



# **Social Bonds Framework**

August 2020

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## I. Introduction

### *Freddie Mac*

Freddie Mac's mission is to provide liquidity, stability and affordability to the U.S. housing market. Supporting affordable housing and access to credit is integral to what we do.

Freddie Mac is a government-sponsored enterprise chartered by Congress in 1970 to support housing through the secondary market (we do not originate loans or lend money directly to mortgage borrowers). We support housing primarily by purchasing mortgage loans that are originated by our approved lenders. In most instances, we package these loans into mortgage-backed securities, which carry our guarantee. These securities are then sold in the global capital markets. We also invest in mortgage loans and mortgage-related securities.

Freddie Mac is committed to best practices in corporate governance. The board of directors regularly reviews Freddie Mac's governance practices, assesses the regulatory and legislative environment, and adopts governance practices that are in the best interests of the company. The board of directors has adopted Corporate Governance Guidelines that are reviewed annually and are available on the Freddie Mac website at <http://www.freddiemac.com/>. These Guidelines reflect corporate governance practices and include: qualifications for directors, a limitation on the number of boards on which a director may serve, term limits, director orientation and continuing education, and a requirement that the board and each of its committees perform an annual self-evaluation. We regularly review our practices to ensure effective collaboration between management and the board.

Since 2008, Freddie Mac has been operating in conservatorship, with the Federal Housing Finance Agency (FHFA) as conservator. FHFA is also our regulator. We are working with FHFA, our customers and the industry to build a better housing finance system for the nation.

### *Freddie Mac Multifamily*

The Freddie Mac Multifamily division helps to address affordable rental housing needs by purchasing mortgages secured by properties with five or more units. We enable the purchase, refinancing and rehabilitation of older multifamily buildings, as well as the permanent financing of recently built multifamily buildings. We buy mortgages secured by these buildings from the Freddie Mac Multifamily Optigo® network, which has over 150 branches nationwide.

Since 1993, we have provided over \$681 billion in financing for approximately 91,000 multifamily properties, representing nearly 10.6 billion units. As of December 31, 2019, our total book of business comprised \$271 billion of multifamily guarantees, \$30 billion of unsecuritized loans, more than \$5 billion of multifamily mortgage-related securities, and nearly \$3 billion of other investments, plus \$35 billion of additional market support (primarily unguaranteed securities). In 2019, 86% of the units we financed were affordable to families earning 100% of area median income (AMI), 69% of the units affordable at 80% AMI and 17% of the units affordable at 50% AMI.

## II. Looking Deeper Into Our Mission of Supporting Affordable and Workforce Housing

Freddie Mac Multifamily's commitment to supporting affordable, quality rental housing is central to everything we do, including our research, the loan offerings, programs and services we offer, and our securitizations, which channel private capital to support affordable and workforce housing nationwide. Our continuous support — in all economic conditions and for markets that might otherwise be overlooked — distinguishes us from other funding sources.

We confront persistent affordable and workforce housing challenges through innovative thinking that helps expand access to housing by involving all areas of financing. To make our efforts more impactful and attract capital to support social impact initiatives, we are introducing Social Bonds to target opportunities that go deeper into our mission of supporting affordable housing. Our Social Bonds proceeds will be dedicated to either providing liquidity to financial institutions with a distinct mission of addressing affordable housing challenges or to provide financing to certain underserved groups considered to be among the most vulnerable.

This Social Bond Framework aligns with International Capital Market Association (ICMA) Social Bond Principles. The Social Bond Principles are voluntary process guidelines for best practices when issuing Social Bonds. The Social Bond Principles recommend transparency and disclosure and promote integrity in the bond market. The Freddie Mac Social Bond Framework is aligned with the four core components of the Social Bond Principles, as detailed in the following pages: Use of Proceeds, Process for Evaluation and Selection, Management of Proceeds and Reporting.

### III. Use of Proceeds

The proceeds of Freddie Mac's Social Bonds are used to (a) provide liquidity to social impact financial institutions financing affordable housing or (b) finance multifamily properties that are: (i) affordable to an underserved population; (ii) owned and operated by targeted sponsors and are affordable to low- to moderate-income families; or (iii) designed for social impact projects, as detailed in the Process for Project Evaluation and Selection section below.

Institutions receiving liquidity and properties financed from Social Bond proceeds are expected to foster various socioeconomic opportunities for residents and their communities, in addition to providing affordable housing to low- to moderate-income families. Freddie Mac intends to leverage our M-Deal, Q-Deal, Multifamily Participation Certificates (Multi PCs), including PC Swaps, K-Deal® series or similar transactions that are backed by multifamily mortgage assets, to issue Social Bonds that meet our social impact selection criteria. More information about our multifamily securitization transactions is available on the Freddie Mac [Multifamily Investors Securities Website](#).

### IV. Process for Project Evaluation and Selection

In general, Social Bonds are backed by newly acquired mortgages or seasoned mortgages underwritten to Freddie Mac's industry-leading underwriting standards. Underwriting and credit reviews are completed by Freddie Mac, and securitized loans are underwritten to the same standards as loans held in our investment portfolio.

The intended use of Social Bonds proceeds must satisfy at least one of the below social impact selection and meet our affordable and workforce housing affordability criteria (described [here](#)) as of loan underwriting:

#### 1. Provide Liquidity to:

- **Community Development Financial Institutions (CDFIs):** CDFIs share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses. CDFIs play an important role in generating economic growth and opportunity in some of our nation's most distressed communities, and often provide financing for housing that it is hard for traditional lenders to support<sup>1</sup>. Our ability to provide liquidity to these institutions can enhance the impact they

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<sup>1</sup> <https://www.cdfifund.gov/Pages/default.aspx>

can have on underserved markets.

- **Housing Finance Agencies (HFAs):** HFAs are state-chartered authorities established to help meet the affordable housing needs of the residents of those states. Although their structures may vary, most HFAs are independent entities that operate under the direction of a board of directors appointed by each state’s governor. They administer a wide range of affordable housing and community development programs<sup>2</sup>.
- **Small Financial Institutions operating in Underserved Markets (SFIs):** SFIs — banks and credit unions with an asset cap of \$10 billion or less, as defined in the Enterprises’ Duty to Serve Underserved Markets regulation<sup>3</sup> — serve an important role in financing smaller and/or affordable multifamily properties in markets across the country. Freddie Mac is committed to providing liquidity to SFIs operating in underserved markets. For Social Bonds transactions, we are focused on SFI pooled deals where either (1) at least half of the units in the pool have either regulatory agreements that preserve affordability for the long term, or (2) where at least half the units are in 5-50 unit properties and meet our affordable and workforce housing affordability criteria. Freddie Mac is committed to providing liquidity to SFIs and furthering economic opportunity or residential economic diversity as described on the [impact dictionary web page](#).

**2. Financing Loans for:**

- **Properties for Underserved Populations.** Properties that provide housing for vulnerable or historically underserved population. Some examples, as listed in the Social Bond Principals, of such an underserved population include:
  1. Persons living below the poverty line
  2. Excluded and/or marginalized populations and/or communities
  3. Persons with disabilities
  4. Migrants and/or displaced persons
  5. Undereducated
  6. Underserved, owing to a lack of quality access to essential goods and services
  7. Women and/or sexual and gender minorities
  8. Aging populations and/or vulnerable youth
  9. Other vulnerable groups, including refugees as a result of natural disasters
- **Transitional Housing.** More than 20% of the units provide housing to tenants in need of transitional housing.
- **Housing for Extremely Low-Income Households (at or below 30% AMI).** Housing with at least 50% of units affordable to households earning 30% of the AMI or less in most markets, with some variation in cost-burdened markets.
- **Minorities, Women and Disabled Individuals Owned (MWDOB) Borrowers.** MWDOB borrowers that own and/or operate properties affordable to low- to moderate-income families.
- **The Rental Assistance Demonstration (RAD) Program.** Properties that are participating in the RAD. RAD was created to give public housing authorities a powerful tool to preserve and improve public housing properties and address the \$26 billion nationwide backlog of deferred maintenance. RAD also gives owners of three Housing and Urban Development (HUD) "legacy" programs (Rent Supplement, Rental Assistance Payment and Section 8 Moderate Rehabilitation) the opportunity to enter into long-term contracts that facilitate the

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<sup>2</sup> <https://www.ncsha.org/about-us/about-hfas/>

<sup>3</sup> 12 CFR 1282.31

financing of improvements<sup>4</sup>.

## V. Management of Proceeds

Eligible mortgage assets will be included in Freddie Mac's M-Deal, Q-Deal, Multi PCs (including PC Swaps), K-Deal series or similar transactions. To the extent applicable, Social Bonds proceeds and performance are reported monthly by the master servicer and trustee as part of the standard [Investor Reporting Package](#). Each Social Bonds issuance will be accompanied by regular securities offering documents, and, if applicable, impact characteristics disclosed on each deal's Annex A-1 schedule.

## VI. Reporting

Freddie Mac is committed to reporting to investors the asset- and portfolio-level performance for Social Bonds backed by properties financed following the use of proceeds above. Reporting is intended to be consistent with the core principles and recommendations in the published harmonized framework for Social Bond impact reporting.<sup>5</sup>

### *Portfolio-Level Reporting*

Freddie Mac evaluates the portfolio-level performance data, when available, associated with properties meeting our Social Bonds criteria. Portfolio-level evaluation focuses on the various social impact characteristics and might vary based on the type of the deal.

### *Investor Reporting*

Social Bonds information will be made available through either the [Multifamily Securities Investor Access](#) tool or through a [Security Lookup](#) tool, both of which are available on the Freddie Mac Multifamily website.

### *Second Opinion*

Freddie Mac engaged an independent third party, Sustainalytics, to evaluate our Social Bonds Framework. We published [this opinion](#) on the Freddie Mac Multifamily website at <https://mf.freddiemac.com> and in applicable offering documents.

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<sup>4</sup> <https://www.hud.gov/RAD>

<sup>5</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Harmonized-Framework-for-Impact-Reporting-for-Social-BondsJune-2020-090620.pdf>

This product overview is not an offer to sell or a solicitation of an offer to buy any Freddie Mac securities. Offers for any given security are made only through applicable offering circulars and related supplements, which incorporate Freddie Mac's Annual Report on Form 10-K and certain other reports filed with the Securities and Exchange Commission. This document contains information related to, or referenced in the offering documentation for, certain Freddie Mac mortgage securities. This information is provided for your general information only, is current only as of its date and does not constitute an offer to sell or a solicitation of an offer to buy securities. The information does not constitute a sufficient basis for making a decision with respect to the purchase and sale of any security and is directed only at, and is intended for distribution to and use by, qualified persons or entities in jurisdictions where such distribution and use is permitted and would not be contrary to law or regulation. All information regarding or relating to Freddie Mac securities is qualified in its entirety by the relevant offering circular and any related supplements. You should review the relevant offering circular and any related supplements before making a decision with respect to the purchase or sale of any security. In addition, before purchasing any security, please consult your legal and financial advisors for information about and analysis of the security, its risks and its suitability as an investment in your particular circumstances. The examples set forth above are for illustrative purposes only. Opinions contained in this document are those of Freddie Mac currently and are subject to change without notice. Please visit <https://mf.freddiemac.com> for more information.