



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 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible category for the use of proceeds, namely Affordable Housing, is aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that investments in the eligible category will lead to a positive social impact in the US and advance the UN Sustainable Development Goals, specifically, SDGs 10 and 11.



**PROJECT EVALUATION / SELECTION** Freddie Mac’s Social Debt Bond advisory group is responsible for overseeing the evaluation and selection of eligible mortgages for Social Debt Bond issuances (unsecured corporate debt bonds). Freddie Mac also has company-wide risk management policies in place that are applicable to all issuances under the Framework. Freddie Mac’s Single-Family ESG Bond Executive Committee oversees the implementation of its ESG priorities in its Single-Family Social MBS program. Furthermore, Freddie Mac has in place policies and procedures to ensure compliance of funded mortgages with the eligible social criteria defined by the Framework. Sustainalytics considers the project selection process 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 that will eventually be securitized into the Single-Family Social MBS. Pending allocation, net proceeds will be invested temporarily in cash and cash equivalents or other liquid marketable securities. The management of proceeds process for the Single-Family Social MBS is consistent with the process employed across the Organization’s Single-Family MBS programs. Freddie Mac’s processes for management of proceeds is aligned with market practice.



**REPORTING** Social Debt Bond and Single-Family Social MBS allocation and impact reporting will be published annually on Freddie Mac’s website and will include a summary of the eligible mortgages securitized into the Single-Family Social MBS and associated impact metrics. Social Debt Bond allocation reporting will include information on the amount of allocated and unallocated proceeds. Sustainalytics views Freddie Mac’s allocation and impact reporting as aligned with market practice.

<b>Evaluation Date</b>	August 30, 2022
<b>Issuer Location</b>	Tysons Corner, Virginia, US

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## 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 10.9 trillion in financing for approximately 69.6 million single-family homes.<sup>1</sup>

Freddie Mac has developed the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework (the “Framework”) under which it intends to issue social mortgage-backed securities and social bonds. The Organization intends to use the proceeds to finance and refinance, in whole or in part, the purchase of existing and future retail mortgages that fit the criteria for securitization into Freddie Mac Single-Family Social MBS. These expenditures are expected to improve the access to finance for affordable housing in the US. Freddie Mac’s Single-Family Social MBS<sup>2</sup> eligibility criteria, regarding affordable housing, include loan purchases for very low-, low-, and moderate-income borrowers.

Freddie Mac engaged Sustainalytics to review the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework, dated August 2022, and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2021 (SBP).<sup>3</sup> This Framework will be published in a separate document.<sup>4</sup>

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>5</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 2021, 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 1.11, 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 that: (1) they understand it is the sole responsibility of Freddie Mac to ensure that the information provided is complete, accurate or up to date; (2) they have provided Sustainalytics with all relevant information; and (3) any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

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

<sup>1</sup> Freddie Mac, “Fifty Years of Home”, at: <https://www.freddiemac.com/about/50yearsofhome>

<sup>2</sup> Sustainalytics notes that the Social MBS falls under the definition of ICMA’s Secured Social Collateral Bond, as per the SBP of June 2022. The issuer has established a mechanism and is committed to report on each eligible mortgage, in order to prevent any double counting.

<sup>3</sup> The Social Bond Principles are administered by the International Capital Market Association and are available at: [https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Social-Bond-Principles\\_June-2022-280622.pdf](https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Social-Bond-Principles_June-2022-280622.pdf)

<sup>4</sup> The Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework will be available on Freddie Mac’s website at: <https://www.freddiemac.com/investors>

<sup>5</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 least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

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. Upon twenty-four (24) months following the evaluation date set stated herein, Freddie Mac is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized 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 favour of 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 and impactful, and aligns with the four core components of the SBP. Sustainalytics highlights the following elements of Freddie Mac's Framework:

- Use of Proceeds:
  - The eligible category, namely Affordable Housing, is aligned with those recognized by the SBP.
  - Freddie Mac intends to invest in the purchase of mortgages that increase the access to finance for affordable homes for target populations including very low-, low- and moderate-income borrowers in the US.<sup>6</sup>
  - The net proceeds from Social Debt Bonds issued under the Framework will be used to finance or refinance, in whole or in part, existing eligible mortgages as defined by the Framework. Freddie Mac has established a look-back period of 24 months for refinancing eligible mortgages using the proceeds from Social Debt Bond issuances.
  - The Single-Family Social MBS issued under the Framework will be comprised exclusively of eligible mortgages as defined by the Framework.
  - Eligible mortgages include the following mortgage products: (i) Home Possible, (ii) HFA Advantage, (iii) Refi Possible and (iv) Manufactured Housing.<sup>7</sup>
    - The Home Possible<sup>8</sup> mortgage aims to meet home financing needs of very low to low-income borrowers. It is limited to borrowers with an income of up to 80% of the Area Median Income (AMI). The loan terms are expected to include flexible sources of down payment, including sweat-equity, gifts, grants and non-occupying co-borrowers. Sustainalytics notes that the loan terms benefit the above target population compared to existing market terms.

<sup>6</sup> Very low-income is defined as 50% or below of the Area Median Income, low-income is defined as 80% or below of the AMI, and moderate-income is defined as 100% or below of the AMI.

<sup>7</sup> Details of the Freddie Mac mortgage products are available at: <https://sf.freddie.mac.com/working-with-us/origination-underwriting/mortgage-products>

<sup>8</sup> Freddie Mac, "Home Possible", at: <https://sf.freddie.mac.com/working-with-us/origination-underwriting/mortgage-products/home-possible>

- The HFA Advantage<sup>9</sup> program is aimed at housing finance agencies to expand homeownership and supports a broad range of borrowers. Sustainalytics notes that this program does not have a cap on the AMI of borrowers. However, in the first half of 2022, the large majority of borrowers that received mortgages under this program had an income of up to 80% of the AMI.<sup>10</sup> Benefits of this program includes funding options for down payment, no delivery fees and closing costs. Additional benefits for those with an income of up to 80% of the AMI include reduced or waived mortgage-level credit fees. Sustainalytics notes that the loan terms benefit the above target population compared to existing market terms.
- The Refi Possible<sup>11</sup> mortgage product aims to reduce monthly mortgage expenses by providing those who have a Freddie Mac mortgage, the opportunity to refinance their mortgage and obtain lower interest rates. This program is targeted towards borrowers with an income of up to 100% of the AMI. However, in the first half of 2022, the majority of the borrowers that received mortgages under this program had an income of up to 80% of the AMI.<sup>12</sup> Loan terms are expected to include credit to cover appraisal cost. This program includes refinancing for borrowers who have missed payments due to COVID-19 forbearance and where those payments have been resolved accordingly. Sustainalytics notes that the loan terms benefit the above target population compared to existing market terms.
- The Manufactured Home Mortgages<sup>13</sup> aims to increase liquidity for lenders and housing options. The program is designated as owner-occupied and is limited to borrowers with incomes of up to 100% of the AMI in accordance with the Duty to Serve rule from the Federal Housing Finance Agency.<sup>14</sup> In the first half of 2022, the majority of the borrowers that received manufactured housing mortgages had an income of up to 80% of the AMI.<sup>15</sup> Values of manufactured housing are considered as entry level properties due to the lower building cost. As of March 2022, the average sales price of a new house<sup>16</sup> was USD 523,900 vs an average price for a new manufactured home<sup>17</sup> of USD 129,200. The program supports borrowers in underserved rural markets and persistent poverty areas and Freddie Mac must prepare an Underserved Markets Plan to fulfil its Duty to Serve obligations in each market. The loan terms are expected to include acquisition costs that are lower than the standard site-built construction costs. As of 2021, the median monthly all-in cost to own or rent a manufactured home is USD 955, roughly USD 680 per month lower than for site-built homes.<sup>18</sup>
- Sustainalytics notes that through the provision of liquidity to State Housing Finance Agencies, Community Development Financial Institutions (CDFIs) and other market players, Freddie Mac is supporting affordable housing within their focus communities. Sustainalytics acknowledges Freddie Mac's

<sup>9</sup> Freddie Mac, "HFA Advantage", at: <https://sf.freddie-mac.com/working-with-us/origination-underwriting/mortgage-products/hfa-advantage>

<sup>10</sup> Freddie Mac has communicated to Sustainalytics on a confidential basis the purchase volumes under each program and the target population.

<sup>11</sup> Freddie Mac, "Refi Possible", at: <https://sf.freddie-mac.com/working-with-us/origination-underwriting/mortgage-products/refi-possible>

<sup>12</sup> Freddie Mac has communicated to Sustainalytics on a confidential basis the purchase volumes under each program and the target population.

<sup>13</sup> Freddie Mac, "Manufactured Home Mortgages", at: <https://sf.freddie-mac.com/working-with-us/origination-underwriting/mortgage-products/manufactured-homes>

<sup>14</sup> FHFA, "Enterprise Duty to Serve Underserved Markets", at:

[https://www.fhfa.gov/SupervisionRegulation/Rules/RuleDocuments/2016%20Duty%20to%20Serve%20Final%20Rule\\_For%20Web.pdf](https://www.fhfa.gov/SupervisionRegulation/Rules/RuleDocuments/2016%20Duty%20to%20Serve%20Final%20Rule_For%20Web.pdf)

<sup>15</sup> Freddie Mac has communicated to Sustainalytics on a confidential basis the purchase volumes under each program and the target population.

<sup>16</sup> HUD, "HUD and Census Bureau Report New Residential Sales in March 2022", (2022), at:

[https://www.hud.gov/press/press\\_releases\\_media\\_advisories/HUD\\_No\\_22\\_079#:~:text=The%20median%20sales%20price%20of,in%20March%202022%20was%20%24436%2C700.](https://www.hud.gov/press/press_releases_media_advisories/HUD_No_22_079#:~:text=The%20median%20sales%20price%20of,in%20March%202022%20was%20%24436%2C700.)

<sup>17</sup> US Census Bureau, "MHS Latest Data", (2022), at: <https://www.census.gov/data/tables/time-series/econ/mhs/latest-data.html>

<sup>18</sup> Fannie Mae, "Duty to Serve: Underserved Markets Plan 2022-2024", (2021), at:

<https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FNM-2022-24-proposed-UMP.pdf>

intention to cover a wider group of borrowers to enhance the social impact of its products, where beneficial and affordable loan terms are offered. Nevertheless, it is Sustainalytics' opinion that including individuals or households within or above the 80-100% AMI group as a target population under the Framework, represents a deviation from what Sustainalytics sees as good practice in the context of social finance.

- The Organization has established responsible lending practices to mitigate the risk of predatory lending. Additionally, Freddie Mac has communicated that all sellers and servicers must have policies in place to identify and avoid predatory lending practices. Please refer to Section 2 for additional information.
- 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.
  - Freddie Mac has established the Single-Family ESG Bond Executive Committee to oversee the implementation of its ESG priorities in its Single-Family Social MBS program. The Organization intends to leverage its existing mortgage purchase process to ensure that mortgages being securitized into Social MBS meet the eligibility criteria as defined by the Framework.
  - Freddie Mac has company-wide climate risk management policies, underwriting standards and quality control practices and procedures to manage its servicers.
  - Based on the established process of project selection and the presence of risk management systems, 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 and cash equivalents or other liquid marketable securities.
  - The net proceeds from the Single-Family Social MBS<sup>19</sup> will be allocated exclusively to the eligible mortgages, immediately at the time of issuance, where eligible mortgages are the collateral of the Single-Family Social MBS, in line with the Secured Social Collateral Bond structure.
  - Freddie Mac has communicated to Sustainalytics that when eligible mortgages funded by Social Debt Bond issuances are securitized into Social MBS, sold or prepaid, it will reallocate the funds towards the purchase of additional eligible mortgages, to ensure that there is no double counting.
  - Based on clear definitions of how proceeds will be tracked, held and disbursed, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - Freddie Mac will report on the allocation and impact of the Single-Family Social MBS and Social Debt Bond proceeds. The report will be published annually and will include a summary of affordable lending programmes and related mortgages securitized into the Single-Family Social MBS, a description of the borrowers' benefits, information on the number of borrowers benefitting from the mortgages and may include additional information such as AMI, geographical distribution and cost savings of borrowers. Social Debt Bond allocation reporting will include the total amount and share of allocated and unallocated proceeds. Freddie Mac will update the report at least annually and until full allocation, and thereafter in the event of material developments.

<sup>19</sup> Freddie Mac has communicated to Sustainalytics that while it intends to securitize all mortgages purchased with the proceeds from Social Debt Bond issuances into its Single-Family Social MBS, some mortgages might remain un-securitized or may be securitized into other MBS products.

- In terms of Impact Reporting, Freddie Mac will report on the impact of the eligible mortgages that are financed and collateralized by the Social Debt Bond and Social MBS respectively, once for each eligible mortgage, to prevent double counting.
- 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 2021

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. For detailed information please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

## Section 2: Sustainability Strategy of Freddie Mac

### Contribution of the Framework to Freddie Mac's sustainability mandate

Sustainalytics is of the opinion that Freddie Mac demonstrates a commitment to sustainability with a focus on key social areas, such as provision of affordable housing, access to credit for affordable housing and improving housing equity.

Sustainalytics highlights the following as indicative of this performance:

- Freddie Mac's ESG strategy is built on four pillars, which include promoting greater access to affordable and sustainable homes. As part of this strategy, and through its Home Possible Program, Freddie Mac enables very low- to low-income borrowers to obtain homeownership. In 2021, the Home Possible Program financed 157,000 loans with 80% of these loans going to first-time homebuyers. In the same year, Freddie Mac financed USD 70.7 billion in multifamily housing support for renters, with the majority of them affordable to low- and moderate-income populations. This support included Low-Income Housing Tax Credit (LIHTC) equity investments to support the creation or rehabilitation of up to 4,000 low-income housing units in underserved communities.<sup>20</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>21</sup>
- In 2020, Freddie Mac's Multifamily Division issued Multifamily Impact Bonds, which included USD 1.3 billion in green bonds, USD 877 million in social bonds and USD 971 million in sustainability bonds, to support their sustainable and affordable housing goals.<sup>22</sup> Through proceeds from green bonds issuances, Freddie Mac has financed water improvement and energy reduction projects, which are projected to save 370 million gallons of water and 264 million kWh in energy usage, per year. The proceeds from social and sustainability bonds have aided Freddie Mac in providing affordable housing to underserved populations.<sup>23,24</sup> In 2019, the Organization's Single-Family Division created the GreenCHOICE Mortgage, which is used to finance energy- and water-efficient home improvements. The Single-Family Division purchased USD 462 million in GreenCHOICE Mortgages in 2020, to provide financing for energy efficiency improvements for approximately 1,685 families.<sup>25</sup> Additionally, Freddie Mac has also shared its commitment to issue USD 3 billion in single-family affordable housing bonds to support affordable housing and serve historically underserved populations.<sup>26</sup>
- Freddie Mac is committed to improving equity in homeownership and access to finance and has taken initiatives to this end, which include financial education to help underserved communities understand

<sup>20</sup> Freddie Mac, "Annual Housing Activities Report", (2022), at: [https://www.freddiemac.com/about/pdf/AHAR2021\\_Report.pdf](https://www.freddiemac.com/about/pdf/AHAR2021_Report.pdf)

<sup>21</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>22</sup> Freddie Mac, "Sustainability Disclosure – Report under the Sustainability Accounting Standards Board ("SASB") Standards and Management Criteria" (2022), at: [https://www.freddiemac.com/about/pdf/FMCC\\_001\\_ESG\\_SASB.pdf](https://www.freddiemac.com/about/pdf/FMCC_001_ESG_SASB.pdf)

<sup>23</sup> Freddie Mac, "2020 Impact Bonds Report", at: [https://mf.freddiemac.com/docs/2020\\_impact\\_bonds\\_report.pdf](https://mf.freddiemac.com/docs/2020_impact_bonds_report.pdf)

<sup>24</sup> Underserved populations include persons living below the poverty line, excluded or marginalized communities, persons with disabilities, migrants or displaced persons, undereducated, women or gender minorities, aging population, other vulnerable groups. Source: <https://mf.freddiemac.com/about/impact-dictionary>

<sup>25</sup> Freddie Mac, "Sustainability Disclosure – Report under the Sustainability Accounting Standards Board ("SASB") Standards and Management Criteria" (2022), at: [https://www.freddiemac.com/about/pdf/FMCC\\_001\\_ESG\\_SASB.pdf](https://www.freddiemac.com/about/pdf/FMCC_001_ESG_SASB.pdf)

<sup>26</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>

how to overcome barriers to homeownership. 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>27</sup>

Sustainalytics is of the opinion that the Framework is aligned with the Organization's overall sustainability strategy and initiatives and will further Freddie Mac's action on its key social priorities.

### Approach to managing social and environmental risks associated with the assets

While Sustainalytics recognizes that the net proceeds from the Framework will be directed towards eligible mortgages that are expected to create positive social impacts, Sustainalytics is aware that such eligible assets could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible assets include the exacerbation of social inequities within the communities in which financing is provided, as well as risks associated with predatory lending.

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

- Sustainalytics notes that the laws and regulations of the US provide stringent oversight of construction activities, and that the US is recognized as one of the Designated Countries under the Equator Principles, indicating that environmental and social governance legislation systems and institutional capacity are sufficient to ensure mitigation of the common environmental and social risks.<sup>28</sup>
- Freddie Mac's credit underwriting process includes quality control practices 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>29</sup> Additionally, in consultation with its internal Climate Advisory Group, Freddie Mac is also working to incorporate climate risks in its overall risk assessment framework.
- 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.
- Freddie Mac's operations are regulated by the FHFA, an independent federal agency in the US. Sustainalytics considers this regulatory oversight, and the associated policies the FHFA imposes,<sup>30</sup> as supporting responsible development and important for integrating stakeholder concerns.
- With regard to fair lending, the Department of Housing and Urban Development (HUD) has regulatory authority over Freddie Mac. All aspects of credit or housing-related business practices of Freddie Mac may be subject to federal anti-discrimination laws, as well as state and local fair housing and fair lending statutes. Freddie Mac's underwriting and appraisal guidelines are also periodically reviewed by the HUD to check for consistency with the Fair Housing Act and anti-discrimination provisions of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Reform Act.<sup>31</sup> Additionally, 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-predatory lending laws. This compliance also includes meeting the requirements of Regulation Z's Ability to Repay (ATR) rule, which determines a borrower's ability to repay the mortgage loan.<sup>32</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 mortgages.

## Section 3: Impact of Use of Proceeds

The use of proceeds category is aligned with those recognized by the SBP. Sustainalytics has focused below where the impact is specifically relevant in the local context.

<sup>27</sup> Freddie Mac, "Sustainability Disclosure – Report under the Sustainability Accounting Standards Board ("SASB") Standards and Management Criteria" (2022), at: [https://www.freddiemac.com/about/pdf/FMCC\\_001\\_ESG\\_SASB.pdf](https://www.freddiemac.com/about/pdf/FMCC_001_ESG_SASB.pdf)

<sup>28</sup> Equator Principles, "Designated Countries", (2020) at: <https://equator-principles.com/about-the-equator-principles/designated-countries/>

<sup>29</sup> Freddie Mac, "2021 Annual Report", at: [https://www.freddiemac.com/investors/financials/pdf/10k\\_021022.pdf](https://www.freddiemac.com/investors/financials/pdf/10k_021022.pdf)

<sup>30</sup> Federal Housing Finance Agency, Policies, at: <https://www.fhfa.gov/AboutUs/Policies>

<sup>31</sup> Freddie Mac, "2021 Annual Report", at: [https://www.freddiemac.com/investors/financials/pdf/10k\\_021022.pdf](https://www.freddiemac.com/investors/financials/pdf/10k_021022.pdf)

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

**The importance of accessible and affordable housing in the US**

According to a 2021 report published by the Joint Center for Housing Studies, 46% of renters in the US paid over 30% of their income and 24% paid over 50% of their income for rent in 2019 thus, making them severely cost burdened.<sup>33</sup> Meanwhile, extremely low-income renters in the US face a shortage of 7 million affordable and available homes to rent.<sup>34,35</sup> With single-family homes, in particular, the US Census observed that between 2012 and 2021, 12.3 million American households were established, however, only 7 million single-family homes were constructed due to rising prices for materials and land.<sup>36</sup> These issues are further exacerbated by the COVID-19 pandemic. Unemployment due to the pandemic is expected to place higher cost burdens, increase the risk of evictions and deferred mortgage payments.<sup>37,38</sup> Also, increased material costs, supply chain issues and labour shortages are further reducing the housing supply.<sup>39</sup>

The federal government has implemented various solutions to improve access and affordability including: (i) boosting the supply of affordable rental units, (ii) expanding financing to increase the purchase of homes and availability of rental units, and (iii) working with states to boost housing supply through policy development.<sup>40</sup> As of 2021, the government plans to increase mortgage availability through Freddie Mac and Fannie Mae for manufactured homes and buildings with two to four units.<sup>41,42</sup> It also announced the expansion of the LIHTC cap, a tax incentive to construct or rehabilitate affordable rental housing for low-income households, by USD 1.7 billion.<sup>43</sup> Furthermore, the government’s 2023 budget includes a proposal for an investment of USD 25 billion to develop 500,000 housing units for low- and moderate-income renters and homebuyers with the aim of improving transaction costs for these individuals and increasing the supply of single-family and multifamily housing units.<sup>44</sup>

Through its activities, Freddie Mac is expected to help lower borrowing costs, increase the supply of affordable and sustainable housing and expand availability and market demand for single-family homes. Sustainalytics believes that the activities outlined in the Framework will therefore yield positive social impact and directly support the government’s initiatives to improve access to affordable housing.

**Alignment with/contribution to SDGs**

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The securities and the bond(s) issued under the Framework advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Affordable Housing	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race,

<sup>33</sup> Joint Center for Housing Studies of Harvard University, “The State of the Nation’s Housing”, (2021), at:

[https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_State\\_Nations\\_Housing\\_2021.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2021.pdf)

<sup>34</sup> The National Low Income Housing Coalition (NLIHC) defines “extremely low-income households” as households with an income at or below the Poverty Guideline, or 30% of the Area Median Income, whichever is higher. More details can be found at: <https://nlihc.org/gap>

<sup>35</sup> NLIHC, “The Gap – A Shortage of Affordable Homes”, (2022), at: <https://nlihc.org/gap>

<sup>36</sup> Olick, D. (2021), “America is short more than 5 million homes, and builders can’t make up the difference”, CNBC – NBC Universal, at:

<https://www.cnbc.com/2021/09/14/america-is-short-more-than-5-million-homes-study-says.html>

<sup>37</sup> Menton, J. (2020), “Contact your mortgage lender: Payments may be deferred as coronavirus pandemic causes worker hardships”, USA Today – Gannett Satellite Information Network, LLC., at: <https://www.usatoday.com/story/money/2020/03/20/coronavirus-mortgage-payments-may-deferred-amid-pandemic/5073179002/>

<sup>38</sup> Sisson, P. (2020), “Covid-19 Is Killing Affordable Housing, Just as It’s Needed Most”, Bloomberg, at: <https://www.bloomberg.com/news/articles/2020-07-30/the-u-s-affordable-housing-gap-is-getting-worse>

<sup>39</sup> Olick, D. (2021), “America is short more than 5 million homes, and builders can’t make up the difference”, CNBC – NBC Universal

<sup>40</sup> The White House, “FACT SHEET: Biden-Harris Administration Announces Immediate Steps to Increase Affordable Housing Supply”, (2021), at:

<https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/01/fact-sheet-biden-harris-administration-announces-immediate-steps-to-increase-affordable-housing-supply/>

<sup>41</sup> Boak, J. (2021), “White House details plans to improve housing affordability”, ABC News, at: <https://abcnews.go.com/Politics/wireStory/white-house-details-plans-improve-housing-affordability-79763376>

<sup>42</sup> The White House, “FACT SHEET: Biden-Harris Administration Announces Immediate Steps to Increase Affordable Housing Supply”, (2021)

<sup>43</sup> *Ibid.*

<sup>44</sup> The White House, “President Biden Announces New Actions to Ease the Burden of Housing Costs”, (2022), at: <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/>



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

	<p>11. Sustainable Cities and Communities</p>	<p>ethnicity, origin, religion or economic or other status</p> <p>11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slum</p>
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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 may issue social mortgage-backed securities and social bonds. The Organization intends to use the bond proceeds to finance and refinance, in whole or in part, the purchase of existing and future retail mortgages that fit the criteria for securitization into the Freddie Mac Single-Family Social MBS. Sustainalytics considers that the mortgages funded by the social bond proceeds are expected to provide positive social impact.

The Framework outlines a process by which proceeds will be tracked, allocated and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Organization and that the social use of proceed category 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 the eligible mortgages funded by the proceeds.

Based on the above, Sustainalytics is confident that Freddie Mac is well-positioned to issue social mortgage-backed securities and social bonds, and that the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework is robust, transparent and in alignment with the core components of the Social Bond Principles 2021.

## Appendix

### Appendix 1: Social Bond/ Social Bond Programme - External Review Form

#### Section 1. Basic Information

<b>Issuer name:</b>	Federal Home Loan Mortgage Corporation (Freddie Mac)
<b>Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:</b>	Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	August 30, 2022
<b>Publication date of review publication:</b>	

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                                |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible category for the use of proceeds, namely Affordable Housing, is aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that investments in the eligible category will lead to a positive social impact in the US and advance the UN Sustainable Development Goals, specifically, SDGs 10 and 11

#### Use of proceeds categories as per SBP:

- |   |   |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure  | <input type="checkbox"/> Access to essential services                                   |
| <input type="checkbox"/> Affordable housing   | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input type="checkbox"/> Socioeconomic advancement and empowerment                      |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):  |

If applicable please specify the social taxonomy, if other than SBP:

#### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Freddie Mac’s Social Debt Bond advisory group is responsible for overseeing the evaluation and selection of eligible mortgages for Social Debt Bond issuances (unsecured corporate debt bonds). Freddie Mac also has company-wide risk management policies in place that are applicable to all issuances under the Framework. Freddie Mac’s Single-Family ESG Bond Executive Committee oversees the implementation of its ESG priorities in its Single-Family Social MBS program. Furthermore, Freddie Mac has in place policies and procedures to ensure compliance of funded mortgages with the eligible social criteria defined by the Framework. Sustainalytics considers the project selection process to be in line with market practice.

#### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer’s social objectives                                   | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

- Summary criteria for project evaluation and selection publicly available       Other (please specify):

### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification       In-house assessment
- Other (please specify):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

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 that will eventually be securitized into the Single-Family Social MBS. Pending allocation, net proceeds will be invested temporarily in cash and cash equivalents or other liquid marketable securities. The management of proceeds process for the Single-Family Social MBS is consistent with the process employed across the Organization's Single-Family MBS programs. Freddie Mac's processes for management of proceeds is aligned with market practice.

#### Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

#### Additional disclosure:

- Allocations to future investments only       Allocations to both existing and future investments
- Allocation to individual disbursements       Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds       Other (please specify):

### 4. REPORTING

Overall comment on section *(if applicable)*:

Social Debt Bond and Single-Family Social MBS allocation and impact reporting will be published annually on Freddie Mac's website and will include a summary of the eligible mortgages securitized into the Single-Family Social MBS and associated impact metrics. Social Debt Bond allocation reporting will include information on the amount of allocated and unallocated proceeds. Sustainalytics views Freddie Mac's allocation and impact reporting as aligned with market practice.

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

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## Use of proceeds reporting:

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

## Information reported:

- Allocated amounts
  Social Bond financed share of total investment
- Other (please specify):

## Frequency:

- Annual
  Semi-annual
- Other (please specify):

## Impact reporting:

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

## Information reported (expected or ex-post):

- Number of beneficiaries
  Target populations
- Other ESG indicators (please specify):

## Frequency:

- Annual
  Semi-annual
- Other (please specify):

## Means of Disclosure

- Information published in financial report
  Information published in sustainability report
- Information published in ad hoc documents
  Other (please specify):
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                     |  |

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP**

- i. **Second-Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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