OPTIGO
Freddie Mac Multifamily

Sustainability Bonds Framework

September 2020

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I. Introduction

Freddie Mac

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

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

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

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

Freddie Mac Multifamily

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

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

In 2009, Freddie Mac Multifamily introduced its K Series platform that aggregates and securitizes newly originated multifamily loans made through the Freddie Mac Multifamily Optigo network.

II. Supporting Sustainable Communities by Financing Affordable Housing

Freddie Mac Multifamily's commitment to supporting affordable, quality rental housing is central to everything we do, including our research, the products, programs and services we offer, and our securitizations, which channel private capital to support affordable and workforce housing nationwide. Our continuous support — in all economic conditions and for markets that might otherwise be neglected — distinguishes us from other funding sources. Driven by a genuine desire to affect change, we confront persistent housing challenges through innovative thinking that helps expand access to housing in all areas of financing.

The availability of affordable and workforce housing is fundamental to sustainable communities. A safe and decent place to live provides a foundation for creating economic opportunity for residents and communities alike. We have a long history of supporting sustainable communities through our financing for affordable and workforce housing in markets across the country.

To target our efforts and attract capital to support economic mobility for residents and economic growth for communities, we are introducing Sustainability Bonds.

Sustainability Bonds will be issued as "Sustainability Bonds" based on the intended use of proceeds to finance multifamily properties that: (a) finance affordable housing to low- to moderate-income families, at loan underwriting; (b) have features, or are located in areas, that further economic opportunity for residents; and (c) may include certain environmental impact features.

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

In addition, by applying the ICMA's High-Level Mapping to the Sustainable Development Goals, Freddie Mac has determined that its Sustainability Bonds designation reflects the intended use of the Sustainability Bond program's proceeds to support affordable housing and energy efficiency is consistent with the following United Nations Sustainable Development Goals:

- Goal 1: No Poverty
- Goal 7: Affordable and Clean Energy
- Goal 10: Reduced Inequalities
- Goal 11: Sustainable Cities and Communities

III. Use of Proceeds

The proceeds of Freddie Mac's Sustainability Bonds are used to finance multifamily properties that are affordable to low- to moderate-income individuals and expected to foster economic opportunity for residents, and may, in certain cases, include environmental impact features. These loans serve as collateral in our K-SG Certificates — our sustainability K-Deal® series — and may also be included in other K-Deals, Multifamily Participation Certificates (Multi PCs℠), ML-Deals℠, Q-Deals or similar transactions. Freddie Mac intends to leverage our K-Deal structure, which is a regularly issued, structured pass-through security backed by multifamily mortgage loans, to issue Sustainability Bonds that meet our sustainability selection criteria. More information regarding the terms of K-Deal series transactions is available in the K-Deal Program Term Sheet.

IV. Process for Project Evaluation and Selection

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

Eligible loans backing Sustainability Bonds must satisfy at least one of the social impact criteria and may include indicators that foster economic opportunity and/or one of the environmental impact criteria discussed below as of loan underwriting.

Social Impact Criteria:

- **Affordable Housing**: For Freddie Mac loan offerings, affordable housing is either:
  - Naturally Occurring Affordable Housing (NOAH): For our loan offerings and Impact Bonds, we define NOAH as units affordable to households earning 60% of the AMI or less in most markets. There is some variation for cost-burdened markets, for households located in properties that are not supported by major public subsidies, and for associated regulatory agreements.
    - NOAH rent is affordable to households earning up to, and including:
    - 60% of AMI in standard markets
    - 80% AMI in cost-burdened markets
    - 100% AMI in very cost-burdened markets
    - 120% AMI in extremely cost-burdened markets; or
  - Targeted Affordable Housing (TAH): For our loan offerings, TAH properties are those that receive federal, state or municipal government subsidies to pay for a portion of development or operating costs. In exchange, developers/borrowers agree to keep all or a portion of the units affordable to renters at certain AMI levels for defined periods of time, depending on the jurisdiction and type of governmental support involved. The government subsidies can be either direct (e.g., Section 8 vouchers) or indirect (e.g., tax credits).
- **Workforce Housing**:

  Fundamentally, workforce housing is housing affordable to the 'missing middle' – those making modest incomes in markets across the country. Workforce housing properties tend to be older and have fewer amenities, however may also include newer properties intentionally built to be affordable to households with moderate incomes.

  For our loan offerings and Impact Bonds, we define workforce housing as units with rents affordable to households making 80% or less of AMI in most markets, with some variation in cost-burdened markets. Workforce housing rent is affordable to households earning up to, and including:
  - 80% of AMI in standard markets

    - 100% AMI in cost-burdened markets
    - 120% AMI in very cost-burdened markets
    - 150% AMI in extremely cost-burdened markets

- **Manufactured Housing Communities with tenant protections or owned by residents**: Manufactured Housing Communities (MHCs) are a critical source of affordable housing, especially in historically underserved markets. Our purchase of mortgages supporting resident-owned MHCs results in more affordable housing for those residents. Through our purchase of mortgages that are investor-owned MHCs, we motivate community owners to increase the tenant-protections included in their leases to be more extensive than the minimums required by state law — increasing housing security for residents in their communities.

Housing that Fosters Economic Opportunity

- **In Designated High Opportunity Areas**:
    - High opportunity areas are located all over the country and are home to roughly 18% of the population, or around 17 million people. These areas, which can provide economic opportunity and mobility for residents, are often high-cost areas that are highly sought after for the benefits they offer. As the population grows in these areas, the housing demand increases faster than supply or local policies can accommodate. While an industrywide definition of high opportunity areas does not exist, there are five common and distinguishing features. For purposes of this framework, we rely on FHFA's definition of high opportunity areas in the Duty to Serve population. Please refer to the Impact Dictionary webpage in the section discussing Directing Capital Towards Historically Underserved Markets.
- **In Areas with Indicators of Opportunity**:
    - Properties may be in communities that have many features of high opportunity areas, but the markets have not been formally designated as High Opportunity. Alternatively, properties may have specific property-level programs that foster opportunity for residents. Please refer to the Impact Dictionary webpage in the section discussing Directing Capital Towards Historically Underserved Markets.
- **Mixed-Income Housing**:
    - Mixed-income housing can help to deconcentrate poverty and/or provide access to neighborhoods of opportunity for low- and moderate-income residents. This type of housing creates economic diversity and expands the availability of quality affordable housing throughout an area. Often federal, state or local programs will define mixed-income as a property in which at least 20% of the units are affordable to households making 50% or less of the AMI, or at least 40% of the units are affordable to households making 60% or less of AMI; and at least 20% of the units are unaffordable to households making less than 80% AMI. For the purposes of our Impact Bonds offerings, we consider mixed-income properties to be those that have a mix of units affordable to renters earning up to 50% AMI and those earning above 80% AMI. Mixed-income housing is an important way to further residential economic diversity, and federal, state and local programs may vary depending on market.

Environmental Impact Criteria

- **Building Standards for Energy Efficiency**:
  - Properties meeting a high level of required energy and/or water efficiency building standards including:
    - Properties that have demonstrated reduced energy usage of 15% from a baseline usage and may also have reduced water usage of 15% from a baseline usage
    - Properties that have a HERS score of 85 or less for rehabs
    - Properties with an energy performance equivalent to the 2009 Residential International Energy Conservation Code (IECC) or the 2009 Commercial IECC - ASHRAE 90.1-2007
  - Evidence of appropriate standard, score or relevant reduction must be provided during loan origination by the borrower
- **Green Building Certifications**:
  - Properties receiving one of the following nationally recognized certifications:
    - ENERGY STAR® certification, Multifamily Existing Buildings, Multifamily High Rise
    - Enterprise Green Communities
    - National Green Building Standard (NGBS) Certification and Remodeling Projects
    - Leadership in Energy and Environmental Design (LEED) BD+C and O+M
    - GreenPoint Rated Multifamily Whole Building Label
    - EarthCraft
    - Green Globes, Green Building Initiative
    - Passive House Institute US (PHIUS) Certified
    - Passive House Institute (PHI) Certified
    - Certifications not listed will be considered on an ad hoc basis
  - Certification must be provided during loan origination by the borrower.
- **Existing Energy/Water Efficiency Improvements**:
  - Properties not meeting the above criteria but having existing energy and/or water efficiency improvements must have had the improvement installed at the property at least by loan origination or no earlier than three years from loan origination. The retrofits may range between a total of 10%-30% of projected energy consumption savings and/or projected water consumption savings based on the average consumption savings of energy and water improvements discussed in Appendix I.[1]

[1] Average energy and water consumption savings are based on an analysis of our portfolio of Green Advantage loans. For more details see https://mf.freddiemac.com/docs/insight_analysis_of_green_improvements.pdf.

- Properties that have completed efficiency improvements as a part of our Green Advantage® loan program within the past five years or commenced efficiency improvements under Green Advantage loan program.

- **Transit Oriented Development**:
  - Transportation is one of the largest contributors of U.S. greenhouse gas emissions. Transit-oriented development encourages alternate transportation that can help to reduce transportation related emissions. To qualify, properties must be located within half a mile of public transportation including bus stops (urban areas), train lines and subway lines. Additional considerations will be made for properties located in less dense or more rural areas. Freddie Mac measures walking distance in miles from property using Bureau of Transportation Statistics National Transit Map.[2]

V. Management of Proceeds

Eligible loans will be designated through the K-SG Deal program and may be included in other K-Deals, Multi PCs, ML-Deals, Q-Deals or similar transactions. Sustainability Bonds proceeds and performance are reported monthly by the master servicer and trustee as part of the standard Investor Reporting Package. Every Sustainability Bonds issuance will be accompanied by regular securities offering documents, as well as impact characteristics disclosed on Annex A-1 schedule.

VI. Reporting

Freddie Mac is committed to reporting to investors the asset- and portfolio-level performance for Sustainability Bonds backed by properties financed following the use of proceeds above. Reporting is intended to be consistent with the core principles and recommendations in the published harmonized framework for both Green Bonds and Social Bonds impact reporting.[3]

Portfolio-Level Reporting

Freddie Mac evaluates the portfolio-level performance data, when available, associated with properties meeting our Sustainability Bonds criteria. Portfolio-level evaluation focuses on the financial, environmental and social impacts to sustainability.

Financial impact analysis could include factors such as total loan count, loan amount and unit affordability.

Where feasible, **environmental impacts** are evaluated and may include aggregate greenhouse gas emissions reduction/avoidance.

Social impacts include analysis of tenant benefits based on opportunities provided by residing in the financed properties.

[2] https://www.bts.gov/national-transit-map/national-transit-map-data-maps-and-apps
[3] https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Harmonized-Framework-for-Impact-Reporting-for-Social-BondsJune-2020-090620.pdf

Investor Reporting

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

Second Opinion

Freddie Mac is engaging an independent third party, Sustainalytics, to evaluate our Sustainbility Bonds Framework. We intend to publish this opinion on the Freddie Mac Multifamily website at https://mf.freddiemac.com, in our K-SG Deal offering documents, and possibly also in other K-Deals, Multi PCs or similar transactions offering documents

Appendix I

Energy Improvements - Average Energy Consumption Savings

Please refer to Green Improvements in Workforce Housing

Water Improvements - Average Water and Energy Consumption Savings

Please refer to Green Improvements in Workforce Housing

Freddie Mac will require borrowers to provide supporting documentation for installed improvements that may include one or more of the following:

- A signed certification of the specific improvements implemented at the property
- Final completion date
- Color photographs documenting the completed improvements
- Certification from engineer that improvements have been completed in a good and workmanlike manner (if available)
- Previous and/or current third-party produced property energy/water audit meeting an ASHRAE Level 1 standard (if available)
- Properties are subject to a verification audit at Freddie Mac's discretion