REQUEST FOR INPUT ON FANNIE MAE AND FREDDIE MAC 2018-2020 DUTY TO SERVE PLAN MODIFICATIONS

October 2018

Division of Housing Mission and Goals

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Introduction

The Federal Housing Finance Agency (FHFA) is requesting public input on Fannie Mae and Freddie Mac's (the Enterprises) proposed modifications to their 2018-2020 Underserved Markets Plans (Plans) under the Duty to Serve (DTS) program.

Background

On December 13, 2016, FHFA issued a final rule implementing the DTS provisions mandated by the Housing and Economic Recovery Act of 2008.[1] The statute requires the Enterprises to serve three specified underserved markets – manufactured housing, affordable housing preservation, and rural housing – in a safe and sound manner by increasing liquidity for mortgage investments and improving the distribution of investment capital available for residential financing for very low-, low-, and moderate-income families in those markets.

The DTS regulation requires the Enterprises to create Underserved Markets Plans detailing the specific objectives and activities they plan to implement to fulfill the DTS mandate. These three year Plans went into effect on January 1, 2018. The DTS regulation allows an Enterprise to request to modify its Plan at any time, and FHFA and the Enterprises may seek public input on the proposed modifications.[2] FHFA must provide a Non-Objection to a proposed modification for it to become part of a Plan.[3]

This request for public input describes the Plan modification review process established pursuant to Chapter 1 of FHFA's DTS Evaluation Guidance. The review process is intended to enable the Enterprises and FHFA to apply lessons learned and improve the Plans in an expeditious manner, while also providing transparency to the public about substantial changes to the Plans. The request for public input also input on certain modifications proposed by the Enterprises where FHFA has determined that feedback would assist FHFA in considering the proposed modifications.

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[1] 12 U.S.C. 4565.
[2] 12 CFR 1282.32(h).
[3] *Id*.

Overview of Modification Process

Chapter 1 of the DTS Evaluation Guidance states that a proposed Plan modification requires a sufficient basis and explanation, along with a detailed justification for why the modification is appropriate. FHFA has advised the Enterprises to use a "Plan Modification Request" template to request and justify a proposed modification. The two-part standard that must be met to receive a Non-Objection is: (1) the specific underserved market section to be modified maintain an average preliminary concept score of 30 or higher; and (2) the specific underserved market section include at least the required number of loan purchase objectives with a preliminary concept score of 30 or higher (on a scale from 0 to 50 points).

As FHFA and the Enterprises continue to implement the Duty to Serve program, FHFA believes that it would be a best practice for the Enterprises to assess their three-year Plans and propose modifications of those Plans, where appropriate, on an annual basis. While modifications are allowed under FHFA's regulation and Evaluation Guidance, Plan modifications are not a required part of the Duty to Serve process.

The DTS regulation provides that proposed modifications will be subject to public input "if FHFA determines that public input would assist its consideration of the proposed modifications."[4] FHFA has determined that public input would be helpful in considering proposed modifications that would make a substantial change to the content of a Plan. FHFA has discretion to determine which proposed modifications will be subject to public input on a case-by-case basis.

In order to help the Enterprises and the public gain insight into how FHFA will use its discretion in deciding when to seek or not seek public input on modification requests, FHFA has identified the following examples of modification requests for which FHFA is *less* likely to seek public input:

- Changing a historical baseline or numerically measurable target due to a miscalculation. In light of the wide variety of activities in the Plans, it is conceivable that the Enterprises and FHFA may disagree about how to conceptualize or count certain metrics, such as the number of units eligible for DTS credit under a certain activity. As FHFA and the Enterprises reconcile these discrepancies, an Enterprise may need to change its baseline or target accordingly; and

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[4] *Id.*

- Modifying the measurable quantity of an objective by a modest amount, which FHFA deems to be an increase or decrease of less than 10 percent.

FHFA also seeks to encourage the Enterprises to make edits that could improve the public's understanding of the Plans. Accordingly, Enterprise edits that do not substantially alter the substantive content of the Plan are considered technical edits, not modifications. Technical edits do not require justification, are not subject to public input, and are not subject to FHFA Non-Objection. Technical edits include changes to a Plan's formatting, organization, and introductory or explanatory text.

FHFA intends to issue Non-Objections to the Enterprises, where appropriate, for proposed modifications to both the current Plan year and following Plan years by December 2018. Upon the issuance of a Non-Objection, FHFA intends to publish the following documents on FHFA's public website, with any confidential and proprietary information omitted:

- The modified Plan(s) the Enterprises submitted that received a Non-Objection from FHFA;
- Redlined versions of the portions of the modified Plans containing all modifications, including technical edits;
- All of the Enterprises' completed "Plan Modification Request" templates. These documents will be published to provide the public with insight into the reasons the Enterprises' changed their Plans.

Input Questions on the Proposed Plan Modifications

To help inform FHFA's consideration of Fannie Mae's and Freddie Mac's proposed Plan modifications, FHFA is requesting input from all interested parties on the following:

1. What is the proposed modification's potential impact on the related objective in the Plan and on the underserved market as a whole?
2. Are there any market conditions FHFA should consider related to the proposed modification?
3. Are there any safety and soundness concerns related to the proposed modification?
4. What additional information might be helpful in evaluating the proposed modification?
5. Is the proposed modification appropriate based on the information and justification provided by the Enterprise? If not, why not?
6. Is there any other feedback on the proposed modification that FHFA should consider?

FHFA also welcomes additional input on any issues raised in considering these proposed modifications that are not directly responsive to these questions. The following two sections list the modifications identified by the Enterprises on which FHFA seeks public input. A title has been given to each modification to identify it by Enterprise, market, activity number and objective number. To aid FHFA in reviewing all feedback, responses should refer to each modification by the Activity title. Input should be as specific as possible when referring to individual activities and objectives.

The "Plan Modification Request" templates submitted for each of the proposed modifications under public consideration are included at the end of this request for input so that the public may understand the Enterprises' justifications for each modification. For more background information, see the Enterprises' Underserved Markets Plan and the DTS Plan Snapshots, which can be accessed from Duty to Serve's homepage on the FHFA website.

Proposed Modifications to Fannie Mae's Plan

Fannie Mae has submitted 22 modification requests to FHFA, and FHFA has identified the following 4 for public input. FHFA will consider all 22 modification requests as part of its review process, and FHFA and Fannie Mae will publish any approved modifications in December 2018.

- **Purchase or Rehabilitation of Certain Distressed Properties Activity**, FNM_AHP_K-2: Affordable Housing Preservation, Objective #2: Modify the baseline and target due to market condition changes from actual inventory versus projected inventory for 2018-2020.
- **Chattel Activity**, FNM_MH_B-2: Manufactured Housing, Objective #2: Modify the chattel loan pilot to include options such as participating in a debt structure or guaranteeing a security containing chattel loans, in addition to bulk loan purchase.
- **Invest in LIHTC Properties Activity**, FNM_RH_E-1**:** Rural Housing, invest in LIHTC properties activity. Objective #1: Modify actions to reflect revised rural investment targets based on enhanced market insight and experience since re-entering the LIHTC equity market.
- **Financing by Small Financial Institutions Activity**, FNM_RH_C-3: Rural Housing, Objective #3 (*New Objective*): New objective has been added to understand more about small financial institutions in rural areas.

Proposed Modification to Freddie Mac's Plan

Freddie Mac submitted one modification, correcting a miscalculation in a baseline and a target. FHFA has identified this type of modification as one in which public input is not needed to make a scoring determination. As a result, FHFA is not requesting public input on this proposed modification. FHFA will consider this modification request as part of its review process, and FHFA and Freddie Mac will publish the modification, if approved, in December 2018.

Public Input Instructions

FHFA will accept public input on this request for input no later than November 2, 2018. Submissions may be delivered by one of the following three ways:

(1) Emailed to FHFA at DutytoServeStakeholders@FHFA.gov with the notation "Plan Modifications RFI" in the subject line;

(2) Submitted to the DTS webpage at https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve.aspx; or

(3) Addressed to FHFA, Division of Housing Mission and Goals, 400 Seventh Street, S.W., Seventh Floor, Washington, D.C. 20219. Submissions to FHFA will be publicly posted without change, including personal information such as name, street address, email address, and telephone number.

Fannie Mae

Affordable Housing Preservation

2018 – 2020

Activity: Purchase or rehabilitation of certain distressed properties (12 C.F.R. § 1282.34 (d) (7)).

Objective 2: Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

Proposed Modification: Modify the Baseline and Target.

Justification for Proposed Modification: Updated industry forecasts now project sharply lower distressed property inventories than when Duty to Serve baselines were developed. As described in our Baseline, Fannie Mae used industry data from Moody's Analytics, Inc. for actual and forecasted national REO inventory, of which a percentage is sold and financed with a Fannie Mae mortgage. In June 2018 we analyzed the latest national inventory data (available quarterly) against the data available as of September 2017, the time of our Plan development. This updated third-party data showed significant changes in the actual inventory versus what had been forecast then. In addition, projected inventory for 2018, 2019 and 2020 has fallen significantly from the numbers Moody's had forecast in its third quarter 2017 analysis. The following table shows the change in forecasted inventory:

Moody's REO Inventory Forecast

End of Year	Activity for Year	National Inventory (count)		
		As of 9/17	*As of 6/18*	*Change from original forecast*
2011	2012	632,834	633,084	0%
2012	2013	554,190	554,564	0%
2013	2014	458,031	458,613	0%
2014	2015	371,196	372,138	0%
2015	2016	360,593	362,431	1%
2016	2017	419,763	421,550	0%
2017	**2018**	255,562	193,243	-24%

2018	**2019**	222,040	197,957	-11%
2019	**2020**	277,171	220,806	-20%
2020	2021	320,418	289,570	-10%

The Baseline within the Plan describes our methodology for using these inventory numbers. Although we are making progress towards our loan purchase target of 11,000 reflected in the Plan, it is unrealistic given actual market conditions.

K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C.F.R. § 1282.34 (d) (7)).

2. Objective #2: Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

Meeting the Challenges
One of the biggest challenges in the market for the purchase or rehabilitation of distressed properties as homes for very low-, low-, and moderate-income families is a lack of liquidity for individuals, non-profits, and other mission-oriented entities. To address these challenges, Fannie Mae will: • Purchase an additional ~~21,875~~2,739 to ~~23,550~~4,064 loans, over the Baselines ~~over~~ of the three years that were originated for the purpose of purchasing or rehabilitating distressed properties, ~~which~~ equaling~~s~~ an estimated additional $~~3.1~~427 m~~b~~illion to $~~3.3~~643 ~~b~~million of liquidity.[1] This is an ambitious outcome given that Fannie Mae forecasts an overall decrease in distressed properties as the housing market recovers and fewer homes are in the distressed inventory.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Purchase between ~~11,000~~8,510 and ~~11,540~~8,915 loans[2] originated for the purchase or rehabilitation of a distressed property,[3] representing approximately a five to 10 percent increase over the expected Baseline for 2018 as noted below. o **Baseline**[4]: Because the purchase volume for these loans has steadily decreased over the last three years (2014: 20,~~606~~723; 2015: 17,~~776~~830; 2016: 14,063~~02~~) and is expected to continue to do so, a three-year average is not an appropriate Baseline. In addition, based on 2017 purchase volume, Fannie Mae loan purchases have fallen even further to 10,967. ~~and, therefore, 2016 is being used as a representative number of purchases[5].~~ Note: For these purposes, Fannie Mae has included mortgage loans that finance the purchase of REO and short sales, as third party sales are not usually financed with a mortgage. Because of market recovery and a resulting expected decrease in distressed property inventory, Fannie Mae analyzed third party forecast data in relation to our historical purchases to establish Baselines for each year of the Plan. We obtained quarter-by-quarter national REO inventory reported by Moody's that represented actual inventory to-date and forecast inventory through 2020. This data shows there will be a ~~29.1~~31

1Fannie Mae is using the average loan balance for 2018 for deliveries through June.
2 In Fannie Mae's proposed Plan dated 5/8/17, significantly lower purchase goals in Year 1 (150 and 200), Year 2 (200 and 250), and Year 3 (250 and 300) were proposed and a small Baseline was established. Fannie Mae focused that draft Plan exclusively on financing rehabilitation, and not purchases alone. Also, at that time we could identify only mortgage loans that financed properties from Fannie Mae's REO inventory and relied only on our internal forecasts. Subsequently, we obtained additional internal and external market data that allowed us to increase our loan purchase goals.
3 Of this range, we will target between ~~100~~ 90 and ~~105~~ 95 loans on properties in high-needs rural regions.
4 Since Fannie Mae submitted our draft Underserved Markets Plan, we have obtained additional national market data as well as purchase volume data that allowed us to more accurately size this market and the Baselines.
~~5 Fannie Mae determined that in 2016, 155 mortgage loans on properties in high-needs rural regions were for the purchase of a REO or short sale.~~

<table>
<tr><th>Year</th><th>Actions</th></tr>
<tr><td></td><td>
percent decline in national inventory from 2016 to 2018, an ~~13.1~~11 percent ~~decline~~ increase from 2018 to 2019, and a ~~24.8~~31 percent increase from 2019 to 2020.
We analyzed that on average ~~given~~ since 2011 loans that Fannie Mae financed for the purchase of REO properties ~~was~~ were approximately three percent of the national REO inventory[6]. We then used the projected national REO inventory for 2018, 2019, and 2020 to apply ~~a three percent~~this purchase rate to determine what we would expect to purchase in each year, absent the work under the Plan.
In addition, to determine Baselines for the financing of short sales, we modeled these as a percentage share of the incoming flow of loans into the national REO inventory. The inflow into REO inventory, as opposed to the REO stock, better aligns over time with the flow of loans through the default process, which is the source of our short sale acquisitions. We analyzed the relationship between our own REO inflows, dispositions, and stock historically to infer a time series of national REO inflows. Then, analyzing our short sale acquisitions as a share of inferred national REO inflows since 2011 we determined that, historically, Fannie Mae financing for the purchase of short sale properties was on average one percent of the national REO inflow in a given year. We then used projected national REO inflows for 2018, 2019, and 2020 to apply a one percent purchase rate to determine what we would expect to purchase in each year, absent the work under the Plan.
For purposes of establishing Baselines for the high-needs rural regions, we looked at Fannie Mae's 2016 Baseline for loan purchases for all distressed properties—the addition of REO and short sales—and the forecasted volumes to assess the relative changes. The following table shows our analysis of projected loan purchases absent any initiatives under the Plan in order to determine yearly Baselines.
<table>
<tr><th></th><th colspan="2">Baseline</th></tr>
<tr><th>Year</th><th>Total</th><th>High-Needs Rural</th></tr>
<tr><td>2016</td><td>14,063~~02~~</td><td>155</td></tr>
<tr><td>2018</td><td>~~10,490~~8,102</td><td>~~96~~85</td></tr>
<tr><td>2019</td><td>~~9,939~~8,477</td><td>88~~6~~</td></tr>
<tr><td>2020</td><td>~~12,156~~9,882</td><td>~~106~~99</td></tr>
</table>
</td></tr>
<tr><td>2019</td><td>
Purchase between ~~10,900~~9,325 and ~~11,430~~9,750 loans originated for the purchase or rehabilitation of a distressed property,[7] representing approximately a 10 to 15 percent increase over the expected Baseline for 2019.
</td></tr>
<tr><td>2020</td><td>
Purchase between ~~13,975~~11,365 and ~~14,585~~11,860 loans originated for the purchase or rehabilitation of a distressed property,[8] representing approximately a 15 to 20 percent increase over the expected Baseline for 2020.
</td></tr>
</table>

6 The average number of REO inventory was ~~466,101~~467,063 and Fannie Mae purchased an average of ~~13,959~~13,672. Note: updated Moody's data showed slightly revised actual inventory and Fannie Mae obtained updated loan purchase totals that resulted in a slight change in these averages. This also caused us to adjust our 2016 baseline by 61 loans.~~.~~

7 Of this range, we will target between ~~95~~ 100 and 10~~0~~5 loans in high-needs rural regions.

8 Of this range, we will target between 115~~20~~ and 120~~5~~ loans in high-needs rural regions.

Fannie Mae

Fannie Mae

Manufactured Housing

2019 – 2020

Activity: Chattel. Loans on manufactured homes titled as personal property (12 C.F.R. § 1282.33 (c) (2)).

Objective 2: Establish a chattel loan pilot structure and secure approval from FHFA to purchase chattel loans (Do What We Do Best).

Proposed Modification: The proposed mechanism for fulfilling the loan purchase objectives for the chattel loan pilot should include options in addition to a whole loan bulk purchase. Specifically, Fannie Mae would meet the stated purpose of the chattel loan pilot by purchasing outright, participating in a debt structure, or guaranteeing a security containing chattel loans (subject to the applicable regulations requiring at least a 50% participation in the underlying loans).

Justification for Proposed Modification: After extensive industry outreach over the course of 2018, Fannie Mae has concluded that there is limited interest in selling whole loans. Despite frequent outreach on the part of Fannie Mae, including attending industry events and initiating phone calls during which we detailed the preliminary standards of a chattel pilot and expressed interest in potential partnerships, no potential sellers have proactively sought a chattel loan sale.

For example, multiple lenders expressed unwillingness to sell loans because they perceived that chattel assets perform well and provide strong returns when kept on portfolio. Another potential seller indicated that it has sufficient outlets for chattel assets, including large institutional investors. Finally, in two unrelated cases, holders of chattel assets stated that they intend to issue a private label security in 2019.

If appropriately structured to limit credit risk, reputational risk, and operational risk, a structured approach to the chattel pilot, as opposed to the bulk purchase approach, could be a more efficient means of gaining exposure to and learning about the chattel market. Such an approach would be more resource intensive for Fannie Mae, as it would involve additional capital markets subject matter expertise than a straightforward whole loan bulk purchase. It may also prove more challenging in practice, as verifying income eligibility for a tranche of loans in a security may be more complicated than a whole loan bulk sale. Finally, it would likely involve a guaranty in favor of other investors (subject to retained first lost by the sponsor). However, several potential loan sellers have shown that they have generally been unwilling to participate in a bulk sale as originally envisioned. This modification allows Fannie Mae to pursue the same fundamental goal of conducting analysis and research on an unfamiliar asset class in a way that is more consistent with current market dynamics.

B. Regulatory Activity: Chattel. Loans on manufactured homes titled as personal property (12 C.F.R. § 1282.33 (c) (2)).
Note: Fannie Mae seeks extra credit for this Activity.

2. Objective #2: Establish a chattel loan pilot structure and secure approval from FHFA to purchase chattel loans (Do What We Do Best).

Meeting the Challenges
While Fannie Mae has acquired chattel loans in the past and continues to hold some of these loans, Fannie Mae does not currently purchase chattel loans and FHFA has indicated that Fannie Mae must secure its approval to do so. Before approval can be secured, Fannie Mae must establish the parameters by which it will purchase chattel loans. The challenges in the market are: • Currently, there are only a handful of lenders originating loans in the primary market and there is no secondary market. • Lenders which make chattel loans hold them in portfolio so there has been no move towards product consistency. • Loans lack uniformity and standardization. Accordingly, facilitation of a secondary market requires significant efforts to address these challenges, including: • Establishing consumer protection, credit, collateral, and servicing standards for any purchase of chattel loans. • Gathering information on legal requirements and assessing financial risks. • Pursuing internal and FHFA approval to purchase chattel loans in 2019 and 2020. • Providing transparency and encouraging collaboration by publishing findings and insights annually for the benefit of the public.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Prepare one set of consumer protection, credit, collateral, and servicing policies and standards to acquire chattel loans in a safe and sound manner and establish metrics for monitoring activity – by Q2 end. • Obtain full approval to pursue chattel pilot by completing the following: o Complete FHFA Notification of New Activity pursuant to 12 CFR Part 1253.4 and submit for approval to purchase chattel loans – by Q1 end. o Pursue internal approval to purchase chattel loans – by Q3 end. o Pursue FHFA approval for the purchase of chattel loans – by Q4 end. o Assess impact and modifications to operations technology and infrastructure in order to implement changes for chattel pilot purchase – by Q3 end.
2019	Subject to internal and FHFA approvals in 2018, Fannie Mae will: • Implement chattel pilot monitoring capabilities – by Q2 end.

Year	Actions
	• Purchase outright, participate in a debt structure, or guarantee~~Purchase~~ 1,000 chattel loans (UPB of approximately $60 million) – by Q4 end. o **Baseline**: Because Fannie Mae has not purchased any chattel loans since 2006, a Baseline cannot be reasonably established for these purchases. Moreover, the primary purpose for purchasing these loans is analysis and research rather than contributing liquidity to the market, although the purchases will, in fact, contribute liquidity. Accordingly, the number of loans purchased has been established because, based on our experience of acquiring loans and analyzing loan performance, it represents a sufficient sample for initial analytical purposes while not creating safety and soundness concerns.
2020	• Facilitate an opportunity to analyze a larger sample of loans by purchasing outright, participating in a debt structure, or guaranteeing ~~purchasing~~ an additional 1,000 chattel loans – by Q4 end. • Define chattel pilot terms for the 2021 – 2023 Duty to Serve Plan based on learning from purchase activity in 2019 and 2020 – by Q4 end.

Fannie Mae

Fannie Mae

Rural Housing

2018 – 2020

Activity: Invest in LIHTC properties to facilitate the provision of affordable multifamily housing in rural areas (12 C.F.R. § 1282.35 (d)).

Objective 1: Invest in LIHTC properties including housing associated with other Statutory and Regulatory Activities (Partner and Innovate, Do What We Do Best).

Proposed Modification: Modify Actions to reflect revised rural investment targets based on enhanced market insight and experience since re-entering the LIHTC equity market.

Justification for Proposed Modification: The Revised Actions reflect adjustments to rural investment targets based on an evaluation of Fannie Mae's current portfolio, current and expected deal pipeline, and with consideration of investment targets and the regulatory investment limit. Since we were approved to invest in LIHTC equity, the progress made in developing relationships with our syndication partners and towards building an intrinsic rural focus within our LIHTC equity business are indicators that we will have a substantial impact in 2019 and 2020.

E. Additional Activity: Invest in LIHTC properties to facilitate the provision of affordable multifamily housing in rural areas (12 C.F.R. § 1282.35 (d)).

1. *Objective #1: Invest in LIHTC properties including housing associated with other Statutory and Regulatory Activities (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
LIHTC equity investment in rural areas has several key challenges, including: • Rural areas may be overlooked as potential investments because they typically are not included in the CRA footprints for larger financial institutions. • Affordable rural housing often depends heavily on the availability of tax credit investments due to the limited capacity of rural multifamily properties to support debt. • Because rural markets do not attract CRA investors, and those economic investors that do deploy capital to the rural market require much higher yields, the price for rural market tax credits is lower. This results in less equity being made available to the rural market. This fact, combined with the limited capacity of rural multifamily properties to support debt, can result in less investment in preservation being made in rural areas and difficulty in both producing and preserving affordable properties within and from the rural housing stock. To address these challenges, Fannie Mae will: • Re-establish our LIHTC investment capacity, including infrastructure, investment criteria, and policies and procedures. • Include LIHTC equity investments in Fannie Mae's multifamily work-plans for high-needs rural regions and for high-needs rural populations.[1] • Fill gaps in demand for capital as the private investor market presence expands and contracts over time, and support the equalization of pricing for tax credit equity currently and over time among all segments of the market, including rural housing, and other challenging projects that are by their nature routinely capital-constrained. • Work with key LIHTC market participants through the Rural Housing Advisory Council to identify opportunities in rural areas with less investor demand, including high-needs rural regions and high-needs rural populations. • Invest in LIHTC equity that will support the development/preservation of affordable multifamily housing in the high-needs rural regions and for high-needs rural populations, which have historically been areas of lower investor demand. • Invest in LIHTC equity eligible for Duty to Serve credit as an Additional Activity pursuant to 12 CFR § 1282.37(c).

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

1 As defined under the Regulations.

Year	Actions
2018	• Research and analyze market opportunities with respect to potential equity investments in LIHTC housing designed to support affordable rural housing, including the following Statutory or Regulatory Activities: o Project-based rental assistance housing programs under Section 8 of the U.S. Housing Act of 1937, 42 U.S.C. § 1437f. o The supportive housing program for the elderly under Section 202 of the Housing Act of 1959, 12 U.S.C. § 1701q. o Debt financing of LIHTC under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42. o The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485. o Small multifamily rental properties financed by entities with assets of $10 billion or less. • Fannie Mae will include both high-needs rural regions and high-needs rural populations in our 2018 research and analysis work related to future potential LIHTC equity investments. • Fannie Mae will: o Conduct extensive research to identify rural areas with low investor demand, including high-needs rural regions and for high-needs rural populations. o Meet with at least two LIHTC syndicators that are active in the high-needs rural regions and with high-needs rural populations to better understand LIHTC equity needs and to identify potential investments in the high-needs rural regions. o In conjunction with Fannie Mae's Single-Family outreach efforts, in Q1, meet with the Rural Housing Advisory Council to gain a deeper understanding of the market challenges and identify areas with low investor demand including in high-needs rural regions and for high-needs rural populations. o Conduct outreach to at least 10 State HFA with rural housing needs, and specifically those serving high-needs rural regions and high-needs rural populations, to better understand how their Qualified Allocation Plans address the needs of underserved rural markets. o Create, establish, and document one set of reasonable investment goals to meet the challenges identified through outreach and research related specifically to rural housing. ~~o Create and adopt one work-plan based upon data obtained through research and analysis, to leverage Fannie Mae's longstanding relationships in the LIHTC industry and commence investing in rural LIHTC properties.~~ ~~▪ Fannie Mae will reach out to LIHTC stakeholders working in high-needs rural regions and with high-needs rural populations in order to include specific related actions in the work-plan.~~ ~~▪ In addition, the work-plan will include a review of the initial Baseline estimated for 2019 (five LIHTC equity investments) based on the outreach and research completed, including potential investment opportunities in high-needs rural regions and with high-needs rural populations.~~ • <u>Fannie Mae will make equity investments in 20 LIHTC projects, through either proprietary or multi-investor syndicated funds, in the rural areas that are eligible for Duty to Serve credit as identified through outreach efforts while taking into account safety and soundness concerns</u>. o <u>**Baseline:** Fannie Mae has not made any equity investments in LIHTC properties in the last eight years. In addition, those LIHTC equity investments were made when Fannie Mae had a fully operating business with many years of recent experience. This goal was determined based on an evaluation of Fannie Mae's current portfolio, current and expected deal pipeline, and with</u>

Year	Actions
	consideration of investment targets and the regulatory investment limit. Based on this assessment and with consideration of the progress made building our business in 2018, Fannie Mae believes that 20 projects is a reasonable estimate.
2019	• Fannie Mae will make equity investments in 30 LIHTC projects, through either proprietary or multi-investor syndicated funds, in the rural areas that are eligible for Duty to Serve credit, ~~Fannie Mae will execute the work-plan developed in 2018 and acquire five equity investments in LIHTC projects in the rural areas that are eligible for Duty to Serve credit,~~ as identified through 2018 outreach and research efforts while taking into account safety and soundness considerations. This goal was determined based on an evaluation of Fannie Mae's current portfolio, current and expected deal pipeline, and with consideration of investment targets and the regulatory investment limit. Since we were approved to invest in LIHTC equity, the progress made in developing relationships with our syndication partners and towards building an intrinsic rural focus within our LIHTC equity business are indicators that we will have a substantial impact in 2019, through investments in a greater number of projects located in rural areas than were made in 2018. o **~~Baseline~~**: ~~Fannie Mae has not made any equity investments in LIHTC properties in the last eight years. In addition, these LIHTC equity investments were made when Fannie Mae had a fully operating business with numerous employees reviewing and managing the investments. Based on this experience, Fannie Mae believes that it is reasonable to estimate that we will make five new LIHTC equity investments in 2019.~~ • ~~In conjunction with Single-Family,~~ Fannie Mae will conduct at least one meeting with the Rural Housing Advisory Council, as well as conduct a rural roundtable, ~~in Q4~~ to continue to identify challenges in rural areas with less investor demand, and work together to develop solutions, including the use of LIHTC. • Based on Fannie Mae's experience during 2019, Fannie Mae will review and confirm our 2020 LIHTC equity investment goals.
2020	• Fannie Mae will make equity investments in 30 LIHTC projects, through either proprietary or multi-investor syndicated funds, ~~Fannie Mae will acquire 10 equity investments in LIHTC projects~~ in the rural areas that are eligible for Duty to Serve credit ~~(including but not limited to high-needs rural regions and for high-needs rural populations)~~, as identified in 2018 – 2019 outreach and research efforts while taking into account safety and soundness considerations. This goal was determined based on an evaluation of Fannie Mae's current portfolio, current and expected deal pipeline, and with consideration of investment targets and the regulatory investment limit. Since we were approved to invest in LIHTC equity, the progress made in developing relationships with our syndication partners and towards building an intrinsic rural focus within our LIHTC equity business are indicators that we will have a substantial impact in 2020, through investments in projects located in rural areas. • Fannie Mae will conduct at least one meeting with the Rural Housing Advisory Council, as well as conduct a rural roundtable to continue to identify challenges in rural areas with less investor demand, and work together to develop solutions, including the use of LIHTC. • Fannie Mae will review our experience with rural LIHTC investment during the term of the Plan and identify key lessons learned that will inform the 2021 – 2023 Duty to Serve Plan. • Prepare the 2021 – 2023 Duty to Serve Plan.

Fannie Mae
Rural Housing
2018 – 2020

Activity: Financing by small financial institutions of rural housing (12 C.F.R. § 1282.35(c) (3)).

Objective 1: ~~Through outreach and developing solutions,~~ Fannie Mae will increase purchases of single-family loans in rural areas from small financial institutions (Do What We Do Best).

Proposed Modification: Move all outreach activities from Objective #1 (Loan Purchase) and add a new Objective – Objective #3.

Justification for Proposed Modification: There has been a substantial amount of work undertaken to increase and enhance outreach to small financial institutions which was not included in the original plan and which we would not receive credit for in the absence of this proposed modification.

Proposed Modification: Modified production numbers and baselines to account for rural loans by small financial institutions delivered directly or indirectly to Fannie Mae; the small financial institution was the funder but the loan was delivered via an alternative option i.e. aggregator.

Justification for Proposed Modification: There was a considerable number of loans that Fannie Mae was not taking into consideration for we only gave ourselves credit for loans that were delivered directly to Fannie Mae. A large part of Duty to Serve is to support financing by small financial institutions of rural housing which means looking beyond direct deliveries, creating innovative solutions and alternative business models. As a result, Fannie Mae established a methodology to account for small financial institutions of rural areas that funded the loan and ultimately delivered to Fannie Mae through alternative options.

Proposed Modification: Use a three year average as the benchmark (2014, 2015, and 2016) versus 2016 only.

Justification for Proposed Modification: In reviewing loan production over the last three years, we firmly believe 2016 was an anomaly and should not be used as the benchmark for production goals. Historic all time low interest rates drove a large refinance market. Ample supply and home appreciation also contributed to an over-exaggerated production in 2016. With interest rates rising, the economic and financial environment for the U.S. housing market is in the process of normalizing and our goals need to be realistic. Given the regulatory environment and rising trend in interest rates, lending volumes are likely to fall as relatively lucrative refinancing volumes dry up.

C. Regulatory Activity: Financing by small financial institutions of rural housing (12 C.F.R. § 1282.35(c) (3)).

1. Objective #1: ~~Through outreach and developing solutions,~~ Fannie Mae will increase purchases of single-family loans in rural areas from small financial institutions (Do What We Do Best).

Meeting the Challenges
One of the biggest challenges in rural areas for small financial institutions is access to the secondary market and affordable capital. To address this challenge Fannie Mae will: • Purchase an additional 6,869 to 8,569~~4,873 to 6,623~~ rural single-family loans from small financial institutions over three years, which equates to an estimated additional ~~$848 million to~~ $1.5~~2~~ billion of liquidity.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	~~• Facilitate meetings with three regional wholesale lenders and one credit union service organization or one large aggregator to discuss the creation of an alternative business model allowing small financial institutions access into the secondary market – by Q3 end.~~ • Purchase between 24,300 and 24,500~~18,000 and 18,250~~ single-family loans in rural areas from small financial institutions, representing an approximate five to six percent increase over the Baseline. o **Baseline:** The three year average of the total number of rural loans purchased by Fannie Mae from small financial institutions in rural areas is ~~13,998~~22,077 loans. (2014: ~~10,383~~18,058; 2015: ~~14,401~~22,003; 2016: ~~17,209~~26,170). The Baseline is being established at 22,077. ~~However, given that in 2016 the number of single-family rural loans purchased (17,209) was higher than the three-year average, the Baseline is being established at 17,209.~~ ~~o Assist small financial institutions in meeting rural areas loan delivery requirements by engaging 25 small financial institutions to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.~~
2019	• Purchase between 24,300 and 24,500~~18,500 and 19,000~~ single-family loans in rural areas from small financial institutions, representing an approximate eight to 10 percent increase over the Baseline. • ~~Expand lender outreach to an additional 25 small financial institutions (i.e., lenders not approached in 2018) to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.~~
2020	• Purchase between 25,600 and 26,900~~20,000 and 21,000~~ single-family loans in rural areas from small financial institutions, representing an approximate 16 to 22 percent increase over the Baseline. ~~• Expand lender outreach to an additional 25 small financial institutions (i.e., lenders not approached in 2018 or 2019) to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.~~

Increasing the purchase volume of single-family loans in rural areas from small financial institutions provides direct liquidity to the market. Fannie Mae has a significant presence in the rural area housing loan market and maintains established relationships with small financial institutions engaged in the financing of rural housing. Fannie Mae has the systems, operations, and resource tools needed to facilitate efficient rural area housing loan delivery in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to improve acquisition of this product. Fannie Mae has significant experience purchasing loans in particular markets. Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. The ultimate opportunity available in this market is to acquire an increased number of rural area single-family loans from small financial institutions.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

3. Objective #3: Gain an understanding of the challenges and opportunities for small financial institutions in rural areas through outreach (Do What We Do Best).

Meeting the Challenges
One of the biggest challenges in rural areas for small financial institutions is access to Fannie Mae, the secondary market and affordable capital. To address this challenge Fannie Mae will: • Understand more about small financial institutions in rural areas. This could include understanding their customers and community in which they serve, services offered and the economics and processes for originating and servicing mortgages; develop innovation solutions for small financial institutions to learn about and have access to Fannie Mae.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Facilitate meetings with three small financial institutions and three CDFIs to discuss strategy on increasing loan production or to create an alternative business model allowing CDFIs access into the secondary market. • Assist small financial institutions in meeting rural areas loan delivery requirements by engaging 25 small financial institutions to facilitate participation in a Fannie Mae training program on loan delivery and related requirements. • Perform a research “journey” targeting Small Financial Institutions in rural areas and publish learnings internally with the goal to increase loan deliveries and Fannie Mae penetration in rural areas

Year	Actions
2019	• Build upon the research “journey” completed in 2018; provide continued support and engagement for two small financial institutions to support homeownership opportunities • Continue to expand lender outreach to an additional 25 small financial institutions to educate them on Fannie Mae (i.e., lenders not approached in 2018). Examples include facilitation in a Fannie Mae training on products, programs, and technology or approval process.
2020	• Based upon the outreach and journey completed in 2018 and 2019, Fannie Mae will identify opportunities to customize, enhance, or simplify products and establish a test and learn approach issuing one negotiated variance to select lenders • Continue to expand lender outreach to an additional 25 small financial institutions to educate them on Fannie Mae (i.e., lenders not approached in 2018). Examples include facilitation in a Fannie Mae training on products, programs, technology or approval process

Increasing the engagement with small financial institutions will provide direct liquidity to the market. Fannie Mae has a significant presence in the rural area housing loan market and maintains established relationships with small financial institutions engaged in the financing of rural housing. Fannie Mae has the systems, operations, and resource tools needed to facilitate efficient rural area housing loan delivery in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to improve acquisition of this product. Fannie Mae has significant experience purchasing loans in particular markets. Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. The ultimate opportunity available in this market is to acquire an increased number of rural area single-family loans from small financial institutions.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Outreach	Loan Product
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		