

Second-Party Opinion

# Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework

## Evaluation Summary

Sustainalytics is of the opinion that the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework is credible and impactful and aligns with the four core components of the Social Bond Principles 2023. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories – Socioeconomic Advancement and Empowerment, and Affordable Housing – are aligned with those recognized by the Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDGs 10 and 11.



**PROJECT EVALUATION AND SELECTION** Freddie Mac will utilize its existing mortgage purchase process to ensure the evaluation and selection of eligible mortgages, in accordance with the Mission Index for Single-Family Social mortgage-backed securities (Social MBS). Its Social Debt Bond advisory group is responsible for overseeing such evaluation and selection for the Social Debt Bond issuances (unsecured corporate debt bonds). Freddie Mac's Single-Family ESG Bond Executive Committee oversees the implementation of its ESG priorities in its Single-Family Social MBS programme. Furthermore, Freddie Mac has in place policies and procedures to ensure compliance of funded mortgages with the eligible social criteria defined by the Framework. Freddie Mac has internal processes to address relevant environmental and social risks commonly associated with eligible mortgages. Sustainalytics considers this to be in line with market practice.



**MANAGEMENT OF PROCEEDS** Freddie Mac's treasury group will oversee the tracking of proceeds from Social Debt Bond issuances internally, whose proceeds will be allocated to fund the purchase of eligible mortgages. Pending allocation, net proceeds from Social Debt Bond issuances will be invested temporarily in cash and cash equivalents or other liquid marketable securities. As for the Social MBS issuances, they will securitize eligible mortgages, effectively achieving full allocation at the time of issuance. This is aligned with market practice.



**REPORTING** Social Debt Bond allocation reporting will be published annually on Freddie Mac's website. Social Debt Bond allocation reporting will include information on the amount of allocated and unallocated proceeds. Freddie Mac discloses details of the underlying mortgages at the time of issuance of each Social MBS. The impact associated with the mortgages underlying Social MBS will be exclusively reported on an annual basis on Freddie Mac's website. Sustainalytics views this as aligned with market practice.



<b>Evaluation date</b>	January 16, 2024 <sup>1</sup>
<b>Issuer Location</b>	Tysons Corner, Virginia, US

### Report Sections

Introduction.....	2
Sustainalytics' Opinion .....	3
Disclaimer .....	11

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<sup>1</sup> This document updates the Second-Party Opinion originally provided by Sustainalytics in August 2022.

## Introduction

Established in 1970, the Federal Home Loan Mortgage Corporation (“Freddie Mac” or the “Organization”) is a government-sponsored enterprise chartered by the US Congress to support the US housing finance system. Freddie Mac operates in the secondary mortgage market through the purchase of mortgages originated by its approved lenders, which are securitized and sold to investors with a guarantee of payment. Since 1970, Freddie Mac’s Single-Family Division has provided over USD 13.5 trillion in financing for approximately 75.7 million single-family homes.<sup>2</sup>

Freddie Mac has developed the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework dated January 2024 (the “Framework”) under which it intends to issue Social Mortgage-Backed Securities (MBS) and Social Debt Bonds. The Organization intends to use the proceeds from Social Debt Bond issuances to finance and refinance, in whole or in part, the purchase of existing and future retail or individual mortgages that align with the criteria defined in the Framework, and are considered fit for securitization into Freddie Mac Single-Family Social MBS,<sup>3</sup> through which the Organization will securitize individual mortgages backed by properties meeting the Framework’s eligibility criteria. These activities are expected to improve the access to finance for affordable housing among the target populations in the US. The Framework defines eligibility criteria in two areas:

1. Socio-Economic Advancement and Empowerment
2. Affordable Housing

Freddie Mac engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2023 (SBP).<sup>4</sup> The Framework will be published in a separate document.<sup>5</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>6</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Social Bond Principles 2023, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.15, which is informed by market practice and Sustainalytics expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Freddie Mac’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Freddie Mac representatives have confirmed (1) they understand it is the sole responsibility of Freddie Mac to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

<sup>2</sup> Freddie Mac, “Fifty Years of Home”, at: <https://www.freddiemac.com/about/50yearsofhome>

<sup>3</sup> The Organization has communicated to Sustainalytics that it believes the Social MBS is classified under the definition of ICMA’s Secured Social Collateral Bond, as per the SBP of June 2023. The issuer has further confirmed to Sustainalytics that it has established a mechanism to prevent double counting of projects among the Social Debt Bond and the Social MBS issuances.

<sup>4</sup> The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<sup>5</sup> The Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework is available on Federal Home Loan Mortgage Corporation’s website at: <https://capitalmarkets.freddiemac.com/mbs>

<sup>6</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Freddie Mac.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Freddie Mac has made available to Sustainalytics for the purpose of this SPO.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework

Sustainalytics is of the opinion that the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework is credible, impactful and aligns with the four core components of the SBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories – Socioeconomic Advancement and Empowerment, and Affordable Housing – aligned with those recognized by the SBP.
  - Freddie Mac intends to invest in the purchase of mortgages that increase access to affordable homes for target populations, including low- and moderate-income borrowers in the US.<sup>7</sup>
  - Freddie Mac has established a look-back period of 24 months for refinancing the purchase of eligible mortgages using the proceeds from Social Debt Bond issuances.
  - The Framework establishes the following criteria for eligible mortgages for individual borrowers:
    - 100% of the loans in the MBS are made to borrowers that satisfy at least one of the ten criteria of the Mission Index, which is divided into three high-level attributes of *income*, *borrower* and *property*, and;
    - The average loan in the MBS identifies with at least two of the three high-level attributes.
    - The Mission Index comprises the following ten criteria for individual mortgages:
      - Low-Income Borrowers: Targets borrowers earning 80% or less of the area median income (AMI).
      - Affordable Rental: Targets rental properties with at least one of the four (at least 25%) units in a single-family property made affordable to renters with incomes less than or equal to 80% of AMI.
        - The Organization has communicated to Sustainalytics that a renter earning 80% of AMI would pay no more than 30% of their monthly household income.

<sup>7</sup> Very low-income is defined as 50% or below the Area Median Income, low-income is defined as 80% or below the AMI, and moderate-income is defined as 100% or below the AMI.

- Sustainalytics recognizes the potential of programmes with rents below current rental thresholds to create a positive social impact, but notes that some proportion of the mortgages under this criteria may include market-rate units. Sustainalytics' view of best practice in this area is that at least 90% of the units in each property financed with allocated proceeds meet the affordability criteria. In this sense, Sustainalytics notes that some underlying mortgages under the Framework finance properties with as little as 25% of affordable housing units. In cases where financed properties comprise less than 90% of affordable housing units, Sustainalytics considers it best practice to apply a pro-rata approach for allocation based on the proportion of units that meet such criteria. Sustainalytics acknowledges that such a pro-rata approach is not viable in the case of securitizations; despite this constraint, financing buildings where less than 90% of units meet affordability criteria will nonetheless generate some positive social impact. Sustainalytics further encourages the Organization to continue to report on the percentage of affordable units in the financed properties.<sup>8</sup>
- First-Time Homebuyers: Targets first-time homebuyers with incomes of 100% of AMI or less.
- Borrowers Residing in Underserved Markets: Targets borrowers currently residing in high poverty area census tracts.<sup>9</sup>
  - Sustainalytics notes that the High Poverty Area Census Tracts criteria rely on the noted set of areas to identify the target populations, and encourages the Organization to prioritize the securitization of assets that target below-median income populations.
- Special Purpose Credit Program Borrower: Targets borrowers who have received loans under a Special Purpose Credit Program (SPCP).<sup>10</sup>
  - Sustainalytics notes that mortgages aligned with the Special Purpose Credit Programs under the Equal Credit Opportunity Act typically target economically disadvantaged individuals, including minority residents of low- to moderate-income census tracts, residents of majority-Black census tracts, minority- or women-owned small business owners, consumers with limited English proficiency, and residents living on tribal lands.<sup>11,12</sup>
  - Sustainalytics acknowledges that the specific financial benefits of a given SPCP that is eligible under the Framework may vary, and may include closing cost assistance, downpayment assistance and mortgage insurance cost reduction.
  - Sustainalytics recognizes the social impact of such programmes in the region of financing and encourages Freddie Mac to focus on well-defined disadvantaged or low-income populations, and report on the targeted populations and the social impact achieved for all such mortgages securitized under the Framework.

<sup>8</sup> This is not intended to imply that it is preferable that affordable units be concentrated at high percentages in certain buildings. Indeed, there are benefits associated with buildings that have a mix of affordable units and units that do not meet affordability criteria. Sustainalytics' stance merely reflects the view that allocation only to affordable units creates a stronger link between bond proceeds and positive impact.

<sup>9</sup> Defined as any census tract with a poverty rate of at least 20% as measured by the five-year data series available from the Census Bureau's American Community Survey, available at: <https://www.census.gov/programs-surveys/acs>

<sup>10</sup> Consumer Financial Protection Bureau, "1002.8 Special purpose credit programs", at: <https://www.consumerfinance.gov/rules-policy/regulations/1002/8/>

<sup>11</sup> Ibid.

<sup>12</sup> Consumer Compliance Outlook, "Overview of the Special Purpose Credit Programs under the Equal Credit Opportunity Act", at: <https://www.consumercomplianceoutlook.org/2022/fourth-issue/overview-of-special-purpose-credit-programs/>

- Low-Income Census Tract: Targets borrowers earning 100% AMI or less enabling them to own properties located in low-income census tracts<sup>13</sup>
- Minority Tract: Targets borrowers earning 100% AMI or less enabling them to own properties located in minority census tracts.<sup>14</sup>
- High-Needs Rural: Targets individual borrowers, enabling them to own properties located in high-needs rural areas.<sup>15</sup>
  - Sustainalytics notes that the High-Needs Rural criteria rely on the noted set of rural areas to identify the target populations, and encourages the Organization to prioritize the securitization of assets that target below-median income populations.
- Manufactured Housing: Targets borrowers earning 100% AMI or less, and residing in manufactured homes.
- Designated Disaster Area: Targets borrowers earning 100% AMI or less enabling them to own properties located in designated disaster areas.<sup>16</sup>
- Sustainalytics notes that Freddie Mac has in place a suite of home retention tools to assist borrowers during financial hardships which are applicable to all abovementioned criteria under Mission Index.<sup>17</sup> In the event of such hardships, borrowers may be eligible for a range of tools and services to support the retention of their home, including loan modifications in the form of adjusted monthly payments, adjusted loan maturity dates, adjusted interest rates, forbearance of a portion of the principal balance or change in the product type. Sustainalytics views these services to represent material financial benefits to the borrowers eligible under the Mission Index criteria.
- Freddie Mac requires all sellers and servicers, from whom it purchases mortgage loans, to comply with applicable local, state and federal laws, including the truth-in-lending laws, usury laws and anti-predatory lending laws. This compliance also includes meeting the requirements of Regulation Z's Ability to Repay rule, which relates to a borrower's ability to repay the mortgage loan.<sup>18</sup>
- Sustainalytics acknowledges the potential of the Mission Index-based financing to enhance the accessibility of mortgages for the noted set of target populations.
- Project Evaluation and Selection:
  - Freddie Mac's Social Debt Bond advisory group is responsible for overseeing a multi-step process of evaluation and selection of eligible mortgages that it intends to invest in using the proceeds from Social Debt Bond issuances. The advisory group is comprised of representatives from Freddie Mac's I&CM and Legal divisions.

<sup>13</sup> Sustainalytics notes that low-income census tracts are defined as census tracts or block numbering areas in which the median income does not exceed 80% AMI. Definitions are based on the prior year's metropolitan area definitions as determined by the Office of Management and Budget. More details at: <https://www.fhfa.gov/DataTools/Downloads/Pages/Underserved-Areas-Data.aspx#:~:text=Designated%20disaster%20areas%20are%20identified,payments%20were%20authorized%20by%20FEMA.>

<sup>14</sup> Sustainalytics notes that minority census tracts are defined as census tracts that have a minority population of at least 30% and a median income of less than 100% of the AMI. Definitions are based on the prior year's metropolitan area definitions as determined by the Office of Management and Budget. More details at: <https://www.fhfa.gov/DataTools/Downloads/Pages/Underserved-Areas-Data.aspx#:~:text=Designated%20disaster%20areas%20are%20identified,payments%20were%20authorized%20by%20FEMA.>

<sup>15</sup> Sustainalytics notes that high-needs rural areas are defined as any of the following regions provided the region is located in a rural area: i) Middle Appalachia; ii) The Lower Mississippi Delta; iii) A colonia; or iv) A tract located in a persistent poverty county and not included in Middle Appalachia, the Lower Mississippi Delta, or a colonia; where: *Middle Appalachia* means the "central" Appalachian subregion under the Appalachian Regional Commission's subregional classification of Appalachia; *Lower Mississippi Delta* means the Lower Mississippi Delta counties designated by Public Laws 100-460, 106-554, and 107-171, along with any future updates made by Congress; *colonia* means an identifiable community that meets the definition of a colonia under a federal, State, tribal, or local program; and *persistent poverty county* means a county in a rural area that has had 20 percent or more of its population living in poverty over the past 30 years, as measured by the most recent successive decennial censuses. More details at: <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/DTS-High-Needs-Counties-Map-Instructions.aspx>

<sup>16</sup> Sustainalytics notes that designated disaster areas are identified by the Federal Housing Finance Agency based on the three most recent years' declarations by the Federal Emergency Management Agency (FEMA), where individual assistance payments were authorized by FEMA. More details at: <https://www.fhfa.gov/DataTools/Downloads/Pages/Underserved-Areas-Data.aspx#:~:text=Designated%20disaster%20areas%20are%20identified,payments%20were%20authorized%20by%20FEMA.>

<sup>17</sup> In accordance with Freddie Mac's Servicing Guide, such hardships may result from unemployment, reduction in income (e.g., reduced overtime), increase in housing expenses (e.g., increase in property taxes), death of the primary or secondary wage earner in the household, long-term or permanent disability or serious illness of a family member, divorce or separation, employment transfer, natural disaster, or any other hardship determined at the discretion of the mortgage servicer. More details at: <https://guide.freddie.com/app/guide/series/9000>

<sup>18</sup> Freddie Mac, "Compliance with Law: Chapter 4202 – Responsible Lending", at: <https://guide.freddie.com/app/guide/section/4202.1>

- Freddie Mac intends to leverage its existing mortgage purchase process to ensure that mortgages being securitized into Social MBS meet the Mission Index eligibility criteria as defined by the Framework. The Organization has established the Single-Family ESG Bond Executive Committee to oversee the implementation of its ESG priorities in its Single-Family Social MBS program.
- Freddie Mac has internal processes to address environmental and social risks commonly associated with eligible mortgages.
- Based on the above, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - Freddie Mac's Treasury group will be responsible for overseeing the allocation of proceeds to eligible assets for Social Debt Bond issuances. The group will track the proceeds internally and manage them on a portfolio basis.
  - Freddie Mac intends to achieve full allocation of net proceeds from Social Debt Bonds within three to six months and a maximum of 24 months of the respective issuance date of the bond. Pending allocation, net proceeds will be invested temporarily in accordance with Freddie Mac's liquidity management policies in instruments such as cash, cash equivalents or other liquid marketable securities.
  - Sustainalytics notes that the Social MBS issuances will securitize just those mortgages that align with the criteria defined in the Framework, effectively achieving full allocation of MBS proceeds at the time of issuance. Freddie Mac has communicated to Sustainalytics that it has adopted an automated system to select eligible mortgages in accordance with the eligibility criteria defined in the Framework.
  - In the event that an eligible asset funded by the Social Debt issuance is securitized, sold, or prepays, the proceeds used for such eligible asset will be re-allocated to fund the purchase of additional eligible assets. The Organization has further communicated to Sustainalytics that such activities, to avoid double counting of eligible projects, will be disclosed in its periodic reporting.
  - Based on the above, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - Social Debt Bond allocation reporting will include the total amount, and share of allocated and unallocated proceeds. Freddie Mac will update the report annually until full allocation, and thereafter in the event of material developments.
  - For each Single-Family Social MBS issuance, the proceeds will effectively be fully allocated immediately at issuance, and Freddie Mac will disclose security, loan-level and other relevant allocation details at such time on its mortgage securities website.
  - In terms of impact reporting, the impact of the eligible mortgages under the Framework will be reported exclusively under the Social MBS-related annual disclosures, to avoid double-counting of impact between the Social MBS and the Social Debt Bond. Impact reporting indicators may provide details on the unpaid principal balance of loans financed and the number of properties or units financed, detailed by the Mission Index criteria.
  - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### **Alignment with Social Bond Principles 2023**

Sustainalytics has determined that the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework aligns with the four core components of the SBP.

## **Section 2: Sustainability Mandate of Freddie Mac**

### **Contribution to Federal Home Loan Mortgage Corporation's sustainability mandate**

Freddie Mac has four strategic pillars, namely: i) Affordable Housing, ii) Risk, iii) People, and iv) Financial Strength.<sup>19</sup> Through these pillars and its mission that is centred on equitable and sustainable housing finance

<sup>19</sup> Freddie Mac, "Sustainability Report", p.11, (2022), at: [https://www.freddiemac.com/about/pdf/2022\\_Sustainability\\_Report.pdf](https://www.freddiemac.com/about/pdf/2022_Sustainability_Report.pdf)

and community investment, Freddie Mac enables very low- to moderate-income borrowers to obtain homeownership.<sup>20</sup> In 2022, Freddie Mac issued USD 3.4 billion in single-family affordable housing MBS to support affordable housing and serve historically underserved populations.<sup>21,22</sup> Freddie Mac is also mandated by the Federal Housing Finance Agency (FHFA) to promote equitable access to affordable housing amongst low- and moderate-income families, minority communities and underserved populations through housing targets set forth by FHFA for single-family and multifamily housing segments.<sup>23</sup>

As of December 2022, Freddie Mac's Multifamily Division issued Multifamily Impact Bonds, which included USD 5 billion in green bonds, USD 4.6 billion in social bonds and USD 5.4 million in sustainability bonds, to support its sustainable and affordable housing goals.<sup>24</sup> Through proceeds from green bonds issuances, Freddie Mac has financed water improvement and energy reduction projects, which are projected to save tenants USD 1.2 million per year. The proceeds from social and sustainability bonds have aided Freddie Mac in providing affordable housing to low-to moderate-income families.<sup>25</sup> In 2019, the Organization's Single-Family Division created the GreenCHOICE Mortgages product, which is used to finance energy- and water-efficient home improvements.<sup>26</sup> Freddie Mac purchased over USD 1 billion in GreenCHOICE Mortgages between 2019 and 2022, to provide financing for energy efficiency improvements.<sup>27</sup>

Freddie Mac has further taken initiatives to support financial education to help underserved communities understand how to overcome barriers to homeownership.<sup>28</sup> To reduce the disparity in house price appraisals in minority communities, Freddie Mac also works in partnership with the Appraiser Diversity Initiative to attract diverse candidates into the residential appraisal field by providing them with resources and support.<sup>29</sup>

Sustainalytics is of the opinion that the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework is aligned with the Organization's overall sustainability mandate and initiatives and will further the Organization's action on its key social priorities.

#### **Approach to managing social and environmental risks associated with the projects**

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible mortgages that are expected to have a positive social impact. However, Sustainalytics is aware that such eligible mortgages could also lead to negative social and environmental outcomes. Some key social risks possibly associated with eligible mortgages may include issues involving predatory lending and the exacerbation of social inequities within the communities in which financing is provided. Additional potential issues applicable to the Affordable Rental criterion include risks related to land use, biodiversity, waste management, effluent, emissions, occupational health and safety, and community relations.

Sustainalytics is of the opinion that Freddie Mac is able to manage or mitigate potential risks through implementation of the following:

- With regard to fair lending, the FHFA has regulatory authority over Freddie Mac. Aspects related to credit or housing-related business practices of Freddie Mac may be subject to federal anti-discrimination laws, state and local fair housing and fair lending statutes.<sup>30</sup> Freddie Mac's underwriting and appraisal guidelines are also periodically reviewed by the FHFA to check for consistency with the Fair Housing Act and anti-discrimination provisions of the GSE Act.<sup>31</sup> Freddie Mac requires all sellers and servicers, from whom they purchase mortgage loans, to comply with applicable local, state and federal laws, including the truth-in-lending laws, usury laws and anti-

<sup>20</sup> Freddie Mac, "Home Possible", at: <https://sf.freddie.mac.com/working-with-us/origination-underwriting/mortgage-products/home-possible>

<sup>21</sup> Ibid.

<sup>22</sup> Freddie Mac, "Freddie Mac Announces Multi-Billion Dollar Bond Program Focused on Affordable Housing", (2021), at: <https://freddiemac.gcs-web.com/news-releases/news-release-details/freddie-mac-announces-multi-billion-dollar-bond-program-focused>

<sup>23</sup> FHFA, "FHFA Finalizes 2022-2024 Single-Family and 2022 Multifamily Housing Goals for Fannie Mae and Freddie Mac", (2021) at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Finalizes-2022-2024-Single-Family-and-2022-Multifamily-Housing-Goals-for-Fannie-Mae-and-Freddie-Mac.aspx>

<sup>24</sup> Freddie Mac, "Impact Bonds Report", (2022), at: [https://mf.freddie.mac.com/docs/2022\\_impact\\_bonds\\_report.pdf](https://mf.freddie.mac.com/docs/2022_impact_bonds_report.pdf)

<sup>25</sup> Ibid.

<sup>26</sup> Freddie Mac, "GreenCHOICE Mortgages<sup>®</sup>", at: <https://sf.freddie.mac.com/working-with-us/origination-underwriting/mortgage-products/greenchoice-mortgages>

<sup>27</sup> Freddie Mac, "Sustainability Report", (2022), at: [https://www.freddie.mac.com/about/pdf/2022\\_Sustainability\\_Report.pdf](https://www.freddie.mac.com/about/pdf/2022_Sustainability_Report.pdf)

<sup>28</sup> Freddie Mac, "Sustainability Disclosure – Report under the Sustainability Accounting Standards Board ("SASB") Standards and Management Criteria" (2022), at: [https://www.freddie.mac.com/about/pdf/2022\\_Sustainability\\_Report.pdf](https://www.freddie.mac.com/about/pdf/2022_Sustainability_Report.pdf)

<sup>29</sup> Ibid.

<sup>30</sup> Freddie Mac, "Form 10-K", p.110, at: [https://www.freddie.mac.com/investors/financials/pdf/10k\\_022223.pdf](https://www.freddie.mac.com/investors/financials/pdf/10k_022223.pdf)

<sup>31</sup> Ibid.

predatory lending laws. This compliance also includes meeting the requirements of Regulation Z's Ability to Repay rule, which relates to a borrower's ability to repay the mortgage loan.<sup>32</sup>

- In terms of risks related to the exacerbation of social inequalities within the communities in which financing is provided, Freddie Mac has underwriting standards and quality control practices designed to ensure loans are validated and perform at expected levels. This process also includes standards and practices that the sellers must adhere to for maintaining quality of loans and managing credit risk and exposure.<sup>33</sup> Freddie Mac's Board of Directors and committees comprising senior members of the management are responsible for overseeing the Organization's Enterprise Risk Management Program that establishes Freddie Mac's risk policies, risk appetite, and addresses exposure to credit risk, market risk, liquidity risk, operational risk, strategic, reputational and legal risks.<sup>34</sup> Sustainalytics additionally considers the regulatory oversight by the FHFA and the associated policies it imposes,<sup>35</sup> as supporting responsible development and important for integrating stakeholder concerns.
- Regarding risks related to emissions, effluents, waste, and occupational health and safety hazards Sustainalytics notes that the laws and regulations of the US provide stringent oversight of construction activities, including the US Occupational Health and Safety Act<sup>36</sup> and the Resource Conservation and Recovery Act.<sup>37</sup> Additionally, to address physical climate risks associated with the underlying mortgaged properties in its Single-Family MBS portfolio, Sustainalytics notes that for properties located in Special Flood Hazard Areas, as recognized by the Federal Emergency Management Agency, Freddie Mac requires the mortgage sellers to ensure that flood insurance coverage on such properties exists for a mortgage to qualify for Freddie Mac's single-family MBS portfolio.<sup>38</sup>
- Sustainalytics notes the underlying properties are based in the US, which is recognized as a Designated Country by the Equator Principles, and are subject to robust environmental and social governance systems, legislation and institutional capacity for protecting the environment and communities, including conducting stakeholder engagement for projects with potentially adverse environmental impacts.<sup>39</sup>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Freddie Mac has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

Both use of proceeds categories are aligned with those recognized by the SBP. Sustainalytics focuses below on one where the impact is specifically relevant in the local context.

#### Importance of affordable single-family housing in the US

Housing is both a critical social determinant of health and a human right. Affordable single-family housing is a crucial issue in the US, with rental affordability nearing historic lows and housing costs becoming increasingly untenable for both renters and buyers.<sup>40</sup> According to a 2023 report published by the Joint Center for Housing Studies, 21.6 million households of renters in the US paid over 30% of their income and 11.6 million paid over 50% of their income for rent between 2019 and 2021, thus, making them severely cost burdened.<sup>41</sup> Additionally, housing prices are rapidly growing compared to the wage growth in 80% of the US

<sup>32</sup> Freddie Mac, "Compliance with Law: Chapter 4202 – Responsible Lending", at: <https://guide.freddie.mac.com/app/guide/section/4202.1>

<sup>33</sup> Freddie Mac, "Form 10-K", p.54, at: [https://www.freddie.mac.com/investors/financials/pdf/10k\\_022223.pdf](https://www.freddie.mac.com/investors/financials/pdf/10k_022223.pdf)

<sup>34</sup> Freddie Mac, "Form 10-K", p.49, at: [https://www.freddie.mac.com/investors/financials/pdf/10k\\_022223.pdf](https://www.freddie.mac.com/investors/financials/pdf/10k_022223.pdf)

<sup>35</sup> Federal Housing Finance Agency, Policies, at: <https://www.fhfa.gov/AboutUs/Policies>

<sup>36</sup> US Department of Labor, "OSH Act of 1970", at: <https://www.osha.gov/laws-regs/oshact/completeoshact>

<sup>37</sup> US Environmental Protection Agency, "Resource Conservation and Recovery Act (RCRA) Overview", at: <https://www.epa.gov/rcra>

<sup>38</sup> Freddie Mac, "Sustainability Report" (2022), at:

[https://urldefense.com/v3/\\_https://www.freddie.mac.com/about/pdf/2022\\_Sustainability\\_Report.pdf\\_!!D8DunMSJ4ldR!9-4d9HTtu-Fl\\_uHNwKxUaZwaduHMAEq414e0m7w181nBdspVPH7eN25o8Wif4LHctyDNr\\_aJH2eYATHlDljLalPASyDV3ap4bd\\$](https://urldefense.com/v3/_https://www.freddie.mac.com/about/pdf/2022_Sustainability_Report.pdf_!!D8DunMSJ4ldR!9-4d9HTtu-Fl_uHNwKxUaZwaduHMAEq414e0m7w181nBdspVPH7eN25o8Wif4LHctyDNr_aJH2eYATHlDljLalPASyDV3ap4bd$)

<sup>39</sup> Equator Principles, "About the Equator Principles", (2022), at: <https://equator-principles.com/about-the-equator-principles>

<sup>40</sup> Kenan Institute of Private Enterprise, "The Affordable Housing Crisis in 2023: Where Do We Stand, and What are the Solutions?", (2023), at: <https://kenaninstitute.unc.edu/commentary/the-affordable-housing-crisis-in-2023-where-do-we-stand-and-what-are-the-solutions/>

<sup>41</sup> Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing", (2023), at:

[https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_The\\_State\\_of\\_the\\_Nations\\_Housing\\_2023.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf)



markets.<sup>42</sup> This situation is particularly challenging for low-income households, which are disproportionately affected by high housing costs, compromising other necessities like food and healthcare.<sup>43</sup> Further compounding the issue is the decrease in single-family housing starts, which fell by 10.8% in 2022.<sup>44</sup> This decline contributes to a growing housing shortfall in the US, limiting the availability of affordable single-family homes. This trend has implications for the overall housing market and indicates a need for policy and market responses to address the gap in affordable single-family housing availability.

To improve access to affordable housing, the US federal government has implemented solutions such as: i) reducing barriers to building housing; ii) promoting commercial-to-residential affordable housing conversion; and iii) expanding homeownership support.<sup>45</sup> The Housing Supply Action Plan promotes zoning reforms that allows more affordable housing.<sup>46</sup> In the rental market, the government has assured rental assistance for an additional 100,000 low-income households.<sup>47</sup> In 2023, the federal government's budget plans to allocate USD 7.5 billion for new project-based rental assistance for extremely low-income households, USD 10 billion to encourage state and local governments to reduce development barriers for affordable housing, and USD 10 billion to support first-time and first-generation homebuyers.<sup>48</sup>

Given the above context, Freddie Mac is projected to contribute significantly to lowering borrowing costs, enhancing the availability of affordable and sustainable housing, and broadening the market for single-family residences. Sustainalytics believes that the actions specified in the Framework will have a beneficial social impact and will be instrumental in furthering the US government's efforts to facilitate greater access to affordable housing.

### Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Socioeconomic Advancement and Empowerment	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

<sup>42</sup> Kenan Institute of Private Enterprise, "The Affordable Housing Crisis in 2023: Where Do We Stand, and What are the Solutions?", (2023), at: <https://kenaninstitute.unc.edu/commentary/the-affordable-housing-crisis-in-2023-where-do-we-stand-and-what-are-the-solutions/>

<sup>43</sup> Habitat for Humanity, "2023 State of the Nation's Housing report", (2023), at: <https://www.habitat.org/costofhome/2023-state-nations-housing-report-lack-affordable-housing>

<sup>44</sup> Joint Center for Housing Studies, "Home Prices and Rents Remain High, as Steep Interest Rates Lock Homeowners in Place and Slow Construction", (2023), at: <https://www.jchs.harvard.edu/press-releases/home-prices-and-rents-remain-high-steep-interest-rates-lock-homeowners-place-and>

<sup>45</sup> The White House, "Biden-Harris administration Announces Actions to Lower Housing Costs and Boost Supply", (2023), at: <https://www.whitehouse.gov/briefing-room/statements-releases/2023/07/27/biden-harris-administration-announces-actions-to-lower-housing-costs-and-boost-supply/>

<sup>46</sup> The White House, "Remarks by National Economic Advisor Lael Brainard Addressing the Challenge of Housing Affordability At the National Housing Conference", (2023), at: <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/12/07/remarks-by-national-economic-advisor-lael-brainard-addressing-the-challenge-of-housing-affordability-at-the-national-housing-conference/>

<sup>47</sup> Ibid.

<sup>48</sup> The White House, "Fact Sheet: President Biden's Budget Lowers Housing Costs and Expands Access to Affordable Rent and Home Ownership", (2023), at: <https://www.whitehouse.gov/omb/briefing-room/2023/03/09/fact-sheet-president-bidens-budget-lowers-housing-costs-and-expands-access-to-affordable-rent-and-home-ownership/>

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## Conclusion

Freddie Mac has developed the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework under which it intends to issue Social MBS and Social Debt Bonds. The Organization intends to use the proceeds of its Social Debt Bond issuances to finance and refinance, in whole or in part, the purchase of existing and future retail or individual mortgages that align with the criteria defined in the Framework, and are considered fit for securitization into the Social MBS. Sustainalytics considers that the eligible mortgages are expected to provide a positive social impact.

The Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for Freddie Mac to report on allocation and impact. Sustainalytics believes that the Framework is aligned with the overall sustainability mandate of the Organization and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 10 and 11. Additionally, Sustainalytics is of the opinion that Freddie Mac has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with eligible mortgages.

Based on the above, Sustainalytics is confident Freddie Mac is well positioned to issue Social MBS and Social Debt Bonds and that the Framework is robust, transparent and in alignment with the core components of the Social Bond Principles 2023.

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