority borrowers, and to provide liquidity to historically redlined areas that remain underserved.

According to the Home Mortgage Disclosure Act (HMDA) data, conventional loan denial rates in 2020 were 25 percent for Black applicants, 19 percent for Latino applicants and 12 percent for non-Latino white applicants.³³



³³ 2020 Home Mortgage Disclosure Act (HMDA) data

³⁴ HUD, Office of General Counsel Guidance on the Fair Housing Act's Treatment of Certain Special Purpose Credit Programs That Are Designed and Implemented in Compliance with the Equal Credit Opportunity Act and Regulation B, December 6, 2021 Available at https://www.hud.gov/sites/dfiles/GC/documents/Special_Purpose_Credit_Program_OGC_guidance_12-6-2021.pdf



Our Actions

Freddie Mac plans to purchase loans originated through SPCPs. Our initial research supports identifying a special social need for the following borrower communities: (a) Black or African American, (b) Latino and non-white Latino, (c) American Indian or Native American and (d) borrowers in census tracts with a non-white population greater than 50 percent.³⁵ Our purchase of SPCP loans, and our own SPCP development, make SPCPs a key strategic tool to expand homeownership for these underserved communities. In addition to a commitment to purchase SPCP loans and design our own SPCP program, we commit to partnering with lenders and community organizations through targeted marketing and outreach to ensure the success of SPCPs to increase homeownership for Black and Latino families.

Our initial research supports identifying a special social need for the following borrower communities: (a) Black or African American, (b) Latino and non-white Latino, (c) American Indian or Native American and (d) borrowers in census tracts with a non-white population greater than 50 percent.

Action 1: Purchase SPCP Loans

There is a growing interest among lenders in originating loans under an SPCP and selling the loans to Freddie Mac. We plan to purchase loans originated through lenders' SPCPs. If necessary, we will review lender SPCPs and establish terms of business (TOBs) that will permit lenders to sell us loans originated under their SPCPs. We also may update the *Freddie Mac Single-Family Seller/Servicer Guide* (Guide) to include requirements for selling loans originated under a lender SPCP.

Action 2: Offer Freddie Mac SPCP

Freddie Mac has prepared a model SPCP written plan for any SPCP we may design and will begin implementation planning in 2022. We will develop and implement an SPCP program that offers some or all the following benefits: (a) down payment assistance, (b) improved pricing/reduced fees, (c) expanded underwriting, (d) reserve funds for borrower hardship and (e) expanded loan servicing to an identified class of borrowers

with special social needs. Some specific SPCP features we have identified as initial priorities are detailed below in Sections 4.1 through 4.6.

We are also continuing to research how best to structure and implement an SPCP program for optimal impact, including:

- **Refining geo-targeting strategy** – Freddie Mac is exploring SPCP geo-targeting strategies, such as targeting Majority Minority Census Tracts (MMCTs).
 - Targeting geographies based on home loan origination activity – for example, independent mortgage banks and credit unions have doubled their share of all purchase loans to Black borrowers over the past decade.³⁶ We need to better understand how to leverage and scale these successes.
 - Targeting geographies that have above-average concentration of mortgage-ready Black and Latino renters.
 - Targeting geographies based on key economic indices – multiple existing economic indices categorize census blocks based on key special needs. For example, the Area Deprivation Index (ADI) allows for rankings of neighborhoods by socioeconomic disadvantage in a region of interest (e.g., at the state or national level).³⁷ It includes factors for the theoretical domains of income, education, employment, and housing quality. The ADI is one of many indices that Freddie Mac may utilize as a geographic targeting tool to reach Black and Latino populations more efficiently than by using MMCTs.
- **Targeting individuals instead of geographies** – Freddie Mac may make its SPCP program accessible to anyone who self-identifies as Black, Latino or American Indian/ Native American. Another demographic to explore is the first-generation homebuyer. Freddie Mac continues to evaluate potential special social needs, as well as the risks and operational challenges posed by this type of targeting.
- **Leveraging trustworthy channels** – Freddie Mac's ethnographic research underlined the importance of borrower trust in delivering successful SPCP programs. We will explore opportunities to market Freddie Mac SPCPs through new channels that more effectively reach Black and Latino communities.

³⁵ Lenders may identify other special social needs with supporting evidence that warrants the formation of a well-designed SPCP

³⁶ https://www.urban.org/sites/default/files/publication/101849/the20potential20and20limits20of20black-owned20banks_0.pdf

³⁷ <https://www.neighborhoodatlas.medicine.wisc.edu/>



Goals

Period	Key Action Items	Goals
Year 1 – 2022	<p>Purchase loans originated under lender SPCPs:</p> <ul style="list-style-type: none"> • Identify and address operational components of purchasing a SPCP loan. • Purchase SPCP loans from lenders. <p>Offer Freddie Mac SPCP to Lenders: Develop Freddie SPCP written plan.</p> <ul style="list-style-type: none"> • Refine targeting/geo-targeting affirmative strategy. • Develop plans for scalability by promoting lender participation in Freddie Mac’s SPCP. • Develop plans to promote adoption of Freddie Mac’s model SPCP to enable small lenders to participate. • Monitor and analyze available data to find ways to improve the program. 	<ul style="list-style-type: none"> • Stand up a framework for SPCPs that will include policy development, analytics, market outreach, internal and external governance and publication of Guide updates, if necessary. • Develop (and launch) robust marketing plan to support any Guide updates for the SPCP in 2022. • Develop robust training resources for Sellers to support Guide updates for the SPCP in 2022. • Develop baseline projection of SPCP purchase volume for 2023.
Year 2 – 2023	<ul style="list-style-type: none"> • Monitor and analyze available data to find ways to improve the program. • Securitize SPCP loans into social bonds. 	<ul style="list-style-type: none"> • Provide liquidity for SPCP loans. • Promote adoption of SPCP among lenders. • Promote SPCP options through channels trusted by Black/Latino communities.
Year 3 – 2024	<ul style="list-style-type: none"> • Monitor and analyze available data to find ways to improve the program. 	<ul style="list-style-type: none"> • Provide liquidity for SPCP loans. • Promote adoption of SPCP among lenders. • Promote SPCP options through channels trusted by Black/Latino communities.





4.1: Pricing: Single-Family Loan-Level Price Adjustments

Market Challenges and Barriers

Freddie Mac and Fannie Mae (the GSEs) use loan-level price adjustments (LLPAs) to determine the fees they charge a lender for a loan they purchase. LLPAs consider several credit characteristics, including a borrower’s credit score and loan-to-value (LTV) ratio. As Black and Latino borrowers on average have lower credit scores and lower levels of cash for down payments, their corresponding LLPAs may be higher.

Freddie Mac Home Possible®, our flagship affordable loan offering, caps LLPAs to reduce fees for low-income borrowers. Borrowers with LTVs greater than 80 percent and FICO Scores³⁸ greater than 680 need no LLPAs — the majority of Home Possible borrowers pay \$0 in LLPAs. In addition, LLPAs for borrowers with FICO Scores below 680 are capped at a level also well below what they would be under the broad LLPA fee levels in the Guide. The Black and Latino share of Home Possible borrowers is disproportionately higher than the Black and Latino share for non-Home Possible offerings.

LLPAs are critical drivers of Freddie Mac’s ability to (a) provide liquidity to mortgage markets in a safe and secure manner and (b) promote lending to low- and moderate-income borrowers. LLPAs allow us to establish pricing that covers the risk of our loan purchases while cross-subsidizing that risk to help fulfill our Charter responsibilities and equity commitments.

We also plan to explore pricing incentives to support origination to low-balance, first-time and/or non-traditional borrower financial situations. Regulations prohibit compensation based on loan products or features and cap fees, which can offset origination costs. Fees and compensation are usually a fixed percentage of the loan amount and are only realized if the loan closes. As a result, originators may be disincentivized to take on smaller loans, inexperienced borrowers, alternative sources of credit and income and/or down payment assistance programs, complexities making a loan more costly to manufacture and with a higher rate of fall-out.

Our Actions

Freddie Mac plans to evaluate changes to our LLPA structure, including minimizing LLPAs for SPCP loans, to help us achieve our equity objectives, while ensuring we operate in a safe and sound manner. We are also exploring pricing changes to incentivize more lending at low loan balances. We will further engage with lenders and conduct deeper analysis to understand how our pricing construct can be better optimized to support more lending to first-time homeowners.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Evaluate changes to our LLPAs to support Equity goals. Evaluate pricing changes to incentivize lenders to originate low-balance loans. 	<ul style="list-style-type: none"> Propose LLPA changes for SPCP by year end.
Year 2 – 2023	<ul style="list-style-type: none"> Analyze data and continue to refine LLPAs as needed. 	<ul style="list-style-type: none"> Quarterly monitoring and reporting.
Year 3 – 2024	<ul style="list-style-type: none"> Analyze data and continue to refine LLPAs as needed. 	<ul style="list-style-type: none"> Quarterly monitoring and reporting.

³⁸ <https://www.fico.com/en/products/fico-score>.



4.2: Mortgage Insurance Cost Reduction

Market Challenges and Barriers

The ongoing cost of mortgage insurance (MI) adds to the cost of homeownership for borrowers with loans with LTV ratios greater than 80 percent. This particularly impacts lower-income borrowers, who are disproportionately Black and Latino. For example, Black homeowners on average pay \$550 more per year on mortgage insurance premiums, compared to white homeowners, resulting in a potential reduction in retirement savings of over \$23,000.³⁹

Our Actions

Freddie Mac plans to work with mortgage insurers and industry partners to build a new program to reduce MI costs for high-LTV borrowers in historically underserved segments of the markets, through an SPCP.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Explore development of a program to reduce the cost of MI and the borrower’s overall closing costs. 	<ul style="list-style-type: none"> Complete analysis of opportunities to reduce MI costs.

³⁹ The Unequal Cost of Black Homeownership: <https://gcfp.mit.edu/wp-content/uploads/2020/10/Mortgage-Cost-for-Black-Homeowners-10.1.pdf>



4.3: Single-Family Title Insurance Cost Reduction

Market Challenges and Barriers

Freddie Mac requires clean title for all mortgages, which lenders almost always satisfy with a title insurance policy. Title insurance is a significant part of the borrower's cash-to-close. The policy premium is usually the largest closing cost, and these costs are disproportionately felt by Black and Latino borrowers.

Title insurance policies, attorney opinions of title and certificates of title (collectively "policies") insure that title to real property is held by the person(s) identified in the deed, with a lien by the lender shown on the mortgage. Policies are underwritten by conducting title examinations prior to closing the mortgage loan. We require policies to be delivered with every mortgage.

Policies are expensive, averaging over one percent of the loan amount, and most consumers do not shop for lower rates, even when they are available. Furthermore, smaller-balance loans pay relatively higher rates.

Complete failure of title is extremely rare and usually leads to Seller/Servicer remedy. Refinances, in particular, present less risk, as major title problems should have been cured at purchase and the incremental risk of title defects arising between purchase and refinance is small.

Our Actions

We are working with the industry to determine how we might lower the cost of title insurance, especially for low-balance loans.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Explore lower cost title solutions with the industry 	<ul style="list-style-type: none"> Develop lower cost title solutions by year-end 2022.
Year 2 – 2023	<ul style="list-style-type: none"> Initial roll-out of lower cost title solutions. 	<ul style="list-style-type: none"> Support origination of 5,000 loans with lower cost title solutions.
Year 3 – 2024	<ul style="list-style-type: none"> Evaluate expanding and tie in to SPCP. 	<ul style="list-style-type: none"> Expand program.





4.4: Automated Collateral Evaluation Expansion

Market Challenges and Barriers

As discussed in Section 2.3, Freddie Mac’s research concluded that appraisal gaps, which negatively impact Black and Latino borrowers and homeowners, exist on purchase appraisals.⁴⁰ Further, our analysis shows that leveraging Home Value Explorer® (HVE) and Automated Collateral Evaluation (ACE) leads to relatively lower gaps. ACE offers a prudent automated collateral valuation alternative to appraisals. Freddie Mac currently permits ACE for certain purchase transactions with LTV ratios up to 80 percent, however, most Black and Latino borrowers have LTVs greater than 80 percent.

Our Actions

Using automated tools to establish home values helps remove human bias, although it limits the collection and evaluation of a property’s current condition. Freddie Mac is exploring expanding its policy to allow ACE for purchase transactions with higher LTV ratios with risk mitigants such as an onsite property data report or home inspection for SPCP-eligible borrowers, which should mitigate appraisal gaps for Black and Latino borrowers.

ACE leverages HVE combined with a property condition model and other algorithms for consistent and effective results. ACE relies on statistically based, empirically derived confidence scores. Similar confidence scores are not available in appraisals. Expanded use of ACE offers an opportunity to mitigate human bias in traditional appraisals.

Leveraging ACE,

- Provides sustainable access to credit.
- Reduces borrower closing costs (ACE saved consumers \$293M over a six-month period). Appraisal fees can range between \$600 and \$2,000+.
- Mitigates impacts associated with appraisal gaps. HVE values lead to lower value gaps.
- Reduces time to originate a loan (translates to potential reductions to borrower’s interest rate/points).

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> • To begin in Year 2 – 2023. 	
Year 2 – 2023	<ul style="list-style-type: none"> • Evaluate expanding ACE availability on purchase transactions with > 80% LTV. 	<ul style="list-style-type: none"> • Evaluate SPCP viability to reduce appraisal costs for historically underserved borrowers.
Year 3 – 2024	<ul style="list-style-type: none"> • Monitor performance. 	<ul style="list-style-type: none"> • Ensure key metrics are within expectations and rationalize further scale. Adjust accordingly. • Reduce appraisal costs for historically underserved borrowers pending policy deployment.



⁴⁰ http://www.freddie.com/research/insight/20210920_home_appraisals.page?



4.5: Reserve Funds

Market Problems and Barriers

Freddie Mac’s commitment to sustainable homeownership includes plans to implement one or more reserve funds to improve mortgage default performance for Black and Latino homeowners. Borrowers without several months’ worth of personal cash reserves, as is often the case for first-time homebuyers who’ve depleted their savings to acquire their home, are not well positioned to weather unexpected income or expense shocks. When such financial shocks are temporary, the availability of access to a reserve fund could significantly improve a borrower’s ability to retain homeownership. Freddie Mac is committed not only to getting more minority borrowers into homes, but keeping them in those homes, growing wealth for their families.

“If I ran into trouble? Cry. I would just have to figure it out. I definitely cannot handle more expense.”

– Homeowner, Freddie Mac ethnographic research

Reserve funds may reduce credit impacts and defaults during temporary hardship and enable servicer intervention before missed payments. Freddie Mac is analyzing reserve fund options that include permitting withdrawals for a missed or partial mortgage payment, to fund a home repair, or for a medical emergency that caused a temporary hardship.

If such reserve funds reduce defaults as intended, we will assess whether reserves could be used as an underwriting risk offset, to expand access to credit and/or reduce acceptance-rate disparities.

Our Actions

Freddie Mac is evaluating different reserve fund structures and funding alternatives.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Continue analyzing reserve fund implementation options, challenges and timeline. Implementation planning for SPCP component with reserve fund feature. Continue analysis of lender-created products with reserve funds. In concert with development of sustainable bond framework, continue analysis of investor/donor appetite for UMBS-linked reserve funds. 	<ul style="list-style-type: none"> Establish a viable framework for a reserve fund(s).
Year 2 – 2023	<ul style="list-style-type: none"> Continue performance analysis. 	<ul style="list-style-type: none"> Implement an SPCP component permitting use of reserve fund withdrawals. Link a reserve fund to Sustainable Bond Program, if Year 1 analysis supports doing so. Performance reporting on loans supported by reserve funds.
Year 3 – 2024	<ul style="list-style-type: none"> Continue performance analysis. 	<ul style="list-style-type: none"> Performance reporting on loans supported by reserve funds.



4.6: Servicing for Sustainability (Single-Family)

Market Challenges and Barriers

When a borrower faces financial hardship — absent early intervention — they may become delinquent. Borrowers could benefit from specific training, counseling and tools that may not currently be available to them, or that they may be unaware of.

Financial hardships more deeply impact Black and Latino families because, on average, white families have eight times the wealth of Black families and five times the wealth accumulation of Latino families. Additionally, the average white family is more likely to report having friends or family who could give them \$3,000 compared to Black and Latino families.⁴¹

Some borrowers are not aware of loss mitigation programs that exist to help them to overcome delinquency problems. Sustainable homeownership is also built upon trust between the homeowner and the Servicer/financial institutions — and these relationships can be challenging at times. Borrowers who may not fully trust their Servicer are less likely to proactively engage with them to request assistance in the event of a financial hardship. A missing payment causes a delinquency that is reported both to Freddie Mac and to the credit repositories.

“When I had my first home, I was so excited... [my mortgage] was cheaper than my rent... then had repairs after a hurricane, then had to dig up the ground to fix plumbing. I didn’t have an emergency fund so had to work overtime to get stuff fixed.”

– Former homeowner, Freddie Mac ethnographic research

Our Actions

Freddie Mac is reevaluating its servicing policies to better improve borrower outcomes, particularly for Black and Latino homeowners, with a goal of implementing improvements through an SPCP.

Action 1: Special Servicing Framework

Freddie Mac is evaluating a servicing strategy that would maximize effectiveness of servicing by providing tailored outcomes to reduce expected default rates for certain targeted loan populations. This strategy may include special servicing to offer servicing and loss mitigation support for borrowers in this program and may include loss mitigation decisioning based on the individual circumstances of each mortgage and borrower, as opposed to more general and globally applied servicing provisions.



⁴¹ <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm>



Action 2: Automatic Payment Deferral

Freddie Mac recognizes that borrowers impacted by a temporary financial hardship may need access to payment deferral options, so we are exploring permitting certain borrowers to be eligible for automatic deferrals of monthly mortgage payments that would otherwise cause the borrower to become delinquent. Freddie Mac has introduced payment deferral options in the past for borrowers impacted by natural disasters and COVID-19. Freddie Mac plans to leverage the lessons learned from those programs, including working with Servicers to find new ways to avoid some of the problems associated with temporary delinquencies. For example, offering temporary principal and interest deferral to a borrower prior to the borrower becoming 30 days delinquent permits the borrower to remain current on the loan. The primary difference with this proposed payment deferral option is that it would be executed automatically before the mortgage ever becomes a full month delinquent.



Action 3: Loss Mitigation, Borrower Outreach, Education and Counseling

Freddie Mac is considering a wide range of options in the servicing space to improve home retention outcomes for Black and Latino families, while balancing Freddie Mac's safety and soundness.

Freddie Mac currently offers both borrower- and servicer-facing educational resources. For example, Freddie Mac Home Possible® Mortgages are eligible for certain advantages, including a welcome letter, early delinquency counseling and, in certain rural areas, NextJob counseling services. Servicers are subject to detailed outreach requirements and must share information about loss mitigation options to delinquent borrowers.

Freddie Mac plans to analyze its servicing policies to ensure that loans originated under its SPCP have successful outcomes, through potential policy changes including, but not limited to, the following:

- Expanded Home Possible outreach and counseling opportunities.
- Enhanced educational materials.
- Adjustments to charge-off policies.
- Eliminated/reduced 3rd party valuations in loss mitigation and servicing.
- Updates to Mortgage Insurance cancellation requirements.
- Updates to borrower-facing documents (e.g., solicitation letters).

Freddie Mac also plans to leverage/expand existing policies and outreach tools that have proven valuable, such as:

- Add loss mitigation disclosure/flyer to origination package and monthly statements.
- Create voluntary annual "homeownership training" classes.
- Enhance borrower education during months when borrower is more likely to skip a payment.
- Host borrower education sessions in places in the community where a borrower feels comfortable/maximize trust.
- Share borrower education resources with Employee Assistance Programs within organizations to enable them to support delinquent borrowers.



Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Develop draft program parameters and evaluate potential effectiveness to determine whether to pursue a Special Servicing Framework. Refine Automatic Payment Deferral offering and determine (a) offering eligibility and (b) securitization impacts. 	<ul style="list-style-type: none"> Identify tangible servicing improvements for potential implementation. Complete analysis to understand automatic payment deferral benefits for defined eligible population. Finalize decision on viability for Special Servicing Framework and Automatic Payment Deferral approach.
Year 2 – 2023	<ul style="list-style-type: none"> Develop Special Servicing Framework. Establish success measures for enhanced policies and evaluate effectiveness. 	<ul style="list-style-type: none"> If analysis shows viability, launch Special Servicing Framework and Automatic Payment Deferral.
Year 3 – 2024	<ul style="list-style-type: none"> Continue to evaluate outcomes. 	<ul style="list-style-type: none"> Successful rollout of servicing improvements, contributing to improved servicing outcomes for Black and Latino borrowers.





4.7: Increase Diverse Multifamily Borrowers' Access to Capital

Market Challenges and Barriers

For borrowers in the multifamily housing industry, access to capital is one of the most important ingredients for success. However, borrowers that are controlled by or owned by a certain percentage of minorities, women, persons with disabilities, veterans and those who identify as LGBTQ (collectively known in this context as diverse borrowers) are believed to have less access to capital and are underrepresented in the multifamily industry. This apparent unequal access to capital has continued to perpetuate the wealth gap, as well as a lack of diversity of borrowers in the multifamily housing industry.

To increase access to capital for diverse borrowers in the multifamily housing industry, we need to understand what access to capital diverse borrowers currently have. With this information, we will be better able to determine how to support them, including ways to directly target and develop diverse borrowers that are emerging in the industry. The ability to execute on both targeted loan transactions and securitizations would increase access to capital for diverse borrowers and enable Freddie Mac to channel impact-motivated bond investors with specific investment criteria to direct their capital towards diverse borrowers and their communities.

“Impractical liquidity and net worth requirements... exclude highly qualified prospective borrowers of color.”

– Respondent from Freddie Mac survey of Diverse Multifamily Borrowers



Our Actions

To increase access to capital for diverse borrowers through Freddie Mac, we intend to take the following three key actions:

Action 1: Diverse Borrower Marketing and Outreach

Under our outreach strategy, we will network and provide relationship management, support and resources to help diverse borrowers scale business operations. We will lead round tables and other ongoing, continuous outreach efforts to quantify feedback. Our outreach to CDFIs, MDIs and SFIs mentioned throughout our Equitable Housing Finance Plan will augment this outreach, as these institutions often serve a high concentration of diverse borrowers. Our goal is to build new relationships and shed light on the need for SPCPs or other products to meet emerging diverse borrowers' needs to more easily get deals done with Freddie Mac Multifamily.

“Starting a business from scratch is tough. Especially tough when trying to meet loan [financial] requirements as a first-generation business owner.”

– Respondent from Freddie Mac survey of Diverse Multifamily Borrowers

Action 2: Diverse Borrower Specialized Offerings or Programs

We will explore the need for and viability of SPCPs or other products designed to meet the needs of emerging diverse borrowers to grow and scale their businesses.

As we gain a better understanding of the needs and opportunities for emerging diverse borrowers, we will be better able to develop specific offerings or programs to increase access to capital.

Action 3: Create Path for Diverse Borrower Specialized Offerings or Programs to Back Social Bonds or Other Alternative Execution Vehicles

We will expand disclosures in a standardized, anonymized format. These disclosures will enable social impact motivated investors to meet their investment criteria.





Goals

Period	Key Action Items	Goals
Year 1 – 2022	<p>Marketing and Outreach:</p> <ul style="list-style-type: none"> Continue outreach efforts through individualized calls and touchpoints. Establish relationship management resources at Freddie Mac for diverse and emerging diverse borrowers. Track success through volume captured from this cohort and opportunities to scale this effort. <p>Specialized Offerings or Programs:</p> <ul style="list-style-type: none"> Leverage ongoing surveys, outreach and self-testing efforts to determine effectiveness of a specialized offering. Determine what is scalable and propose a program or loan product. <p>Social Bonds or Alternative Execution Vehicles:</p> <ul style="list-style-type: none"> Explore modifying pooling practices for loans made to diverse borrowers to enable us to eventually develop Capital Markets executions and improve the liquidity needed for us to better serve these specialized programs targeting diverse borrowers. 	<p>Marketing & Outreach:</p> <ul style="list-style-type: none"> Host at least two networking events to promote partnership and connections. <p>Specialized Offerings or Programs:</p> <ul style="list-style-type: none"> Develop framework for first specialized transaction by year-end 2022.
Year 2 – 2023	<p>Marketing and Outreach:</p> <ul style="list-style-type: none"> Continue ongoing relationship management resources for diverse and emerging diverse borrowers. Track success through volume captured from this cohort and opportunities to scale this effort. <p>Specialized Offerings or Programs:</p> <ul style="list-style-type: none"> Execute proposed program(s) or loan offering(s). Explore additional programs. <p>Social Bonds or Alternative Execution Vehicles:</p> <ul style="list-style-type: none"> Start developing a path and appropriate Capital Markets execution for newly created diverse borrower programs to be included in social bonds to improve liquidity for these program(s). 	<p>Marketing & Outreach:</p> <ul style="list-style-type: none"> Host at least two networking events to promote partnership and connections. <p>Specialized Offerings or Programs:</p> <ul style="list-style-type: none"> Launch diverse borrower program or loan offering and complete transactions.
Year 3 – 2024	<p>Marketing and Outreach:</p> <ul style="list-style-type: none"> Continue ongoing relationship management resources for diverse and emerging diverse borrowers. Track success through volume captured from this cohort and opportunities to scale this effort. <p>Specialized Offerings or Programs:</p> <ul style="list-style-type: none"> Execute proposed program(s) or loan(s). Explore additional programs. <p>Social Bonds or Alternative Execution Vehicles:</p> <ul style="list-style-type: none"> Launch an appropriate Capital Markets execution path for diverse borrower programs either through social bonds or other appropriate vehicles. 	<p>Marketing & Outreach:</p> <ul style="list-style-type: none"> Host at least two networking events to promote partnership and connections. <p>Specialized Offerings or Programs:</p> <ul style="list-style-type: none"> Increase transactions within specialized offerings or programs. <p>Social Bonds or Alternative Execution Vehicles:</p> <ul style="list-style-type: none"> Launch Capital Markets execution for diverse borrower programs.



SECTION 5

Targeted Outreach and Interventions

- This section of our Equitable Housing Finance Plan demonstrates our targeted outreach and intervention solutions that address the homeownership gap, increase and improve the quality of affordable housing supply for Black and Latino homeowners and renters and address systemic underinvestment within formerly redlined areas.



5.1: Promote Down Payment Assistance Tools with Industry Partners Serving Black and Latino Communities

Market Challenges and Barriers

Saving for a down payment remains a significant barrier for Black and Latino borrowers. White families are more likely to report the ability to obtain \$3,000 from a family or friend (71.9 percent) compared to Black (40.9 percent) and Latino (57.8 percent) families.⁴²

Our Actions

Freddie Mac plans to address the need for down payment assistance for Black and Latino borrowers by developing a digital platform, “DPA Tool” to maximize down payment assistance program utilization nationwide and to increase incremental originations by seamlessly connecting and matching down payment assistance programs, lenders, counselors and borrowers. Freddie Mac will continue its efforts to drive down payment assistance utilization, standardization and funding. We plan to promote the DPA Tool with industry partners serving Black and Latino communities to increase utilization of down payment programs — affinity trade associations, nonprofit housing organizations, housing counselors, housing advocates and consumer groups.

“There are a lot of ways [white] people get help getting approved for mortgage that minority groups don’t have access to, like a friend or family member transferring money to your account.”

– Former Homeowner, Freddie Mac ethnographic research

⁴² <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm>



“In a lot of markets, the incremental savings from renting may never amount to the down payment needed to afford a home, so renting to owning is not a feasible path.”

– Survey respondent, Freddie Mac ethnographic research

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Evolve the loan officer experience of the DPA tool through development efforts. 	<ul style="list-style-type: none"> Incorporate 45 state Housing Finance Agencies’ down payment assistance programs into the tool. Incorporate 20 select high-volume local and municipal down payment assistance provider programs nationwide into the tool. Launch loan officer and down payment assistance provider functionality in market by year-end 2022. Raise awareness of the tool to 15 national organizations serving Black and Latino communities.
Year 2 – 2023	<ul style="list-style-type: none"> Engage with community partners to drive use of DPA Tool to benefit Black and Latino borrowers. Explore opportunities to standardize down payment assistance requirement standards for the industry. Expand down payment assistance provider and loan officer participation. 	<ul style="list-style-type: none"> Establish DPA Tool utilization baseline metrics within targeted communities. Research and develop a national common “DPA” offering supported by the DPA Tool, standardized subordinate lien documents and standardized data.
Year 3 – 2024	<ul style="list-style-type: none"> Continued engagement with community partners to drive use of DPA Tool. Evaluate DPA Tool effectiveness in addressing needs of borrowers, community partners and lenders. 	<ul style="list-style-type: none"> Further expand DPA Tool utilization with targeted communities.



5.2: Finance Housing for Persons with Intellectual and/or Developmental Disabilities

Market Challenges and Barriers

Intellectual and Developmental Disabilities (IDD) can span many types of disabilities but are most often associated with developmental disabilities, cognitive or mental health challenges, or traumatic brain injuries. Individuals with mobility related IDD face a large deficit in suitable housing. While 14 percent of all Americans have mobility disabilities, 2 percent of total housing units are accessible to these individuals.⁴³ Additionally, people with IDD are often among those with the lowest incomes and face significant housing-related discrimination.⁴⁴

Before the Housing for IDD (HIDD) group home model first emerged in the early 2000s, the only options for families of individuals with IDD were placing their loved ones in an institutional setting or caring for them at home with limited to no support. Affordable housing subsidies have long waiting lists and institutional settings have been found to offer inadequate care and quality of life for individuals with IDD.⁴⁵ Because many residents are very low-income, they derive their rent and care payments from social security, Medicaid and/or other government programs. Among family members and caregivers, there were small scale, local efforts to start group living, though these efforts had limited access to capital and were not standardized.

Freddie Mac's acquisition of loans secured by HIDD properties has been limited for several reasons. The first is increasing home prices, which push HIDD sponsors to buy existing care providers instead of increasing the footprint of available homes. Second, states have various funding approaches to Medicaid, and some states may simply lack the resources to place individuals in HIDD. Third, the HIDD loan product is new and complex — which currently limits the lenders in our network (Optigo[®]) who can participate — and requires additional credit performance evaluation due to the unique nature of this product. Fourth, HIDD loans present increased capital and hedging risk as they are held for investment on Freddie Mac's balance sheet. Lastly, most HIDD homes are owned by smaller operators/care providers with limited ability to meet minimum borrower net worth and liquidity requirements.

⁴³ BCG Analysis, JCHS, Census Bureau

⁴⁴ American Association on Intellectual and Developmental Disabilities

⁴⁵ American Association on Intellectual and Developmental Disabilities



Our Actions

Freddie Mac intends to leverage and scale our program to support more households and further attract Environmental, Social and Corporate Governance (ESG)-minded investment capital. Our HIDD program supports community-based, small-group living environments for IDD residents. Borrowers under Freddie Mac’s HIDD loan program have historically been owners of substantial portfolios of single-family homes that are leased to care providers. HIDD homes are distinguishable from other single-family homes only by internal modifications that enable resident accessibility, such as wheelchair ramps and bathroom modifications.

To further expand supply and address market obstacles, Freddie Mac’s priority is to continue providing liquidity for loans benefiting our existing HIDD borrowers who have proven ability to operate HIDD real estate and provide proper oversight of care providers and meet financial obligations. Freddie Mac will also endeavor to work with our Optigo lenders to build new HIDD borrower relationships, seek transactions with established, reputable care providers who also own real estate and explore opportunities to finance HIDD transactions in traditional apartment communities and other residential settings that offer greater resident independence.

In June 2021, Freddie Mac issued \$230 million in social bonds in the form of a pool of multifamily participation certificates (Multifamily PCs[®]) backed by 1,267 rental homes across 39 states and Washington, DC, for individuals with IDD. The properties provided 4,462 resident beds, approximately 90 percent being affordable to people making 50 percent area median income (AMI). The HIDD social bond issuance was well-received by the market and is an execution that Freddie Mac intends to scale to continue providing liquidity to this sector of the rental housing market. These expansive efforts, however, depend on the market’s awareness of our offering.

Freddie Mac has broadened awareness of this critical housing need within the mortgage banking and investor communities through the HIDD social bond issuance. Investors are increasingly seeking such opportunities to invest in. We intend to expand the HIDD program to purchase, pool and securitize social bonds with HIDD loans in a measured and strategic manner of the three-year horizon.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Work with Optigo lenders to build relationships with existing HIDD sponsors and seek out emerging sponsor and care provider relationships. 	<ul style="list-style-type: none"> Complete at least one transaction.
Year 2 – 2023	<ul style="list-style-type: none"> Aggregate sufficient HIDD collateral for a second social bond offering. 	<ul style="list-style-type: none"> Complete at least two transactions. Issue a second social bond offering for HIDD loans.
Year 3 – 2024	<ul style="list-style-type: none"> Assess market opportunity for financing HIDD and other transactions serving individuals with IDD within apartment settings. 	<ul style="list-style-type: none"> Complete at least three transactions.



5.3: Finance Permanent Supportive Housing for Persons Who Formerly Experienced Homelessness

Market Challenges and Barriers

The U.S Department of Housing and Urban Development (HUD) estimates that approximately 580,000 people were experiencing homelessness in the U.S. as of January 2020, which represents a nationwide increase for the fourth consecutive year.⁴⁶ Black and Latino individuals and families represent 39.4 percent and 22.5 percent of the population experiencing homelessness, respectively, despite accounting for 12 percent and 16 percent respectively of the total U.S. population. HUD found that nearly 60 percent of persons experiencing homelessness were concentrated in 4 states: California (28%/161,548 people); New York (16%/91,271 people); Florida (5%/27,487 people); and Texas (5%/27,229).

Of the 580,000 persons experiencing homeless in the U.S., HUD estimates that 70 percent experience homelessness as individuals while the remaining 30 percent experience homelessness as part of a family with at least one adult and one child under the age of 18. Nine in ten persons experiencing homelessness as families were sheltered, however 51 percent of individuals experiencing homelessness were unsheltered. Per HUD, there are more than 50,000 additional people facing unsheltered homelessness in 2020 relative to 2015. In fact, there are five major cities where more than 80 percent of the homeless population is unsheltered, the California cities of San Jose, Los Angeles, Fresno, Oakland and Long Beach.

Furthermore, there are 37,252 veterans experiencing homelessness in the U.S. which represents 8 percent of all adults experiencing homelessness — 98 percent of whom experience homelessness as individuals. Of those individuals, 27 percent (9,794 veterans) had chronic patterns of homelessness, which HUD defines as individuals with a disability who have been continuously homeless for one year or more or who have experienced at least four episodes of homelessness in the last three years where the combined length of time homeless on those occasions is at least 12 months.



⁴⁶ <https://www.huduser.gov/portal/sites/default/files/pdf/2020-AHAR-Part-1.pdf>



Freddie Mac is experienced in working with localities to provide financing for long-term housing with rental assistance and services supporting persons who formerly experienced homelessness (Permanent Supportive Housing) in markets across the country. We have seen a growing trend of more states and localities looking to scale these efforts. Despite the challenges and complexity of this issue, there are considerable resources being allocated toward proven methods of addressing homelessness. For example, California has committed \$4.8 billion over the next two years to alleviate homelessness, including funding for Permanent Supportive Housing. This provides not only housing but also services including health care, mental health counseling, substance abuse treatment, and employment training. Research has demonstrated that Permanent Supportive Housing provides an 88 percent decrease in homelessness relative to other programs⁴⁷ and a median economic benefit of \$17,016 per year, representing a societal cost savings of \$1.44 for every \$1 invested.⁴⁸ By working directly with states and localities, Freddie Mac can leverage its capital, resources, and expertise to help address this critical issue and support and scale programs that potentially could be replicated in markets across the country.

Our Actions

Leveraging our experience, we intend to take a multi-stage approach identifying and working with more states and localities to address homelessness and scale strategies that are effective at achieving long-term sustainable results.

We will first conduct research to identify the markets that have the greatest need relative to their existing resources and have innovative programs with potential for scalable and replicable impact. Freddie Mac will then build the framework for a successful strategy and identify at least one municipality to establish a program. Based on work in this municipality and our experience, we will seek to replicate and expand our impact on a national scale. While we have worked in markets across the country on various transactions, we anticipate that this focused and deliberate approach will lead to a deeper and greater impact over time and will help to establish new industry standards.

Freddie Mac’s program will explore a variety of actionable steps to help finance more permanent supportive housing. We will evaluate opportunities to provide financing directly to developers or provide liquidity to financial institutions that are directly involved in providing debt capital for permanent housing solutions. Examples to be explored include: Project RoomKey — repurposing under-utilized real estate, and 833 Bryant in San Francisco — funding the development of innovative lower cost modular construction. Through our efforts, Freddie Mac can continue to strengthen public-private partnerships by helping to scale nonprofits such as Step Up or Jamboree Housing that are actively seeking to end homelessness through permanent housing solutions.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Research and identify the markets with the greatest need. Establish parameters and select one or more municipalities for collaboration. 	<ul style="list-style-type: none"> Municipality-identified.
Year 2 – 2023	<ul style="list-style-type: none"> Implement program with municipal partner(s). 	<ul style="list-style-type: none"> Program roll-out in one municipality.
Year 3 – 2024	<ul style="list-style-type: none"> Analyze results and refine program parameters. Expand program on a national scale. 	<ul style="list-style-type: none"> Program roll-out nationally.

⁴⁷ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8513528/>

⁴⁸ <https://www.thecommunityguide.org/findings/health-equity-housing-first-programs>



5.4: Provide Technical Assistance on Renovation Financing for Single-Family Homes in Traditionally Underserved Black and Latino Communities

Market Challenges and Barriers

- **Need for Renovation Financing Options Disproportionately Exists for Black and Latino Families.** Over 25 percent of affordable single-family homes nationwide require moderate or significant rehabilitation, and communities of color are more likely to live in neighborhoods that historically have suffered from undervaluation and underinvestment. Freddie Mac research confirms that homes in Black and Latino communities also are more likely than majority white communities to be appraised at values below contract price.

A vast majority of renovations that require financing are financed using credit cards (22 percent), personal loans (39 percent) or home equity (22 percent), and these financing options are typically more expensive than GSE-program loans. Yet even through the use of traditional refinance mortgages, Black homeowners on average face higher mortgage interest rates after refinancing than white homeowners, both at similar income levels and when Black homeowners have higher income levels.⁴⁹

Affordable financing options can support Black and Latino homeowners to renovate and remain in their homes, thus improving the quality of homes in neighborhoods that have historically suffered from undervaluation.

Further, Black and Latino neighborhoods often correlate with neighborhoods most susceptible to the negative impacts of climate change, creating a potentially greater need for climate-resilient rehabilitation strategies.⁵⁰

- **Not User-Friendly.** Freddie Mac's market research suggests that the current first lien renovation ecosystem is not user-centric due to complexity and the extensive nature of the application process for financing, thus discouraging homeowners.⁵¹
- **Need Will Continue to Exist for Affordable Renovation Financing.** This is fueled by aging housing stock, demand for energy improvements, climate risks, the need for resiliency retrofits, growing demand for Accessory Dwelling Units (ADUs), the need for restoration of vacant and abandoned properties and accessibility accommodations.

Our Actions

Freddie Mac will explore policy and infrastructure improvements to expand market utilization of its renovation products, while focusing on safety and soundness. Specifically, our equity focus is on leveraging Freddie Mac's leadership position in the industry to provide technical assistance to nonprofits, lenders, real estate professionals and homebuyers to increase renovation financing in Black and Latino communities.

- **Expand renovation financing**

- Engage with community organizations and their lending and real estate partners to understand and address challenges and barriers to utilizing existing renovation products.
- Focus on improving housing stock in Majority Minority Census Tracts (MMCTs) and historically redlined communities that remain underserved.
- Promote the enhancement of existing housing stock in areas such as resiliency, energy efficiency, accessibility, ADU carve-outs and other maintenance-related priorities.
- Provide education and outreach to lenders and consumers.
- Expand Freddie Mac's partnership among nonprofits, lenders, real estate professionals and homebuyers to facilitate the acquisition and rehabilitation of city-owned properties in MMCTs and historically redlined communities that remain underserved.

49 <https://www.jchs.harvard.edu/blog/high-income-black-homeowners-receive-higher-interest-rates-low-income-white-homeowners>

50 U.S. Natural Hazards Index from National Center for Disaster Preparedness, U.S. Census Bureau, 2020 Census Redistricting Data (Public Law 94-171) Summary File

51 Market participant interviews



- **Targeted marketing and training on Freddie Mac renovation products**
 - Develop training to ensure local organizations and borrowers fully understand the benefits and use of our renovation product offerings.
 - Provide marketing support to community organizations for bringing awareness to families about accessing renovation financing and receiving support from community partners with expertise in renovations.
- **Expand first lien renovation offering**
 - Expand Guide requirements for ADUs.

“Just a house free of mold, you know. A quiet neighborhood, where I can take my daughter for a walk without worrying about stepping on a needle”

– Homeowner, Alabama, Freddie Mac ethnographic research

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> • Explore expanding current partnerships in historically underserved Black and Latino communities to provide technical assistance to borrowers purchasing properties that need renovation in target markets. • Conduct a qualitative assessment on renovation financing challenges. • Examine new ways to provide liquidity to landbanks to turn vacant properties into affordable housing units. 	<ul style="list-style-type: none"> • Complete a qualitative housing stock assessment and identify renovation needs and types of property improvements that can help improve the quality of housing in historically underserved Black and Latino communities. • Establish new partnership with 2 to 5 landbanks. • Develop product enhancement recommendations based on the qualitative housing stock assessment.
Year 2 – 2023	<ul style="list-style-type: none"> • Design and implement sourcing strategies to support renovation of aged inventory focusing on improving quality of housing units in targeted markets. • Expand partnerships with municipalities or landbanks that own a large number of aged and distressed inventory to bring inventory back into market as affordable housing stock. 	<ul style="list-style-type: none"> • Provide technical assistance, including targeted outreach, information, and resources, to support the renovation of housing units in Black and Latino communities. • Provide renovation financing training to 100 loan officers serving Black and Latino communities. • Educate at least 200 consumers on the renovation financing process.
Year 3 – 2024	<ul style="list-style-type: none"> • Continue sourcing strategies to support renovation of aged inventory focusing on improving quality of housing units. • Expand partnerships with municipalities or landbanks that own many aged and distressed inventory to bring inventory back into market as affordable housing stock. 	<ul style="list-style-type: none"> • Provide technical assistance to support the renovation of 300+ SF housing units in Black and Latino communities.



5.5: Expand Develop the Developer Program to Include Small Multifamily Properties

Market Challenges and Barriers

Formerly redlined communities, many of which remain underserved, are in many cases still undervalued and subject to underinvestment, affecting both community members and properties. The effects of discriminatory housing policy are still felt among Black and Latino renters today in these areas and elsewhere as many practices prevented generations of families from gaining equity in homeownership, causing racial disparities in wealth. Continued underinvestment — and difficulty accessing capital — enable housing to deteriorate and exacerbate disparities in life outcomes. In other cases, some of these communities have experienced — or are about to experience — gentrification, often without the input of those living in the communities today.

There is a need to preserve the housing stock for renters living in historically disinvested communities who are at risk of being pushed out of their neighborhoods due to gentrification and rising rent and home prices. An important aspect of addressing both challenges is increasing opportunities for members of the community to become developers in their own communities — building wealth while building communities.

The goal of our program — Develop the Developer (DTD) — is to spur reinvestment from within these communities to deter gentrification, create opportunities for wealth creation and generate the next class of emerging borrowers.

Our Actions

We plan to increase redevelopment activity by expanding education and financing opportunities for emerging minority and female developers whose focus is on developing and redeveloping their own communities. Our DTD program, launched in 2020 with a focus on single-family properties, has been successful at supporting minority and female developers already in the process of starting new residential development projects that will provide mixed income housing in occupied by communities of color. The program so far has focused on developers of one-to-four-unit properties in the single-family housing space. However, in many communities, small multifamily properties are vital forms of rental housing, an important part of the community, and a key entry point into multifamily property ownership and investment.

Under our plan, we will extend the current DTD curriculum to target 5+ unit buildings in underserved communities of color. With the curriculum spanning 1-4 and 5+ units, our “linked loan” offering (described below in Section 6.4) will enable the Freddie Mac DTD platform to fully support these emerging developers as they grow and scale.

We will start the program in select markets and expand over time as we better understand the unique needs and challenges new developers face in acquiring and rehabilitating small multifamily properties. Our enhanced program will help deter gentrification and create wealth building opportunities for developers working in minority communities that are historically underserved and underinvested.

To execute the program, we will bring in seasoned multifamily partners to provide funding, industry knowledge and advice to emerging developers. Participants will pitch project proposals at the end of the course, which may be live or simulated transactions. The goal is to execute as many live transactions as possible.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Expand the DTD curriculum to include 5+ unit properties. Identify initial market to roll out expanded program. 	<ul style="list-style-type: none"> Expand curriculum. Select initial market.
Year 2 – 2023	<ul style="list-style-type: none"> Launch program in initial market. Analyze the effectiveness and ease of the DTD program in 2023. Determine how the DTD program can be more scalable and effective. 	<ul style="list-style-type: none"> Graduate at least 10 multifamily developers from the initial market course.
Year 3 – 2024	<ul style="list-style-type: none"> Introduce the DTD program in at least one additional market. 	<ul style="list-style-type: none"> Graduate at least 10 multifamily developers from the second market’s course.



5.6: Social Bond Issuance (Single-Family)

In October 2021, Freddie Mac issued its first single-family UMBS backed entirely by Home Possible loans. Through creation of this new specified bond category, enabled by the Special Eligibility Program (SEP) disclosures the GSEs implemented in August 2021, we have made a key step toward establishing a single-family social bond issuance program. These disclosures, reported at the loan and pool levels, cover Home Possible, Freddie Mac Refi PossibleSM and HFA Advantage[®]. Each offering has embedded benefits for borrowers' social impact.

Pooling Approach

Investors have indicated specified bonds collateralized by affordable loans will meet current investor social bond requirements for certain investors. However, the ESG market is rapidly evolving as investors look to establish bond scoring systems and ways of measuring the impact of their investments. Investors are beginning to set aside funds to specifically invest in more narrowly defined communities. They want to drive access and equity in housing, in addition to earning an economic return and having a positive reputational impact. Some investors have asked about Freddie Mac's ability to pool loans based on property and borrower characteristics we don't currently disclose. These characteristics include AMI, majority/minority census tracts, race/ethnicity and gender. Investors seem to agree to the extent social bonds are formed on criteria we currently don't/can't disclose at the loan and/or pool levels, transparency around collateral eligibility and pooling rules is paramount and will suffice.

Freddie Mac's initial approach is simple — begin with issuance based on current affordable products that have embedded borrower benefits and for which securities disclosures are available. Our SEP disclosures will help investors quickly identify potentially eligible social investments. As the single-family ESG mortgage market continues to grow size and sophistication, we will want to pool based on AMI, loans originated through SPCP and census tract (majority minority- or minority- census tract). Pooling on these more specific characteristics helps us direct capital towards underserved markets to drive greater borrower outreach and impact. Following the social bond principles of the widely used International Capital Market Association (ICMA) standards, Freddie Mac will publish a Single-Family Sustainable Bond Framework (including social bonds) that describes activities and/or offerings, in addition to how we plan to identify and manage proceeds.



Longer-Term Vision

A common theme from investor conversations has been that GSEs can set standards in this developing market. The role of securitization is to attract a broad, deep and durable flow of capital into these products and programs. To do so, our best opportunity is to leverage the liquidity of the UMBS market by pooling and disclosing securities that are deemed “TBA-deliverable” per the SIFMA Uniform Practices. Establishing social bonds as another specified market within UMBS ensures that the pricing floor for any new programs is the UMBS cheapest-to-deliver level.

Freddie Mac’s longer-term vision to enable our securities to drive additional borrower benefit is to segregate any incremental pay-ups (relative to TBA) from social bond investors. We could earmark proceeds for down payment assistance or for borrower hardship assistance. We could also consider issuing corporate debt specifically designated to fund the development of more loan offerings to meet the needs of underserved borrowers. Raising social corporate debt could also subsidize our social products if the debt prices advantageously. Our expectation is that the marketplace and

regulators will progressively raise the bar for how proceeds are managed and impact the borrower. To that end, we will work with the marketplace to add transparency to the management of those funds, including the issuance of annual impact reports.

Freddie Mac will proceed by building out our baseline program of securitizing loans under existing and new lending programs. The GSEs’ scale and standard setting ability should position us to lead the market in social bond issuance. Creation of new loan and securities offerings and products to meet underserved borrower needs will help expand our reach and impact in the Sustainable Homeownership area. The key to success will be understanding and meeting ever-expanding capital market requirements, while staying unquestionably within legal and regulatory boundaries.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Finalize our Sustainable Bond Framework. Obtain Second Party Opinion (SPO) from Sustainalytics on the framework. Issue the Sustainable Bond Framework. Continued analysis of potential corporate debt issuance to support Equity Program. Plan for operationalizing Reserve Fund into Sustainable Bond Program. 	<ul style="list-style-type: none"> Transition from issuing Affordable Bonds to issuing social bonds. Issue \$3 Billion in Affordable Housing Bonds.
Year 2 – 2023	<ul style="list-style-type: none"> Continue to purchase SPCP loans and issue social bonds with appropriate disclosures. Continue to analyze and implement an optimal securitization strategy. 	<ul style="list-style-type: none"> Securitize SPCP loans into social bonds. Publish Impact Report (covering 2022 issuance and any relevant 2021 issuance).
Year 3 – 2024	<ul style="list-style-type: none"> Continue to analyze and refine securitization strategy. Update the Sustainable Bond Framework as needed. 	<ul style="list-style-type: none"> Publish Impact Report.



Marketing and Research

5.7: Affirmative Marketing Plan

Our three-year marketing strategy is designed to help advance equity in housing finance and help decrease barriers to sustainable housing opportunities for both renters and future and current homeowners.

While many of the problems and barriers laid out in this document are well known to policymakers and industry experts, a widespread lack of understanding remains among consumers and others. Therefore, our external communications strategy will accomplish the following goals.

Consumers

- **Raise broad public awareness** of the benefits of participating in the housing market through homeownership, refinancing, affordable renting and in other ways.
- **Educate, engage and empower consumers** with financial capability tools tailored to their housing situation or needs (e.g., CreditSmart and My Home).
- **Promote foreclosure prevention and disaster relief resources** to increase sustainable homeownership.
- **Partner with various organizations**, both inside and outside the housing ecosystem, to increase the effectiveness of our efforts.

Industry

- **Raise public and industry understanding** of Freddie Mac products and initiatives that are designed to advance equity in the housing industry.
- **Increase awareness of approaches and activities** that would help mitigate tight housing supply.
- **Promote research, data and subject matter expertise** to expand understanding of the causes and solutions to issues challenging Black and Latino communities.

Our Actions

Freddie Mac's marketing activities will deliver a comprehensive, multi-channel marketing approach that aligns with focus areas outlined in this plan. Doing so will enable the strategic engagement of desired audiences who can benefit from sustainable and equitable housing finance. Our marketing activities will include:

- Message development
- External stakeholder outreach
- Outreach to consumers through media
- Enhanced digital communications using web, social media and email channels
- Educational tools and events for consumers
- Paid media opportunities
- Amplification in targeted communities nationwide

“Sometimes it feels like you’re on an island by yourself.... In my family, I was the first homeowner, so it felt like I was just thrown into the sharks and it was terrible.”

– Former homeowner, Freddie Mac ethnographic research



Goals

Period	Key Action Items	Goals
<p>Year 1 – 2022</p>	<p>Develop a corporate-wide affirmative marketing initiative to reach underserved markets and consumers within those pre-defined markets we deem as high-impact opportunities, including:</p> <ul style="list-style-type: none"> • Education and Outreach • Strategic Partnership and Community Engagement • Products and Services • Paid, Organic and Digital 	<ul style="list-style-type: none"> • Launch outreach campaigns on housing equity. • Launch consumer engagement and education programs, events and resources. • Measure those campaigns via uniform reporting.
<p>Year 2 – 2023</p>	<ul style="list-style-type: none"> • Expand nationwide marketing campaigns and initiatives to reach more borrowers and underserved markets utilizing many of the key tactics stated in Year 1. <ul style="list-style-type: none"> ◦ Continue to enhance marketing outreach in alignment with key focus areas and tactics outlined in this plan. 	<ul style="list-style-type: none"> • Same as above.
<p>Year 3 – 2024</p>	<ul style="list-style-type: none"> • Further enhance marketing campaigns in alignment with key focus areas and tactics outlined in this plan. 	<ul style="list-style-type: none"> • Same as above.





5.8: Equity Research Agenda

“I felt like as an African American woman I was just a number to the [real estate professional], and I didn’t want to feel that way.”

– Homebuyer, Freddie Mac ethnographic research

We commit to the following 21 research projects over the course of this plan.

Research Topic	Description	Focus Area
Homeownership Gaps and Academic Achievement	Reducing academic achievement gaps is identified as an important long-term strategy to reduce homeownership gaps. We will use regression analysis to explore the extent to which educational disparities contribute to the racial homeownership gap between white, Black and Latino households. We will use the National Longitudinal Survey of Youth as a data source.	Closing the Homeownership Gap
Mortgage Market Experiences of Black and Latino Borrowers	Little research has been done to understand the racial disparities mortgage borrowers experience that may perpetuate racial wealth gaps. We will investigate mortgage market experiences of Black and Latino versus Non-Latino white borrowers. This will include an analysis of perceptions, knowledge, shopping experience, satisfaction and expectations, as well as various sources of down payment, using the National Survey of Mortgage Originations (NSMO) and National Mortgage Database (NMDB) as data sources.	Closing the Homeownership Gap
First-Time Buyer Affordability Index	The current pandemic has negatively impacted the affordability of first-time homebuyers, especially the low- to moderate-income and families in historically underserved communities, due to high house prices and low housing inventory. We plan to construct a novel index to calculate trends in local affordability of future borrowers by various racial/ethnic and AMI buckets and to publish a white paper and interactive dashboard, using credit bureau(s) data, and the National Mortgage Database (NMDB) as data sources.	Closing the Homeownership Gap
Black Indigenous Homeownership	Assess the motivations and barriers to homeownership for Black Indigenous communities, including (a) quantitative research on the number and geographic location of Black Indigenous communities in America, (b) insights on household characteristics, homebuyer behaviors, and social and economic benefits, and (c) current programs or policies that either facilitate or hinder Black Indigenous homeownership.	Closing the Homeownership Gap



21 research projects over the course of this plan (Continued)

Research Topic	Description	Focus Area
Homeownership Sustainability	Homeownership sustainability focuses on predicting the ability of a household to maintain homeownership, which materially differs from modeling mortgage default. Understanding what factors drive sustainable homeownership is important at the individual level, as it is associated with upward mobility and wealth accumulation, and, at the societal level, with civic and community involvement and neighborhood stability. This research will use internal Freddie Mac data (particularly updated credit data) and, possibly, the National Mortgage Database (NMDB).	Eliminate Disparities in Community Experience
Trends in Student Loan Debt Among Future Borrowers from Communities of Color	Existing research points to student loan debt obligations as an important barrier to homeownership in communities of color, especially for Black millennials. We will investigate the student loan debt trends and the extent to which it is negatively impacting the debt-to-income ratios and mortgage readiness of Black future borrowers, using credit bureau(s) data and the American Community Survey (ACS) as data sources.	Eliminate Disparities in Community Experience
Impact of Mortgage Market Experiences on Loan Choice of Black and Latino Borrowers	Nearly 40 percent of FHA loans originated to Black and Latino borrowers can potentially fit into the conventional credit box. We will conduct research to better understand the extent to which mortgage market experience of minority borrowers determine their loan choice, among other factors, using the National Survey of Mortgage Originations (NSMO) and the National Mortgage Database (NMDB) as data sources.	Eliminate Disparities in Community Experience
Interactive Dashboard: Credit and Debt Profile of Future Black & Latino Borrowers	Credit profiles of consumers have been changing after the pandemic. For example, credit scores have gone up due to low delinquencies and low utilization rates. We plan to build an interactive dashboard to track various trends in real time (income, credit scores, balances and delinquencies by various debt-types, mortgage ownership and readiness status, etc.), using credit bureau data as a data source.	Eliminate Disparities in Community Experience
Understanding Financial Well-Being of Middle-Income Black Borrowers Since The Financial Crisis	Black homeowners have been hit particularly hard by the foreclosure crisis of late 2000s. However, little work has been done to distinguish the experience of Black communities with varying income levels, education or geographic diversity. We want to examine the financial well-being of middle-income Black households, who became first-time buyers at different points in time post-financial crisis, using credit bureau data as a data source.	Eliminate Disparities in Community Experience



21 research projects over the course of this plan (Continued)

Research Topic	Description	Focus Area
Youth Financial Education	Research can inform how to proactively equip young people in Black and Latino communities with tools needed to become financially capable and sound, emphasizing the need for personal financial education and management. This research will identify what is currently missing from early educational programming as well as ways to better educate and reach the Black and Latino younger community to help young people build pathways towards financial success. We will use primary quantitative consumer polling as a data source.	Eliminate Disparities in Community Experience
Identify and Implement Enhanced Baseline Tenant Protections	<p>As a first step in addressing disparities in tenant protections and tenants' rights, we will conduct in-depth research on the amount, availability, and degree of core tenant protections in all 50 states and Washington, D.C. and U.S. territories. In addition, we will explore the potential implications of those variations on renters by race and ethnicity, particularly Black and Latino renter households.</p> <p>As a result of this research, we will work with market stakeholders to identify marketable tenant protection enhancements that could be applied to properties obtaining new multifamily GSE loans, develop a plan to encourage adoption of these enhanced protections over time on new multifamily GSE transactions, and then implement these protections across our loan offerings in a manner that can foster scaled adoption and, ideally, establish a higher market standard for tenant protections.</p>	Increase Renter Opportunities
Analyze Housing Choice Voucher Availability, Efficacy and Acceptance	<p>Freddie Mac will research the usage and efficacy of Housing Choice Vouchers (HCV) nationwide in providing access to opportunity using geographic, policy and data analysis. We will publish a paper that analyzes the severity and prevalence of factors that inhibit use of HCVs, especially in high opportunity areas, and investigates where vouchers can and cannot likely support rent levels.</p> <p>After publication, we intend to engage with market stakeholders including HUD, housing authorities and multifamily owners and property managers to consider strategies that could increase the efficacy and acceptance of HCVs and how these strategies could be advanced through Freddie Mac loan offerings.</p>	Increase Renter Opportunities
Housing Choice Vouchers for Homeownership	The HCV homeownership program can enable eligible families to use the voucher for home purchase and to receive financial assistance towards homeownership expenses. We plan to investigate the extent to which HCV program can promote homeownership for eligible families.	Closing the Homeownership Gap
Analyze Credit Building Data to Assess Impact and Potential Improvements	<p>In order to identify potential changes to our credit building program, drive market adoption, and monitor progress, we will measure the inherent impact of the program utilizing Credit Bureau data on renters in Freddie Mac financed properties to capture credit scores before and after rent reporting, controlling for other potential drivers to isolate the rent reporting impact.</p> <p>This research can inform changes to the program and/or broader market adoption.</p>	Increase Renter Opportunities



21 research projects over the course of this plan (Continued)

Research Topic	Description	Focus Area
Analyze LIHTC Properties at Risk of Lost Affordability	<p>Freddie Mac will analyze the magnitude of Low-Income Housing Tax Credits (LIHTC) property affordability loss as well as where it is most likely to occur. We will publish the results of this research in a paper that identifies markets where LIHTC properties are at greater risk of lost affordability and examines these findings in the context of available public subsidy such as private activity bond and state-level LIHTC allocations.</p> <p>This research will inform loan offering enhancement and applications described in section 6.9 in order to preserve at risk LIHTC properties.</p>	Quality & Quantity of Affordable Housing Supply
Analyze and Identify Affordable Rental Housing Needs	<p>Freddie Mac will conduct research and develop tools to evaluate the differences in affordability characteristics in select markets across the country.</p> <p>Analysis can be used to inform market decisions regarding supply of affordable housing. Through this work we will (a) explore the market and/or sub-market affordable housing profile at various income levels and (b) examine the feasibility of funding necessary to develop that housing in terms of debt financing, equity investment and public subsidy required.</p>	Quality & Quantity of Affordable Housing Supply
Sizing Affordable and Aging Housing Supply in Diverse Rich and Low-Income Areas	<p>In order to study where the biggest gaps in housing supply are compared to the demand, we will identify top MSAs with the fastest growing population (i.e., by various race/ethnicity and income buckets) in the last 10 years and affordable housing supply shortage in these areas. We will use decennial census and Multiple Listing Services (MLS) as data sources.</p>	Quality & Quantity of Affordable Housing Supply
Analyze and Address Potential Appraisal Disparities in Multifamily Housing	<p>In order to identify and address potential appraisal disparities in multifamily housing, Freddie Mac will research the existence and severity of appraisal inequalities for multifamily properties in communities or neighborhoods in which a high number of diverse households reside. To do so we will leverage existing literature, analyze appraisal and demographic data and investigate potential root causes of any results showing such disparities exist.</p>	Underinvestment Within Formerly Redlined Areas



21 research projects over the course of this plan (Continued)

Research Topic	Description	Focus Area
Appraisal Gap Analyses	In 2021, Freddie Mac released a research note confirming that appraisals are more likely to come in under contract price in Black and Latino communities. We continue this research to explore root cause(s) that contribute to this gap, and to consider if, how and why automated valuation might be part of the solutions. Freddie Mac leveraged the Uniform Collateral Data Portal (UCDP) as a data source to inform the work and in May 2022, published its second research note titled “Racial & Ethnic Valuation Gaps in Home Purchase Appraisals - A Modeling Approach” ⁵²	Underinvestment Within Formerly Redlined Areas
Racial Segregation and Mortgage Market Outcome	To understand the impact of racial segregation on Black borrowers’ residential wealth accumulation propensity and various mechanisms behind that, we will investigate the relationship between racial segregation and mortgage market outcomes. More importantly, we will investigate various channels through which neighborhood segregation may have disparate impact on Black borrowers’ propensity to accumulate wealth (e.g., lack of investment in residential development, aging housing stock, bank deserts and limited access to financial information), using the National Mortgage Database, census data, Bureau of Labor Statistics data, and FHFA HPI as data sources.	Underinvestment Within Formerly Redlined Areas
Historical Redlining Analysis	To identify areas that are currently underserved so we can be efficient and in implementing the tactics within our equity plan, we will conduct research looking at historical, redlined areas and overlay them with various definitions of minority. We will investigate disparities in key economic factors across these definitions using HOLC maps, census data, credit bureau data, HMDA, and the National Mortgage Database (NMDB) as data sources.	Underinvestment Within Formerly Redlined Areas

⁵² <https://www.freddiemac.com/research/insight/20220510-racial-ethnic-valuation-gaps-home-purchase-appraisals-modeling-approach>



SECTION 6

Broad Interventions to Address Systemic Barriers to Equitable Housing

- This section of the Equitable Housing Finance Plan outlines our approach to broadly addressing systemic barriers to equitable housing. It focuses on solutions that address the homeownership gap and systemic underinvestment in formerly redlined areas, increase and improve the quality of affordable housing supply and increase opportunities for renters.



6.1: Improve Fairness in Credit Scoring

Market Challenges and Barriers

The mortgage industry relies upon FICO to assess borrowers' creditworthiness and as an input to most automated underwriting systems (AUS). Freddie Mac has been evaluating the potential to expand access to credit for historically underserved borrowers through use of alternative credit scores, as well as using alternative data for credit assessments. We also are working to remove reliance on third party credit scores in the company's AUS.

Our Actions

We are developing a version of the company's AUS that does not rely upon third party credit scores. We also intend to investigate and develop a plan to leverage alternative credit data where appropriate.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Develop plan of alternative credit data sources and begin analysis. 	<ul style="list-style-type: none"> Reduce disparities through implementation of a newer AUS version leveraging more advanced modeling techniques.
Year 2 – 2023	<ul style="list-style-type: none"> Implement an AUS version without third party credit scores. Continue development of newer versions of internal underwriting and costing models using advanced modeling techniques. Continue research for the use of alternative credit data. 	<ul style="list-style-type: none"> Remove reliance on third party credit scores within Freddie Mac's AUS.
Year 3 – 2024	<ul style="list-style-type: none"> Continue development of newer versions of underwriting (relying on trended and other alternative data) and costing models using advanced modeling techniques. 	<ul style="list-style-type: none"> Complete an analysis on viability of the use of trended and other alternative data.



6.2: Improve Fairness in Underwriting

Market Challenges and Barriers

Many people in communities of color manage finances through cash transactions. Cash transactions are outside of the credit system, making it more difficult for potential borrowers to receive financing since the lending process does not capture cash transactions. This cash-rich environment creates income that can be tracked through bank account data from third-party service providers. Additionally, objectively responsible behavior, like pursuing continued education, or paying cash for a used car instead of leasing a new one, may not help Black or Latino homebuyers enhance credit because they occur outside of the credit system.

Our Actions

Freddie Mac will actively pursue technological and credit policy analysis to determine the most effective methods of incorporating this financial information into the lending process to assess borrower account data and patterns to increase access to credit for underserved borrowers.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Explore use of cash flow metrics to support the evaluation of a borrower’s ability to repay. Evaluate other cash flow metrics in the industry. 	<ul style="list-style-type: none"> Analyze impact to accept rate gap for underrepresented borrowers.
Year 2 – 2023	<ul style="list-style-type: none"> Begin research and development on integrating cash flow data into our AUS. 	<ul style="list-style-type: none"> Same as above.
Year 3 – 2024	<ul style="list-style-type: none"> Integrate cash flow data into our AUS. 	<ul style="list-style-type: none"> Same as above.

“You know, I’m not a big fan of the credit card. [I prefer to] save your money up and buy it... Take your time, buy things as you like them... the credit card business is predatory.”

– Current homeowner, Freddie Mac ethnographic research



6.3: Solutions to Foster Appraisal Equity

Activity 1: Appraisal Industry Engagement

Market Challenges and Barriers

The appraiser community of practice at times does not reflect the racial and ethnic diversity of the homeowner community it serves. For example, 89 percent of all property appraisers and assessors are white, with 2 percent identifying as Black and 5 percent as Latino.⁵³ Entry into the profession can be difficult, particularly satisfying the state-required qualification criteria and obtaining the experience required prior to licensure as a trainee. Furthermore, trainees have a difficult time obtaining supervising appraisers. These factors may contribute to a homogeneous current population of appraisers.

Freddie Mac has a unique opportunity to engage the appraisal industry on the topic of equitable housing, as demonstrated by its 2021 research paper identifying appraisal gaps within minority census tracts.

Our Actions

Freddie Mac will explore opportunities to address appraisal and valuation equity concerns and take steps to ensure fair valuation and mitigate potential for discrimination.

To support the continued efforts to increase diversity among residential appraisers, Freddie Mac has committed to partner with The Appraisal Institute through its Appraiser Diversity Initiative (ADI). This initiative provides scholarship opportunities to new entrants in training to become appraisers. Freddie Mac has joined the ADI effort as a core partner, joining the Appraisal Institute, Fannie Mae and the Urban League with a commitment to (a) provide advisor mentor resources to assist scholarship winners, (b) actively engage in recruiting and marketing efforts with the Appraisal Institute to invite new entrants and (c) to engage the appraisal industry broadly to solicit industry sponsorship opportunities.



⁵³ <https://www.urban.org/urban-wire/increasing-diversity-appraisal-profession-combined-short-term-solutions-can-help-address-valuation-bias-homeowners-color>



Freddie Mac will also partner with the housing industry to address the concerns raised about race and ethnicity-based appraisal gaps. For example, Freddie Mac joined the Office of the Comptroller of the Currency (OCC) Project REACH (Roundtable for Economic Access and Change) effort. The goal of the project is to bring together leaders from banking, business, technology and national civil rights organizations to develop strategies to reduce specific barriers that prevent full, equal and fair participation in the nation’s economy. Through this work, Freddie Mac is co-leading a valuation workstream with representatives from lenders and the OCC.

practice, as well as the qualification criteria and minimum education required for new appraisers. For example, Freddie Mac has dedicated representatives participating in TAFAC (The Appraisal Foundation Advisory Council), through which it can provide input to both ASB and AQB. Freddie Mac hopes to promote appraisal standards, provide objective and unbiased appraisals and ensure that qualifying criteria does not provide barriers to entry.

Additionally, Freddie Mac commits to providing input to the Appraisal Foundation’s Appraisal Standards Board (ASB) and its Appraisal Qualification Board (AQB) with respect to establishing, improving and promulgating uniform standards of professional appraisal

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Active leadership in ADI effort with a commitment to (a) provide advisor mentor resources to assist scholarship winners, (b) actively engage in recruiting and marketing efforts with the Appraisal Institute to invite new entrants and (c) to engage the appraisal industry broadly to solicit industry sponsorship opportunities. Leadership in Project REACH. Input and participation in ASB and AQB. 	<ul style="list-style-type: none"> Continued leadership in ADI, Project REACH, ASB and AQB. Work with FHFA to identify and expedite implementation of prioritized valuation equity proposals. Work with FHFA to identify additional research topics related to valuation equity and publish and broadly distribute such research.
Year 2 – 2023	<ul style="list-style-type: none"> Continued engagement in the ADI. Evaluate guidance / rule gaps (regulatory and GSE), determine if an appraisal bias study is feasible and evaluate whether bias exists in AVM design or data. Continue participation in TAFAC (The Appraisal Foundation Advisory Council) to inform improvements. Review and comment on exposure drafts and proposed changes to USPAP. 	<ul style="list-style-type: none"> Continued commitment to mentor and support diverse new appraiser entrants through the ADI. Continued engagement with OCC Project REACH's appraisal and valuation subgroup.
Year 3 – 2024	<ul style="list-style-type: none"> Continued engagement in the ADI. 	<ul style="list-style-type: none"> Same as 2023.



Activity 2: Develop Appraiser Quality Monitoring

Market Challenges and Barriers

Freddie Mac research finds that Black and Latino communities are more likely to receive home appraisal values below market contract price (Appraisal Gap).⁵⁴ Greater focus is needed to enhance tools such as Loan Collateral Advisor® (LCA) to assist lenders in identifying poor quality appraisals as well as defining and implementing the Freddie Mac appraiser monitoring framework.

Our Actions

Freddie Mac will develop an Appraiser Quality Monitoring framework that leverages modern technology features. As well as staff internal team leveraging tools to identify, assess, monitor and mitigate risks such as Appraisal Gap. The framework will include feedback communications to appraisers and lenders to remediate observed trends.

⁵⁴ http://www.freddiemac.com/research/insight/20210920_home_appraisals.page?

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Create and staff dedicated AQM team (with associated technology tools). 	<ul style="list-style-type: none"> Define AQM framework.
Year 2 – 2023	<ul style="list-style-type: none"> Refine AQM framework as warranted. 	<ul style="list-style-type: none"> Execute against AQM framework.
Year 3 – 2024	<ul style="list-style-type: none"> Refine AQM framework as warranted. 	<ul style="list-style-type: none"> Execute against AQM framework.



Activity 3: Enhance LCA to Better Detect Potential Undervaluation and Use of Biased Wording

Our Actions

Freddie Mac’s research indicates appraisals in minority census tracts are more likely to receive an appraised value below the contract price, as compared to appraisals in non-minority census tracts. Undervaluation could impact buyers, sellers and the communities they live in, and this occurs more often in minority, compared to non-minority communities. Undervaluation also could lead to increased risks to Freddie Mac and the lenders who sell loans to Freddie Mac.

Freddie Mac will focus on several enhancements to LCA to assist us and our lenders in identifying and reviewing appraisals that may be at a higher risk for inappropriate undervaluation or use of biased words or phrases (e.g., pride of ownership, crime ridden, etc.).



Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Enhance LCA to better detect potential undervaluation. Develop plan to assist lenders in detecting subjective and/or biased wording in appraisal reports. 	<ul style="list-style-type: none"> Deploy LCA version with enhanced undervaluation detection capability.
Year 2 – 2023	<ul style="list-style-type: none"> Monitor performance of undervaluation rule in LCA. Enhance LCA to detect subjective/biased text in appraisal reports. 	<ul style="list-style-type: none"> Announce and implement strategy to eliminate inappropriate language in appraisal reports.
Year 3 – 2024	<ul style="list-style-type: none"> Monitor performance. 	



Activity 4: Analyze and Address Potential Appraisal Disparities in Multifamily Housing

Market Challenges and Barriers

In September 2021, Freddie Mac published research showing substantial appraisal valuation gaps for single-family homes. The research found that “appraisers’ opinions of value are more likely to fall below the contract price in Black and Latino census tracts, and the extent of the gap increases as the percentage of Black or Latino people in the tract increases.” These results for the single-family market manifest across various analyses presented in the paper. This research begs the question, does a similar gap exist for multifamily properties?

Appraisals are engaged, developed and reported differently for multifamily lending than for single-family (i.e., reliance on the property’s income generation and investment potential in addition to comparability to similar properties that sold), but Freddie Mac’s prior research on single-family appraisal disparities demonstrates that there is potential for disparities in multifamily appraisals as well, and provides some insight into how a similar study could be developed to test undervaluation of multifamily property in minority concentrated areas.

Our Actions

Freddie Mac will research the potential existence and severity of appraisal inequalities for multifamily properties in communities or neighborhoods in which a high number of minority households reside. Freddie Mac will do this by reviewing existing literature, analyzing appraisal and demographic data and investigating potential root causes of any results showing that such disparities exist. In our research paper, we will:

- Review background and existing research on this topic.
- Present data-driven findings on potential gaps in appraisal values.
- Discuss potential causes and solutions, depending on the nature of the problem.

Once published, we will convene market stakeholders to examine opportunities and develop a plan to address disparities in the multifamily industry appraisal process and standards.

Goals

Period	Key Action Items	Goals
Year 2 – 2023	<ul style="list-style-type: none"> • Conduct research. 	<ul style="list-style-type: none"> • Publish research.
Year 3 – 2024	<ul style="list-style-type: none"> • Convene market stakeholders and develop a plan to address potential appraisal disparities identified in research. 	<ul style="list-style-type: none"> • Develop a plan to address identified disparities.



6.4: Provide Capital for Very Small Multifamily Properties by Expanding “Linked Loan” Parameters

Market Challenges and Barriers

The rental housing stock in historically underinvested communities is often diverse, ranging from single-family homes, 2-4-unit properties, very small 5+ unit properties and larger buildings. While larger properties are straightforward to finance, very small properties are often too small to finance cost-effectively through traditional lenders. This can make developing these properties in such communities prohibitively difficult and expensive, especially for emerging developers, as they would have to rely on a variety of lenders and loan products, with many inconsistencies in process, requirements and terms. An emerging developer who starts by investing in 1-4-unit properties but then scales wealth and experience and enters the 5+ unit space will rapidly become constrained by the inability to refinance their portfolio to continue growing both in scale and impact in their communities.

Emerging developers who operate a range of properties need a single, cost-effective form of financing. Freddie Mac can support this blend of properties in our Small Balance Loan program on a limited basis today under “linked loan” parameters that allow us to finance a collection of small properties on contiguous sites, but more can be done. Expanding our capabilities will likely have a material impact on both emerging minority borrowers and underinvested minority communities, as 2-4-unit buildings are a particularly important component of the housing stock in communities of color. Black and Latino communities have greater representation both as tenants and landlords in 2-4-unit

rental housing. According to the Urban Institute, the property type with the most Black and Latino owners is 2-4 unit properties: 13 percent of owners are Black, and 15 percent are Latino.⁵⁵ Black and Latino-headed households are also more likely to rent units in 2-to-4-unit buildings than any other type of structure. In Chicago, for example, 73.4 percent of all 2-4-unit rentals are occupied by households headed by a person of color.⁵⁶ As such, better meeting these small rental properties’ needs will help us better meet these targeted underserved communities’ needs.

Our Actions

We intend to expand our “linked loan” parameters to allow financing of noncontiguous 2-4-unit rental properties. We will test the capabilities and impact of the program, focusing on, but not limiting availability to, historically underinvested communities. Today, we allow 2-4-unit buildings, but they must be contiguous and of “like” quality to 5+ unit properties. Our expansion would include non-contiguous properties no more than three miles apart. This distance would allow for both consistent property management and flexibility for emerging and smaller developers to grow their portfolios and support their communities. Emerging developers would also benefit from our Develop the Developer curriculum and other services funded through our community support investments described above and below.

⁵⁵ <https://www.housingstudies.org/releases/preservation-lab/>

⁵⁶ <https://www.housingstudies.org/releases/characteristics-2-4-stock-chicago-neighborhoods/>

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Develop updated “linked loan” parameters. Educate Optigo lenders on changes. Publish updated parameters in a term sheet. 	<ul style="list-style-type: none"> Publish updated program parameters.



6.5: Support Renter and Multifamily Borrower Resource Organizations

Market Challenges and Barriers

Access to tenant support services, such as legal aid or financial and housing counseling can be vital for renters who are experiencing challenging life events or housing stability issues. For example, according to a recent study by the Institute for Housing Studies at DePaul University, lower-wage, hourly workers have faced increased risk of job loss and reduced incomes from the COVID-19 pandemic. These workers are more likely to be minorities, renters and already face housing-cost burdens — underscoring the importance of support for tenants and small property owners in underserved communities.⁵⁷ However, support is not consistently available and, if available, tenants may not know how to access the support they need. Further, organizations that provide tenant support services may not have the resources to meet all the needs in the communities they serve.

A lack of access to support and resources has a grave impact on the financial health and future of renters in underserved communities. If a tenant faces missing a rental payment due to loss of income or has a dispute with their landlord, they might not know where to turn for help. Tenants in difficult situations might not go to their landlord with a problem for fear of eviction. Tenants living in units where landlords are unresponsive to maintenance issues that are potentially putting their health and wellbeing at risk may not know what to do. If left unaddressed, these challenges can lead to poor credit, eviction and health issues that are harmful to a tenant's wellbeing and stability.

Consistent and straightforward access to tenant support services can be of vital importance in helping people stay in their homes or ensure rental units are in good repair. Stability of housing for renters can also foster greater community stability, which can be an important factor in measuring quality of life, increasing investment and addressing undervaluation in formerly redlined areas, racially or ethnically concentrated areas of poverty (R/ECAPs) and other underinvested communities. Borrowers can also benefit from supportive services. Given the proper resources and funding, informed borrowers are better able to support tenants, and this support can lead to more sustained occupancy, stability and financial benefits to both borrowers and tenants.

⁵⁷ <https://www.housingstudies.org/releases/preservation-lab/>



Our Actions

To provide additional support and protection for renters, Freddie Mac will work to further support local community organizations in targeted underserved areas that are already established but need more resources to (a) support underserved minority renters and/or (b) support underserved borrowers and property managers. These organizations might provide resources such as enforcing and improving tenant protections and rights, legal services for rental disputes, housing discrimination and eviction protection resources. Additionally, organizations that support underserved borrowers might have influence over property owners to engage in more equitable practices surrounding rental applications, screenings, rebuttals, repayment and evictions. Community organizations could also provide social services to renters, such as educational support on necessary due diligence when finding an apartment, as we also intend to do through our CreditSmart® program. We will partner with some of these renter resource organizations to better serve tenants and understand needs and challenges they are facing.

By providing financial support to community organizations, underserved tenants and borrowers have an opportunity to become better informed, protected and assisted. In exchange for funds, our community partners will provide Freddie Mac with impact reports and access to renter and community sentiments to ensure our ongoing efforts continue to meet the needs of the communities. By doing so, we will be able to better understand the barriers and challenges renters in underserved communities face, address their needs and challenges, and adjust the action items in our Equitable Housing Finance Plan as such.

We can use this information to scale programs further or tailor our loan offerings to better support these community organizations. Outreach and lessons learned through our engagement with community organizations will allow us to provide support for renters and borrowers across a range of issues, improving renter outcomes and property stability.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Identify community organizations with which to develop partnerships. Review impact reports of community organizations. Solidify community partnership agreements. Promote access to community organization services through our website. 	<ul style="list-style-type: none"> Support at least four community organizations in varying underserved markets. Launch website resource portal. Poll renters and borrowers in at least four distinct communities.
Year 2 – 2023	<ul style="list-style-type: none"> Identify new community organizations with which to develop partnerships. Continue to review impact reports of community organizations. 	<ul style="list-style-type: none"> Support at least seven community organizations in varying underserved markets. Poll renters and borrowers in at least four distinct communities.
Year 3 – 2024	<ul style="list-style-type: none"> Identify new community organizations with which to develop partnerships. Continue to review impact reports of community organizations. 	<ul style="list-style-type: none"> Support at least seven community organizations in varying underserved markets. Poll renters and borrowers in at least four distinct communities.



6.6: Develop Multifamily Correspondent Lender Program for Community Development Financial Institutions, Minority Depository Institutions and Small Lenders

Market Challenges and Barriers

Community Development Financial Institutions (CDFIs), minority depository institutions (MDIs) and smaller regional banks or small financial institutions (SFIs) have a unique place in the market. These institutions often have specialty programs and a great level of expertise with programs and financing directed towards the hardest-to-serve areas in their states and communities.

Per research from the Carsey School of Public Policy at the University of New Hampshire, CDFIs are delivering most of their lending to low-income and minority borrowers⁵⁸ in historically underserved markets and hard-to-finance properties, such as multifamily buildings with fewer than 20 units, which are typically too small for larger lenders to pursue. CDFIs, MDIs and SFIs provide necessary investment in minority communities by preserving the affordable housing stock and helping to improve the quality of life of the minority renters they serve.

While these institutions play a vital role, they are often constrained in how much lending they can do because of either limited balance sheet size or borrower or geographic concentration challenges. They would benefit from greater access to capital so they can increase their impact and gain more exposure to the processes and requirements (both procedural and technical) that enable them to access that capital. As their borrowers grow and succeed, they can become too big to rely on small financial institutions who are more adept at making smaller targeted loans, but do not typically support the larger loans necessary for growing borrowers to acquire and operate larger properties. Without greater access to capital, these institutions can no longer serve their more successful borrowers.

Our Actions

Throughout our Equitable Housing Finance Plan, we propose specific activities that involve providing securitization options for these institutions. These securitization vehicles are effective in many circumstances but are not necessarily the best fit for all institutions, particularly smaller institutions that may not have existing securitization experience or have limited ability to aggregate larger volumes of loans on their balance sheet. Many of these institutions and the communities they serve would benefit most from the ability to sell individual loans to Freddie Mac. Typically, it is challenging for Freddie Mac to maintain relationships with lenders that do not operate at scale. Likewise, it is challenging for small lenders to develop the infrastructure required to sell loans directly to Freddie Mac.

To empower these lenders and help them grow in scale and impact, we will develop a program that bridges the gap between these lenders and Freddie Mac. By leveraging our existing multifamily lender network as intermediaries, we will develop a small multifamily lender mentoring and correspondent relationship program.

Under this program we will first identify lenders from our Optigo network who are willing and able to support smaller lending institutions. We will develop a “playbook” of guidelines and standards for these Optigo lenders to interface with and support smaller lending institutions. This playbook will include a menu of different support tactics and economic parameters. From there, we will (a) match incoming lender requests from these small institutions with the list of qualified Optigo lenders and monitor progress, and (b) conduct our own outreach and events to identify additional potential small lenders. We will start with a small number of correspondent relationships to refine parameters and develop our playbook. Over time we will continue to expand and refine the list of qualified Optigo lenders and expand this correspondent relationship program through ongoing outreach and pairing.

As we work with our Optigo lenders to develop this correspondent lender program, we will continue to leverage our existing suite of seasoned and affordable loan pool offerings, as well as the new offerings described through our Equitable Housing Finance Plan, to provide liquidity to CDFIs, MDIs and SFIs.

⁵⁸ <https://www.cdfifund.gov/Documents/CDFIs%20Stepping%20into%20the%20Breach%20Impact%20Evaluation%20Report.pdf>



Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> • Conduct outreach to CDFIs, MDIs, and CDFIs to understand their unique challenges and needs. • Conduct outreach to Optigo lenders. • Analyze feedback to understand the feasibility and challenges of providing liquidity or other support to CDFIs, MDIs and other SFIs. • Develop draft “playbook” for Optigo lenders engaging with correspondent lenders. 	<ul style="list-style-type: none"> • Identify at least one Optigo lender to commit to supporting small lending institutions. • Engage at least one correspondent lender.
Year 2 – 2023	<ul style="list-style-type: none"> • Establish correspondent relationship(s) to identify opportunities for improvement before expanding availability. • Publish playbook for Optigo lenders to leverage in supporting small lending institutions. Playbook to include best practices and economic limits/requirements around warehouse lines for aggregating collateral, due diligence requirements, servicing resources, ongoing consulting and education resources. • Increase number of correspondent lenders and Optigo lenders engaged in the program. • Continue outreach and engagement with CDFIs, MDIs and small lenders. 	<ul style="list-style-type: none"> • Identify at least one additional Optigo lender to commit to supporting small lending institutions. • Grow correspondent network to at least three lenders.
Year 3 – 2024	<ul style="list-style-type: none"> • Refine playbook for Optigo lenders based on experience and feedback as needed. • Increase number of correspondent lenders and Optigo lenders engaged in the program. • Continue outreach and engagement with CDFIs, MDIs and small lenders. 	<ul style="list-style-type: none"> • Identify at least one additional Optigo lender to commit to supporting small lending institutions. • Grow correspondent network to at least five lenders.



6.7: Facilitate Ground-Up Construction and Adaptive Reuse of Affordable and Middle-Income Rental Housing for Individuals and Families

Market Challenges and Barriers

The Joint Center for Housing Studies of Harvard University estimates that the U.S. needs to produce 4.6 million new apartment units by 2030 to keep up with demand, which equates to a development pace that has been achieved three times in the past thirty years.⁵⁹ There has been an uptick in construction activity in recent years, however, much of this has been focused on high-rent Class A properties. According to the National Low Income Housing Coalition, there is a systemic national shortage of rental housing affordable for renters with household incomes below 50 percent of AMI, with all but two states reporting a cumulative shortage. Fifteen states and DC have shortages of 80 percent AMI affordable rental housing, and seven states with high-cost metropolitan areas — California, Florida, Hawaii, Massachusetts, New Jersey, New York and Oregon — have cumulative shortages at the median income. This shortage disproportionately affects Black and Latino renters, as 73 percent of Black renters and 68 percent of Latino renters have incomes at 80 percent AMI or below.⁶⁰

It is estimated that as of 2018, 10 percent of new units built have asking rents at levels considered to be affordable for half the rental population.⁶¹ Although the Low-Income Housing Tax Credit (LIHTC) program has been effective at creating new affordable supply, the program produces fewer than 50,000 new units annually and many states are constrained by LIHTC and private activity bond volume caps. The need for increased supply is compounded by the expiration of the regulatory agreements for these LIHTC properties. An estimated 718,000 units are expected to be released from these agreements by 2030.⁶²

In addition to the many public barriers to developing new affordable housing described in our Equitable Housing Finance Plan, such as restrictive land use and zoning policies to local objections to neighborhood changes, there are also substantial economic and procedural challenges to developing new affordable housing. These are perhaps most acute in high opportunity areas, which tend to also be high-rent and high-cost areas.

Uncertainty in financing — from rates to loan duration — results from project delays in permits, construction, lease-up and other factors, all of which complicate development. The cost of construction materials and labor grew by 57 percent from 2000 to 2016 and, according to recent surveys, 100 percent of respondents have seen price increases in materials on recent projects. Land prices increased 96 percent during the same period and there remains a limited amount of development sites that are entitled for multifamily use. Furthermore, projects face an average of a four-month delay in the entitlement process and those delays lead to an estimated rental increase of \$125 per month. This rising cost environment continues to drive increased rental rates, further exacerbating the affordability crises.^{63 64}

Financing uncertainties and high construction costs limit the market's ability to create affordable rentals and increase the quality of housing. Freddie Mac aims to address these issues through the expanded use of forward commitments and the purchase of certain construction-to-permanent loans.

59 The State of the Nation's Housing 2021. Joint Center for Housing Studies of Harvard University

60 https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2021.pdf

61 Per Freddie Mac's internal analysis and Harvard's Joint Center for Housing Studies' State of the Nation's Housing 2019. "With most new construction targeting the high end of the market, there has been some potential for excess supply to filter down to lower rent levels."

62 PAHRC and NLIHC tabulation of NHPD, January 2020

63 NMHC Construction Survey (Round 8): NMHC | NMHC Construction Survey (Round 8)

64 The Housing Affordability Toolkit. NMHC



Our Actions

Freddie Mac intends to support the construction of new affordable housing and the adaptive reuse of existing non-residential structures — both with and without public subsidy — in three ways:

- Leverage and expand our forward commitment construction take-out loan offerings.
- Provide liquidity to small institutions in the ground-up affordable construction to permanent lending market.
- Develop a construction-to-permanent loan purchase offering.

These approaches will be focused on improving the economic feasibility of creating affordable and middle-income rental housing and has a strong impact on those most affected by the housing shortage, including underserved racial and ethnic groups.

Action 1: Forward Commitments

Forward commitments provide developers and construction lenders with a much-needed sense of certainty. Developers benefit because funding terms on their long-term permanent loan are locked in, while construction lenders benefit through the certainty that their short-term construction loan will be paid off. This makes it easier for them to lend on new construction projects.

Freddie Mac has funded forward commitments since the early 2000s, primarily with a focus on properties with LIHTC. By doing this, Freddie Mac has provided developers with permanent financing terms for newly constructed or substantially rehabilitated affordable multifamily properties prior to construction completion and stabilization. However, new construction of LIHTC properties is not enough to close the affordable housing gap.

To further aid the construction of affordable rental housing, Freddie Mac began offering forward commitments on properties with other public subsidy and affordability restrictions without LIHTC. Under our Equitable Housing Finance Plan, we intend to take the lessons we have learned in our years of experience to expand the use and, where necessary, flexibility of our forward commitment offerings.

The forward commitment program also allows us to support innovative construction methods that can help reduce construction time, cost and mitigate the risks of

“Building material cost is the largest challenge in the short run, with a \$30k–\$40k cost increase in a typical Single-Family house coming from increases in lumber costs and other materials”

– Developer, California, Freddie Mac ethnographic research

construction lending. Through our forward program, we intend to establish standards for lending on properties built with novel construction methods such as mass timber, panelized construction or modular construction, as well as specialized housing, such as supportive housing for persons who formerly experienced homelessness or affordable build-to-rent, single-family housing rental communities.

If there are no governmental affordability restrictions on these new properties, we will require affordability to be preserved on a meaningful portion of the units through restrictions in the Freddie Mac loan agreement.

Action 2: Construction Loan Sponsored Securitization

We intend to analyze the feasibility of and develop terms for supporting the construction lending market by credit enhancing and sponsoring the securitization of third-party ground-up construction-to-permanent debt on traditional and modular multifamily properties. We will focus on properties that have units affordable to low- and moderate-income renters, a population that is disproportionately Black and Latino. These loans would be originated and funded by experienced construction lenders, CDFIs and/or Duty to Serve qualifying small financial institutions. In addition to directly supporting the creation of new supply, these transactions will increase social bond issuance and provide the liquidity needed to scale key market participants that are active in creating new affordable supply.



Action 3: Construction-to-Permanent Loan Purchase Offering

We intend to analyze the feasibility of, and develop a loan purchase offering for, ground-up construction financing. This offering will facilitate increased development of new and affordable supply, as well as spur liquidity and more efficient financing for a fragmented segment of the market.

Freddie Mac will also develop a platform to directly purchase construction-to-permanent loans for affordable and middle-income multifamily and build-for-rent developments. This program will target new developments with units that are affordable to tenants earning a maximum of 80 percent, 100 percent and 120 percent AMI in standard, cost-burdened and very cost-burdened markets. The parameters of our program will include requirements that explicitly promote equitable housing such as a requirement to offer credit-building and financial-capability training to renters, a requirement to accept housing choice vouchers where market conditions allow or considerations for disability-inclusive design.

In developing this offering, we will research and further establish a Freddie Mac framework for equitable multifamily housing development. This framework would build from foundational concepts of equitable development established by public advocacy groups, and private research institutions that focus on quality-of-life outcomes for communities of color, including access to transportation, living-wage opportunities, quality education and meaningful community engagement in the development process. In this new offering, construction projects that fall within this equitable development framework, would be prioritized.

Through our forward commitments, securitizations and this novel construction-to-permanent loan purchase program, Freddie Mac aims to mitigate obstacles to new construction to alleviate a shortage of rental units, increase affordability and further equitable housing.



Goals

Period	Key Action Items	Goals
Year 1 – 2022	<p>Forward commitment</p> <ul style="list-style-type: none"> Formalize underwriting flexibilities for forward commitments. Develop standards for underwriting novel construction methods. Promote offerings to our lender network. <p>Construction Loan Sponsored Securitization</p> <ul style="list-style-type: none"> Analyze the feasibility to develop this offering. <p>Construction-to-Permanent Loan Purchase</p> <ul style="list-style-type: none"> Analyze the feasibility to develop this offering. 	<ul style="list-style-type: none"> Commit to fund 15,000 units across these initiatives.
Year 2 – 2023	<p>Forward commitment</p> <ul style="list-style-type: none"> Increase forward commitments. <p>Construction Loan Sponsored Securitization</p> <ul style="list-style-type: none"> Engage with market stakeholders and develop parameters for credit enhancement and securitization of construction loans originated by small lenders. Publish term sheet. <p>Construction-to-Permanent Loan Purchase</p> <ul style="list-style-type: none"> Engage with market stakeholders and develop parameters for construction loan offering. Research and establish equitable development framework Identify lenders to originate and service construction loans. 	<ul style="list-style-type: none"> Commit to fund 20,000 units across these initiatives.
Year 3 – 2024	<p>Forward commitment</p> <ul style="list-style-type: none"> Increase forward commitments. <p>Construction Loan Sponsored Securitization</p> <ul style="list-style-type: none"> Execute first securitization of construction loans. <p>Construction-to-Permanent Loan Purchase</p> <ul style="list-style-type: none"> Launch offering and publish term sheet Begin purchasing construction loans. 	<ul style="list-style-type: none"> Commit to fund 30,000 units across these initiatives (assumes implementation of offerings in 2023 and 2024).



6.8: Rehabilitate Affordable Rental Housing

Market Challenges and Barriers

Safe, decent, affordable housing is a basic need. Nationally there is a profound shortage of affordable housing, and much of the existing affordable housing stock needs rehabilitation or is at risk of conversion to market rate. While major public programs such as LIHTC and Section 8 typically ensure a reasonable level of quality, outside of these programs there is less assurance.

Public housing has suffered considerably from underfunding and resulting disrepair. The U.S. Government Accountability Office study estimates that \$70 billion is required to address the backlog of maintenance in the existing public housing rental supply alone.⁶⁵ Affordable property without public subsidy and regulatory agreements — Naturally Occurring Affordable Housing (NOAH) — are often older and may have varying levels of deferred maintenance as well.⁶⁶ Thirty-nine percent of renter households live in units built prior to 1970, which are more likely to have material issues relative to new rental units.

As the severity of climate change continues to increase, so does the risk to property quality. Severe storms and weather events pose a threat to those living in the most vulnerable areas. These residents, and those living in older, lower quality housing, are disproportionately minority households.

These challenges are especially apparent in smaller properties (5-50 units), which represent a significant source of naturally occurring low- and middle-income housing. According to the American Housing Survey (2019), approximately 50 percent of the U.S. population is housed in properties with 2-49 units, which also represent the most affordable housing segment for both owners and renters. These properties tend to be more affordable to renters than both single-family and larger multifamily properties.⁶⁷

Despite their need for liquidity, small multifamily investors may not benefit from the access to equity that their larger counterparts have, and therefore, face greater barriers to investing in the rehabilitation of their properties. Terms for small multifamily renovation loans often carry higher interest rates and require full recourse obligations, which put greater financial risk and pressure on the property owner.

It is not enough to preserve the affordability of these properties. We must also find ways to preserve and improve the quality of these rental homes and guard against environmental events that threaten the lives and livelihoods of residents in these properties and communities.

Our Actions

Freddie Mac aims to provide financing through rehabilitation loans to improve the quality of affordable, decent, safe and sanitary housing, including properties available in racially or ethnically concentrated areas of poverty, formerly redlined areas and other geographic areas of underinvestment.

We have identified five potential loan offering enhancements to support the rehabilitation of affordable housing.

Action 1: Expand Eligible Uses of Our Preservation Rehabilitation Loan Offering

Properties that require substantial rehabilitation require specialized financing. Today, Freddie Mac provides liquidity for financing on properties receiving new LIHTCs to support rehabilitation and to preserve long-term affordability. However, there are additional opportunities to support rehabilitation on properties not receiving new tax credits. Examples of this include public housing, Section 8 Project-Based Rental Assistance, and various state and local programs. We intend to expand our Preservation Rehabilitation loan offering eligibility criteria to support these properties engaging in substantial rehabilitation, so long as they preserve affordability either through a regulatory agreement or through rent restrictions in the Freddie Mac loan agreement.

⁶⁵ <https://www.gao.gov/products/gao-20-427>

⁶⁶ Slide 16 of the CoStar Report: https://2os2f877tn1dvtmc3wy0aq1-wpengine.netdna-ssl.com/wp-content/uploads/ULL-Documents/ULL_NAAHL_Presentation.pdf shows a majority were built in the 1960s and 1970s.

⁶⁷ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3449555



Action 2: Develop “Bridge to Rehab” Loan Offering

Current owners of older properties may not be able to commit to necessary rehabilitation and may instead sell these properties to new owners. To support new owners who plan to rehabilitate these properties, we intend to develop offering terms for a “Bridge to Rehab” loan to allow the new owner to acquire the property to preserve its affordability and commit to rehabilitation under our Preservation Rehab offering. We anticipate that this will increase the ability of borrowers to acquire and rehabilitate older properties and compete with developers seeking to acquire older properties and, after substantial renovation, increase rents beyond affordable levels.

Action 3: Expand Liquidity to Institutions Providing Rehabilitation Loans

Freddie Mac currently offers several seasoned and affordable loan pool securitization options to institutions that provide rehabilitation loans, such as small and minority-owned banks and CDFIs. Freddie Mac will provide greater flexibility in these offerings to accommodate properties undergoing rehabilitation. These institutions are often vital sources of capital to fund the rehabilitation of small and/or affordable properties. Expanding rehabilitation collateral eligibility will provide a valuable source of liquidity to small and medium-sized lending institutions that support improvement of affordable housing, including affordable housing located in in racially or ethnically concentrated areas of poverty, formerly redlined areas and other geographic areas of underinvestment.

Action 4: Incentivize Climate Resiliency Property Improvements

For both affordable and conventional properties, Freddie Mac will design and implement incentives for owners of multifamily properties in areas vulnerable to the effects of climate change. These properties tend to be in historically underserved communities. These incentives will allow owners to make capital improvements that enhance resiliency to natural disasters and promote sustainability.



Action 5: Enhance Small Balance Loan Program for Rehabilitation

We will enhance our Small Balance Loan program, which serves small properties often owned by smaller, community-based developers, in two ways:

- We will design and implement incentives for property owners who commit to set aside funds to make certain property improvements while maintaining affordability. We will establish parameters around required capital improvement, budget size and scope, as well as unit-affordability thresholds post-renovation, to ensure that the properties financed under these incentive programs remain affordable.
- We currently offer advance permanent financing terms for small balance loans exiting rehabilitation bridge financing. We will expand this offering by arranging for the loan to be funded by the Optigo lender prior to full stabilization of the property, with Freddie Mac delaying its purchase of the mortgage until stabilization. This would help reduce the financial burden and uncertainty of bridge loans for small multifamily borrowers.



Goals

Period	Key Action Items	Goals
Year 1 – 2022	<p>Preservation Rehabilitation Loan Offering</p> <ul style="list-style-type: none"> Expand Preservation Rehab eligibility standards. Update term sheet and market to our Optigo lender network. <p>Bridge to Rehab</p> <ul style="list-style-type: none"> Design Bridge to Rehab product offering. Publish term sheet and market to our Optigo lender network. <p>Liquidity to Institutions Providing Rehabilitation Loans</p> <ul style="list-style-type: none"> Create standards for expanded pool of eligible lenders. Conduct outreach and communication with lenders. 	<ul style="list-style-type: none"> Fund 5,000 units of rehabilitated properties. Of the 5,000-unit goal, fund 2,500 units of rehab in underinvested communities (50% of total goal).
Year 2 – 2023	<p>Climate Resiliency</p> <ul style="list-style-type: none"> Establish borrower incentives and resiliency improvement standards. Publish term sheet and market to our Optigo lender network. <p>SBL Rehabilitation</p> <ul style="list-style-type: none"> Establish enhanced incentives and parameters for property owners and capital improvement requirements. 	<ul style="list-style-type: none"> Fund 12,000 units in rehabbed properties (assuming implementation of offerings in 2023). Of the 12,000-unit goal, fund 6,000 units for rehab in underinvested communities (50% of total goal).
Year 3 – 2024	<ul style="list-style-type: none"> Increase loan purchases preserving property quality. 	<ul style="list-style-type: none"> Fund 20,000 units in rehabbed properties (assuming implementation of offerings in 2023). Of the 20,000-unit goal, fund 10,000 units for rehab in underinvested communities (50% of total goal).



6.9: Explore and Implement Methods to Preserve At-Risk Affordable Housing through Freddie Mac Affordability Restrictions

Market Challenges and Barriers

Over the past decade, rental housing has become considerably less affordable, as rent prices have risen faster than incomes. The inadequate supply of affordable housing and rent pressures have been exacerbated by market conditions leading to displacement of tenants and other affordability challenges. There are already signs that the COVID-19 pandemic has worsened these challenges, particularly for minority renters. While rents decreased in many markets temporarily in 2020, rent levels are already approaching or exceeding pre-pandemic levels in many markets, and rent growth rates are upwards of 10 percent annually in the summer of 2021.⁶⁸ As stimulus, unemployment benefits and rent support wear off — and as new supply to the market continues to be limited and generally not affordable — rent growth could continue its long-term trajectory of outpacing income growth.

To address the growing supply gap, it is necessary to not just create new affordable housing, but also preserve the existing affordable housing that is at risk of becoming unaffordable due to deterioration or conversion to higher rents. At-risk housing consists of both properties with public subsidies, such as LIHTC, that are nearing the end of their affordability restrictions and unsubsidized NOAH properties. Per analysis from the National Low Income Housing Coalition, more than 130,000 LIHTC units could reach the end of their affordability restriction by 2024. NOAH properties are likely at greater risk of lost affordability, as they have no restrictions whatsoever.

⁶⁸ As reported by RealPage, Yardi Matrix and Witten Advisors.



Address the Homeownership Gap



Address Systemic Underinvestment within Formerly Redlined Areas



Finance the Creation and Preservation of Affordable Housing



Increase Opportunities for Renters



Eliminate Disparities Among Members of Black and Latino Communities



The risk of lost affordability and displacement is particularly acute for Black and Latino renter households, which are disproportionately represented in NOAH and LIHTC properties. As of 2019, more than 30 percent of LIHTC households were Black and 15.5 percent were Latino, compared to 27.7 percent being white.⁶⁹ While national demographic data is limited on NOAH property residents, McKinsey research from 2020 shows that 62 percent of NOAH units in Los Angeles County are in “zip codes where more than half of residents are people of color.”⁷⁰

Federal programs such as LIHTC and Section 8 are vital to creating and preserving affordable housing, but they are not adequately funded to address the entirety of our nation’s supply challenges. Too often, those motivated to purchase at-risk affordable housing and keep it affordable must compete with buyers whose intention is to increase rents. Additional and deliberate preservation efforts leveraging private capital are necessary to address this issue.

Our Actions

Freddie Mac aims to address these threats to affordability by expanding existing and exploring new loan offerings that mandate affordability restrictions through Freddie Mac’s loan agreement. This approach will allow private investment capital to be directed toward preserving affordability and will allow limited public subsidy to be applied where it is most needed and most effective.

Freddie Mac has identified three principal loan offering concepts that can enable us to preserve thousands of units of at-risk affordable housing over the first three years of our Equitable Housing Finance Plan.

Action 1: Expand Tenant Advancement Loans

Freddie Mac will seek to expand both the volume and borrower network who engage in its Tenant Advancement Loans such as through its Tenant Advancement Master Financing Commitment, which allow us to support property owners who have integrated social impact practices into their business models.

These practices include both providing tenant social services at properties and preserving affordable housing through rent restrictions enforced by the Freddie Mac loan agreement. In its expansion efforts, Freddie Mac will continue to engage property owners who perform needs assessments to determine which services are offered at the apartment communities we finance. We also expect the owners’ management plan to include dedicated staff or a retained non-profit to engage meaningfully with the resident community and practice cultural competence to best serve diverse tenant bases. To date, Freddie Mac has funded approximately \$1.1 billion in Tenant Advancement Commitments across four sponsors. Loans Freddie Mac purchased under these Commitments have resulted in 4,720 units restricted through the Freddie Mac loan agreement at 80 percent AMI and 100 units restricted at 60 percent AMI. Further, 40 percent of properties financed were in or close to a High Opportunity Area (as defined by FHFA in the Duty to Serve regulation) and 36 percent were in or close to a R/ECAP. Under our Equitable Housing Finance Plan, we will expand the use and impact of this offering.

Incentives in the form of credit flexibility and advantageous pricing assist mission-focused borrowers in their efforts to acquire market-rate multifamily properties. Without incentives, rents typically rise to market-clearing levels, risking displacement of existing residents and removing naturally occurring affordable units from the rental supply. Greater incentives for rent restrictions will be considered for properties located in high opportunity areas and/or areas of greater risk for lost affordability. In exchange for these benefits, we will also require reporting on tenant services. This will better enable Freddie Mac to attract impact-motivated investment capital through our Impact Bond program.

Action 2: Preserve LIHTC At Risk

For LIHTC properties where the affordability restrictions expire during the Freddie Mac loan term, we will explore ways to incentivize borrowers to preserve the affordability beyond the period of regulatory restriction. To receive our incentives, owners would be expected to commit to extend their current regulatory agreement or restrict at least 20 percent of the units at the property for the entirety of the loan term. This commitment would be enforced through the Freddie Mac loan agreement. We would formally brand this offering and promote it through our lender network. This offering would be informed by our research described below in section 6.10.

69 HUD LIHTC Data: <https://www.huduser.gov/portal/Datasets/lihtc/2019-LIHTC-Tenant-Tables.pdf>

70 Preserving the largest and most at-risk supply of affordable housing |McKinsey



Action 3: Preserve NOAH Properties

Freddie Mac will explore methods to preserve NOAH property affordability by working with Social Impact Funds, non-profits and ESG-driven capital with experience in affordable multifamily ownership to provide preservation-focused capital. Often the preservation of these properties, particularly in high cost, high opportunity areas require additional capital beyond first-lien debt from Freddie Mac. Under this concept, we could potentially identify and work with social impact, non-profit and ESG fund investors to provide mezzanine financing subordinate to a Freddie Mac-purchased and guaranteed first mortgage. Through the Freddie Mac loan agreement, we would expect that a meaningful portion of the units at the property be restricted at affordable levels based on the market.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<p>Tenant Advancement Loans</p> <ul style="list-style-type: none"> Review first round of tenant service reporting metrics and ongoing rent restrictions. Seek to increase number of new borrowers using this offering. Purchase loans that preserve at risk housing. 	<ul style="list-style-type: none"> Preserve 1,000 at-risk housing units through Freddie Mac rent restrictions.
Year 2 – 2023	<p>At-Risk LIHTC Preservation</p> <ul style="list-style-type: none"> Explore and develop credit flexibilities and/or incentives to preserve at risk LIHTC. Publish term sheet and market to our lender network. <p>NOAH Preservation</p> <ul style="list-style-type: none"> Explore and develop credit flexibilities and/or incentives for NOAH preservation. Publish term sheet and market to our lender network. 	<ul style="list-style-type: none"> Preserve 3,000 at-risk housing units through Freddie Mac rent restrictions. (Assuming implementation of offerings in 2023).
Year 3 – 2024	<ul style="list-style-type: none"> Increase loan purchases preserving at-risk housing. 	<ul style="list-style-type: none"> Preserve 6,000 at-risk housing units through Freddie Mac rent restrictions. (Assuming implementation of offerings in 2023).



6.10: Analyze Low-Income Housing Tax Credit Properties at Risk of Lost Affordability

Market Challenges and Barriers

The LIHTC program has grown to be one of the largest affordable rental housing programs in the United States. The duration of LIHTC affordability, however, is not indefinite. The affordability restrictions on LIHTC properties last at least 15 years during the Compliance Period. After 15 years, some properties may remain in the program for an additional 15 years (or longer, depending on the state), during what is known as the Extended Use Period.

Other properties, depending on the state, have the option of leaving the program and dropping affordability restrictions through what is known as the Qualified Contract (QC) process. A property can also renew LIHTC credits and restart the affordability timer. Thousands of properties have exited the program through the QC process — but even more may leave soon by reaching the end of their Extended Use periods.

Expiring affordability is an urgent issue, potentially impacting hundreds of thousands of affordable units in the next several years and disproportionately affecting minority renters. As of 2019, more than 30 percent of LIHTC households were Black and 15.5 percent were Latino, compared with 27.7 percent being white.⁷¹

Understanding where and how this issue is developing will provide valuable insight on how and where states can prioritize limited resources for greatest impact through LIHTC, private activity bonds and other subsidy programs and how Freddie Mac can leverage our loan offerings and preservation activities under our Equitable Housing efforts.

Our Actions

Freddie Mac will analyze the magnitude of LIHTC property affordability loss as well as where it is most likely to occur. While other research has been conducted on this topic, our work will provide a more market-specific assessment of risk to affordability of units when restrictions expire. We will publish the results of this research in a paper that identifies markets where LIHTC properties are at greater risk of lost affordability and examines these findings in the context of available public subsidy such as private activity bond and state-level LIHTC allocations.

In addition to publication, we will leverage this research in our efforts described above in Section 6.9 to increase the preservation of at-risk LIHTC properties through Freddie Mac loans on properties seeking to extend affordability through new LIHTC or through Freddie Mac loans on properties that may exit the LIHTC program but will commit to preserve affordability through the Freddie Mac loan agreement.

⁷¹ HUD LIHTC Data: <https://www.huduser.gov/portal/Datasets/lihtc/2019-LIHTC-Tenant-Tables.pdf>

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Publish paper. Leverage research to inform loan offering enhancements and application described above in section 6.9. 	<ul style="list-style-type: none"> Publish paper and enhance loan offerings as described above.



6.11: Analyze and Identify Affordable Rental Housing Needs

Market Challenges and Barriers

Nationally, there is a profound shortage of affordable and available rental housing. According to the National Low Income Housing Coalition, there are 37 affordable and available homes for every 100 extremely low-income renter households nationwide. This shortage extends to every state in the country, and it disproportionately affects minority households. Twenty percent of Black households and 14 percent of Latino households are extremely low-income renters, while 6 percent of white non-Latino households are extremely low-income renters.⁷² The shortage is not limited to extremely low-income renters. In 48 states, the shortage extends to renters making 50 percent of AMI, and in 15 states and Washington, DC it extends to renters making 80 percent of AMI. Nearly half of these renters are cost-burdened, meaning they spend more than 30 percent of their income on rent.

Closing the gap of affordable and available housing is complicated by high costs of construction, land, labor and materials and by zoning that often restricts construction of new rental housing, particularly in areas of high opportunity. As a result, building new rental housing that is affordable to those making less than the AMI is often not possible without public subsidy, and that public subsidy is limited. The federal government subsidizes rents for around 4.4 million households per year, but more households qualify for assistance than receive it.⁷³ Even when a subsidy is available, public support is often not. Local groups often impede new development of affordable housing, especially in areas of higher opportunity, where public opposition can delay projects for years or stop them altogether.



⁷² https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2021.pdf

⁷³ "Rental Housing: As More Households Rent, the Poorest Face Affordability and Housing Quality Challenges." United States Government Accountability Office



In broad terms, addressing this challenge is extremely daunting. It is made more challenging by the fact that it is very difficult to gauge the need and the cost at more local levels. Further, it is important to not just create and preserve affordable housing, but to do so in ways that further opportunity for renters — to provide access to affordable housing in areas of opportunity and to productively invest in formerly redlined communities and racially and ethnically concentrated areas of poverty. These challenges make identifying goals for both the preservation of existing affordable units that may be at risk and the creation of new units at best time consuming and resource intensive and at worst nearly impossible. Without data and goals, it is harder to gain public support for the funding to support either (a) the creation of new affordable housing and the zoning changes that may be necessary to enable it, or (b) the preservation of existing affordable housing that may be at risk of becoming unaffordable or obsolete.

Our Actions

Freddie Mac will conduct research and develop tools to evaluate the differences in affordability characteristics in select markets across the country. Analysis can be used to inform market decisions regarding supply of affordable housing. Through this work, we will (a) explore the market and/or sub-market affordable housing profile at various income levels and (b) examine the feasibility of funding necessary to develop that housing in terms of debt financing, equity investment, and public subsidy required.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> Engage with market stakeholders. Conduct research and analysis. Identify and collect the data. 	<ul style="list-style-type: none"> Conduct research.
Year 2 – 2023	<ul style="list-style-type: none"> Publish paper. Engage with market stakeholders. Begin incorporating data into a web-based tool. 	<ul style="list-style-type: none"> Publish paper.
Year 3 – 2024	<ul style="list-style-type: none"> Complete incorporation of data into a web-based tool. Publish tool. 	<ul style="list-style-type: none"> Publish tool.

The results of this analysis will take two forms:

- We will publish a paper analyzing the work and its key findings to help policymakers and capital providers better understand the local affordability housing needs.
- We will also incorporate data and findings into a web-based tool that allows policy makers and capital providers to leverage understanding from our analysis and examine these needs in select markets across the country.

In conducting our research and leveraging this tool, Freddie Mac will engage with stakeholders such as researchers, developers and localities to refine our analysis and best meet their needs.

Once published, Freddie Mac will promote these materials and actively seek opportunities to work with stakeholders to leverage these materials in support of the many activities in our Equitable Housing Finance Plan to both create and preserve affordable housing in areas of opportunity and in formerly redlined areas and R/ECAPs.

Because of the broad scope of this work and potential in-depth research and analysis required, it will likely take three years to complete.



6.12: Financial Empowerment for Renters: Credit Building Through On-time Rent Reporting, CreditSmart and Equity Building for Renters

Market Challenges and Barriers

Individuals with lower credit scores or those who are credit invisible face greater barriers to housing opportunity and wealth building than those with higher credit scores. These individuals may face higher risk of being screened out of rental applications (i.e., tenant screening services often rely on credit scores as a factor) and have greater difficulty accessing credit, thus hindering their ability to obtain a mortgage, rent a house or apartment, buy a car, get insurance and even secure employment. This challenge disproportionately affects Black and Latino households. Per research from the Consumer Financial Protection Bureau, one in five Black consumers and one in nine Latino consumers have a FICO score of 620 or less. This compares to one in 19 white consumers.⁷⁴

The single largest and most consistent debt payment that most renter households make — their rent — is not captured in today's traditional credit scoring model. Renters have much lower credit scores (638 — "Poor") than homebuyers (717 — "Good") — and an even larger disparity is seen when scores are stratified by race. Poor credit scores directly contribute to the growing wealth gap that exists today and can be harmful to renters' financial future. Renters can benefit from both financial capability resources and an efficient process that captures credit data to better help them manage their finances, plan for the future and achieve homeownership capabilities.

Additionally, renters, unlike homeowners, do not build equity through their living arrangement. This also contributes to the wealth gap between renters and homebuyers and makes it more difficult for renters to accumulate wealth and eventually become homeowners themselves — effectively contributing to the homeownership gap as well.

Within the multifamily housing industry, Freddie Mac is looking to provide renters opportunities to a) increase or build their credit scores and b) build equity. We are

working to provide tenants with a service that allows for reporting of on-time rents to the three major credit bureaus to establish stronger credit scores. Stronger credit scores open doors for tenants such as access to short-term credit options for emergency situations, qualifying for lower interest rates resulting in higher savings, providing economic mobility and improving their opportunity to become homeowners.

Freddie Mac also intends to learn from owner/operators in the multifamily housing space that have begun identifying certain opportunities for renters to build wealth based on their living arrangements. Through outreach and research efforts, we intend to identify standards for equity building opportunities for renters and develop a model of incentivizing this behavior to work at greater scale. The output of our work in equity building opportunities for renters will tie closely to our Tenant Advancement Commitment discussed elsewhere in our Equitable Housing Finance Plan.

"I had so many problems because my credit wasn't like 700 or 800. But my bill pay history was 100%. Maybe you have some hardships in life, but if your payments are 100% now...I thought that was a little harsh and discouraging."

— Prospective homebuyer, Freddie Mac ethnographic research

⁷⁴ <https://www.forbes.com/advisor/credit-cards/from-inherent-racial-bias-to-incorrect-data-the-problems-with-current-credit-scoring-models/>



Our Actions

Freddie Mac announced in November 2021 that it is programmatically incentivizing multifamily borrowers to report on-time rent payments to credit bureaus. As we implement this program, we will increase the share of loans purchased that use this credit-building feature over time.

In 2021, we began to test this capability by engaging a FinTech firm that provides software to capture on-time rent payments and report them to the three major credit bureaus. As of 3/31/22, Freddie Mac has already enrolled more than 20 sponsors, 526 properties and over 50,000 units with participants who own and operate properties with rent and income restrictions, 5–50-unit properties and larger market-rate properties. Renters at these properties with existing credit who saw an improvement have seen an average credit score increase of 41 points and these resources have created credit scores for over 15,000 renters who were previously credit invisible. In the next three years, we intend to engage in the following three actions.



Action 1: Increase Rent Reporting for Credit Building

Partner with FinTech firm(s) to encourage multifamily borrower adoption of on-time rent reporting to strengthen renters' credit scores. Freddie Mac's goal is to make rent reporting an industry standard and ultimately scale rental data submitted to the credit bureaus so it is no longer considered alternative credit data and can therefore be utilized in credit scoring models.

Action 2: Introduce CreditSmart for Renters

CreditSmart® — Freddie Mac's proprietary financial empowerment curriculum — is free and robust. Concepts start with setting financial goals and put the power in the consumers' hands to better understand concepts ranging from how to build a household budget, to saving for rainy day expenditures, to buying or leasing a vehicle. For renters, CreditSmart can guide users through creating household budgets, determining how much to spend on rent and what their tenant rights and obligations are before entering into a lease. We intend to conduct targeted, deliberate outreach to renters by incentivizing our borrowers, lenders and community organizations to offer these in-person coaching sessions and/or digital self-guided curriculum at the individual property level.

Action 3: Research Credit Building Program Impacts

Freddie Mac will measure the inherent impact of our credit building program utilizing Credit Bureau data on renters in Freddie Mac-financed properties to capture credit scores before and after rent reporting, controlling for other potential drivers to isolate the rent reporting impact. This research can inform changes to the program and/or broader market adoption.

Freddie Mac also intends to identify and build out a core set of equity-building features — ranging from rent rebates to savings incentives for renters — that borrowers can implement at the property level. We will build incentives for those sets of features into our loan offerings, with a specific focus on serving those most in need of these options. These features could be layered into offerings our sponsors are already using through Freddie Mac to further increase the impact these offerings can have on tenant advancement and equity growth.



Goals

Period	Key Action Items	Goals
Year 1 – 2022	<p>Credit Building:</p> <ul style="list-style-type: none"> Develop plans to increase scalability and adoption by promoting borrower adoption of rent reporting and addressing any program shortcomings. Monitor and analyze available data to find ways to improve the program. <p>CreditSmart:</p> <ul style="list-style-type: none"> Begin renter and borrower outreach of the CreditSmart curriculum; encourage and find ways to incentivize borrowers and partners to promote the curriculum to their renters. Require CreditSmart for certain high-impact loan offerings (e.g., Tenant Advancement Commitment). <p>Equity Building:</p> <ul style="list-style-type: none"> Identify a core set of equity building features for renters that borrowers are currently using and determine if they are feasible and scalable. 	<p>Credit Building:</p> <ul style="list-style-type: none"> Make credit building available to 100,000 new units. <p>CreditSmart:</p> <ul style="list-style-type: none"> Implement strategy to deliberately market CreditSmart at multifamily properties. Enroll at least five partner corporations in CreditSmart coach training.
Year 2 – 2023	<p>Credit Building:</p> <ul style="list-style-type: none"> Increase scalability and borrower adoption of rent reporting. Address any program shortcomings. Monitor and analyze available data to find ways to improve the program. <p>CreditSmart:</p> <ul style="list-style-type: none"> Expand renter, borrower and community outreach of the CreditSmart curriculum. <p>Equity Building:</p> <ul style="list-style-type: none"> Launch program or loan offering, with a specific focus on serving those most in need of these options. 	<p>Credit Building:</p> <ul style="list-style-type: none"> Make credit building available to 100,000 new units. <p>CreditSmart:</p> <ul style="list-style-type: none"> Enroll at least five new partner organizations in CreditSmart coach training. Offer the CreditSmart course to at least 5,000 renters. <p>Equity Building:</p> <ul style="list-style-type: none"> Execute at least one transaction that offers a distinct equity building structure or offering.
Year 3 – 2024	<p>Credit Building:</p> <ul style="list-style-type: none"> Increase scalability and borrower adoption of rent reporting. Address any program shortcomings. Monitor and analyze available data to find ways to improve the program. <p>CreditSmart:</p> <ul style="list-style-type: none"> Expand renter, borrower and community outreach of the CreditSmart curriculum. <p>Equity Building:</p> <ul style="list-style-type: none"> Review incentives, impact and refine programs as needed. Explore additional equity building features. 	<p>Credit Building:</p> <ul style="list-style-type: none"> Make credit building available to 100,000 new units. <p>CreditSmart:</p> <ul style="list-style-type: none"> Enroll at least five new partner organizations in CreditSmart coach training. Offer the CreditSmart course to at least 10,000 renters. <p>Equity Building:</p> <ul style="list-style-type: none"> Increase equity building loan volume (specific targets to be set in 2023).



6.13: Identify and Implement Enhanced Baseline Tenant Protections

Market Challenges and Barriers

Landlord-tenant relationships are governed by state and local laws. While many states may base their laws on the Uniform Residential Landlord and Tenant Act (URLTA) or the Model Residential Landlord-Tenant Code, there is significant inconsistency in these laws across the country.⁷⁵ Consequently, there is significant inconsistency in renter experiences and their rights as tenants. The jurisdictional disparities affect not just tenant rights, but also tenant life outcomes, as evictions or excessive late fees, for example, can have long-term and persistent negative impacts.

These disparities are apparent when comparing states such as Texas and New York, where both the level of discretion afforded to landlords and the grace periods for rent payments vary considerably.

In Texas, the landlord has great discretion with respect to late payments and eviction. Rent is considered late the day after it is due. If included in the lease, the landlord may collect a late fee following a full two-day grace period after the rent due date. No such grace period is required, though, to provide an eviction notice. The landlord may choose, but is not obligated, to provide the tenant a notice of missed rent along with the eviction notice. Once written, notice to vacate is given and the tenant is required to move out of the property within three days (including weekends and holidays) even if no notice of missed rent is provided.⁷⁶

By contrast, in New York, a landlord must wait five days after the rent due date before providing the tenant written notice by certified mail of the missed payment. If the landlord chooses to pursue eviction for non-payment, they must first provide a written 14-day notice to pay. The renter then has 14 days to make the missed payment. The renter can either make the payment or move out. If the renter fails to make the missed rent payment and remains in the unit, the landlord can proceed with the eviction process.⁷⁷

⁷⁵ https://www.law.cornell.edu/wex/landlord-tenant_law

⁷⁶ <https://www.nolo.com/legal-encyclopedia/eviction-notices-nonpayment-rent-texas.html> and <https://www.ipropertymanagement.com/laws/texas-eviction-process>

⁷⁷ <https://www.nolo.com/legal-encyclopedia/eviction-notices-nonpayment-rent-new-york.html> and <https://www.ipropertymanagement.com/laws/new-york-eviction-process>



Inconsistent eviction protections throughout the United States and U.S. territories disproportionately impact minority renter households, particularly Black renter households. Per analysis from the Eviction Lab at Princeton University:

- Black renters experienced the highest average rates of eviction filing (6.2 percent) and eviction judgement (3.4 percent).
- By contrast, the average eviction filing rate among white renters was 3.4 percent and the average eviction rate was 2.0 percent.
- Nearly one in four Black renters lived in a county in which the Black eviction rate was more than double the white eviction rate.⁷⁸

Addressing these disparities and enabling an enhanced baseline of tenant protections with less opportunity for discretion in applying minimum standards can meaningfully address disparities in evictions and tenant life outcomes.

⁷⁸ <https://evictionlab.org/demographics-of-eviction/>

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> • Engage with market stakeholders. • Conduct research and analysis. • Publish paper. 	<ul style="list-style-type: none"> • Publish paper.
Year 2—2023	<ul style="list-style-type: none"> • Develop and implement incentives as appropriate for enhanced tenant protections. • Begin purchasing loans with enhanced tenant protections. • Gather feedback on protections from a selection of borrowers who obtained these loans. 	<ul style="list-style-type: none"> • Enhanced protections included in applicable loan offerings.
Year 3—2024	<ul style="list-style-type: none"> • Increase loan purchases on properties committing to implement enhanced tenant protections. • Consider refinements to incentives and parameters. 	<ul style="list-style-type: none"> • Fund 10,000 Units with Enhanced Tenant Protections.

Our Actions

Freddie Mac will address disparities in tenant protections and tenants’ rights in two ways.

First, we will conduct in-depth research on the amount, availability and degree of core tenant protections in all 50 states and Washington, D.C. and U.S. territories and the potential implications of those variations on renters by race and ethnicity, particularly Black and Latino renter households. We will publish this research and promote it to our lender and borrower network and to other market stakeholders, as appropriate.

Second, after completing and publishing our research, Freddie Mac will work with market stakeholders, including tenants’ rights advocates, multifamily developers/ owners, property managers and FHFA to:

- Identify marketable tenant protection enhancements that could be applied to properties obtaining new multifamily GSE loans.
- Develop a plan to encourage adoption of these enhanced protections over time on new multifamily GSE transactions.

We will then implement these protections across our loan offerings in a manner that can foster scaled adoption and, ideally, establish a higher market standard for tenant protections.



6.14: Analyze Housing Choice Voucher Availability, Efficacy and Acceptance for Renters and Homeowners

Market Challenges and Barriers

Housing Choice Vouchers provide low-income renters and homeowners both access to affordable housing and greater choice in where they live, potentially increasing access to areas of higher opportunity. The program accomplishes this goal by paying subsidies, which are a certain portion of the total rent, directly to the landlord, and the qualified household pays the remainder of the rent. Although Housing Choice Vouchers already serve 2.2 million households, or 5 million individuals, the need far outweighs voucher availability.

There are other obstacles in obtaining voucher assistance, such as different state requirements, the need for additional subsidy layering and source-of-income discrimination. Additionally, the calculation methodology used to determine what rent levels vouchers can support can also limit their efficacy in higher cost areas that may afford greater access to opportunity for renters.

This combination of factors limits the ultimate impact of Housing Choice Vouchers, both in terms of supporting households who are severely cost burdened and in furthering access to opportunity for renters.

Our Actions

Freddie Mac will research the usage and efficacy of Housing Choice Vouchers nationwide in providing access to opportunity using geographic, policy and data analysis.

Based on this research, Freddie Mac will publish a paper that analyzes the severity and prevalence of factors that inhibit use of Housing Choice Vouchers, especially in high opportunity areas, and investigate where vouchers can and cannot likely support rent levels and homeownership. We will examine:

- Where vouchers are used today.
- Where vouchers have the potential to be used based on market rent levels and program rules.
- How voucher usage aligns or does not align with areas that provide access to opportunity.





Additionally, we will consider barriers to vouchers providing greater access to opportunity today as well as alternative scenarios under which vouchers could provide that access.

While much research has been conducted on Housing Choice Vouchers, this analysis will be specifically directed to shed light on voucher usage as it relates to neighborhood affordability and opportunity and may contribute to development of — or outreach related to — Freddie Mac loan offerings or other efforts to maximize the impact of Housing Choice Vouchers. After publication, we intend to engage with market stakeholders and organizations including HUD, housing authorities and multifamily owners and property managers to consider strategies that could increase the efficacy and acceptance of Housing Choice Vouchers and how these strategies could be advanced through Freddie Mac loan offerings.

Goals

Period	Key Action Items	Goals
Year 2 – 2023	<ul style="list-style-type: none"> Publish Paper analyzing the severity and prevalence of factors that inhibit use of Housing Choice Vouchers. 	<ul style="list-style-type: none"> Publish paper.
Year 3 – 2024	<ul style="list-style-type: none"> Convene stakeholders to develop strategies to increase Housing Choice Voucher efficacy and acceptance, including through Freddie Mac loan offerings. 	<ul style="list-style-type: none"> Identify strategies.



6.15: Reform the Single-Family Rental Market with a Focus on Equity, Affordability and Sustainability

Market Challenges and Barriers

Access to opportunity for social and economic mobility is too often aligned with living in suburban areas that are dominated by single-family homes and homeownership. This is not an accident. It is a result of historic redlining and zoning ordinances that essentially created and preserved suburban enclaves for white households, while excluding Black, Latino and other minority households. While there are many definitions of “high opportunity areas,” we refer to areas designated in state LIHTC Qualified Allocation Plans (QAPs) and identified in FHFA’s Duty to Serve regulation. Single-family structures comprise 88 percent of the total housing stock in these high opportunity areas, which is 11 percent higher than outside of these high opportunity areas.⁷⁹

While closing the homeownership gap can help increase access to the benefits afforded by high opportunity areas, often these areas are out of reach for first-time homebuyers given the relatively high cost of homes. Homeownership need not be the only way for households to access these neighborhoods, but there is often limited multifamily rental housing, particularly with units large enough to be optimal for families with children. Single-family rental (SFR) homes offer an important alternative to access high-opportunity areas and provide families with more living space with lower rent than apartments on a square-foot basis.

The SFR market still has difficulties for minority renters. Source-of-income discrimination can prevent renters seeking to use Housing Choice Vouchers from entering high opportunity areas, and media coverage of evictions among larger SFR owner-operators suggests disparities in eviction rates between minority and white households. We are also mindful that, with an overall housing shortage, financing for SFRs has the potential to reduce opportunities for first-time homebuyers and wealth building.

For SFR to be a viable method to further access to opportunity, these issues need to be addressed, and a greater focus on equity is required than is present in the market today.

⁷⁹ Per Freddie Mac analysis, this only includes the 19 states with FHFA-defined High Opportunity Areas and excludes counties without any High Opportunity tracts to account for lower population density in rural areas.



Our Actions

Freddie Mac entered the SFR market in 2018-2019 under a temporarily authorized pilot program. During the pilot, Freddie Mac purchased over \$1.3B in SFR loan volume and financed 16,140 underlying properties. The Freddie Mac SFR pilot:

- Was focused on small and middle-tier borrowers.
- Contributed to affordable housing supply by demonstrating that SFRs affordable at 80 percent of AMI could be created and well-operated.
- Provided borrowers much needed access to credit with long-term financing at lower rates.
- Targeted borrowers who operated in the affordable segment of SFR.

Freddie Mac’s SFR pilot demonstrated the value of providing targeted financing for affordable SFRs. Our re-entry into the SFR market will take the lessons from our pilot and apply them with a distinct focus on furthering equitable housing, supporting strong and tenant-friendly management practices, facilitating opportunity for homeownership and furthering access to opportunity for renters.

- Freddie Mac will aim to provide access to capital and thereby opportunity, particularly for emerging and diverse small and middle-market SFR borrowers. Furthermore, we would not participate in financing large SFR transactions that involve 100 percent market rate or luxury rental homes, or fund equity buy outs, mergers or acquisitions of large institutional SFR owner/operators.
- We will include additional equity-focused features in the program, such as:
 - Working with SFR borrowers, lenders, tenants and consumer rights groups to develop an initiative that allows for the eventual sale of SFR properties to tenants, thereby returning homeownership opportunities to the single-family housing supply.
 - Requiring all borrowers to report on-time rent payments to the major credit bureaus and provide financial empowerment educational resources, such as CreditSmart, to renters.
 - Requiring acceptance of Housing Choice Vouchers where economically feasible
 - Requiring enhanced tenant protections.
 - Incentivizing green improvements, such as installing energy efficient appliances and low water usage bathroom and kitchen fixtures.

Goals

Period	Key Action Items	Goals
Year 1 – 2022	<ul style="list-style-type: none"> • Complete market, feasibility, and impact analysis. • Identify program parameters based on analysis. 	<ul style="list-style-type: none"> • Complete analysis.
Year 2 – 2023	<p>Finalize offering parameters and build business infrastructure:</p> <ul style="list-style-type: none"> • Establish the SFR Optigo lender network. Develop and set equity-focused requirements. • Develop standardized loan documents, loan parameters and procedures, tenant protection requirements and contract with a credit building group for sponsors/ borrowers to utilize. • Establish internal staff and resources. 	<ul style="list-style-type: none"> • Finalize offering parameters.
Year 3 – 2024	<ul style="list-style-type: none"> • Launch offering. • Begin purchasing loans. 	<ul style="list-style-type: none"> • Loan purchase target will be set once feasibility and impact analysis has been completed and offering parameters have been established.



SECTION 7

Conclusion



Conclusion

The inequities facing Black and Latino communities are longstanding, and addressing this crisis demands long-term commitment and focus. Freddie Mac’s Equitable Housing Finance Plan sets a course that we—and our partners throughout the industry—will follow and improve upon for years to come, but it is only the beginning. We believe the actions in this plan are meaningful steps that will help us address this urgent national priority and deliver on our mission of equitably making home possible.

“The road ahead is challenging, but not insurmountable. With the partnership of lenders, investors, policymakers and other industry participants, we intend to make meaningful progress towards an equitable housing finance system that provides access to wealth, opportunity and a sense of home to people and communities across the United States.”



— Michael Hutchins, President



SECTION 8

Appendix



8.1: Consumer Research Interview & Surveys

Consumer interviews (56)

Access to Housing: 28 ethnographic interviews, 8 co-design workshops, 33 co-design participants



28

In-depth interviews with past, present, and future homeowners



33

Co-Design Participants



8

Co-Design Workshops

01 Consumer Life Stage

- 33 Industries worked in
- 39 4-year degree or higher
- 34 Renters
- 27 Homeowners
- 17 Single mothers
- 21 Former homeowners
- 23 Traditional families

02 Consumer Backgrounds

- Black & Latino backgrounds, residing in urban and suburban areas
- Credit score range of 580-835, with median of 699
- Most facing at least one type of debt, with many owing multiple types

03 Key Consumer Discussion Topics

- Bias & discrimination faced at individual and institutional levels
- Economic barriers affecting/preventing homeownership
- Buyer/renter sentiment across stages of the homeownership & rental journey

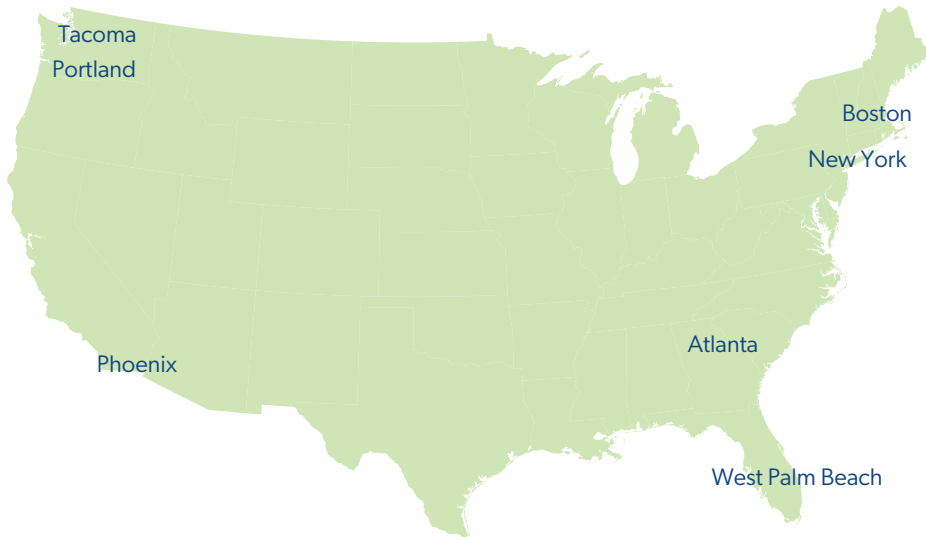
04 Key Concepts Tested

- Race-based Down Payment Assistance Program
- Alternative Credit Data Points
- Special purpose credit programs with integrated financial hardship management
- Tenant protection resources and tools
- Alternative security deposit models
- Homeowner finance educational tools
- Home counseling integrations with special purpose credit programs
- And more...



Consumer interviews (56)

Housing Supply: 28 ethnographic interviews and 2 home visits



28

Consumers, counselors and experts interviewed



2

Home visits

01 Consumer Life Stage

- 16 Renters
- 3 Prospective homeowners
- 9 Section 8 or other government
- 8 Single mothers
- 2 Traditional families
- 3 Looking or training for work
- 3 People with disabilities

02 Key Consumer Discussion Topics

- Understanding the consumer journey to obtain affordable housing
- Major challenges of the ecosystem
- Quality of current living arrangements
- Desired places of investment within their neighborhoods and communities

03 Expert Backgrounds

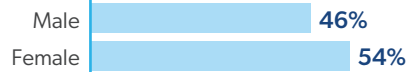
- 3 Developers
- 3 NGO
- 2 Home counselors
- 1 Underwriter
- 1 Investor
- 1 City government policy advisor
- 1 Trade association



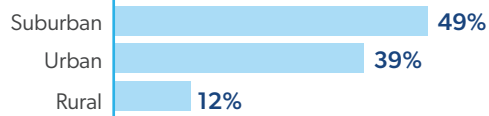
Consumer Surveys (2)

Homebuying Journey Survey: 1600 Black and Latino respondents

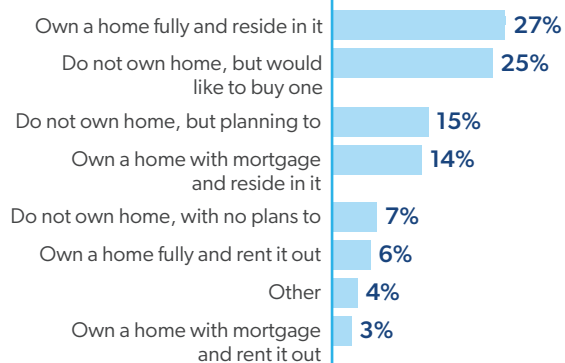
Gender



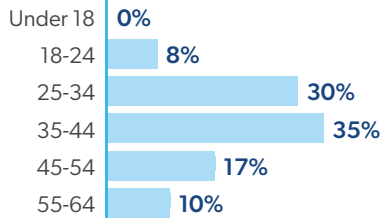
Primary Residence Area



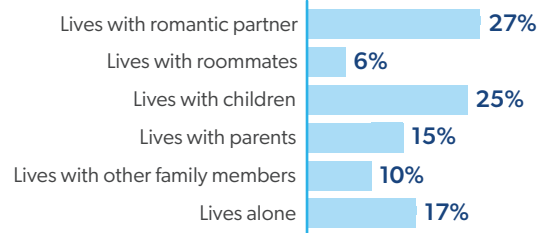
Homeownership Status



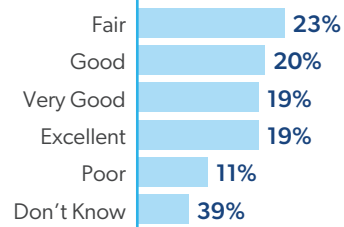
Age



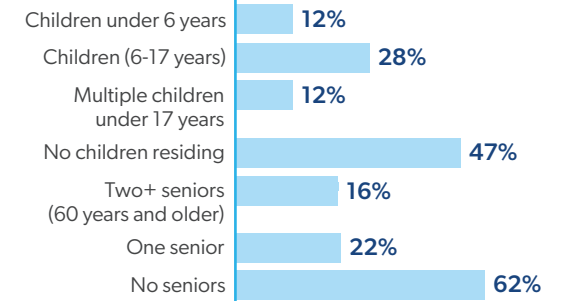
Living Situation



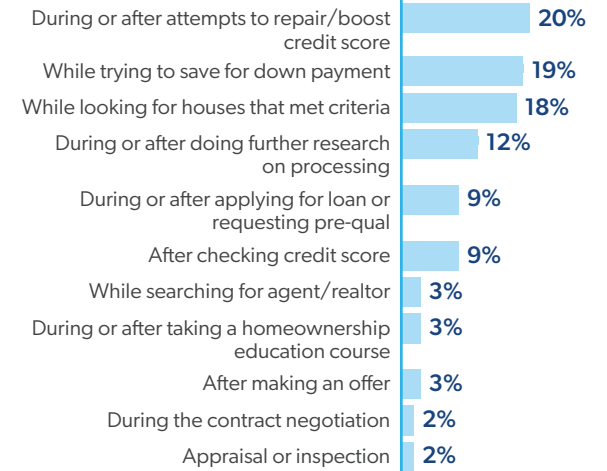
Credit Score (Personal Rating)



Family Composition



Reasons for Exiting Homeownership Process





Housing Journey Survey: Overview of key findings

1. When evaluating correlation between trust indicators and organizations, Black Americans' trust correlated strongest with non-profit affordable housing organizations, whereas white American indicators correlated most with government organizations.
2. Black Americans are more likely to consider homeownership as a personal goal (43.3% compared to 33%), whereas white Americans are more likely to consider it as a financial investment (25.3% compared to 19.3%).
3. Black Americans tend to rely more on the formal homeownership assistance system (e.g., online resources, counsellors, lenders/realtors), whereas white Americans are more likely to find their networks of friends and family as most important for success.
4. Black Americans feel they are more likely to be influenced by and find motivation to pursue the homeownership process from peer testimonials, compared to other groups.
5. Black Americans are more likely to go through credit repair prior to the lending process, compared to white Americans (42.4% compared to 30.9%).
6. Online research was the most common source for realtors amongst Black Americans (49.3%), with the portion of those finding realtors through word of mouth significantly less.

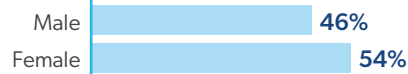




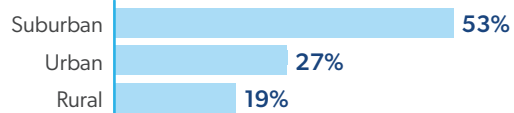
Housing Supply Experience Survey: 500 respondents from Low- to Moderate-Income (LMI) backgrounds

N = ~ 500

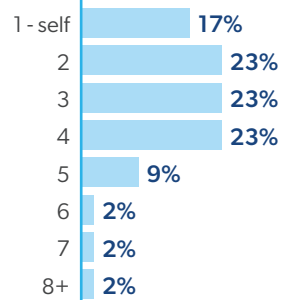
Gender



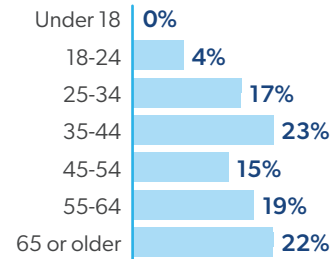
Primary Residence Area



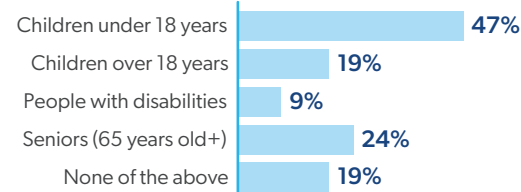
Household Size



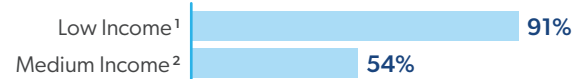
Age



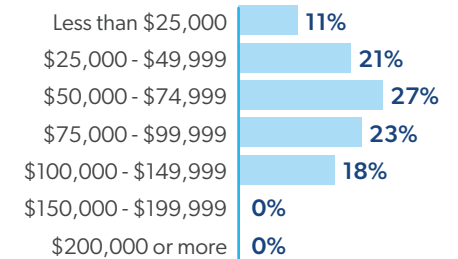
Family Composition



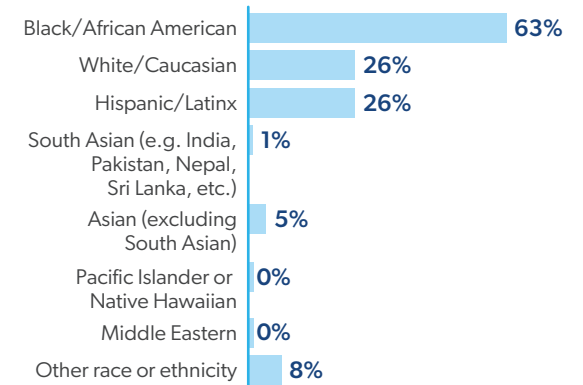
Income Category



Income Level



Race or Ethnicity



1. Defined as <\$75K for families with 2+ members in household; 2. Defined as \$100K-150K for families with 2+ members in the household
 Source: Consumer Survey. September 23-27, 2021 (N = 464)



Housing Supply Experience: Overview of key findings

1. Black and Latino respondents are more likely to be renters (47% compared to 34%) and are twice as likely to want to become homeowners than other ethnic groups (31% compared to 16%)
2. Though about half of LMI homeowners and renters are aware of financial assistance programs, only 14% of homeowners and 27% of renters apply as most don't believe they qualify
3. 49% of LMI homeowners and renters report learning of assistance programs through word of mouth, making it the primary channel and demonstrating the importance of community in this process
4. 37% of LMI homeowners and renters feel they are overburdened with rent or mortgage costs, in line with market findings
5. For Black and Latino respondents looking to move, more space (53%) and home quality (25%) are the top reasons why; in ethnography, we learned that many families are living in tight conditions today given the lack of affordable options to upgrade
6. Quality defined as community (88%) and basics such as sanitary living conditions (78%), as heard in ethnographic interviews, were reinforced in survey responses





8.2: Industry Research Interviews

Freddie Mac interviewed current and former employees from industry stakeholder organizations on the topics of access to credit and housing supply to inform our approach to this equitable housing finance plan. Industry consultation is part of our ongoing commitment to engage participants and will continue going forward. Key learnings from these interviews are outlined in this section.

Access to Credit: Overview of key learnings



Individual motivation is a relatively small piece of the puzzle. Closing the gap is a matter of policy more than anything else.



If the tools, products, and programs supporting Black homeownership remain unchanged, so will the gap.



Manual inefficiencies and lack of transparency don't serve Black Americans. With the right guardrails, tech might help.



Struggles to find the right narrative hook and data to communicate the why and how of closing the Black homeownership gap shouldn't be a barrier to action, yet they are.



Lenders and agents have the greatest impact on homebuyers' experience, yet the least incentive and accountability to deliver equitable service.





Access to Credit: Organizations Interviewed

11th St Bridge Park

BH Management

Brookings Institute

C&B Mortgage Solutions

Center for Responsible Lending

Grounded Solutions Network

Home Center LA

Home Town Lenders

HomeFree USA

Landed

Local Initiatives Support Corporation

Mortgage Bankers Association

National Association of Realtors

National Community Reinvestment Coalition

National Council of State Housing Agencies

National Fair Housing Alliance

National Housing Law Project

Neighborhood Housing Services of
New York City

NeighborWorks America

New Cities Foundation

Prime Lending

Quicken

Security National Mortgage

Tennessee Housing Development Agency

U.S. Bank

Urban Institute

US Mortgage

Wells Fargo





Housing Supply: Overview of key learnings

3.5M

Overall shortage of affordable units, growing by ~325K units per annum

**7&5
ppts**

CAGR decline in construction of affordable rental units and starter homes since 2010

2x

Median house price growth vs. median income growth for households in the lowest two quintiles since 2010

50%

Percent of Black/Latino population is cost-burdened

2%

Percent of total housing units that are accessible, while 14% of all Americans have mobility disabilities





Housing Supply: Organizations Interviewed

The Ackermann Group	Fairfield	LDG Development	Park Royal Capital
Alliance Bernstein	Fannie Mae	LifeSTEPS	Pensam
Amazon Housing Equity Fund	Federal Housing Finance Agency	McDowell Properties	PIMCO
Arc70	First American Title Insurance Company	Merchants Capital	Premiant Development
ASO Holdings	Florida Community Development Corporation	Mercy Housing	Railfield Realty
BH Management	FPA	Metaprop	Rainbow Housing
BlackRock	Ginnie Mae	MG Properties	RealPage
Breakthrough	Ginosko Development	MRK	RHA
Bulls Dixon Equity Partners	Goldman Sachs	NAHB	RJ Development
CBRE	Greater Washington Community Foundation	National Fair Housing Alliance	Rule Enterprises
Century Partners	Green Mills Group	National Low Income Housing Coalition	Security Properties
CIC	Grounded Solutions Network	NCLC	SG Companies
ColRich	Harbor Group	Neighborhood Assistance Corporation of America	Sidewalk Labs
Comunidad	Holland & Knight	NeighborWorks	SNS Capital Partners
Cornerstone	Home Partners of America	New Urban League	Southport
Cortland	Impact Community Capital	New York University	Starwood
CPC	International Finance Corporation	Nexpoint	Systema Capital Management
Credit Builder's Alliance	Irvine Company	NFHA	TIAA/Nuveen
Dantes Partners	Jeffries	Nuveen	Urban Institute
David Baker Architects	JLL	NYC Comptroller	US Department of Housing and Urban Development
DCRE	John Burns Real Estate Consulting	OakTree	USC Price
Divvy	JP Morgan	OPC	Vilma Enterprises
Dominium Group	The Kelsey	OpenPath	Waterton
Eagle Property Capital	Keystar	Orix	Wharton
Easter Seals	Ladera Capital	PAC Properties	Yardi
Enterprise Community Capital	Launch Capital	Palladius	Yes! Communities
Experian	Laurel Street		

