

# Freddie Mac Single-Family Green Bond Framework

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November 2021



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## I. Introduction

Freddie Mac's mission is to provide liquidity, stability and affordability to the U.S. housing market. Our sustainability strategy strengthens our commitment to our mission and helps us drive long-term value for our stakeholders while making a difference in our communities.

### *Freddie Mac*

Freddie Mac is a government-sponsored enterprise chartered by Congress in 1970. We serve our mission primarily by purchasing residential mortgage loans originated by lenders. In most instances, we package these loans into guaranteed mortgage-related securities (generally referred to below as MBS), which are sold in the global capital markets, and transfer interest-rate and liquidity risks to third-party investors. In addition, we transfer mortgage credit risk exposure to third-party investors through our credit risk transfer programs, which include securities- and insurance-based offerings. We also invest in mortgage loans and mortgage-related securities. We do not originate loans or lend money directly to mortgage borrowers.

We support the U.S. housing market and the overall economy by enabling America's families to access mortgage loan funding with better terms and by providing consistent liquidity to the multifamily mortgage market. We have helped many distressed borrowers keep their homes or avoid foreclosure and have helped many distressed renters avoid eviction.

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, <http://www.freddiemac.com/governance/>. The Guidelines establish 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. Our practices are designed to provide for effective collaboration of management and the board and reviewed regularly.

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's Sustainability Strategy*

Freddie Mac established a Sustainability Office in 2020 that is responsible for developing our corporate sustainability strategy and managing and driving the implementation of the corporate sustainability strategy across the company. To develop this strategy, Freddie Mac engaged with leaders across our company as well as external stakeholders, conducted a non-financial materiality assessment, and researched relevant industry standards to identify environmental, social, and governance (ESG) issues that were considered important to our stakeholders, long-term business and mission. From this process, we developed a corporate sustainability strategy comprised of four pillars:

- **Purpose:** *Mission:* Deliver solutions to meet the country's housing needs in good times and bad. Promote greater access to affordable and sustainable homes and rental properties.
- **Planet:** *Climate:* Promote environmentally sustainable single-family and multifamily housing to help reduce climate-related risks and increase affordability.
- **People:** *DEIA & Talent:* Develop our future workforce and build strength in the housing market through diversity, equity, inclusion and accessibility (DEIA).
- **Practices:** *Sustainable Operation:* Provide stability to the housing industry through outstanding risk management.



The sustainability office works cross-departmentally with the Single-Family Green MBS program leadership team which includes representatives from across Freddie Mac Single-Family's business, focused on expanding and overseeing its Single-Family Green MBS offerings and issuances.

### **Freddie Mac Single-Family Business**

One of the primary ways the Single-Family business at Freddie Mac provides liquidity to the mortgage market is by purchasing single-family mortgages from lenders, packaging the mortgages into a single-family MBS, selling the MBS into the capital markets, and guaranteeing the payments of principal and interest to the holder(s) of the MBS. The majority of mortgage loans we purchase are securitized in MBS form. As of September 30, 2021, Freddie Mac had a single-family mortgage portfolio of \$2.68 trillion.<sup>1</sup>

### **Freddie Mac Green Bonds**

#### **Multifamily**

Our environmental sustainability efforts began in 2016 with the creation of the Multifamily Green Advantage loan program designed to support water and/or energy efficiency improvements in workforce housing, helping the environment while lowering monthly expenses for tenants and borrowers. In 2019, we developed Multifamily Green Bonds to securitize workforce Green Advantage loans through our K-G Deal offerings, followed by a [Multifamily Green Bonds Framework](#) aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles. CICERO Shades of Green provided a [second opinion](#) on our Multifamily Green Bonds Framework and awarded us a Light Green rating, which recognizes us for closely monitoring energy and water reduction, creating maps of drought and extreme weather impacts to the properties and their communities, and for publishing reports with insight on climate impacts to the properties in our Multifamily portfolio. As of the end of the second quarter 2021, we have issued \$4 billion in Multifamily Green Bonds.

#### **Single-Family**

In 2019, Single-Family created the GreenCHOICE Mortgage® offering to finance energy- and water-efficient home improvements, helping more families attain and maintain affordability and reduce environmental impacts. In 2020, Freddie Mac purchased \$462 million in GreenCHOICE Mortgages, providing financing to support energy efficient improvements for approximately 1,685 families.

In April 2021, Single-Family issued its first Green MBS. Each Single-Family Green MBS issued to-date is backed by Freddie Mac's GreenCHOICE Mortgages, where borrowers used refinance proceeds to finance energy efficient home improvements. Specifically, the proceeds or a portion thereof from each refinance mortgage backing these Single-Family Green MBS paid off existing debt that was used to finance the purchase and installation of solar panels as a renewable energy source. By refinancing a consumer loan into a mortgage loan, borrowers are likely to achieve cost savings with less expensive, more efficient financing. Our initial Single-Family Green MBS issuances focused on financing energy efficient improvements made to existing homes. As of September 30, 2021, we have issued approximately \$425M in Single-Family Green MBS. This framework expands our Single-Family Green MBS eligibility criteria to include new construction with a renewable energy source or a qualifying energy efficiency rating.

Freddie Mac's Single-Family Green MBS issuance is a natural extension of our role in providing standards and scale to the nation's housing markets. By devoting resources specifically to encourage

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<sup>1</sup> [http://www.freddiemac.com/investors/financials/pdf/2021er-2q21\\_release.pdf](http://www.freddiemac.com/investors/financials/pdf/2021er-2q21_release.pdf)



green construction and energy efficiency home improvements, we believe we can help expand availability and market demand. Freddie Mac has a team of experts across the Single-Family and Capital Markets disciplines supporting this framework.

## II. Program Objective and Framework Overview

Promoting housing affordability is fundamental to Freddie Mac's mission and reducing the environmental impact of housing further aligns with our mission focus. We remain committed to financing energy- and/or water-efficient home construction and improvements. Increasing energy- and water-efficiency lowers monthly costs to homeowners while reducing greenhouse gas emissions and/or water scarcity.

The [Green Bond Principles](#) (GBP), as administered by ICMA, are voluntary process guidelines for best practices when issuing green bonds. The GBP recommend transparency and disclosure to promote integrity in the green bond market. This framework addresses the four core components of ICMA's GBP:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

## III. Use of Proceeds

Freddie Mac's Single-Family Green MBS program finances the purchase of mortgages that align with ICMA's Green Project categories including renewable energy and energy efficiency that contribute to climate change mitigation and adaptation. Specifically, the securities backed by eligible mortgages as described below are sold to the MBS investment community to help finance additional purchases of mortgages, including mortgages that meet the criteria described below. See "Management of Proceeds" for more information. Eligible mortgages for the Single-Family Green MBS program include:

### Homes with Renewable Energy

- Freddie Mac [GreenCHOICE Mortgages](#) where borrowers used refinance proceeds to finance energy efficient home improvements. Specifically, the proceeds or portion thereof from each refinanced mortgage paid off existing debt that was used to finance the purchase and installation of a renewable energy source such as solar panels
- Mortgages backed by newly constructed homes with a renewable energy source

Eligible renewable energy sources include solar and geothermal. Benefits of renewable energy include<sup>2</sup>:

- Generating energy that produces no greenhouse gas emissions from fossil fuels and reduces some types of air pollution
- Diversifying energy supply and reducing dependence on imported fuels
- Creating economic development and jobs in manufacturing, installation, and more

For example, solar energy is sustainable, renewable and plentiful. Each kilowatt-hour of solar that is generated will substantially reduce greenhouse gas emissions like CO<sub>2</sub> and other dangerous pollutants.

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<sup>2</sup> <https://www.epa.gov/statelocalenergy/local-renewable-energy-benefits-and-resources>



In addition, solar panels may reduce monthly utility bills and solar panels are viewed as upgrades to a home, so purchasing a solar energy system will likely increase a home's value.<sup>3</sup>

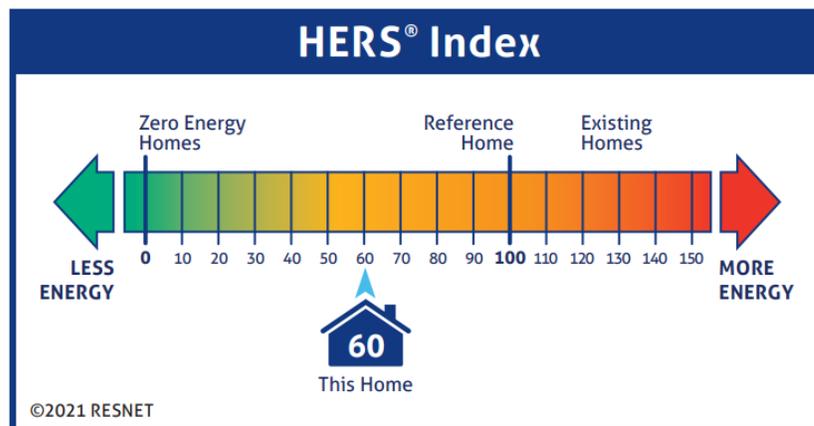
### Homes with an Energy Efficiency Rating

- Mortgages backed by newly constructed homes with a Home Energy Rating System Index Score of 60 or less

The Home Energy Rating System (HERS) Index was created and is maintained by the [Residential Energy Services Network](#) (RESNET) to measure a home's energy efficiency. The HERS Index is an industry standard for measuring a home's energy efficiency and is recognized by the U.S. Department of Energy and the Environmental Protection Agency.<sup>4</sup> As of July 2021, over three million homes in the United States have been issued a HERS Index Score.<sup>5</sup>

The process for obtaining a HERS Index Score includes a certified RESNET HERS Rater assessing the energy efficiency of a home and assigning it a relative performance score. The lower the number, the more energy efficient the home. The U.S. Department of Energy has determined that a typical resale home scores 130 on the HERS Index while a home built to the 2006 International Energy Conservation Code is awarded a rating of 100.<sup>6</sup> A home with a HERS Index Score of 60 is roughly 40% more energy efficient than the reference home<sup>7</sup> (refer to figure 1).

Figure 1: RESNET



Currently, Freddie Mac has adopted a concept of shared economics with sellers delivering mortgages eligible for Single-Family Green MBS. While the ability to offer, and level at which to offer, shared

<sup>3</sup> <https://www.energy.gov/energysaver/benefits-residential-solar-electricity>

<sup>4</sup> <https://www.energy.gov/eere/buildings/guidelines-participating-doe-zero-energy-ready-home-program> and HERS Index Target Procedure for National Program Requirements ENERGY STAR Certified Homes, Version 3 (Rev. 08)

<sup>5</sup> <https://www.resnet.us/articles/resnet-marks-milestone-of-over-3-million-hers-rated-homes/>

<sup>6</sup> <https://www.hersindex.com/hers-index/understanding-hers-index/>

<sup>7</sup> For purposes of the HERS Index, the reference home is a home built to the 2006 International Energy Conservation Code.



economics may fluctuate based on market conditions, we aim to continue this benefit going forward with existing and new sellers as appropriate.

#### **IV. Process for Project Evaluation and Selection**

Freddie Mac sellers who deliver mortgages to Freddie Mac must make certain representations and warranties that the mortgages are being delivered in accordance with the requirements set forth in the Freddie Mac Single-Family Seller/Servicer Guide (Guide), including underwriting requirements and data delivery requirements.

Mortgages are eligible for securitization into a Freddie Mac Single-Family Green MBS if they meet one or more of the following eligibility criteria:

##### **Homes with Renewable Energy**

- Freddie Mac [GreenCHOICE Mortgages](#) where borrowers used refinance proceeds to finance energy efficient home improvements. Specifically, the proceeds or portion thereof from each refinanced mortgage paid off existing debt that was used to finance the purchase and installation of a renewable energy source such as solar panels. Sellers must represent to Freddie Mac that the refinance proceeds were used to pay off debt used to finance renewable energy improvements. Prior to MBS issuance, Freddie Mac will confirm the presence of a renewable energy source installed on the properties securing each of the mortgages included in a Single-Family Green MBS.
- Mortgages backed by newly constructed homes with a renewable energy source. Sellers must represent to Freddie Mac that the home has a renewable energy source. Prior to MBS issuance, Freddie Mac will confirm the presence of a renewable energy source installed on the properties securing each of the mortgages included in a Single-Family Green MBS.

##### **Homes with an Energy Efficiency Rating**

- Mortgages backed by newly constructed homes with a Home Energy Rating System Index Score of 60 or less. Sellers must represent to Freddie Mac that the home has received a qualifying score. Prior to MBS issuance, Freddie Mac will confirm the required score on the properties securing each of the mortgages included in a Single-Family Green MBS using the RESNET database.

#### **V. Management of Proceeds**

The management of proceeds for Freddie Mac Single-Family Green MBS is consistent with the management of proceeds across all of Freddie Mac's Single-Family MBS. Our Single-Family Green MBS only contain mortgages that satisfy the criteria set forth in the Freddie Mac Single-Family Seller/Servicer Guide. The mortgages backing our Single-Family Green MBS leverage Freddie Mac's existing mortgage purchase process to ensure adherence to the Guide. Once the mortgages are acquired, they are securitized into Single-Family Green MBS per the criteria described in this framework, and the securitized mortgages are sold to the MBS investment community. Freddie Mac's proceeds from sales of Single-Family MBS (including Single-Family Green MBS) are used to help finance additional purchases of mortgages that meet the criteria described in the Guide, including additional purchases of GreenCHOICE Mortgages or other mortgages to be used for future issuances of Single-Family Green MBS.



## VI. Reporting

### *Single-Family MBS Reporting*

Freddie Mac discloses security, loan-level and other product data on the [Mortgage Securities website](#). Securities issued under the Single-Family Green MBS program will be listed on Freddie Mac's [Single-Family Green Bonds](#) website. Third-party data providers pull the disclosures from Freddie Mac's website and distribute it to their customers. Freddie Mac is working with these third-party data providers to create Green-related disclosures in order to allow investors to easily identify Single-Family Green MBS.

### *Impact Reporting*

Freddie Mac intends to publish an annual report for the preceding year summarizing the environmental impact of our Single-Family Green MBS program. Our impact reporting will aim to include quantitative measures and aggregate program results.

### *Second Opinion*

Freddie Mac engaged an independent third party, CICERO Shades of Green, to evaluate our Single-Family Green Bond Framework. This opinion is published on our [Single-Family Green Bonds website](#).

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