

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

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## I. Introduction

The purpose of this Framework is to provide transparency into Freddie Mac's Single-Family Social Mortgage-Backed Securities (MBS) and Corporate Social Debt Bonds. Specifically, this Framework describes the collateral that is eligible for these programs, illustrating how the programs further Freddie Mac's Environmental, Social and Governance (ESG) strategy and fit into the June 2023 [International Capital Market Association's \(ICMA\) Social Bond Principles](#). This Framework was developed to support our ESG strategic priorities and is intended to enable investors to join us in reducing issues surrounding equity and affordability in the U.S. housing market.

### ***Freddie Mac***

Freddie Mac is a government-sponsored enterprise chartered by Congress in 1970 with a mission to provide liquidity, stability, and affordability to the U.S. housing market. We do this primarily by purchasing single-family and multifamily residential mortgage loans originated by lenders. In most instances, we package these loans into guaranteed mortgage-related securities, 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 mortgage 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 single-family and multifamily mortgage markets. We have helped many distressed borrowers keep their homes or avoid foreclosure and have helped many distressed renters avoid eviction.

Since 2008, Freddie Mac has been operating in conservatorship, with the Federal Housing Finance Agency (FHFA) as conservator. The conservatorship significantly affects our business activities.

### ***Freddie Mac Sustainability Strategy and Governance***

Freddie Mac's mission is to provide liquidity, stability and affordability to the housing market. We interpret that mission expansively to meet the country's broader housing needs by providing affordable, safe, sustainable and equitable access to housing. This includes integrating environmental, social and governance strategies into our business and operations, which we accomplish through carefully developed long-term goals and areas of focus designed to support the achievement of those goals.

### ***Our Approach to Sustainability***

Our Corporate Sustainability Office, established in 2020, is charged with leading the development, integration and management of our sustainability strategy in alignment with our overarching corporate strategy and mission. The Corporate Sustainability Office reports to the Chief Financial Officer.



**Sustainability vision:** A sustainable Freddie Mac – working together to address a changing world while supporting an equitable, sustainable U.S. housing finance system.

**Long-term goals:**

- Environmental: Protect the Future of Housing
- Social: Promote Inclusive Communities
- Governance: Uphold Responsible Operations

**Focus areas:**

- Climate Impact
- Sustainable Housing
- Diversity Equity and Inclusion (DEI) and Human Capital
- Sustainable Operations

We have also established a Single-Family ESG Bond Executive Committee to oversee implementation of our ESG priorities in the Single-Family Green and Social Mortgage-Backed Securities (“MBS”) programs. This Committee meets regularly to evaluate the impact and opportunities provided by our Single-Family Green and Social MBS. This Committee includes representatives from the Sustainability Office, the Investments & Capital Markets (I&CM) Division, Single-Family Division, Legal Division, Enterprise Risk Management Division, and Information Technology Division, and is charged with developing and evaluating the Single-Family Green and Social MBS Program strategy and performance. Additionally, the Mission and Housing Sustainability Committee of the Board was created to oversee the developing, planning, implementation, performance, and execution of Freddie Mac’s strategies and significant initiatives related to delivering on its commitment to promote affordability, equity, and sustainability in housing. This committee was formed in 2Q 2022.

***Freddie Mac Social Debt Bonds***

The Treasury group within I&CM manages Freddie Mac’s debt funding programs and liquidity risk. The group issues short and long-term unsecured debt securities to finance the purchase of mortgage and non-mortgage assets, to meet specific asset and liability management requirements, and to meet the company’s current and expected future daily cash needs.

For more information, see the offering circular and related documents for our [debt offerings](#).

## **II. Social Impact and Framework Overview**

Our Single-Family business issues MBS secured by a beneficial ownership interest in a pool of mortgage loans secured by residential properties. Freddie Mac ensures that the loans it acquires meet its guidelines for credit quality before it securitizes the loans into MBS and provides the guarantee of timely payment of principal and interest to the MBS investor. Principal and interest payments on the MBS are not guaranteed by, and are not debts or obligations of, the United States or any federal agency or instrumentality other than Freddie Mac.



This Framework addresses the four core components of the ICMA Social Bond Principles (SBP)<sup>1</sup>:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

### III. Use of Proceeds

#### *Single-Family Social MBS*

Freddie Mac’s Single-Family Social MBS help finance the purchase of mortgages that align to the ICMA Social Project categories and UN SDGs that are listed below. Specifically, Freddie Mac securitizes mortgage loans backed by properties meeting the eligibility criteria described below. A portion of Freddie Mac’s proceeds from sales of Single-Family Social MBS will be used to support programs under our Duty to Serve and Equitable Housing Finance Plan requirements. See “Management of Proceeds” for more information.

ICMA Social Project Categories	UN SDGs	SF Social MBS Eligibility Criteria
Socioeconomic Advancement and Empowerment	10. Reduced Inequalities	Investments that may include: <ul style="list-style-type: none"> <li>• Enabling the financing of single-family housing in underserved communities</li> <li>• Providing access to capital to traditionally underserved and underrepresented groups</li> </ul>

<sup>1</sup> Appendix I of the June 2023 SBP distinguishes between different types of Social Bonds that have emerged in this developing market. ICMA defines four types of Social Bonds in the Appendix. Freddie Mac’s Social MBS may be considered to fall under what ICMA describes as “Social Collateral Bonds,” as the mortgages being used for collateral of the Social MBS already exist and have been packaged into Social MBS under the eligibility criteria defined in this Framework.



Affordable Housing	11. Sustainable Cities and Communities	Investments that may include: <ul style="list-style-type: none"> <li>▪ Enabling affordable homeownership and supporting affordable rental housing by providing access to financing to low-to-moderate income individuals and families</li> </ul>

**Social Debt Bonds**

Freddie Mac allocates an amount equal to the net proceeds from the sale of any Social Debt Bonds to finance or refinance in whole or in part existing or new Eligible Assets. Eligible Assets are defined as any asset that satisfies at least two of the three high-level attributes (borrower, income and/or property) in the Mission Index. Freddie Mac’s Social Debt Bonds will support the existing and future initiatives described below by either financing or refinancing Eligible Assets described in this Framework.

The proceeds will typically be allocated within three to six months, but in all cases within 24 months, following the issuance of a given Social Debt Bond and proceeds may support existing Eligible Assets that were funded by Freddie Mac 24 or fewer months prior to the issuance date of a given Social Debt Bond. Pending allocation (or re-allocation), funds will be invested in accordance with Freddie Mac’s liquidity management.

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

Freddie Mac has an existing process for acquiring loans from lenders today. This process is designed to provide that loans being securitized into a Social MBS fit the defined investment criteria described below.

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

In order for a loan to be included in a Social MBS, the lender must represent, or Freddie Mac must otherwise be able to ascertain, that the loan satisfies at least one of the income, borrower or property attributes included in the Mission Index specification, as described below.



### **Single-Family Social MBS Criteria**

Freddie Mac is focused on addressing housing challenges that U.S. consumers face — especially those that disproportionately burden underserved borrowers and renters. In support of this objective, Freddie Mac’s Single-Family Mission Index disclosure provides MBS investors with insights into our mission-oriented lending activities, which allows them to allocate capital in a more targeted way towards these activities. The Mission Index is the foundation of our Single-Family Social Bond program. The program aligns with ICMA’s SBP categories of Socioeconomic Advancement and Empowerment and Affordable Housing, seeking to achieve positive socioeconomic outcomes for target populations and create vibrant communities.

Our objective is to allow investors to direct their capital to securities rich in mortgages to underserved borrowers and areas, potentially increasing affordable housing opportunities for target populations. The Mission Index disclosure provides additional transparency toward this goal, allowing investors to seek out MBS that have a high concentration of underserved borrower populations. In turn, investor demand for these MBS may result in improved pricing, which may translate to better access to credit for borrowers in targeted underserved populations.

#### **Mission Index framework:**

The Mission Index is designed to focus on underserved populations in the U.S. housing market that typically face barriers to obtaining affordable housing and/or have constrained access to credit. These populations are defined through income, borrower, and property attributes that are consistent with Freddie Mac’s mission focus. Income ceilings are applied where appropriate to responsibly target support to underserved populations. Freddie Mac is committed to periodically evaluating and enhancing the Mission Index criteria and disclosures to align to the needs of underserved borrowers and the capital markets. In pursuit of this commitment, the attributes underlying the Mission Index may change over time as the types of borrowers needing housing finance support evolves.

As described earlier in this Framework, the Mission Index is comprised of two scores that are disclosed to investors at the MBS level, a Mission Criteria Share (MCS) and a Mission Density Score (MDS).

- The MCS displays the percentage of loans, measured by loan count, in the MBS that meet at least one income, borrower, or property attribute included in the Mission Index specification.
- The MDS displays a score between zero (0) and 2.5. It illustrates a layering of mission-oriented attributes, reflecting whether each loan in the MBS meets at least one (1) income attribute, at least one (1) borrower attribute, and at least one (1) property attribute. Although the sum of each of those attributes may total up to three (3), the maximum reported MDS score on a pool is 2.5 to mitigate risks to borrower privacy.

### **Single-Family Social MBS Criteria**

All Single-Family MBS with a Mission Criteria Score of 100% and a Mission Density Score of  $\geq 2.0$  will receive the Social MBS label. This criteria ensures that:

- 100% of the loans in the MBS were made to borrowers in an underserved population referenced in the Mission Index.
- The average loan in the MBS identifies with at least two of the three high-level attributes of income, borrower, or property.



### **Social Debt Bonds Criteria**

Freddie Mac's Social Debt Bond advisory group, which includes representatives from the I&CM and Legal Divisions, will govern the process for asset evaluation and selection.

The process for evaluation and selection of Eligible Assets will generally be as follows:

1. **Identification.** The team requesting Social Debt Bond funding will identify assets that potentially meet the Eligible Asset criteria and propose those assets to the Social Debt Bond advisory group. Any proposal will include:
  - a. Estimation of the amount of funding needed;
  - b. Projected timeline for use of funds; and
  - c. Description of the asset, and the relationship between the asset and the Eligible Asset criteria.
2. **Determination.** The Social Debt Bond advisory group will assess proposals independently against the Eligible Assets criteria and decide if the asset is approved under the criteria.
3. **Allocation.** Following its decision, the Social Debt Bond advisory group will assess the types and volumes of proposed Eligible Assets and recommend the initial, projected allocations of the proceeds available from Social Debt Bond issuances. This assessment may include determining the need and size for additional Social Debt Bond issuances.
4. **Evaluation.** The Social Debt Bond advisory group will evaluate the uses of proceeds from Social Debt Bond issuances across approved Eligible Assets regularly, and at least twice per year, to ensure compliance with the assets approved.

### **Freddie Mac Single-Family Risk Management Practices for ESG**

In 2022, we continued to institute formal climate risk governance and incorporate climate risk into risk management processes. Our cross-divisional Climate Risk Advisory Group met regularly to discuss climate risk-related topics, prioritize climate risk activities, and identify climate risks and issues for escalation to senior management and the Board Risk Committee. We also continued to build our climate risk management framework, address data gaps, advance research initiatives, and develop methodologies to quantify our exposure to physical and transition climate risks.

FHFA has instructed us to designate climate change as a priority concern and actively consider its effects in our decision making; this was reflected in the requirements of our 2022 Conservatorship Scorecard and remains the case in 2023.

Freddie Mac employs multiple strategies to maintain loan quality:

- Underwriting standards, as published in our Guide and incorporated in Freddie Mac Loan Advisor®, establish the requirements for eligibility, documentation, and representations and warranties;
- Loan quality control practices, including post-close credit review and the remedy management repurchase process, help to validate that the loan origination process is acceptable to us and loans are produced to perform at or above expected levels; and
- Seller/servicer management, including review of their in-house quality control as well as our loan performance monitoring, helps to maintain quality control for loans sold and/or serviced by third parties.



More information on Freddie Mac's climate risk management, underwriting standards, quality control practices and management of seller/servicers can be found in our [2022 10-K](#). All loans included in the Social MBS satisfy the criteria set forth in the [Guide](#), including the section on [Responsible Lending](#).

## V. Management of Proceeds

### ***Single-Family Social MBS***

Mortgage lenders originate eligible loans and deliver those loans to Freddie Mac. Freddie Mac securitizes those loans into a fully guaranteed MBS. As a result of the MBS securitization process, proceeds received from these MBS transactions support the origination of the loans by replenishing capital to lenders, so that lenders can make loans available to borrowers in the future.

Our Single-Family Social MBS only contain mortgages that (1) satisfy the criteria set forth in the Guide and (2) meet the criteria described in this Framework. Unlike a traditional corporate debt issuance where guidelines govern how we manage the funds over time, these funds have already been invested towards the acquisition of a loan that meets our Single-Family Social MBS criteria.

A portion of Freddie Mac's proceeds from the sales of Single-Family Social MBS will be used to support programs under our Duty to Serve and Equitable Housing Finance Plan requirements.

### ***Social Debt Bonds***

The proceeds will be tracked internally across approved assets consistent with the Eligible Assets criteria. This internal process will track the difference between the net proceeds received from the issuance of the Social Debt Bonds and the amounts allocated to Eligible Assets. In the event that an Eligible Asset funded by the Social Debt issuance is securitized, sold, or it prepays, the proceeds used for such Eligible Asset will be re-allocated to fund the purchase of additional Eligible Assets.

Payment of principal and interest on the Social Debt Bonds will be made from Freddie Mac's general funds and will not be directly linked to the performance of any Eligible Asset. Proceeds that are not immediately allocated to Eligible Assets will be invested in accordance with Freddie Mac's liquidity management, such as in cash or cash equivalents, or other liquid marketable instruments. Freddie Mac's Treasury group will coordinate with finance, business planning, accounting, and other internal resources for the internal tracking of assets and accounting for the allocation of the net proceeds from the Social Debt Bonds to Eligible Assets defined in the Social Debt Bonds Criteria section.

## VI. Reporting

### ***Single-Family Social MBS Reporting***

Freddie Mac discloses security, loan-level and other product data on the [Mortgage Securities website](#). For every Single-Family Social MBS, Freddie Mac will disclose an MCS and an MDS.

Third-party data providers obtain the disclosures from Freddie Mac's website and distribute it to their customers.

### ***Social Debt Bond Reporting***

Within one year of issuance and during the term of the Social Debt Bond, Freddie Mac expects to provide information on the allocations of the net proceeds of the Social Debt Bonds, to be updated at least annually until full allocation of such net proceeds and as necessary thereafter in the event of material



developments. These reports will include affirmation that the assets funded align with our Eligible Asset criteria and the amount of allocated and unallocated proceeds.

**Impact Reporting**

Freddie Mac is committed to providing investors with impact reporting on Social MBS on an annual basis, starting approximately one year after issuance. Freddie Mac expects to report on the social impact of its Social MBS issuances, where feasible. Potential impact reporting metrics, which may change over time, may include:

ICMA SBP and GBP Project Categories	Potential Impact Reporting Metric
<p><b>SBP: Socioeconomic advancement and empowerment</b></p> <p><b>SBP: Affordable housing</b></p>	<ul style="list-style-type: none"> <li>• UPB of loans financed detailed by the Mission Index criteria</li> <li>• Number of properties/units financed, detailed by Mission Index criteria</li> <li>• Value created by Single-Family Social bonds program and deployed to affordable programs</li> <li>• Home retention activities</li> </ul>

**Second Opinion**

Freddie Mac engaged an independent third party, Sustainalytics, to evaluate our Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework. The opinion is published on our Single-Family Social Bonds website.

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*Morningstar Sustainalytics, a globally-recognized provider of ESG research, ratings and data, evaluated the Freddie Mac Single-Family Social MBS and Corporate Social Debt Bonds Framework and the alignment thereof with relevant industry standards and provided views on the robustness and credibility of the Framework. In no event the opinion nor any portion thereof shall be construed as part of the offering, nor shall be considered as an offer or advertisement to buy a security, solicitation of votes or proxies, investment advice, expert opinion or negative assurance letter as defined by the applicable legislation.*

*This is not an offer to buy or sell any Freddie Mac securities. Offers for any given security are made only through applicable offering circulars and related supplements, which incorporate Freddie Mac's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC); all other reports Freddie Mac files with the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934*



*(Exchange Act), excluding any information “furnished” to the SEC on Form 8-K; and all documents that Freddie Mac files with the SEC pursuant to Sections 13(a), 13(c) or 14 of the Exchange Act, excluding any information “furnished” to the SEC on Form 8-K.*

*The financial and other information contained in this Framework and in the documents that may be accessed through this Framework is provided for your general information only and speaks only as of the date of those documents. No representation or warranty, express or implied, is or will be made in relation to the accuracy, reliability or completeness of the information contained in those documents. The information could be out of date and no longer accurate. Freddie Mac undertakes no obligation, and disclaims any duty, to update any of the information in those documents. No liability whatsoever is or will be accepted by Freddie Mac for any loss or damage howsoever arising out of or in connection with the use of, or reliance upon, the information contained in those documents.*

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*These materials may contain forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond the company’s control. Management’s expectations for the company’s future necessarily involve a number of assumptions, judgments and estimates, and various factors could cause actual results to differ materially from the expectations expressed in these and other forward-looking statements. These assumptions, judgments, estimates, and factors are discussed in the company’s most recent Annual Report on Form 10-K, and its reports on Form 10-Q and Form 8-K, which are available on the Investor Relations page of the company’s Web site at <http://www.freddiemac.com/investors> and the SEC’s website at [www.sec.gov](http://www.sec.gov). The company undertakes no obligation to update forward-looking statements it makes to reflect events or circumstances occurring after the date of this Framework.*