Duty to Serve

Evaluation Guidance

~~2018-2020 Plan Cycle~~

Guidance ~~2019-3~~2020-4

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Overview

The Housing and Economic Recovery Act of 2008 (HERA) established a duty for Fannie Mae and Freddie Mac (the Enterprises) to serve three specified underserved markets — manufactured housing, affordable housing preservation, and rural housing — by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for mortgage financing for very low-, low-, and moderate-income families in those markets.

Under the Duty to Serve regulation that implements this statutory requirement,[1] each Enterprise must prepare an Underserved Markets Plan (Plan) describing the specific activities and objectives it will undertake to fulfill its Duty to Serve obligations in each underserved market over a three-year period. This Evaluation Guidance (Guidance) describes the procedures the Enterprises will follow in preparing these Plans, the standard for FHFA issuance of a Non-Objection to the Plans, and the process by which FHFA will evaluate the Plans annually to produce a rating for each Enterprise's compliance and impact on each underserved market. This updated Guidance (version 2020-4) replaces the Evaluation Guidance released in ~~2017.~~December 2019 (version 2019-3).

Summary of changes in this ~~2019-3~~ revision to the Guidance

This ~~2019-3~~revised version of the Guidance (2020-4) is effective beginning with the 2021-2023 Plan cycle and incorporates several changes to ~~two components of~~ the Duty to Serve program:

~~1. **The Plan modification process** – Revisions specify criteria FHFA will use to determine whether to consider an Enterprise's request to modify actions in the current year of its Plan. Specifically, FHFA will only consider requests to modify current-year actions that (a) are proposed in response to special circumstances beyond an Enterprise's control that materially alter an Enterprise's ability to execute an objective through the actions in its Plan, or (b) increase the Enterprise's commitment to an underserved market.~~

~~2. **The process FHFA uses to assign concept scores** – Revisions eliminate the end-of-year concept score finalization process. Under the revised Guidance, the concept score assigned to an objective before FHFA issues a Non-Objection to an underserved market (previously referred to as "preliminary") in a proposed Plan will be considered~~

[1] 12 CFR Part 1282

~~"final." The concept score will be subject to reconsideration by FHFA only if an Enterprise requests to modify the objective during the Plan cycle.~~

1. **Revised ratings framework –** The revisions establish four ratings to describe Enterprise performance: Does Not Comply, Complies / Needs Improvement, Complies / Acceptable Results, and Complies / Excellent Results. These ratings replace the five-tiered ratings framework. In addition, the size of the extra credit upward adjustment is reduced to 5 percent, and the threshold for receiving extra credit for an eligible activity is increased to a cumulative impact score of 80.

2. **Higher expectations for impactful Plans –** The revisions require a minimum concept score of 30 for each objective, rather than the previous requirement that the concept scores of all objectives average a 30, in order for a proposed Plan to receive a Non-Objection from FHFA. The revisions also increase the required minimum number of activities that include at least one loan purchase objective in the Affordable Housing Preservation and Rural Housing markets, in order for a proposed Plan to receive a Non-Objection. In addition, the revisions clarify FHFA's expectations for each objective to be structured as a commitment to a specific target, with any implementation steps describing how the Enterprise plans to accomplish that target.

3. **Increased threshold for determining compliance –** The revisions increase the threshold for compliance from a score of 7 to a score of 8. The revisions also reduce and simplify the calculation for partial credit applied to objectives that were not fully accomplished. In addition, the revisions allow the Enterprises to earn partial credit for objectives without a baseline that were not fully accomplished.

The updated Guidance also includes technical changes to reflect current practices that have streamlined processes and improved program administration.

FHFA's Evaluation Guidance Objectives: ~~In developing this~~This Guidance~~,~~ provides FHFA's expectations on the Enterprises' Plan development. FHFA ~~is seeking to balance several objectives. First, FHFA wants~~expects the Enterprises to develop meaningful Plans that ~~help~~ result in increases in liquidity in the three underserved markets~~ over a three-year time period. Second, FHFA wants the Enterprises ~~, and to carry out innovative strategies that ~~make an impact in the underserved markets. Third, FHFA wants to provide transparency to the public, Congress, and the Enterprises about the way in which FHFA will evaluate ~~are impactful, consistent with safety and soundness. This Guidance also provides additional details on FHFA's evaluation framework and communication of the Enterprises' performance~~ on an annual basis. Fourth, FHFA wants to build in sufficient flexibility in the design of this Guidance in recognition that the Enterprises' Plans and FHFA's evaluation approach are new processes. To this end, certain ~~.

FHFA will continue to make changes ~~throughout this Guidance allow for greater flexibility in earlier Plan and evaluation years. FHFA also recognizes that given the new nature of these processes, it may be appropriate to make modifications~~ to this Guidance during the three-year Plan cycle~~. Any changes to the Guidance would need to balance the objectives described above. FHFA will continue to evaluate how to best balance these objectives and will make changes to the Guidance~~ to improve the process as ~~appropriate~~needed.

Evaluation Guidance Components: There are two major sequential steps involved in implementing the Duty to Serve regulation: (1) implementation and reporting by the Enterprises of the activities and objectives described in their Plans; and (2) FHFA annual evaluation of the Enterprises' performance under their Plans. An overview of each step is provided below:

1. **Implementation of the ~~Underserved Markets~~ Plans and Reporting Requirements.** ~~Once an underserved market section in~~Once a Plan is in effect after receiving FHFA's Non-Objection, each Enterprise ~~will implement~~implements the activities and objectives described in its Plan to meet the needs of that underserved market. Each Enterprise must submit a quarterly report to FHFA within 60 days of the end of the first, second, and third quarters of the calendar year describing its progress in implementing the activities and objectives in its Plan. Each quarterly report must include detailed year-to-date information on the Enterprise's progress as required by FHFA, supported by appropriate transaction level detail. Each Enterprise must submit an annual report to FHFA within 75 days of the end of the calendar year providing, at a minimum, information on all activities and objectives undertaken during the year, including the context necessary for FHFA to evaluate the Enterprise's achievements. Quarterly and annual reporting protocols provided by FHFA to the Enterprises contain additional instructions on the process for submitting the Enterprises' reports to FHFA.

   FHFA will make certain information from the quarterly and annual reports available to the public, omitting any confidential and proprietary information and data, at a reasonable time after the end of a Plan year.[2] Additional information regarding these public releases of information from the Enterprises' Duty to Serve reports is described in 12 CFR § 1282.66(d).

2. **Annual Evaluation of Enterprises' Performance.** Upon receipt of each year's annual report from an Enterprise, FHFA will conduct an evaluation of the Enterprise's performance under its Plan pursuant to the requirements of the Duty to Serve regulation and the guidelines specified in Chapter 2 of this Guidance.

[2] The only exception to this policy is that in the third year of a Plan, FHFA will make certain information from that year's second quarter report available to the public, omitting any confidential and proprietary information and data, at a reasonable time after receiving it within the calendar year. This will provide the public with information on the third Plan year as the Enterprises propose and revise their Plans for the next Plan cycle.

Based on this evaluation, FHFA will provide feedback to each Enterprise on its performance and issue one of the following ratings for each underserved market: ~~Exceeds, High Satisfactory, Low Satisfactory, Minimally Passing, or Fails. The first four~~Complies / Excellent Results, Complies / Acceptable Results, Complies / Needs Improvement, Does Not Comply. The first three ratings demonstrate compliance with Duty to Serve requirements, listed in order from highest to lowest rating.

The balance of this Guidance covers the following topics:

- Chapter 1 provides guidance on the process for developing the three-year Plan and FHFA's standard for issuing a Non-Objection to ~~the Plans~~each underserved market in the proposed Plan.

- Chapter 2 describes the process by which FHFA will evaluate the Enterprises' achievements under their Plans each year.

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Chapter 1. Developing Underserved Markets Plans~~: Contents and Considerations~~ and FHFA Non-Objection Standard

Overview

This Chapter describes the requirements applicable to the Enterprises' Plans, as well as guidance on how to develop effective Plans and FHFA's standard for issuing a Non-Objection to the proposed Plans. It covers the following topics:

- **Plan Structure** – This section describes ~~the overall structure required for~~how the Enterprises' Plans~~.~~ should be structured. Each Plan ~~must~~should be divided into separate sections for each of the three underserved markets. Each of these sections ~~must~~should, in turn, include subsections covering~~: Strategic Priorities Statement,~~ Statutory and Regulatory Activities Considered but Not Included, and Activities and Objectives. The Plans ~~must~~should also include a certification from a senior executive officer of the Enterprise~~ who is~~ responsible for submitting the Plan to FHFA.

- **Plan Contents** – This section provides more details on each of the ~~required~~ subsections, including the requirements applicable to objectives, which must be strategic, measurable, realistic, time-bound, and tied to an analysis of market opportunities (referred to as "SMART" criteria). This section also describes which activities qualify as contributing to residential economic diversity for purposes of awarding extra Duty to Serve credit in the evaluation process.

- **FHFA Non-Objection Determination** – This section provides detail on the standard that FHFA will use to issue a Non-Objection for each underserved market.

- **Plan Process** – This section describes the opportunity for the Enterprises or FHFA to ~~modify~~revise the Enterprises' Plans. This section also describes how the Enterprises may protect confidential and proprietary information and data included in their Plans~~.~~.

- **Additional Guidance for Plans** – This section describes best practices for preparing effective Plans. This section also describes ~~areas in which~~how additional research and development ~~would~~could be useful for meeting underserved market needs, which could be included in an Enterprise's Plan.

I. Plan Structure

Each Enterprise ~~shall~~is required to prepare a Plan that describes its ~~planned~~proposed actions over a three-year period to meet the needs of the three underserved markets: manufactured housing, affordable housing preservation, and rural housing. Each Enterprise's Plan should be divided into three underserved market sections, and each of these three sections should cover the three-year Plan period. FHFA will evaluate an Enterprise's actions annually under the activities and objectives for the applicable underserved market.

The following ~~three~~ subsections should be included ~~in a Plan for~~under each underserved market:

~~1. **Strategic Priorities Statement** – A brief summary of the Enterprise's strategy and rationale for how the activities and objectives in its Plan will serve the underserved market.~~

~~2.~~1. **Statutory and Regulatory Activities Considered but Not Included** – A discussion of the Statutory and Regulatory Activities the Enterprise considered but will not undertake ~~in~~during the Plan cycle for the underserved market.

~~3.~~2. **Activities and Objectives** – A description of the activities and objectives the Enterprise will undertake ~~in this~~during the Plan cycle to meet the needs of the underserved market.

~~Each of these three~~These subsections ~~is~~are described in more detail below under Plan Contents.

In addition, in the final version of its Plan, each Enterprise ~~must~~should include a certification from a senior executive officer responsible for submitting the Plan to FHFA stating that, to the best of his/her knowledge and belief, the Enterprise's historical information used to set baselines and targets in the Plan is true, correct, and complete.

To increase the usefulness of the Plans to readers, FHFA strongly encourages the Enterprises to include the following components in their Plans:

~~**II.I. Plan Contents**~~

~~**1. Strategic Priorities Statement**~~

- A table listing each objective in the ~~Each~~ underserved market ~~section in a Plan should begin with~~ by activity, year, and evaluation area;

- A table listing loan purchase objectives and targets in the underserved market by activity, year, and market; and

- A table of contents.

An Enterprise may also include in its Plan a strategic priorities statement that ~~articulates~~provides a brief summary of the Enterprise's ~~approach~~strategy and rationale for ~~addressing the needs of the underserved market through~~how the activities and objectives ~~included in the Plan. The statement should provide a rationale for all major decisions by the Enterprise on how it intends to~~ in its Plan will serve the underserved market. ~~The statement should include a description of how any public input informed any of the Enterprise's decisions for the~~ A Plan may also contain other overview sections that provide general context about an underserved market or an Enterprise's efforts to date to address needs in that market. The strategic priorities statement and overview sections will not contribute to FHFA's assessment of the likely impact of individual objectives. FHFA will not evaluate these additional components for purposes of making Non-Objection determinations or assigning ratings.

II. Plan Contents

~~2.~~1. Statutory and Regulatory Activities Considered but Not Included

While no single Statutory Activity or Regulatory Activity is mandatory, an Enterprise is required to consider a minimum number of Statutory or Regulatory Activities for each underserved market, as designated by FHFA in this Guidance.[3] To "consider" an activity, an Enterprise must choose either ~~choose~~ to include the activity and related objectives in its Plan, or explain in its Plan the reasons it has chosen not to undertake the activity. The minimum number of Statutory or Regulatory Activities for each underserved market ~~in this Plan cycle~~ is set forth below:

- **Manufactured housing:** The Enterprises must consider and address in their Plans all four of the Regulatory Activities identified for this market.

- **Affordable housing preservation:** The Enterprises must consider and address in their Plans at least seven of the Statutory and Regulatory Activities identified for this market.[4] FHFA selected this number to reduce the potential burden associated with considering all 16 of the Statutory and Regulatory Activities for the affordable housing preservation market.

- **Rural housing:** The Enterprises must consider and address in their Plans all four of the

[3] For reference, a table of activities that have been identified as Statutory Activities or Regulatory Activities is provided in Appendix A.

[4] The following two statutorily-enumerated activities will not count toward the minimum number of activities that the Enterprises must consider in their Plans under the affordable housing preservation market: the HUD Section 811 program and McKinney-Vento Homeless Assistance programs. Because these programs are not structured to make use of Enterprise support, FHFA does not expect the Enterprises to address these two programs in their Plans.

Regulatory Activities identified for this market.

For example, if an Enterprise ~~decides to include~~includes seven Regulatory Activities under the affordable housing preservation market in its Plan, the Enterprise has satisfied the minimum number to consider for that market in its Plan. By contrast, if an Enterprise includes four Regulatory Activities, two Statutory Activities, and one Additional Activity under the affordable housing preservation market in its Plan, ~~then~~ the Enterprise would need to describe why it is not pursuing at least one of the remaining Regulatory or Statutory Activities.

Explanations of why the Enterprises chose not to undertake certain activities will provide FHFA and the public insight about the market conditions, resource availability, or other factors that influenced the Enterprises' decisions on those activities. These explanations, along with input from the public on the proposed Plans, will contribute to a greater understanding of those activities and their potential impacts and limitations, and may inform FHFA's Plan reviews in the future.

~~3.~~2. Activities and Objectives

Activities are broad categories of housing lending that are eligible for Duty to Serve credit. Objectives are the actions underlying each activity that an Enterprise will carry out to accomplish the activity. Each objective is classified according to one of the following "evaluation areas": loan purchase, investment, loan product, or outreach objective, based on the nature of the actions the Enterprise commits to undertake.

For each underserved market in a Plan, an Enterprise must fully describe the ~~specific~~ activities it will undertake and their related objectives. An Enterprise has broad discretion to select which ~~specific~~ Statutory and Regulatory Activities it wishes to undertake~~,~~ and whether to include Additional Activities for a given underserved market. A Plan must include activities in each underserved market that serve all three Duty to Serve income categories[5] in each year of the Plan. Any one activity may serve more than one of the income categories.

A. Activities

All activities that an Enterprise plans to undertake for Duty to Serve purposes must be described in its Plan, labeled by name and type (*i.e.*, Statutory Activity, Regulatory Activity, or Additional Activity), and have at least one accompanying objective. The Plan must include a description of

[5] The three Duty to Serve income categories are: very low-income, low-income, and moderate-income. Very low-income means families ~~having~~with incomes not ~~greater than~~in excess of 50 percent of ~~the~~ area median income. Low-income means families with incomes not in excess of 80 percent of area median income. Moderate-income means families with incomes not in excess of 100 percent of area median income.

how the Enterprise will implement its planned activities and achieve the related objectives.

For any Additional Activity included in a Plan, an Enterprise must explain in the Plan how the Additional Activity will be targeted to meet the needs of a ~~particular~~ segment of the underserved market. In addition, an Enterprise must describe how the Additional Activity ensures that there are adequate levels of consumer protections or benefits to tenants or homeowners that are consistent with the requirements of the Statutory and Regulatory Activities in the Duty to Serve regulation.[6]

The Duty to Serve regulation provides that FHFA may, at its discretion, designate one Statutory Activity or Regulatory Activity in each underserved market that FHFA will significantly consider in determining whether to provide a Non-Objection to that underserved market in a proposed Plan. This provision allows FHFA to encourage the Enterprises to consider certain activities that could require more time and effort than other activities to make an impact on the underserved market. ~~For the first Plan cycle (2018-2020),~~ FHFA has not made such a designation in this Guidance.

B. **Objectives**

Objectives are the ~~specific action items~~actions underlying each activity that an Enterprise will carry out to accomplish the activity. Objectives are central to the evaluation and rating process described in Chapter 2. ~~The~~ Each objective in a Plan generally consists of two parts:

- **Target.** The most important component of an objective is a clear commitment to a specific target, which can take the form of a core action, achievement, or deliverable. An Enterprise should identify a target for each year of an objective and clearly label the target in its Plan. Criteria for measurable targets, including identification of a baseline, are described below.

- **Implementation steps.** Each objective may also include a description of how the Enterprise plans to accomplish the target under that objective. Any incremental steps included in this description should inform, advance, or otherwise contribute to accomplishing the target. An exhaustive list of individual action items is not required (as long as the objective meets the SMART criteria). However, an Enterprise's description of implementation steps that goes beyond the minimum level of detail needed to meet the

[6] The preamble to the final Duty to Serve rule states that: "Additional Activities that are very similar to a Statutory or Regulatory Activity will be subject to higher levels of scrutiny, recognizing that the protections embedded in those activities have been either statutorily enumerated by Congress, or ~~have been~~ subject to the public comment process in the proposed Duty to Serve rule." 81 Fed. Reg. 96242, 96245 (Dec. 29, 2016).

SMART criteria would help FHFA better understand how the Enterprise plans to achieve its target, as well as help FHFA make a well-informed assessment of the likely impact of the Enterprise's planned actions on liquidity in the underserved market.

As described in Table 1 below, implementation steps are not required to be completed in order to receive a compliance determination, and an Enterprise does not need to revise its Plan to reflect changes to implementation steps. For loan purchase objectives and investment objectives, FHFA understands that it may not be appropriate for an Enterprise to identify any implementation steps.

For example, an Enterprise may specify, as a target for a loan product objective, that it will publish at least three Seller/Servicer Guide changes by the end of the year. Implementation steps under this target may include reviewing existing products and policies to identify opportunities for improvement, convening five stakeholder roundtables to better understand challenges in the market that could be addressed through a Guide change, and conducting outreach to determine lender interest. If an Enterprise chose to convene three stakeholder roundtables and one webinar instead of five stakeholder roundtables, it would not need to submit a Plan modification describing these changes. However, the Enterprise would need to describe the actual steps it took in its second quarter and annual reports to FHFA.

Table 1 summarizes how the target and the implementation steps are used during the Plan development and evaluation processes. The role of the target and the role of the implementation steps are discussed in more detail in the Plan Process section of this Chapter and throughout Chapter 2.

Table 1. Role of Target and Implementation Steps in Plan Development and Evaluation

Event	**Role of the Target**	**Role of the Implementation Steps**
Concept Score Determination	Factor used by FHFA to assess the likely impact of an objective	Factor used by FHFA to assess the likely impact of an objective
Revisions to an Enterprise's Plan	Proposed changes to targets are treated as modifications and subject to the modification process described later in this Chapter	Proposed changes to implementation steps are not treated as modifications, but any deviations from actions in the Plan should be fully described in the Enterprise's second quarter and annual reports to FHFA

Step One: Compliance Determination	The extent to which a target has been achieved is the only factor FHFA considers	FHFA does not consider completion of implementation steps
Step Two: Impact Determination	Factor used by FHFA to assess the impact of an objective	Factor used by FHFA to assess the impact of an objective

FHFA acknowledges that it may be difficult for an Enterprise to determine when to combine multiple targets under a single objective to achieve the greatest impact, or to gauge the appropriate level of detail to provide in its description of implementation steps. FHFA will continue to engage in constructive dialogue with the Enterprises during the Plan drafting process and provide feedback when reviewing the draft Plans, in order to support development of meaningful and well-structured loan product and outreach objectives.

An Enterprise may, in its discretion, choose to include in its Plan any additional information and analysis that explain how ~~the Enterprise~~ it set ~~its~~the target for ~~the~~an objective, as well as the extent to which the objective will have an impact in addressing needs of the specific underserved market in light of the challenges, time commitment, and resources involved. ~~This information will inform and contribute to the objective's concept score discussed in Chapter 2.~~ To avoid duplicating the same information in multiple sections of its Plan, this description may be included as an overarching summary for an objective or an activity, rather than as part of the discussion of actions to be undertaken in a specific year.

1. "SMART" Criteria

Objectives must be strategic, measurable, realistic, time-bound, and tied to an analysis of market opportunities. For each objective, an Enterprise should elaborate in its Plan on how the objective will meet each of these "SMART" criteria, as described below.

- **Strategic.** ~~The Plan must describe how the~~Each objective in a Plan must directly or indirectly ~~maintains~~maintain or ~~increases~~increase liquidity ~~for~~to the underserved market. ~~This description~~ The Plan should explain how the objective ~~is strategic in meeting~~directly or indirectly meets the needs of the underserved market, and to what extent achievement of the objective is likely to have an impact on meeting the needs of ~~an~~the underserved market.

> **Setting Objectives**
> FHFA will consider each objective and the contextual information the Enterprise submits about that objective in making its Non-Objection decision for the Plan and in evaluating the Enterprise's performance of the objective under Step Two of the evaluation process.

- **Measurable.** ~~The~~Each objective in a Plan must provide a measurable target for the objective that ~~will enable~~enables FHFA to determine whether the Enterprise has achieved the objective.

  Loan purchase and investment objectives. For each loan purchase and investment objective, an Enterprise must provide in its Plan both a measurable target for the objective and a baseline representing measurable past performance by the Enterprise.

  - Baselines. The baseline is a measure of past performance by an Enterprise that will facilitate FHFA's evaluation of ~~objectives.~~the objective by providing context for the target. An Enterprise must identify a baseline for each loan purchase and investment objective in its Plan, where available, and justify the methodology used to select it. As part of its justification, the Enterprise should describe in detail the assumptions underlying its methodology, including how it defines and will identify the loans or investments that are included in the baseline and that will count toward the target. If FHFA disagrees with an Enterprise's baseline, it will disregard the baseline in its final evaluation of the Enterprise's performance. ~~If an Enterprise does not have the data to determine a baseline for a loan purchase or investment objective when submitting its first Plan for Non-Objection, this will not impact FHFA's initial Non-Objection determination. This will allow an Enterprise to proceed without a baseline for the first year of the first Plan cycle, but would make the objective without a baseline ineligible for partial credit under Step 1 of the Evaluation. However, an Enterprise will be required to modify its Plan for years 2 and 3 to include baselines as they are developed.~~

    - Among other potentially acceptable methodologies for setting baselines for loan purchase and investment objectives, an Enterprise may use an average of its performance data from the three most recent years.~~[7]~~ This approach helps adjust for fluctuations in annual activity. If using a three-year average, an Enterprise should provide the individual data points for all three years.

    - To be acceptable, a baseline methodology must be based on a close analysis of the underlying causes for observed trends in historical data. For example, if an Enterprise sets a baseline at its level of performance in the most recent year (or a straight line projection from that trend line), the Enterprise would need to explain in its Plan the reasons that the level selected will continue into the

~~[7] If using a three-year average, an Enterprise should provide the individual data points for all three years.~~

future and is not subject to annual fluctuations.

- ~~Partial Credit Depends Upon Baselines.~~For any objective, the methodology that an Enterprise uses to identify eligible loan purchases and investments in its reports to FHFA must be identical to the methodology the Enterprise used to identify past eligible loan purchases and investments that established the baseline and target. If an Enterprise ~~fails~~intends to ~~provide~~use a ~~baseline or fails to adopt an acceptable~~different methodology ~~for setting~~in a report to FHFA, the baseline ~~for an objective in its~~ and target must be updated through a Plan~~, FHFA will~~ modification.

FHFA recognizes that when an Enterprise proposes to enter a new sub-market, it may not ~~award partial credit~~ have the data to determine a baseline for an objective in its proposed Plan submitted for Non-Objection. An Enterprise may proceed without a baseline for ~~performance~~the first year of ~~that~~the objective. ~~In future years within the Plan cycle, after an~~ However, the Enterprise ~~has collected enough information~~should include in its Plan a brief explanation of why it is unable to establish a baseline for the objective~~, the~~ and how it intends to establish a baseline in subsequent years. The Enterprise ~~could request to modify~~ also must make technical edits to its Plan to ~~include~~add a baseline ~~so that the objective can be eligible~~ for ~~partial credit~~subsequent years.

- Targets. ~~In general, FHFA expects that~~ Targets for loan purchase and investment objectives ~~will have measurable targets~~ establish a commitment to purchase a specified volume of loans or make a specified number of equity investments in each Plan year ~~that~~. Within a market and property type (multifamily or single-family), targets for loan purchase and investment objectives should be expressed with a consistent unit of measurement (e.g., dollar amount, number of loans, number of units, etc.) to facilitate comparison across activities. For multifamily objectives, targets should include the number of units covered by loan purchases or investments the Enterprise plans to pursue. To evaluate objectives that express targets as units, transactions, loans, and/or properties with multiple ways to satisfy the target, FHFA will evaluate all possibilities for satisfying the target when assigning concept scores and will recognize that one measure might make the target significantly easier to accomplish.

In general, FHFA expects that targets in each Plan year will represent an increase in ~~action~~actions relative to the baseline, ~~and~~or an increase in actions from year to year for objectives included in multiple years~~, will have measurable targets that reflect~~

~~improvements from year to year.~~. FHFA recognizes that Enterprise targets and their ~~relative change~~changes in future years will depend, at least in part, on an Enterprise's previous activity level in a specific loan purchase or investment area. For years in which a target would result in loan purchases or investments that are essentially unchanged from or lower than the previous year, the Enterprise should ~~present sufficient justification~~justify in its Plan ~~for~~ why the loan purchases or investments will not increase from year to year. FHFA recognizes that market factors, such as rising interest rates ~~or~~, decreased supply, and regulatory actions, can impact the level at which an Enterprise's target is set.

- Range. If an Enterprise chooses to provide a numerical range, rather than an actual numeric target, for a target in its Plan~~,~~ in order to protect confidential and proprietary information or data, FHFA will presume that the Enterprise has set the target at the lowest end of the range for purposes of evaluating the objective. Alternatively, an Enterprise may provide to FHFA on a confidential and proprietary basis the actual numeric target for that objective. Upon releasing its evaluation results of an objective the following year, FHFA ~~will~~may make public any actual numeric target that ~~is~~was provided on a confidential and proprietary basis.

- Anticipation of Certain Future Events. In setting targets, an Enterprise should not speculate about the possible effects of certain future events, such as legislative ~~changes or recessions, that may or may not occur within the Plan cycle.~~ or regulatory changes, or economic shocks. An Enterprise should not set a lower baseline or a lower target in its Plan due to the possibility that such future events may occur. During the evaluation phase, FHFA will consider any effects attributable to specific events that occurred as potentially acceptable reasons for an Enterprise not meeting a target if the events made the target infeasible. ~~Therefore, an Enterprise should not set a lower baseline or a lower target in its Plan due to the possibility that such future events may occur. FHFA will~~FHFA will also consider the effects of any such events in evaluating the impact of an Enterprise's achievements in Step Two of the evaluation. Additionally, ~~the~~an Enterprise has the option of requesting a modification to its Plan, at any point, if special circumstances beyond an Enterprise's control materially affect its ability to achieve Plan objectives. In submitting the modification to FHFA for consideration, the Enterprise would need to provide a sufficient ~~basis and explanation~~justification for the modification.

Outreach and loan product objectives. For each outreach and loan product objective, an Enterprise must provide in its Plan both a measurable target for the objective and a baseline representing measurable past performance by the Enterprise~~, and~~. The Plan must also include the expected level of effort to complete the objective.

- Baselines. A baseline is required for each outreach and loan product objective, where available~~, but~~. The baselines for outreach and loan product objectives will necessarily be less precise than the baselines for loan purchase and investment objectives due to the differing nature of outreach and loan product development. The Plan must describe the justification for the baseline selected based on past similar outreach or loan product actions by the Enterprise. ~~Baselines for these types of objectives will be used primarily to inform the determination of the concept score rather than to assign partial credit for the objective in Step One of the evaluation. If an Enterprise does not have the data to determine a baseline for an outreach or loan product objective when submitting its first Plan for Non-Objection, this will not impact FHFA's initial Non-Objection determination. This will allow an Enterprise to proceed without a baseline for the first year of the first Plan cycle, but would make the objective without a baseline ineligible for partial credit under Step 1 of the Evaluation. However, an Enterprise will be required to modify its Plan for years 2 and 3 to include baselines as they are developed.~~

  - For each outreach objective, the baseline ~~must~~should describe the actions of the Enterprise in the past three years that ~~are similar to~~would support the ~~actions~~targets associated with the objective. This information will enable FHFA to understand the extent to which the outreach ~~objective~~objective's targets are an improvement over, or are expected to have a greater impact than, prior years.

  - For each loan product objective, the baseline ~~must~~should describe the Enterprise's current loan product rules or policies that the objective is intended to change or enhance. This information will enable FHFA to understand the extent to which the loan product ~~objective~~objective's targets are an improvement over, or are expected to have a greater impact than, prior policies.

- ~~Targets. An Enterprise must describe in detail in its Plan the specific steps it will undertake to achieve the target for each objective. FHFA's determination of a concept score for each objective will depend on the extent to which the Enterprise provides FHFA with a clear understanding of how the individual steps underlying~~

~~each objective will directly or indirectly improve liquidity for mortgages in the underserved market. If an Enterprise fails to fully achieve a target, partial credit will be awarded in Step One of the evaluation based on FHFA's determination of how much the Enterprise achieved. FHFA may award full credit in Step One of the evaluation if an Enterprise achieves its target in a different manner than described in the Plan. This approach balances the goal of having the Enterprises develop specific Plans available to the public while recognizing that changes in strategy might take place as Plans are implemented. For example, if an Enterprise describes a specific loan product change in its Plan but, as a result of market feedback, decides to make a different, yet comparable, loan product change under a specific objective, FHFA could determine to award full credit under Step One.~~

As is the case for loan purchase and investment objectives, an Enterprise may proceed without a baseline in its Plan for the first year of outreach and loan product objectives in new sub-markets. However, the Plan should include a brief explanation of why the Enterprise is unable to establish a baseline and how it intends to do so in subsequent years. Additionally, the Enterprise must make technical edits to its Plan to add baselines for subsequent years as they are developed.

- Targets. Targets for loan product and outreach objectives will be more varied than targets for loan purchase and investment objectives.

  - For loan product objectives, a target could be a commitment to publish a guide change or variance, develop and implement a pilot program, analyze potential loan product changes, publish a research report or white paper, or take some other measurable loan product action, achievement, or deliverable as identified by the Enterprise.

  - For outreach objectives, a target could be a commitment to implement a business-to-business outreach campaign to increase knowledge of an existing loan product, prepare a lessons-learned report after an outreach campaign or pilot program, prepare and publish a dataset, design or implement a homebuyer education or financial counseling curriculum in partnership or conjunction with a third party, or take some other measurable outreach action, achievement, or deliverable as identified by the Enterprise.

An Enterprise should fully describe the targets in its Plan so that they are as measurable as possible. For example, if an Enterprise proposes to execute a pilot program, it should describe the expected size of the pilot, the work product(s) expected, the types of lenders intended to be engaged, the location of the pilot (if known), the populations expected to be served and their incomes, the timeline (milestones occurring within the Plan year), and how the Enterprise will determine if the pilot is successful.

- **Realistic.** ~~The~~ Each objective in a Plan must ~~explain how the objective is~~be calibrated so that the Enterprise has a reasonable chance of meeting the objective with appropriate effort within the designated time period in the Plan. ~~This~~The Plan should include the basis for the Enterprise's determination and any supporting analysis ~~of the issue~~ undertaken by the Enterprise prior to setting the objective.

- **Time-bound.** The Plan must identify the specific evaluation year or years in which the objective will be completed. An objective may cover actions within a single year (e.g., purchasing [X] loans in ~~2018)~~Year 1 of the Plan), or actions over multiple years (e.g., conducting outreach on an existing loan product in ~~2018~~Year 1 and making a change to the loan product in ~~2019).~~Year 2 of the Plan). For multi-year objectives, an Enterprise ~~should~~must clearly identify the ~~actions specified~~objectives and targets for each year, along with the specific evaluation areas for each year.

- **Tied to Analysis of Market Opportunities.** ~~The Plan must~~Each objective in a Plan must be based on assessments and analyses of market opportunities in the applicable underserved market, taking into account safety and soundness considerations. The Plan should explain how the objective meets one or more of the market opportunities the Enterprise analyzed and identified in that underserved market ~~and~~. The Plan should also demonstrate how safety and soundness was taken into consideration in developing the objective.

2. Designating One Evaluation Area for Each Objective

The Duty to Serve statute and regulation require FHFA to evaluate separately whether each Enterprise has complied with its Duty to Serve obligations for each underserved market, taking into consideration four evaluation areas: outreach, loan products, loan purchases, and investments and grants. For each objective included in an Enterprise's Plan, the Enterprise must designate one evaluation area under which the objective will be evaluated. This requirement is intended to ensure that objectives are sufficiently focused and is not intended to constrain the ~~Enterprises'~~ Enterprise's actions. An Enterprise may designate an evaluation area for an objective in one year and a different evaluation area for the same objective in a ~~later~~subsequent year within ~~the~~a Plan cycle.

The designated evaluation area provides an important framework for FHFA's assessment of each objective. The Enterprises are encouraged to review the description of each evaluation area in the Duty to Serve final rule's preamble to inform their designation of evaluation areas before submitting their proposed Plans to FHFA for Non-Objection. In the event FHFA disagrees with the evaluation area designated by an Enterprise, FHFA will re-designate the objective as appropriate. FHFA will share the final designation of each objective's evaluation area with the Enterprise following FHFA's Non-Objections to the Plan, noting where it changed the evaluation area designated by the Enterprise, if applicable.

3. Identifying More Than One Underserved Market for An Objective

An objective may receive Duty to Serve credit in more than one underserved market in a Plan. For example, an Enterprise may receive credit under both the affordable housing preservation market and the rural housing market for purchasing loans on small multifamily rental housing in rural areas where the objective meets the Duty to Serve regulatory requirements for both underserved markets. ~~However, if~~If an Enterprise would like an objective to receive credit in more than one underserved market, it should identify the objective in each of the applicable underserved market sections in its Plan, adhering to the "SMART" criteria format.

The description in the Plan of any objective that is identified for credit in multiple underserved markets, including any loan purchases that meet the requirements for two separate markets, should address the impact that the objective will have on each market, so that FHFA can determine a separate concept score for that objective in each market. Cross-referenced activities or objectives that do not provide ~~a comprehensive~~an explanation of how the Enterprise's actions will target the specific needs of an underserved market will not receive a concept score for that market or be considered in FHFA's final evaluation. An objective included in multiple underserved markets will be evaluated separately on its impact on meeting needs within each of the underserved markets.

4. Identifying More Than One Objective for a Loan Purchase or Investment

FHFA recognizes that in some instances a single loan purchase or investment may qualify under multiple objectives within an underserved market. An Enterprise should clearly indicate in its Plan any instances where the baseline and target for a loan purchase or investment objective include loans or investments that will also be counted in the baseline and target for another objective in that market. In reporting to FHFA, the Enterprises ~~must~~should identify ~~the number of instances~~each instance where a single loan purchase or investment qualifies under multiple objectives within an underserved market.

~~**NON-OBJECTION DETERMINATION**~~

~~The Duty to Serve regulation provides for FHFA to issue three Non-Objections for a proposed~~

~~Plan – one for each underserved market in the Plan – after FHFA is satisfied that all of its comments on the underserved market have been addressed. A Non-Objection serves as FHFA's determination that a proposed Plan adequately addresses the needs of each underserved market. Issuing a Non-Objection signals to the Enterprise and the public that the Enterprise can commence actions to serve that market for purposes of receiving Duty to Serve credit.~~
~~For an underserved market in a Plan to receive a Non-Objection, all of the following requirements must be satisfied:~~

1. ~~The average of the concept scores of all of the objectives in the market over the three-year period of the Plan (unweighted by evaluation area) is at least 30.~~

2. ~~If the average of the concept scores of all of the objectives in the market for year 2 or year 3 of the Plan is less than 30 for the given year, then that market section of the Plan must be modified through the Annual Plan modification process to ensure that it will have a meaningful impact on the needs of the market for the given year.~~

3. ~~Each Plan year must contain a minimum number of activities that include at least one loan purchase objective with a concept score of at least 30, as set forth in the chart below:~~

~~Minimum Number of Activities with a Loan Purchase Objective Scoring at Least 30~~

~~Underserved Market~~	~~Year 1~~	~~Year 2[8]~~	~~Year 3[9]~~
~~Manufactured Housing~~	~~1~~	~~1~~	~~2~~
~~Rural Housing~~	~~1~~	~~1~~	~~2~~
~~Affordable Housing Preservation~~	~~4~~	~~5~~	~~5~~

4. ~~The Enterprise has demonstrated that it made good faith efforts to evaluate the public input received on its proposed Plan and to incorporate it where appropriate and to incorporate the formal comments that FHFA provided to the Enterprise on its proposed~~

[8] ~~The numbers for years 2 and 3 were selected using the number of regulatory and Statutory Activities each Enterprise had to choose from in Appendix A as a reference point.~~
[9] ~~Id.~~

~~Plan.~~

C. Extra Credit-Eligible Activities

An Enterprise may receive ~~extra~~ Duty to Serve extra credit for activities that are particularly challenging to accomplish in an underserved market or that serve a segment of an underserved market that is relatively less well-served. ~~The specific~~Residential economic diversity is an eligible extra credit activity under the affordable housing preservation market and is discussed further in this section below. Other activities that ~~are~~FHFA has designated as eligible for extra credit for each underserved market are identified in Chapter 2 ~~and include those that promote residential economic diversity~~of this Guidance. FHFA may, in its discretion, change the activities eligible for extra credit in subsequent revised Guidance.

1. Residential Economic Diversity Activities

Enterprise activities that promote residential economic diversity are eligible for extra credit under the affordable housing preservation market. A "residential economic diversity activity" for Duty to Serve purposes means an eligible Enterprise activity, other than an energy or water efficiency improvement activity or other activity that FHFA determines to be ineligible, that supports financing of mortgages on: (1) affordable housing in a high opportunity area; or (2) mixed-income housing in an area of concentrated poverty. For a residential economic diversity activity to be eligible to receive extra credit, it must be identified in a Plan as either an Additional Activity~~,~~ and meet the Duty to Serve regulation requirements for an Additional Activity, or as an objective that is specifically identified under a Statutory or Regulatory Activity.[10]

The Duty to Serve regulation states that certain components of the definitions of "high opportunity area" and "mixed-income housing" would be further specified in the Guidance. These components are discussed below.

High Opportunity Area

a. . The Duty to Serve regulation defines a "high opportunity area" for Duty to Serve purposes generally as:

- an area designated by the Department of Housing and Urban Development (HUD)

[10] For residential economic diversity activities that are Additional Activities, an Enterprise must describe how the Additional Activity ensures that there are adequate levels of consumer protections or benefits to the tenants or homeowners that are consistent with the requirements of other Statutory and Regulatory Activities in the Duty to Serve regulation. 81 Fed. Reg. at 96245.

as a "Difficult Development Area" (DDA) during any year covered by a Plan or in the year prior to a Plan's effective date, whose poverty rate is lower than the rate specified by FHFA in the Guidance; or

- an area designated by a state or local Qualified Allocation Plan (QAP) as a high opportunity area and which meets a definition FHFA has identified as eligible for Duty to Serve credit in the Guidance.

Difficult Development Areas: FHFA has elected to set poverty rate thresholds for DDAs to qualify as high opportunity areas. For ~~this~~each Plan cycle, FHFA will identify the poverty rate of each census tract within a HUD-designated DDA and only include as high opportunity areas those tracts with poverty rates below 10 percent (for metropolitan DDAs) and below 15 percent (for non-metropolitan DDAs). FHFA selected these thresholds to balance the objective of excluding high-poverty DDAs from its definition of high opportunity area with ensuring that the definition covers a reasonable segment of the population. FHFA considered applying the same poverty rate threshold for metropolitan and non-metropolitan DDAs but elected to apply different thresholds because the poverty rate of non-metropolitan DDAs tends to be higher than that of metropolitan DDAs. ~~While approximately 40 percent of metropolitan DDAs have poverty rates in excess of 10 percent, nearly three-quarters of non-metropolitan DDAs have poverty rates above 15 percent. The national poverty rate in the last five years has ranged from 13.5 to 15 percent.~~

Definitions from Qualified Allocation Plans: ~~For this Plan cycle, to~~To meet the second component of the definition of high opportunity area, FHFA has elected to use state or local definitions of high opportunity areas (or similar terms) contained in Low-Income Housing Tax Credit QAPs or QAP-related materials that meet the following criteria:

1. The definitions are intended to describe areas that provide strong opportunities for the residents of housing funded through the QAP. Use of terminology such as "high opportunity areas," "very high opportunity areas," "areas of opportunity," "opportunity areas," or "economic integration areas" (singular or plural) can be helpful in signaling this intent; and

2. The QAP describes the location of the areas in sufficient detail to enable them to be mapped and/or includes a list(s) or map(s) of such high opportunity areas.

The states that use definitions of high opportunity ~~area~~areas in their QAPs that meet these criteria are identified in ~~Appendix D. A~~the High Opportunity Areas data file ~~of~~on FHFA's website. This data file also identifies the specific census tracts within these states that meet the Duty to Serve definition of "high opportunity area ~~will be posted on FHFA's website.~~." In order to avoid awarding Duty to Serve extra credit for Enterprise activities in higher-poverty areas, FHFA ~~will review these areas and, as discussed above, will exclude~~has excluded those areas that have a poverty rate at or above 10 percent in metropolitan areas and at or above 15 percent in non-metropolitan areas.

Mixed-Income Housing

b. . The Duty to Serve regulation provides that FHFA will specify in the Guidance the minimum percentage of units in a multifamily property or development that must be affordable to very low-income families, or to families at lower income levels, as well as the minimum percentage of units that must be unaffordable to low-income families, in order for the property or development to be considered "mixed-income housing." FHFA determined that minimum thresholds for both affordable and unaffordable units would ensure that the mixed-income housing the Enterprises are encouraged to support is affordable to households at a range of income levels.

~~For this Plan cycle, the~~The minimum thresholds for mixed-income housing, which were specified in the preamble of the Duty to Serve final rule, are the following:

- at least 20 percent of the units are unaffordable to families with incomes at 80 percent of area median income; and

- at least 20 percent of the units are affordable to families with incomes at or below 50 percent of area median income, or at least 40 percent of the units are affordable to families with incomes at or below 60 percent of area median income.

D. Concept Score

Before issuing a Non-Objection to an Enterprise's proposed Plan, FHFA will assign a concept score of 0, 10, 20, 30, 40, or 50 for each objective included in the proposed Plan based on the criteria in Appendix B. The concept score will measure the expected level of impact on underserved market needs that an objective would represent if fully achieved, based on the information available to FHFA at that time. The concept score will inform FHFA's ultimate evaluation of the actual impact of the Enterprise's achievement of the objective.

While reviewing an Enterprise's proposed Plan, FHFA will provide feedback to the Enterprise on the draft objectives in the Plan, including the likely concept score each objective would receive, as currently written. FHFA will particularly note those draft objectives that it believes do not meet the criteria for receiving a concept score of 30. The Enterprises will have opportunities to revise their proposed Plans to respond to FHFA's feedback. FHFA will provide the concept score determination for each objective to the Enterprises at the time FHFA issues its Non-Objection for each of the underserved markets in their Plans.

III. FHFA Non-Objection Determination

The Duty to Serve regulation provides for FHFA to issue three Non-Objections for a proposed Plan — one for each underserved market in the Plan — after FHFA is satisfied that all of its comments on the underserved market in the proposed Plan have been addressed. A Non-Objection serves as FHFA's determination that a proposed Plan adequately addresses the needs of the underserved market. Issuing a Non-Objection signals to the Enterprise and the public that the Enterprise can commence actions under its Plan to serve that market for purposes of receiving Duty to Serve credit.

For an underserved market in a Plan to receive a Non-Objection, all of the following requirements must be satisfied:

1. The concept score for each objective in the market over the three-year period of the Plan is 30 or higher.

2. Each Plan year contains a minimum number of activities that include at least one loan purchase objective, as set forth in Table 2:

Table 2. Minimum Number of Activities with at Least One Loan Purchase Objective

Underserved Market	Year 1	Year 2	Year 3
Manufactured Housing	2	2	2
Rural Housing	3	3	3
Affordable Housing Preservation	6	6	7

3. The Enterprise has demonstrated that it made good faith efforts to: (1) evaluate the public input received on its proposed Plan, (2) incorporate the input where appropriate, and (3) incorporate the formal comments that FHFA provided to the Enterprise on its proposed Plan.

~~III.~~IV. Plan Process

1. Revisions to Plans[11]

~~Modifications~~

An Enterprise may request to ~~modify~~revise its Plan at any time during the year. FHFA will categorize revisions to the Plans as technical edits, modifications, or innovation modifications, as described below and in Table 3 at the end of this section. FHFA may also require an Enterprise to modify its Plan during the three-year term. Instances in which FHFA might require a modification include significant changes in market or regulatory conditions, such as unexpected obstacles or opportunities, or safety and soundness concerns.

A. Technical Edits

A technical edit is a change that does not substantially alter the Plan. Examples of the types of changes that will be considered technical edits include, but are not limited to:

- Adding baselines to objectives for future Plan years for which an Enterprise lacked the data to determine a baseline when it submitted its proposed Plan for Non-Objection;
- Changes to overview sections that do not contribute to FHFA's assessment of the likely impact of individual objectives;
- Changes to the organization, format, or layout of the Plan;
- Correcting grammatical or clerical errors;[12] or
- Changes in implementation steps to achieve a target.

FHFA does not expect an Enterprise to revise its Plan to reflect changes in the implementation steps the Enterprise takes to achieve a target; however, any such changes that an Enterprise chooses to submit to FHFA will be considered technical edits.

Technical edits do not require justification, will not be subject to public input, and will not be subject to FHFA Non-Objection. If an Enterprise makes technical edits to its Plan, it should submit a redlined version of the revised Plan to FHFA. FHFA will review the technical edits to verify that the changes meet the qualifications to be considered technical edits. After FHFA reviews and publishes the revised Plan on its public website, the Enterprise may proceed to publish the revised Plan on its public website.

[11] This section incorporates modification guidance provided by FHFA in a July 2018 memorandum to the Enterprises.
[12] As long as the clerical errors are not otherwise considered to be modifications.

If an Enterprise makes a change to its Plan that FHFA deems to be a modification rather than a technical edit, the guidance for modifications in the following section applies. FHFA will notify the Enterprise accordingly and request submission of a justification for the change as it would for other modifications.

B. **Modifications**

All changes to a Plan that do not qualify as technical edits or innovation modifications (see below) will be considered modifications (*i.e.*, changes substantially altering a Plan). Examples of modifications include, but are not limited to:

- Delaying a current Plan year objective (e.g., requesting in Year 1 to move a Year 1 objective to Year 2);
- Delaying a future Plan year objective (e.g., requesting in Year 1 to move a Year 2 objective to Year 3);
- Eliminating an objective;
- Adding a new objective to the current Plan year (if not an innovation modification);
- Adding a new objective to a future Plan year;
- Adding a new target under an existing objective;
- Changing or eliminating a target; or
- Changing a baseline.

1. **Current year modifications**

Requests for modifications that pertain to the current Plan ~~evaluation~~ year should not be submitted on a routine basis~~,~~ and should not be used to update the Plan to reflect ~~actual~~ actions already carried out under an objective. The requests should occur in only ~~in~~ two scenarios:

- In response to special circumstances beyond an Enterprise's control that materially alter its ability to ~~execute~~implement an objective through the actions in its Plan, such as a significant change in interest rates or other market conditions, an unanticipated negative return on capital, discovery that an activity in the Plan is not currently viable in the market, a regulatory decision by FHFA, or ~~Congressional~~congressional action affecting the market.

- To strengthen an Enterprise's commitment to an underserved market, such as making a target more ambitious, broadening the scope of an activity, or adding a new baseline to an objective.

Examples of strengthening a target include, but are not limited to:

- **Loan Purchase and Investment objectives:** Increasing the target for loan purchases or investments, increasing the share of purchase or investment volume targeted to very low- or low-income households, or focusing loan purchases or investments on hard to serve areas

- **Loan Product objectives:** Changing a limited pilot program to a published guide change available to all lenders, bringing a product to market more quickly than previously anticipated, or changing the evaluation area from loan product to loan purchase

- **Outreach objectives:** Broadening the scope of outreach efforts for business-to-business or consumer outreach engagements, or publishing research on underserved markets that was initially intended for internal Enterprise use only

Modification requests should include a comprehensive justification for why the modification is a necessary response to a special circumstance or how the modification strengthens an Enterprise's commitment to an underserved market.

2. Future year modifications

Requests for modifications that pertain to future Plan ~~evaluation~~ years may be submitted for any reason. For example, an Enterprise might request to adjust the numeric targets for certain objectives in its Plan for the subsequent ~~evaluation~~ year based on the accomplishment of certain actions or lessons learned during the current ~~evaluation~~ year.

~~A request to modify the Plan~~All requests for current or future year modifications should be ~~accompanied by a detailed explanation of why~~submitted to FHFA by September 15, or on the first business day thereafter if September 15 falls on a weekend or holiday, in order to ensure they can take effect during the ~~Plan~~ same year (for modification ~~is appropriate, including a comprehensive justification for why~~ requests pertaining to the current year) or in subsequent years (for modifications pertaining to future years).

FHFA may seek public input on an Enterprise's Plan modification ~~is a necessary response to a special circumstance or how~~ request if FHFA determines that public input would assist its consideration of the proposed modification ~~strengthens an Enterprise's commitment to~~. Examples of modification requests for which FHFA is more likely to seek public input because it would benefit FHFA's consideration of the proposed changes include:

- Reducing a numeric target by 40 percent or more, especially when that reduction is not accompanied by a change in the baseline for that action; and

- Eliminating an objective entirely.

Examples of ~~underserved market. A~~modification requests for which FHFA is not likely to seek public input because it would not benefit FHFA's consideration of the proposed changes include:

- Adding a new objective to a future Plan year;

- Changing a 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 Duty to Serve 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 should provide the explanation for this change in its modification justification; and

- Modifying the measurable quantity of an objective by a modest amount, which FHFA deems to be a change of less than 10 percent in either direction.

Any request for a modification, even if minor, is subject to FHFA Non-Objection. When submitting a modification request, an Enterprise need only submit the portion of its Plan pertaining to the activities that it requests to modify and not the entire market section or the entire Plan.

~~Plan modifications should be submitted to FHFA at least 90 days before the end of a Plan evaluation year in order to ensure that they can take effect in the subsequent year. For example, in order to modify its Plan for 2019, an Enterprise would need to submit a request for a Plan modification to FHFA by September 30, 2018.~~

~~FHFA may also require an Enterprise to modify its Plan during the three-year term. Instances in which FHFA might require a modification include significant changes in market conditions, such as unexpected obstacles or opportunities, or safety and soundness concerns.~~

~~FHFA and an Enterprise may seek public input on the Enterprise's Plan modification request if FHFA determines that public input would assist its consideration of the proposed modification.~~

~~FHFA is more likely to seek public input on Enterprise requests to eliminate entirely an activity or objective from a Plan or to make numerous changes to the Plan, as opposed to requests to modify an objective's specific numeric target by a modest amount.~~

For a modification request to receive a Non-Objection from FHFA, the proposed modification must satisfy the criteria described above, the request must include a reasonable justification, and the relevant market in the Enterprise's Plan, as modified, must satisfy all of the requirements to receive a Non-Objection described above~~,~~. This specifically ~~including~~includes the requirement that the market being modified will ~~maintain an average~~ include only objectives with concept ~~score~~scores of 30 or higher, and ~~includes~~ at least the required minimum number of activities that include at least one loan purchase ~~objectives with a concept score of 30 or higher.~~[13] objective.

~~A.~~C. Innovation Modifications

In the course of ~~executing~~implementing its Plan, an Enterprise may identify new opportunities that are not included in its Plan for an underserved market for the current year ~~that have the potential for a positive impact on the needs in the underserved market.~~. An Enterprise may modify its Plan to include one ~~new~~such opportunity as an objective in each underserved market for the current Plan year without being required to submit a modification request to FHFA. Such "innovation modifications" will be deemed to have received a Non-Objection from FHFA under 12 ~~C.F.R~~CFR 1282.32(h) for the current Plan year only, upon the Enterprise providing written notification to FHFA of the innovation modifications and Enterprise receipt from FHFA of a concept score for each objective. ~~Innovation modifications will not be subject to a public input process, or to the concept score requirements for modifications discussed in the preceding paragraphs.~~

~~The innovation~~ Innovation modifications will not be subject to a public input process or to the concept score requirements for modifications discussed in the preceding paragraphs. As such, an Enterprise may proceed with an objective that is added through an innovation modification and receives a concept score less than 30 in the first year of the objective. If the new objective is a multi-year objective, the proposed addition in future Plan years will be treated as a standard modification, which requires submission to FHFA of a modification request.

The flexibility allowed for innovation modifications, including having a concept score less than 30 in the first year, is intended to ~~support~~facilitate the ~~Enterprises'~~ identification of new opportunities during the current Plan year and ~~to facilitate their~~the ability to promptly begin

~~[13] For a modification request submitted in advance of Years 2 and 3 of a Plan, the average concept score requirement will be applied to Years 2 and 3 objectives combined. For a modification request submitted in advance of only Year 3 of a Plan, the average concept score requirement will be applied only to Year 3 objectives.~~

working on those opportunities. The limitation on innovation modifications to one new objective per year in each underserved market is intended to encourage the Enterprises to include their strongest ideas in their proposed Plans, which are subject to public input and prior FHFA Non-Objection.

Table 3. Categories of Plan Revisions

Type	**Description**	**Conditions**	**Justification Required**	**Public Input**	**Subject to FHFA Non-Objection Requirements**
Technical Edit	Change that does not substantially alter the Plan	None	No	No	No
Modification					
Current Plan year	Change that substantially alters the Plan in the current Plan year	(1) Revisions respond to special circumstances beyond an Enterprise's control that materially alter its ability to implement an objective through the actions in its Plan, such as significant changes in market or regulatory conditions; or (2) Revisions strengthen a Plan commitment to an underserved market, including making a target more ambitious or broadening the scope of an activity Submit request to FHFA by September 15	Yes	At FHFA's discretion	Yes
Future Plan year	Change that substantially alters the Plan in future Plan years	Submit request to FHFA by September 15 of current year	Yes	At FHFA's discretion	Yes

Innovation Modification	New objective to be implemented in the current Plan year	Limited to one per market per year Provide prior written notice to FHFA	No	No	No

2. Publication of Revised Plans

The Enterprises must publish all ~~modified Plans~~revised Plans, subsequent to FHFA Non-Objection as applicable, including those resulting from technical edits, modifications, and innovation modifications, in a timely manner on their respective websites. FHFA ~~will also~~intends to publish ~~modified Plans~~the following documents on ~~the Agency's~~FHFA's public website~~.~~, with confidential and proprietary information and data omitted:

- A clean copy of the complete revised Plan;
- A redlined version of the portions of the revised Plan containing all technical edits, modifications, and innovation modifications; and
- A copy of the Enterprise's request for modification that received a Non-Objection from FHFA.

~~1.~~3. Treatment of Confidential or Proprietary Information and Data

~~Meaningful Objectives~~
~~FHFA encourages the Enterprises to include in their Plans objectives that will have meaningful impact, as partial Duty to Serve credit may be awarded for objectives that are not fully achieved. Chapter 2 explains how FHFA's evaluation framework rewards achieving impactful objectives.~~

FHFA recognizes that some information and data in~~ the strategic priorities statement and~~ the descriptions of activities, objectives, and narratives for an underserved market in a Plan may be confidential or proprietary. At the same time, FHFA has determined that informed public input on a proposed Plan is important to the Plan development, review, and evaluation processes. FHFA may allow certain information and data in~~ a Plan's strategic priorities statement and~~ a Plan's descriptions of activities, objectives, and narratives in each underserved market to be treated as confidential or proprietary and omitted from the Plan when made public. Any Plan content that an Enterprise believes requires confidential or proprietary treatment should be clearly identified by the Enterprise, and the Enterprise should explain why the information and data should be afforded confidential or proprietary treatment.

~~IV.~~V. Additional Guidance for Plans

The previous sections of this Chapter describe the required elements for each of the underserved markets in a Plan to receive a Non-Objection from FHFA. This section ~~describes content for the Plans that is not required, but is recommended by FHFA. It first~~ summarizes best practices ~~that~~

~~FHFA views as helpful ways~~and suggestions for the Enterprises to ~~construct~~consider in developing effective Plans~~. It then discusses FHFA's recommendation~~, and recommends that the Enterprises ~~engage in~~ consider conducting research that ~~will support~~supports increased liquidity in the underserved markets.

1. **Best Practices for Developing Underserved Markets Plans**

Below are some best practices and suggestions the Enterprises should consider in developing ~~their~~effective Plans:

- Given the Duty to Serve goal to improve the distribution of investment capital available for mortgage financing in the underserved markets, many of the ~~activities~~objectives undertaken by the Enterprises should span the Plan's three-year term, with corresponding ~~objectives that specify incremental steps expected~~targets to be achieved in each of the three years.

- There should be a sufficient number of activities included in an underserved market in a Plan such that if a particular activity proves unachievable, the Enterprise still has other activities underway to enable it to meet its Duty to Serve obligations for that market.

- An Enterprise should carefully research and construct its Plan to minimize the need for later modifications of the Plan.

- An Enterprise should consider how to serve a diversity of geographic areas, ~~whether it be~~such as a variety of localities, states, or regions, for each activity in its Plan. ~~Activities~~FHFA will favorably consider activities that serve a geographically diverse set of underserved market needs ~~will be considered favorably~~ when assessing the activities' impact on the underserved market.

- An Enterprise should consider how to serve both single-family and multifamily activities for each underserved market in its Plan.

- FHFA invites the Enterprises to consider undertaking Additional Activities in their Plans. Any Additional Activity should meet a need in an underserved market, be reasonable and achievable based on the Enterprises' capacity and market conditions, and take into account ~~any~~ safety and soundness considerations.[14]

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[14] Id.

- ~~FHFA recommends that the Enterprises organize multiple similar objectives for an underserved market in their Plans as a single objective where appropriate. For example, combining a similar outreach and loan product objective into a single objective can potentially result in a more robust and higher scoring objective.~~

- Outreach objectives should include ~~a detailed description of the Enterprise's planned actions that~~ sufficient detail to demonstrate that the Enterprise has ~~thought deeply about the outreach efforts and how it plans to undertake a robust effort~~developed a coherent set of implementation steps that will add significant value to stakeholders. The description should show that the Enterprise understands the problem it is trying to solve and has a ~~detailed~~strategic plan for how to address it. The description ~~also~~ should demonstrate that the outreach efforts represent meaningful progress over prior Enterprise outreach efforts in the area, and should include an explanation of how the Enterprise plans to translate the lessons learned from the planned outreach into future action. ~~Including a clear deliverable in the Plan, such as producing a report of lessons learned from the outreach, can help strengthen an outreach objective, particularly where the report will be shared publicly.~~

- Loan product objectives should include a ~~detailed~~ description of the problem that the new ~~product~~ or enhanced product ~~features~~ is designed to solve~~,~~ and an explanation of how the development of the new or enhanced product will help meet an underserved market need. The ~~description~~Enterprise should ~~demonstrate that~~describe how the objective represents progress over the Enterprise's prior loan product offerings~~,~~ and how it will lay the foundation for future loan purchases that meet an underserved market need.

~~Recommendation to Engage in~~

2. Research that Supports Increased Liquidity in the Underserved Markets

~~FHFA recommends that the~~The Enterprises should consider conducting research~~—~~ — including outreach to stakeholders, market research, pilot testing, and product development~~—~~ — to close any knowledge gaps that currently limit progress towards meeting the needs of each of the underserved markets. FHFA ~~also suggests that~~encourages the Enterprises ~~consider sharing certain~~to share data, lessons learned, and other research findings with the public to provide better information about how to meet the challenges in each underserved market. By ~~collecting and publicly sharing such data~~publishing research findings, the Enterprises could ~~generate valuable information~~contribute to market knowledge needed to diagnose challenges and develop solutions.

FHFA also notes, however, that research activities are not a substitute for loan purchases and other actions that ~~can~~directly increase liquidity in the underserved markets, and encourages the Enterprises to prioritize research projects that lay the foundation for future loan purchase objectives. The Enterprises should make clear efforts to demonstrate in their Plans how their research will supplement or enhance existing knowledge for stakeholders rather than duplicate existing work.

~~The activities detailed below, which are not a condition for receiving a Non-Objection to an underserved market in a Plan, serve as examples of research objectives with meaningful impact that could significantly assist each underserved market. In addition, FHFA encourages the Enterprises to consider other opportunities to undertake research that will have a meaningful impact on the underserved markets.~~

~~A. Manufactured Housing Market~~

~~Examples of potential research in the manufactured housing market include:~~

- ~~Research on developing new mechanisms to share credit risk with private investors, developing potential securities structures or other arrangements to sell these loans, and recruiting new counterparties and investors to assist with these efforts.~~

- ~~Research on how to develop loan products, guidelines, and standards that address potential consumer protection gaps in pad leases under current laws.~~

- ~~Collecting data on manufactured home appraisals, loan originations, loan servicing (including foreclosure and repossession practices, and the resale markets), and credit enhancements.~~

~~B. Affordable Housing Preservation Market~~

~~Examples of potential research in the affordable housing preservation market include:~~

- ~~Research on how to develop approaches for more effectively supporting the financing needs of small multifamily properties.~~

- ~~Research on how to develop financing support mechanisms that help to preserve the long-term affordability and financial viability of multifamily affordable rental properties. Ideally, such mechanisms would: (a) be compatible with long-term affordability covenants of 40 years or more; and (b) reduce the share of properties that require~~

~~recapitalization during the required affordability period in order to preserve scarce subsidy resources.~~

- ~~Developing the data needed to effectively underwrite energy or water efficiency improvements and researching opportunities for energy or water savings in both single-family and multifamily housing. Examples of approaches include: collecting and sharing utility usage data, utility benchmarking, and evaluating changes in utility usage stemming from energy or water efficiency improvements in specific types of properties.~~

- ~~Developing an improved understanding of the challenges involved in purchasing loans on properties developed under inclusionary zoning or other local initiatives and tracking data on the volume of such purchases by the Enterprises, as well as the nature of the affordability restrictions.~~

- ~~Research on how to meet the housing and services needs of older adults in different age groups through developing loan products that preserve affordable properties that are both physically accessible and provide sufficient services to meet residents' needs.~~

- ~~Research on how to develop approaches supporting financing of transit-oriented housing, especially transit-oriented housing that includes housing affordable to low-, and very low-income households.~~

~~C. Rural Housing Market~~

~~Examples of potential research in the rural housing market include:~~

- ~~Considering strategies for collecting and sharing granular data on rural mortgage lending, rural affordable housing loan programs, and market characteristics of rural areas. Collecting and sharing such data with the public could be included as an objective in a Plan. By collecting and publicly sharing such data, the Enterprises could generate valuable information needed to diagnose challenges and develop affordable housing solutions in rural areas.~~

- ~~Research on how to develop ways to reach specified high-needs rural regions and populations, including market research that can help enhance efforts by the Enterprises and other market participants to facilitate affordable housing for such regions and populations.~~

- ~~Research ways to develop workable protocols, standards, and documentation for identifying colonias at a more granular level than county-based definitions, for use in Enterprise transactions and for possible adoption by the housing finance industry generally.~~

~~D. Residential Economic Diversity~~

~~Examples of potential research that would support residential economic diversity include:~~

- ~~Research ways to work with interested stakeholders to gain a broad understanding of how the Enterprises could promote residential economic diversity. Strategies for engaging these stakeholders could be included as an outreach objective in a Plan.~~

- ~~Research alternative approaches for defining "high opportunity areas" and "areas of concentrated poverty," as well as for identifying work that supports concerted community revitalization plans.~~

• • •

Chapter 2. Evaluation Process for ~~Scoring~~Rating Enterprise Performance

Overview

This Chapter describes how FHFA will evaluate and rate the Enterprises' performance under their Plans. FHFA will annually evaluate each Enterprise's performance in each of the three underserved markets, comparing the achievements of the Enterprise against the ~~objectives~~targets it established in its Plan for the applicable year. ~~FHFA will only evaluate actions that were identified in an Enterprise's Plan at the time of receipt of FHFA Non-Objection.~~

To evaluate an Enterprise's performance under its Plan, FHFA will use a three-step process:

- **In Step One**, FHFA will calculate ~~the extent to which the Enterprise achieved each~~an Enterprise's achievement of the objectives ~~it identified~~ in its Plan to determine whether the Enterprise ~~is meeting~~complied with its statutory Duty to Serve obligations for each underserved market. This step is a quantitative evaluation that will not consider the ~~nature or~~ extent of the impact of the actions taken under an objective in meeting the needs of an underserved market.

- **In Step Two**, FHFA will evaluate the Enterprise's performance under each underserved market in its Plan from a qualitative perspective, assessing the impact the Enterprise achieved in meeting a need of the applicable underserved market through actions taken under each objective.

In Step Three, FHFA will determine whether and how much extra credit to award for the Enterprise's achievement of extra credit-eligible activities~~ that may~~. Activities eligible for extra credit must be particularly challenging or ~~that may~~ serve a segment of an underserved market that is relatively less well-served.

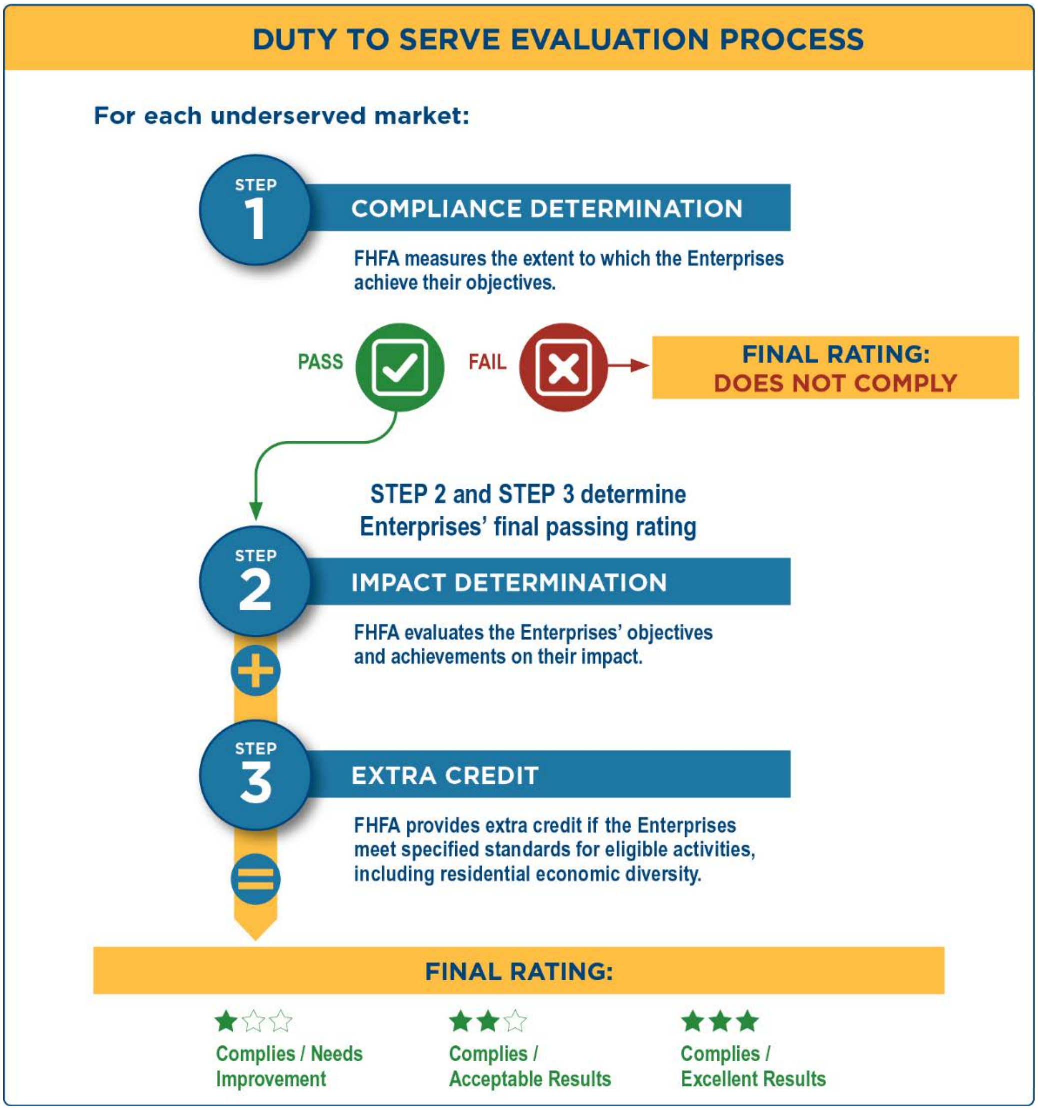
See Section III ~~The purpose~~ of ~~Step One is to determine whether the Enterprise is in compliance with its Duty to Serve obligations for each underserved market. If FHFA determines under Step One that an Enterprise is in compliance and therefore eligible for a passing rating, FHFA will then determine the Enterprise's final passing rating through the evaluations in Step Two and Step Three. The four possible passing ratings are:~~

- ~~Minimally Passing;~~
- ~~Low Satisfactory;~~
- ~~High Satisfactory; and~~

- ~~Exceeds.~~

- ~~If FHFA determines under Step One that an Enterprise did not achieve compliance, the Enterprise will receive a rating of Fails. In~~ this ~~circumstance, FHFA nonetheless will complete an impact assessment of the Enterprise's performance under Step Two and an extra credit evaluation under Step Three in order to provide complete feedback to the Enterprise and Congress in FHFA's Annual Housing Report to Congress.~~ Chapter for the specific activities that are eligible for extra credit.

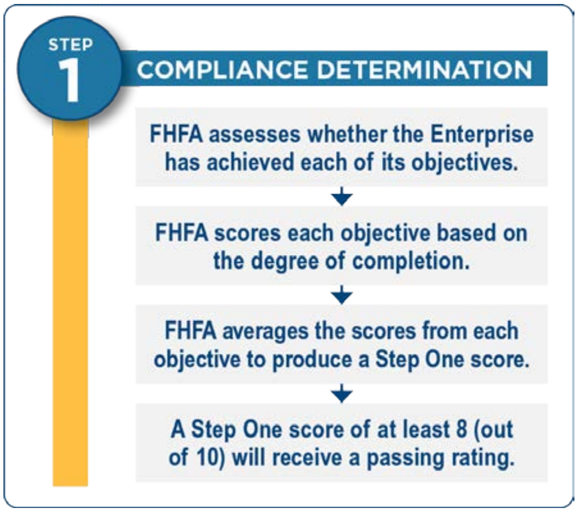
~~The evaluation steps are described further below.~~The three possible ratings for an Enterprise that is in compliance are: Complies / Needs Improvement; Complies / Acceptable Results; and Complies / Excellent Results.


DUTY TO SERVE EVALUATION PROCESS
For each underserved market:
STEP 1
COMPLIANCE DETERMINATION
FHFA measures the extent to which the Enterprises achieve their objectives.
PASS
FAIL
FINAL RATING: DOES NOT COMPLY
STEP 2 and STEP 3 determine Enterprises' final passing rating
STEP 2
IMPACT DETERMINATION
FHFA evaluates the Enterprises' objectives and achievements on their impact.
STEP 3
EXTRA CREDIT
FHFA provides extra credit if the Enterprises meet specified standards for eligible activities, including residential economic diversity.
FINAL RATING:
Complies / Needs Improvement
Complies / Acceptable Results
Complies / Excellent Results

I. Step One: Compliance Determination ~~(Quantitative Evaluation of Enterprise Performance)~~

~~Under Step One, FHFA will calculate the extent to which an Enterprise has accomplished each of the objectives identified in each underserved market in its Plan, in order to determine whether the Enterprise is in compliance with its statutory Duty to Serve obligations for the underserved market.~~

Step One is a quantitative evaluation designed to determine whether the Enterprise ~~should receive a passing or failing rating, and~~complied with its statutory Duty to Serve obligations for the three underserved markets. Under Step One, FHFA will ~~not consider the nature or extent of~~calculate the ~~impact~~degree to which an Enterprise has accomplished the target under each of the objectives identified in ~~meeting the~~each underserved market ~~needs~~in its Plan.



1. Loan Purchase and Investment Objectives

FHFA will conduct the quantitative evaluation of the Enterprise's performance of each loan purchase and investment objective by assigning a score of 10, ~~7.5, 5, 2.~~5, or 0 to the objective based on the ~~extent~~degree to which the Enterprise accomplished the objective, as follows:

~~10~~	~~Enterprise accomplished all of the objective.~~
~~7.5~~	~~Enterprise accomplished a substantial amount of the objective.~~
~~5~~	~~Enterprise accomplished a limited amount of the objective.~~
~~2.5~~	~~Enterprise accomplished a minor amount of the objective.~~
~~0~~	~~Enterprise did not accomplish at least a minor amount of the objective.~~

~~For objectives under the loan purchase and investment evaluation areas that an Enterprise did not fully accomplish, FHFA will review the extent to which the Enterprise's actual level of~~

~~performance exceeded the applicable baseline identified in its Plan.[15] FHFA will then compare the Enterprises actual level of performance to the difference between the objective's target and its baseline to determine whether the Enterprise accomplished a substantial, limited, or minor amount of the objective and award a score of 7.5, 5, 2.5, or 0, according to the following standards:~~

~~**Step One**~~

10	Enterprise met or exceeded the target for the objective.
5	Enterprise met or exceeded the baseline but did not meet the target for the objective.
0	Enterprise did not meet the baseline or target for the objective.

Partial Credit Scores

If an Enterprise met or exceeded the target under an objective in its Plan, FHFA will assign a full credit score for the objective of 10. For loan purchase and investment objectives where an Enterprise did not meet or exceed the applicable target, eligibility for partial credit will depend on whether the Enterprise met the applicable baseline identified in its Plan. If the Enterprise did not meet the baseline, the objective will not be eligible for partial credit and will receive a score of 0. If the Enterprise met or exceeded the baseline but did not meet the target, the objective will be assigned a partial credit score of 5.

FHFA recognizes that in an Enterprise's first year entering a new sub-market, it may lack the data to determine a baseline for loan purchase and investment objectives. Such objectives, if not fully accomplished, will receive a partial credit score of 5 if the Enterprise achieved at least 50 percent of its target, and will receive a score of 0 if it met less than 50 percent of its target. However, the Enterprise must make technical edits to its Plan to add baselines for subsequent years. If an Enterprise fails to provide a baseline for a loan purchase or investment objective for which it has at least one year of performance data or fails to adopt an acceptable methodology for setting a baseline, FHFA will not assign partial credit for performance of that objective.

2. **Loan Product and Outreach Objectives**

FHFA will conduct the quantitative evaluation of an Enterprise's performance of each loan product and outreach objective by assigning a score of 10, 5, or 0 to the objective based on the

~~[15] FHFA will not award partial credit for objectives where the Enterprise failed to provide baselines or failed to adopt an acceptable methodology for setting a baseline.~~

degree to which the Enterprise accomplished the objective, as follows:

10	Enterprise met or exceeded the target for the objective.
5	Enterprise did not meet the target; the level of effort already expended exceeds the level of effort that remains to be expended to meet the target, indicating substantial progress.
0	Enterprise did not meet the target; the level of effort required to meet the target exceeds the level of effort already expended, indicating minimal progress.

~~**Level of Enterprise Achievement**~~	~~**Accomplishment Percentage**~~	~~**Credit Earned**~~
~~Accomplished all of the objective~~	~~100~~	~~10~~
~~Accomplished a substantial amount of the objective~~	~~75–99~~	~~7.5~~
~~Accomplished a limited amount of the objective~~	~~50-74~~	~~5~~
~~Accomplished a minor amount of the objective~~	~~25-49~~	~~2.5~~
~~Did not accomplish at least a minor amount of the objective~~	~~0-24~~	~~0~~

~~For example, if an Enterprise's target for a loan purchase objective in its Plan is to purchase 12,000 loans and the baseline for the objective in its Plan is 10,000 loans, the Enterprise's actual purchase of 11,600 loans would be considered a substantial amount at 80% of the target and the objective would receive a score of 7.5. Even though the Enterprise missed the target, its purchase of 11,600 loans exceeded the baseline by 1,600 loans, which is between 75%-99% of the difference between the target and the baseline it established under the objective. Thus, it is eligible for 7.5 points of partial credit. In contrast, purchasing 10,600 loans (an increase of just 600 over the baseline) would be 30% of the target, which is between 25%-49% of the difference between the target and the baseline, and therefore is eligible for 2.5 points of partial credit.~~

~~In order to facilitate evaluation of partial credit, it is essential that an Enterprise fully describe the anticipated work product(s) in its Plan. For example, if a pilot is proposed in an Enterprise's Plan under the loan product evaluation area, the Enterprise needs to describe the expected size of the pilot, the work product(s) expected, the types of lenders intended to be engaged, the location of the pilot (if known), the populations expected to be served and their incomes, the timeline (milestones occurring within the Plan evaluation year), and how the Enterprise will determine if the pilot is successful. In considering the level of effort expended, FHFA will consider the effort~~

~~expended towards unfinished actions – for example, a draft but not final report – as long as the Enterprise agrees to complete the work product promptly and deliver it in the next calendar year. FHFA will then determine whether the Enterprise accomplished a substantial, limited, or minor amount of the objective and assign a score of 7.5, 5, 2.5, or 0 accordingly, based on a comparison of the objective's achieved level of completion against its target in the Plan.~~

~~**Feasibility**~~

If an Enterprise ~~If underserved~~met or exceeded the target under an objective in its Plan, FHFA will assign a full credit score of 10 for the objective under Step One. FHFA may assign full credit in Step One if an Enterprise achieves its target in a different manner than described in the Plan. This approach balances the goal of having the Enterprises commit to specific targets, while recognizing that changes in actions might take place as Plans are implemented. The Enterprise does not need to submit a modification request that reflects these changes in order to receive full credit in Step One; however, the Enterprise must describe the actual implementation steps taken to accomplish the target in its annual report to FHFA.

Partial Credit Scores

If an Enterprise fails to meet or exceed the target for a loan product or outreach objective, partial credit will be assigned based on FHFA's determination of how much progress the Enterprise made toward the target. The partial credit determination will consider level of effort and the degree to which the target was met. Substantial progress will receive a partial credit score of 5, and minimal progress will receive no partial credit. Descriptions in an Enterprise's quarterly and annual reports of implementation steps taken by the Enterprise to accomplish the target will inform this analysis. However, FHFA will not tally completion of the different implementation steps of an objective to determine a Step One score. Instead, FHFA will use an Enterprise's description of steps taken toward the target to compare the time and resources already expended to the level of effort required to fully accomplish the target.

3. **Infeasibility Requests**

If market conditions or other extenuating circumstances outside of an Enterprise's control substantially interfere with ~~the Enterprise~~an Enterprise's accomplishment of an objective, the Enterprise may ~~request in~~submit an infeasibility request up to 60 days before submitting its ~~Annual Duty to Serve Report~~annual report to FHFA~~ that FHFA disregard the objective in its performance evaluation of the applicable underserved market for that year.~~. An infeasibility request may be subject to a 30-day public input period~~, in~~ at FHFA's discretion. FHFA is more likely to seek public input on Enterprise requests of infeasibility that are based on a claim of weak underserved market conditions, as opposed to infeasibility requests that are based on circumstances such as internal Enterprise operational capacity issues.

If FHFA agrees that ~~the~~an infeasibility request is reasonable, FHFA will approve the request and exclude the objective from its evaluation of the Enterprise's performance ~~evaluation~~ under Steps One, Two, and Three.[16] ~~As a result, if an objective is determined to be infeasible~~In such cases, failure to complete the objective will not harm or benefit the Enterprise's ~~rating for its Duty to Serve obligations~~performance score under Step One. However, all of the objective's underlying actions will also be excluded from contributing to the Enterprise's performance score under Steps Two and Three.

~~1.~~4. Averaging of Scores

After FHFA has assigned a Step One score to each objective in an underserved market, FHFA will average the scores for all of the objectives in that market to produce an overall score for the market. ~~An~~If an Enterprise receives an overall score of at least ~~7~~8, it will ~~constitute a passing score, or~~be considered in compliance~~,~~ with its statutory Duty to Serve obligations for the underserved market. ~~An~~If an Enterprise receives an overall score of less than ~~7~~8, it will ~~receive a rating of Fails, or~~be considered in noncompliance~~,~~ with its statutory Duty to Serve obligations for the ~~underserved~~ market~~,~~ and will receive a rating of "Does Not Comply" for the ~~Step Two evaluation will not impact this decision.~~market." Appendix C contains ~~multiple examples~~an example illustrating how an Enterprise might achieve a minimum score of ~~7~~8.

In selecting ~~7~~8 out of 10 points as ~~a passing score~~the compliance threshold, FHFA ~~has~~ sought to balance two goals:

- Holding the Enterprises accountable for accomplishing a substantial amount of objectives in their Plans, and

- Encouraging the Enterprises to ~~establish objectives that achieve meaningful impact in addressing the underserved market's needs~~set ambitious targets in difficult-to-serve areas, or engage in areas where it is difficult to establish a target, while recognizing that some of those efforts may not succeed.

[16] ~~FHFA recognizes that~~ In the ~~Enterprises could request~~unlikely situation that every objective in an underserved market ~~be~~is deemed to be infeasible~~. If FHFA finds that the request is reasonable under the circumstances after considering public input, FHFA would be unable to evaluate the market~~, FHFA will render a "no rating" decision and provide an explanation for its decision in ~~the~~its Annual Housing Report to Congress. ~~In this scenario, FHFA would discuss in the report the reasons why it found all of the market's objectives to be infeasible due to the market conditions, and explain why it was inappropriate to rate the Enterprises' performance for that market.~~

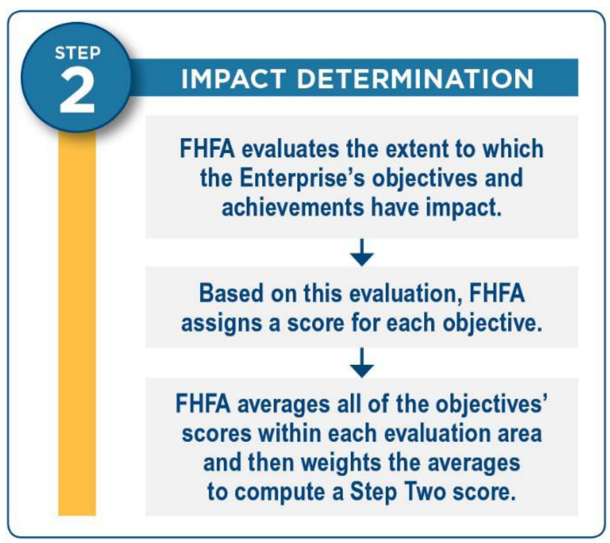
~~If FHFA required a minimum score higher than 7 to pass, the Enterprises might have a disincentive to set objectives with greater impact in order to ensure they meet the high bar for compliance. On the other hand, setting the minimum passing score lower than 7 could be too low, because partial credit will be awarded if an Enterprise accomplishes part but not all of an objective's target.~~

~~After determining compliance or noncompliance under Step One, FHFA will qualitatively assess the impact of the Enterprise's performance of its objectives under Step Two and Step Three. If FHFA determines that an Enterprise achieved compliance under Step One, then Step Two and Step Three will determine the Enterprise's final performance score and rating. If FHFA determines that an Enterprise did not achieve compliance under Step One, then the Enterprise will receive a final rating of Fails, but FHFA will still complete a qualitative assessment of the impact of the Enterprise's performance under Step Two and Step Three in order to provide complete feedback to the Enterprise and Congress in FHFA's Annual Housing Report to Congress.~~

~~While the Step One analysis is limited to evaluating the extent to which an Enterprise met its Plan objectives, Step Two and Step Three include nuanced analyses of the impact achieved by the Enterprise's performance of the objectives in addressing the needs of the underserved market.~~

II. Step Two: Impact Determination ~~(Qualitative Evaluation of Enterprise Performance)~~

1. Evaluating Each Objective



Under Step Two, FHFA will evaluate ~~an Enterprise's performance under its Plan from a qualitative perspective. This evaluation will assess~~ the impact ~~of the Enterprise's performance of its objectives in addressing the needs of the underserved markets.~~

~~A. **Evaluating Each Objective**~~

~~Under Step Two, FHFA will evaluate an Enterprise's performance~~ of each objective ~~in its Plan by assessing its impact~~ on the needs of the underserved market. FHFA will consider information provided by the Enterprises in their Duty to Serve Plans and reports, research by FHFA or external parties, and input from stakeholders in evaluating impact. Based on this evaluation, FHFA will assign an impact score from 0 to 50 for each objective, using the criteria described in Appendix B. Under this scale, an impact score of 30 indicates ~~that an objective's achievements represent~~ meaningful impact on a need of the underserved market.

FHFA's impact evaluation ~~of impact~~ will focus on one of two different kinds of impact, depending on the nature of the objective: direct impact or future impact. Each is described below:

- ***Direct Impact.*** In evaluating direct impact, FHFA will consider the extent to which an Enterprise ~~targets and achieves~~achieved an impact under each objective that addresses a present need in an underserved market. This evaluation will apply the ~~levels of~~criteria for the impact ~~outlined~~levels in Appendix B, which include a focus on the size or difficulty of the objective. The difficulty of an objective may involve, for example, the extent to which the Enterprise ~~is serving~~served a sub-market that has a high need for housing assistance (for example, purchasing loans in Appalachia versus purchasing loans in rural areas that are comparatively better served).

- ***Future Impact.*** In evaluating future impact, FHFA will consider the extent to which ~~the~~an Enterprise's ~~actions~~achievements under an objective lay the groundwork for future ~~actions~~work and improvements that would achieve a meaningful impact in addressing an underserved market need. These early steps could include, for example, undertaking a pilot, developing a new ~~lending~~loan purchase platform, meeting with stakeholders to develop new ~~lending~~loan purchase relationships, or collecting needed data. ~~FHFA~~This evaluation will apply the ~~levels of~~ criteria for the impact ~~outlined~~levels in Appendix B, which include a focus on the size or difficulty of the objective.

~~Concept Score~~

~~Before issuing a Non-Objection to an Enterprise's proposed Plan, FHFA will determine a concept score of 0, 10, 20, 30, 40, or 50 for each objective included in an Enterprise's Plan. The concept score will measure the expected level of impact that achievement of an objective would represent, in light of the information available to FHFA at that time. The concept score will inform FHFA's ultimate evaluation of the actual impact of the Enterprise's achievement of the objective.~~

~~While reviewing an Enterprise's proposed Plan, FHFA will provide feedback to the Enterprise on draft objectives, including the likely concept score each objective would receive, as currently~~

~~written. FHFA will particularly note those objectives that it believes do not reach the level for meaningful impact (*i.e.*, the level of impact required to receive a concept score of 30). The Enterprises will have opportunities to respond to FHFA's feedback and revise their proposed Plans. FHFA will provide the Enterprise with a concept score determination for each objective at the time FHFA issues its Non-Objection for each of the underserved markets in the Plan.~~[17]

~~1.~~2. Impact Scoring of Each Objective

Based on FHFA's impact evaluation~~ of impact~~, FHFA will assign an impact score of 0, 10, 20, 30, 40, or 50 to each objective~~ as part of its performance evaluation. In this evaluation, FHFA ~~. FHFA will use the concept score ~~for~~previously assigned to the objective as a reference point for determining the impact score for the objective~~ as follows:~~. The examples below demonstrate this scoring process.

A. **Achieving an Objective's Target**

- If an Enterprise ~~achieved~~met, but did not significantly outperform~~ the~~, an objective's target in the manner described in its Plan, the impact score for that objective will generally ~~will~~ be the same as the objective's concept score.

Scenarios where ~~If an Enterprise underperformed the objective's target,~~ the impact score ~~for that objective will~~may be higher or lower than the ~~objective's~~ concept score~~.~~ include:

- **The Enterprise achieved the target in a different manner than described in its Plan.** Criteria considered by FHFA when assigning concept scores and impact scores include the level of effort required to perform the objective and the approach and design of the objective. An Enterprise may achieve its target through actions that are more or less challenging than those described in its Plan, or change its approach to one that is more or less innovative than the approach described in its Plan. These changes may result in FHFA determining that achievement of the target was more or less impactful than anticipated by actions described in the Plan.

- **Conditions have changed significantly since FHFA assigned concept scores.** Market and regulatory conditions provide an important context for implementation of objectives

[17] ~~If the Enterprise requests to modify its Plan to completely eliminate an objective from its Plan, that request will be subject to heightened scrutiny by FHFA and possibly to public input. For more information on Plan modifications, please see the "Plan Process" section in Chapter 1.~~

in the Enterprises' Plans. Changes in these underlying conditions can mean that achieving a target requires significantly more or less effort or commitment of resources than anticipated when FHFA assigned the concept scores, and may result in FHFA determining that achievement of the target was more or less impactful than anticipated at the Non-Objection stage.

B. **Underperforming an Objective's Target**

If an Enterprise did not meet the target for an objective, the impact score for that objective will generally be lower than the objective's concept score. For example, FHFA will assign a concept score of 50 to a proposed objective that represents a very large impact, according to the criteria in Appendix B. If the Enterprise did not fully achieve the objective's target, FHFA may still determine that the Enterprise met the criteria for meaningful impact and assign an impact score of 30 to the objective.

C. **Outperforming an Objective's Target**

If an Enterprise significantly outperformed ~~the~~an objective's target, the impact score for that objective will generally be higher than the objective's concept score and will be averaged with the ~~objective's~~ concept score. This adjustment is intended to encourage the Enterprises to include well-designed and rigorous objectives in their Plans.

~~The examples below demonstrate how this scoring process will work.~~

~~A. **Outperforming an Objective's Target**~~

~~If an Enterprise included in its Plan an~~For example, FHFA will assign a concept score of 30 to a proposed objective that represents meaningful impact if fully achieved~~, FHFA will assign the objective a concept score of 30. FHFA will then evaluate the Enterprise's actual achievements and impact on the underserved market need being addressed~~. If FHFA determines that the Enterprise significantly outperformed the objective's target and achieved a level of impact ~~corresponding~~that represents a score of 50 according to the criteria in Appendix B ~~for an impact score of 50~~, FHFA will average the concept score of 30 with the impact score of 50~~, assigning that objective~~ and assign a final impact score of 40 (the average of 30 and 50). ~~Averaging the concept score with the impact score will provide an incentive for the Enterprises to set ambitious objectives in their Plans.~~

~~**Impact Scores of Objectives**~~
~~Although every objective could potentially receive an impact score of 50 if it achieves or lays the foundation for achieving substantial impact, certain objectives can have a greater impact. For example, Low-Income Housing Tax Credit (LIHTC) equity investments serving high-needs rural regions and populations may be eligible for a higher impact score than similarly-sized investments in rural regions with stronger existing markets for LIHTC equity investments.~~

~~B.~~A. ~~Underperforming an Objective's Target~~

~~To ensure that the Enterprises are not penalized for setting difficult objectives with meaningful or greater impact, objectives can earn impact scores even if not fully achieved.~~

~~For example, if an Enterprise included in its Plan an objective that, according to the criteria in Appendix B, represents substantial impact, FHFA will assign that objective a concept score of 50. If FHFA subsequently determines, in reviewing the Enterprise's actual achievement of the objective and impact on the underserved market need being addressed, that the Enterprise did not fully accomplish the objective but still achieved a meaningful impact, FHFA will assign the objective an impact score of 30 because it met the criteria for meaningful impact described in Appendix B.~~

~~2.~~3. Developing a Weighted Average Score

After ~~the~~assigning an impact ~~of an Enterprise's performance of~~score for each objective ~~has been scored~~ under Step Two, FHFA will calculate a simple average of the impact scores of all of the objectives grouped under each evaluation area (outreach, loan products, loan purchases, investments and grants) to produce a single numerical score for each evaluation area.

The numerical score for each evaluation area will then be multiplied by the applicable weight in the graphic below to produce ~~an overall~~a Step Two overall performance score for the Enterprise for each underserved market.

If an Enterprise has not included any activities within a particular evaluation area in its Plan, the weights will be adjusted to preserve the same ratios among the remaining weights.[18]

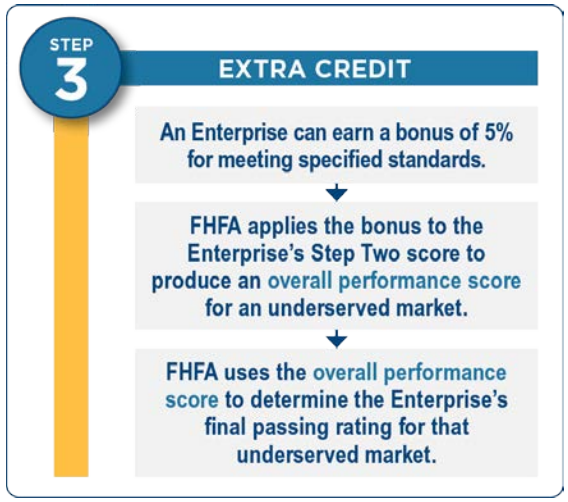
At the conclusion of Step Two, FHFA will have completed its detailed analysis of ~~how well~~the overall impact each ~~Enterprise met an~~Enterprise's activities had on each underserved ~~market's needs~~market and ~~will have determined an~~assigned a Step Two overall performance score of between 0 and 50 ~~for~~to each underserved market.

[18] For example, if an Enterprise does not include any activities under investments and grants, the weights for the remaining objectives will be increased proportionately to total 100%, as follows: outreach (23.5%), loan products (35.3%), and loan purchases (41.2%).

~~Under Step Three, described below, FHFA may apply an upward adjustment to an Enterprise's Step Two overall performance score for performance of extra credit-eligible activities and objectives under certain standards.~~

~~**Step Three: Extra Credit Evaluation**~~

III. Step Three: Extra Credit Evaluation



An Enterprise may receive an ~~extra credit~~upward adjustment of 5 percent to its Step Two overall performance score for ~~successfully~~ undertaking certain extra-credit eligible activities that FHFA considers particularly challenging or for undertaking certain extra credit-eligible activities in a segment of an underserved market that is relatively less well-served. The adjusted score is the final performance score for the market and is used to determine the Enterprise's rating for the market.

FHFA has determined that the activities set forth below are extra credit-eligible activities ~~for this Plan cycle.~~. An ~~Enterprise's final score calculated under Step Two~~ Enterprise will be eligible for ~~an extra credit~~a 5 percent upward adjustment if ~~an~~the Enterprise undertakes at least one ~~or more~~ of these eligible activities~~. Additionally, each activity must achieve a~~ and achieves a cumulative impact score of at least ~~70~~80 points[19]~~,~~ according to the criteria in Appendix B (meaning that the sum of the impact scores assigned to objectives for a single extra credit-eligible activity equals at least ~~70~~80 points).

In markets where FHFA has designated two extra credit-eligible activities, an Enterprise may receive a 5 percent upward adjustment for successfully accomplishing one or both of the eligible activities.

MANUFACTURED HOUSING

- Regulatory Activity 1: Manufactured homes chattel pilot initiative
- Regulatory Activity 3: Support manufactured housing communities owned by government instrumentalities, nonprofits, or residents

AFFORDABLE HOUSING PRESERVATION

- Residential Economic Diversity Activity

[19] FHFA will not count any objective receiving an impact score of 10 or 20 towards this total in order to ensure that when only minimal progress is made, it will not result in extra credit being awarded.

RURAL

- Regulatory Activity 1: High-needs rural regions
- Regulatory Activity 2: High-needs rural populations

~~For this Plan cycle, an Enterprise's Step Two overall performance score will be adjusted upwards under the following circumstances:~~

- ~~For the rural housing market -- The Enterprise's Step Two overall performance score will be adjusted upward by 10 percent if it receives a cumulative impact score of at least 70 points for one of the extra credit-eligible activities, or by 15 percent for addressing both extra credit-eligible activities where each activity receives a cumulative impact score of at least 70 points. For example, if a Plan includes a high-needs rural region activity with two objectives, and one objective received an impact score of 30 and the other objective received an impact score of 40, the activity would qualify for an extra credit adjustment of 10 percent because the cumulative impact score is 70 (30+40). In contrast, if a Plan includes a high-needs population activity with two objectives, and one objective received an impact score of 20 and the other objective received an impact score of 30, the activity would not qualify for an extra credit adjustment because the cumulative impact score is only 50 (20+30).~~

- ~~For the affordable housing preservation market and manufactured housing market -- Because there is only one extra credit-eligible activity in each of these markets, extra credit will be assessed in a slightly different manner. FHFA will total the impact scores for each objective that qualifies under the manufactured homes chattel pilot initiative (for the manufactured housing market) or for residential economic diversity (for the affordable housing preservation market). For these purposes, it does not matter whether the objectives are listed as an Additional Activity or as a distinctly labeled objective under a Statutory or Regulatory Activity. The Enterprise's Step Two overall performance score will receive an upward adjustment of 10 percent if the activity's objectives receive a cumulative impact score of at least 70 points, and an upward adjustment of 15 percent if its objectives receive a cumulative impact score of at least 120 points.~~[20]

[20] ~~FHFA will not count any objective receiving an impact score of 10 towards this total in order to ensure that when only minimal progress is made it will not result in extra credit being awarded.~~

~~III.~~IV. Applying the Results of the Evaluation to Determine a ~~Final Performance~~ Rating

FHFA will compute an Enterprise's ~~final performance~~ rating for each underserved market as follows:

1. **Compliance determination.** If an Enterprise receives a Step One score of at least ~~7,~~ 8 for an underserved market, it will be considered in compliance with its statutory Duty to Serve obligations for the ~~underserved market, but will not receive a rating until the Enterprise's performance under~~market. In this circumstance, FHFA will then use Steps Two and Three ~~is evaluated.~~to determine a final performance score for the Enterprise in each underserved market. If an Enterprise receives a Step One score of less than ~~7~~8 for an underserved market, it will be considered in noncompliance with its statutory Duty to Serve obligations for the ~~underserved~~ market and will receive a rating of ~~Fails~~"Does Not Comply" for the market. In this circumstance, FHFA nonetheless will evaluate the Enterprise's performance under Steps Two and Three in order to adequately describe these components to the Enterprise and Congress in FHFA's Annual Housing Report to Congress.

   An Enterprise's Step One score, whether demonstrating compliance or noncompliance, will not be used for any other part of the evaluation and rating process.

~~1.~~2. **Conversion of final performance scores to ratings.** For an Enterprise that achieved compliance under Step One, FHFA will convert its final performance score after completion of Steps Two and Three into one of ~~four passing~~three ratings, as provided in the following conversion chart:

Ratings Chart for Final Performance Scores~~[21]~~

RATING	★☆☆ Complies / Needs Improvement	★★☆ Complies / Acceptable Results	★★★ Complies / Excellent Results
FINAL PERFORMANCE SCORE	< 35	35 to < 40	40 to 50

Appendix C ~~contains examples illustrating how~~illustrates the ~~results of an~~complete evaluation ~~of~~

~~[21] Minimally Passing (<30); Low Satisfactory (30-34.99); High Satisfactory (35-39.99); Exceeds ≥40.~~

~~Enterprise performance in an~~process for a hypothetical underserved market ~~might be reflected~~ in a ~~final rating~~Plan.

• • •

Appendix A: Duty to Serve Statutory and Regulatory Activities

Activities	UNDERSERVED MARKETS		
	Manufactured Housing	**Affordable Housing Preservation**	**Rural Area**
Statutorily-Enumerated Activities	None	1. Section 8 2. Section 236 (rental and cooperative housing-) 3. Section 221(d)(4) (moderate-income and displaced families) 4. Section 202 (elderly) 5. Section 811 (persons with disabilities) 6. Permanent supportive housing projects (homeless assistance) 7. Section 515 (rural rental) 8. Low-Income Housing Tax Credits (LIHTCs- debt) 9. Comparable state or local affordable housing programs	None

Regulatory Activities	1. Support manufactured homes titled as real property 2. Support manufactured homes titled as personal property 3. Support manufactured housing communities owned by government instrumentalities, nonprofits, or residents 4. Support manufactured housing communities with specified tenant pad lease protections	1. Support small multifamily rental properties financing 2. Support multifamily energy efficiency improvements financing 3. Support single-family, first lien energy efficiency improvements financing 4. Support affordable homeownership preservation (shared equity) financing 5. Support HUD's Choice Neighborhoods Initiative (CNI) 6. Support HUD's Rental Assistance Demonstration (RAD) Program 7. Support purchase or rehabilitation financing of distressed properties	1. Support housing in high needs rural regions: • Middle Appalachia • The Lower Mississippi Delta • Colonias • Rural tracts in persistent poverty counties 2. Support housing for high-needs rural populations: • Native Americans in Indian Areas • Agricultural workers 3. Support rural small financial institution financing 4. Support rural small multifamily rental property activity

Appendix B: Assigning Concept Scores and Step Two Impact Scores to Each Objective ~~Under Step Two~~

~~Under Step Two~~Before issuing a Non-Objection to an Enterprise's proposed Plan, FHFA will assign a concept score for each objective from 0 to 50 that reflects the expected level of direct or future impact on underserved market needs that the objective would represent if fully achieved, based on the information available to FHFA at that time. At the conclusion of each Plan year, FHFA will conduct a qualitative evaluation of the impact of an Enterprise's performance under each of the objectives ~~for the activities in an underserved market~~ in its Plan~~.~~ (Step Two of the evaluation). For each objective, FHFA will assign an impact score from 0 to 50 ~~using the~~ that reflects the actual level of direct or future impact of the objective on underserved market needs.

FHFA will use criteria ~~specified~~in the table below to assign concept scores and impact scores. For any given objective, some of the impact criteria included in the table ~~below.~~may not be applicable. An Enterprise's anticipated or actual performance on an objective need not meet all of the criteria for a particular score level in order to receive that score. At FHFA's discretion, exceptional anticipated or actual performance on some of the criteria for a particular score level may compensate for anticipated or actual underperformance on others. However, an Enterprise's anticipated or actual performance of an objective should generally be consistent with the criteria for a particular score level in order to receive that score.

Notes:

- A score of 20 represents anticipated or actual impact that exceeds the criteria associated with a score of 10 but falls short of the criteria associated with a score of 30.

- A score of 40 represents anticipated or actual impact that exceeds the criteria associated with a score of 30 but falls short of the criteria associated with a score of 50.

~~The table details the criteria for assigning impact scores for objectives after a Plan year concludes. FHFA will focus on the extent to which the objective has a direct impact or has laid the foundation for future impact on an underserved market need, depending on which type of impact is more appropriate for that objective. An objective must fully meet the specified criteria for an impact score in order to receive that impact score. Based on these criteria, a single impact score will be provided for each objective.~~

~~As noted in this Guidance, in assessing the level of challenge represented by an objective, FHFA will consider both the size of the impact (or potential future impact) and the extent to which the~~

~~objective addresses a particularly challenging need (such as purchasing loans to residents in Appalachia or serving very low-income households without the benefit of a deep subsidy).~~

~~**Score**~~	~~**Impact**~~	
	~~**Direct Impact**~~	~~**Foundation for Future Impact**~~
~~**0**~~	~~The objective represents less than minimal progress in addressing an underserved market need and/or the objective does not meet the minimum requirements identified in the Guidance or in the Duty to Serve regulation.~~	
~~**10**~~	~~The objective represents minimal progress in addressing an underserved market need. The objective seeks minimal improvement relative to the market need. The Enterprise has not demonstrated that it would encounter significant difficulty in doing more.~~	~~The objective represents a minimal contribution to future impact in addressing an underserved market need. The Enterprise has not shown how the objective is tied to a theory of change in which its actions under the objective would generate anything above minimal impact.~~
~~**20**~~	~~The objective will receive a score of 20 if it exceeds the criteria for a score of 10, but does not meet the criteria for a score of 30.~~	
~~**30**~~	~~The objective represents meaningful progress in addressing an underserved market need. Meaningful progress is a sizable improvement over the prior level of activity that, generally, is moderately challenging to achieve. In addition, to qualify for a 30, the objective must be implemented in a manner that reflects a serious and good faith attempt to achieve a significant impact.~~	~~The objective makes meaningful progress in laying the foundation for a sizable future impact in addressing an underserved market need; generally, this is moderately challenging to achieve. In addition, to qualify for a 30, the objective must be implemented in a manner that reflects a serious and good faith attempt to achieve a future impact. The Enterprise must further show that it is open to incorporating what it learned through the activity into its current or future loan purchase or investment practices to help meet an underserved market need.~~
~~**40**~~	~~The objective will receive a score of 40 if it exceeds the criteria for a score of 30, but does not meet the criteria for a score of 50.~~	

~~50~~	~~The objective represents substantial progress in addressing an underserved market need. Substantial progress is a very large improvement over the prior level of activity that, generally, is very difficult to achieve given the challenges, time commitment, and resources involved. In addition, to qualify for a 50, the objective must be implemented in a highly effective manner that demonstrates a deep commitment to achieving a substantial impact.~~	~~The objective represents substantial progress in laying the foundation for a very large future improvement in addressing an underserved market need. Generally, this is very difficult to achieve given the challenges, time commitment, and resources involved. In addition, to qualify for a 50, the objective must be implemented in a highly effective manner that demonstrates a deep commitment to achieving a substantial impact. The Enterprise must further commit to incorporating what it learned through the activity into its current or future loan purchase or investment practices to help meet an underserved market need.~~

Criteria for Assigning Concept Scores and Step Two Impact Scores

FHFA will use criteria in the table below to assign concept scores and impact scores. The *italicized criteria* indicate the expected level of direct or future impact an objective would represent if fully achieved, and the non-italicized criteria indicate the actual level of direct or future impact.

Impact Characteristic	**Score Criteria: *Expected* (Concept Scores) and Actual (Impact Scores)**				
	10	20	30	40	50
Contribution to liquidity	*If target is met, direct or future impact on liquidity would be minimal, in absolute terms or relative to market needs* Had minimal direct or future impact, in absolute terms or relative to market needs		*If target is met, direct or future impact on liquidity would be of sufficient size and scope to have a meaningful, if not necessarily large, impact in absolute terms or relative to market needs* Direct or future increases were of sufficient size and scope to have a meaningful, if not necessarily large, impact in absolute terms or relative to market needs		*If target is met, direct or future impact on liquidity would be very large, in absolute terms or relative to critical market needs* Had very large direct or future impact, in absolute terms or relative to critical market needs
Extent of achievements relative to baseline	*Target represents a decline from recent practice or performance* Achievements represented a decline from recent practice or performance		*Target represents a meaningful expansion of recent practice or performance* Achievements represented a meaningful expansion of recent practice or performance		*Target far surpasses recent practice or performance* Achievements far surpassed recent practice or performance
Level of effort, in light of applicable market conditions	*Planned actions are not challenging and require minimal expenditure of effort or commitment of resources; no indication the Enterprise would encounter difficulty in doing more* Actions were not challenging and		*Planned actions are routine and would require a moderate expenditure of effort or commitment of resources* Actions were routine and required a moderate expenditure of effort or		*Planned actions are complex and would require a very large expenditure of effort or commitment of resources* Actions were complex and required a very large expenditure of effort or

	required minimal expenditure of effort or commitment of resources; no indication the Enterprise would have encountered difficulty in doing more		commitment of resources		commitment of resources
Approach and design	*Planned actions are poorly designed or poorly targeted to address an underserved market need, or the Enterprise has provided insufficient detail to enable FHFA to assess its planned approach* Actions were poorly designed or poorly targeted to address an underserved market need		*Planned actions are well-designed and well-targeted to address an underserved market need, but not necessarily innovative; the Enterprise has provided sufficient detail to enable FHFA to assess its planned approach* Actions were well-designed and well-targeted to address an underserved market need, but not necessarily innovative		*Planned actions represent extraordinary innovation to effectively address a critical underserved market need* Actions represented extraordinary innovation to effectively address a critical underserved market need
Contribution to future practice	*Enterprise provides no indication that planned actions or findings will inform future practice* Enterprise provided no indication that actions or findings will inform future practice		*Enterprise indicates an openness to incorporating what it learns into future practice* Enterprise indicated an openness to incorporating what it learned into future practice		*Enterprise commits to specific next steps that build on planned actions or findings* Enterprise committed to specific next steps that build on actions or findings
Contribution to knowledge	*No evidence that planned actions will advance knowledge of underserved market needs or how to address them* Did not advance the field's knowledge of underserved market needs or how to address them		*Planned actions will make a meaningful contribution to knowledge of underserved market needs or how to address them* Made meaningful contribution to knowledge of underserved market needs or how to address them		*Planned actions will break new ground on the field's understanding of underserved market needs or provide actionable insights on how to address them* Broke new ground on the field's understanding of underserved market needs or provided actionable insights on how to address them
Responsiveness	*No evidence that planned actions*		*Enterprise describes how it considered*		*Enterprise describes how public*

<u>to public input, if applicable</u>	*<u>reflect consideration of public input</u>*		*<u>public input during Plan development; provides some indication that it made adjustments to planned actions in response to public input</u>*		*<u>input led to specific changes in its planned actions that strengthened its commitment to an underserved market</u>*

Appendix C: Illustrating the Evaluation Process

This Appendix provides ~~two~~a hypothetical ~~scenarios~~scenario illustrating ~~how an Enterprise could receive a passing score under~~ the ~~scoring~~annual evaluation process that results in a publicly released rating.

Step One~~. This Appendix also includes four hypothetical scenarios demonstrating how an Enterprise's final performance score is calculated in Steps Two and Three and converted into one of the four passing ratings.~~

~~Step One (~~: Compliance Determination~~)~~

In Step One, FHFA ~~will measure the extent to which an Enterprise has achieved~~measures an Enterprise's achievement of each of the objectives in an underserved market in its Plan, in order to determine whether the Enterprise is in compliance with its statutory Duty to Serve obligations for the underserved market.

For example, assume that in a given year, an Enterprise included ~~seven~~ten objectives under three activities – A, B, and C – in an underserved market ~~in~~section of its Plan~~ for a given year.~~. If the Enterprise achieved the target for seven objectives, met ~~two of its objectives, accomplished a substantial amount~~or exceeded the baseline but fell short of the target for two objectives, and ~~accomplished a limited amount of three objectives~~did not meet the baseline or target for one objective, it would ~~achieve a passing~~receive an average score of ~~7~~8 under Step One, as shown below.

~~Objective~~	~~Level of Accomplishment~~	~~Score~~
~~1~~	~~Accomplished all of the objective~~	~~10~~
~~2~~	~~Accomplished all of the objective~~	~~10~~
~~3~~	~~Accomplished a substantial amount of the objective~~	~~7~~
~~4~~	~~Accomplished a substantial amount of the objective~~	~~7~~
~~5~~	~~Accomplished a limited amount of the objective~~	~~5~~
~~6~~	~~Accomplished a limited amount of the objective~~	~~5~~
~~7~~	~~Accomplished a limited amount of the objective~~	~~5~~
	~~Average Score =~~	~~7.0 (Pass)~~

Obj.	Activity	Evaluation Area	Level of Accomplishment	Score
1	A	Loan purchase	Achieved target	10
2	A	Outreach	Achieved target	10
3	A	Loan product	Substantial progress - level of effort already expended exceeds the level of effort that remains	5

			to be expended to meet the target	
4	B	Loan purchase	Achieved target	10
5	B	Loan product	Minimal progress - level of effort required to meet the target exceeds the level of effort already expended	0
6	B	Loan product	Substantial progress - level of effort already expended exceeds the level of effort that remains to be expended to meet the target	5
7	B	Outreach	Achieved target	10
8	C	Loan product	Achieved target	10
9	C	Outreach	Achieved target	10
10	C	Investment	Achieved target	10
			Average Score =	**8.0**

The average score of 8 means that the Enterprise has complied with its statutory Duty to Serve obligations for the market. As shown in the examples below, the Enterprise's performance is then evaluated under Steps Two and Three to determine a final performance score for the Enterprise for the market, which is then converted into one of the three ratings for the market.

~~The Enterprise could alternatively receive a passing score of 7 in Step One if it meets four of its objectives, accomplishes a limited amount of one objective, and accomplishes a minor amount of two objectives, as shown below.~~

~~**Objective**~~	~~**Level of Accomplishment**~~	~~**Score**~~
~~1~~	~~Accomplished all of the objective~~	~~10~~
~~2~~	~~Accomplished all of the objective~~	~~10~~
~~3~~	~~Accomplished all of the objective~~	~~10~~
~~4~~	~~Accomplished all of the objective~~	~~10~~
~~5~~	~~Accomplished a limited amount of the objective~~	~~5~~
~~6~~	~~Accomplished a minor amount of the objective~~	~~2.5~~
~~7~~	~~Accomplished a minor amount of the objective~~	~~2.5~~
	~~**Average Score =**~~	~~**7.14 (Pass)**~~

Step Two: Impact Determination

Under Step Two, FHFA first evaluates the Enterprise's performance and assigns an initial impact score to each objective based on the criteria described in Appendix B. FHFA then compares this initial impact score to the concept score previously assigned for the objective at Non-Objection. If the initial impact score is greater than the concept score, FHFA averages the initial impact score and the concept score to produce a final impact score. If the initial impact score is less than or equal to the concept score, no further adjustments are made. An example is provided below.

Obj.	**Activity**	**Evaluation Area**	**Concept Score**	**Step Two Initial Impact Score**	**Step Two Final Impact Score**
1	A	Loan purchase	30	30	30
2	A	Outreach	30	40	35
3	A	Loan product	30	30	30
4	B	Loan purchase	40	40	40
5	B	Loan product	30	20	20
6	B	Loan product	50	40	40
7	B	Outreach	30	30	30
8	C	Loan product	30	40	35
9	C	Outreach	40	40	40
10	C	Investment	40	40	40

The Enterprise received average impact scores of:

- 35 on its loan purchase objectives
- 31.25 on its loan product objectives
- 35 on its outreach objectives
- 40 on its investment objective

for a weighted average score of 34.625. As shown below, this score is then converted to a rating after the Step Three extra credit evaluation. For comparison purposes, note that if there were no extra credit adjustment, the score of 34.625 would convert to a rating of "Complies / Needs Improvement."

Step Three: Extra Credit Evaluation

An Enterprise may be eligible to receive an extra credit upward adjustment of 5 percent to its Step Two overall performance score, depending on the impact scores it received for objectives under extra credit-eligible activities. For example, assume FHFA has designated Activity B as eligible for extra credit. FHFA would add the impact scores for objectives 4, 6, and 7 — excluding objective 5 because scores of 20 and below do not count toward the extra credit threshold — for a sum of 110. The Enterprise has surpassed the extra credit threshold of 80 and, therefore, is eligible to receive an upward adjustment of 5 percent, for a final performance score for the market of 36.35. This score converts to a rating of "Complies / Acceptable Results."

~~**Step Two (Impact Determination) and Step Three (Extra Credit Evaluation)**~~

~~If FHFA assigns a passing score under Step One to an Enterprise, FHFA will then use Steps Two and Three to determine a final performance score for the Enterprise in each underserved market. The final performance score will then be converted into one of the four passing ratings. This section illustrates how this process would work in four hypothetical scenarios.~~

~~For example, assume an Enterprise included seven objectives in an underserved market in its Plan for a given year: three loan purchase objectives, two loan product objectives, one outreach objective, and one investments objective.~~

~~**Objective**~~	~~**Evaluation Area**~~
~~1~~	~~Loan purchase~~
~~2~~	~~Loan purchase~~
~~3~~	~~Loan purchase~~
~~4~~	~~Loan product~~
~~5~~	~~Loan product~~
~~6~~	~~Outreach~~
~~7~~	~~Investments~~

~~The examples below show how different outcomes for this set of objectives would result in different passing ratings.~~

~~Example One~~

- ~~Step One: The Enterprise met the threshold for compliance.~~
- ~~Step Two: The Enterprise received an average impact score of:~~
  - ~~40 on its loan purchase objectives~~
  - ~~35 on its loan product objectives~~
  - ~~40 on its outreach objective~~
  - ~~40 on its investments objective~~
- ~~Step Three: The Enterprise qualified for a 10 percent upward extra credit adjustment.~~

~~FHFA converts the final performance score after Steps Two and Three into one of four passing ratings. For ease of reference, the conversion chart is repeated at the end of this Appendix.~~

~~**Step One**~~	~~**Achieves Compliance**~~
~~**Step Two**[22] overall performance score~~	~~38.5~~
~~**Step Three** final performance score~~	~~42.35~~
~~**Final Rating:**~~	~~**Exceeds**~~

~~Example 1 illustrates that an Enterprise needs to receive an average impact score of at least 40 on some~~

~~[22] The weights are: 35 percent for loan purchase objectives, 30 percent for loan product objectives, 20 percent for outreach objectives, and 15 percent for investments and grants objectives. These weights are applied to the average impact score of the objectives under each evaluation area.~~

~~of its objectives in order to receive an Exceeds rating. In the example, some of the Enterprise's objectives received a score of 40 or 50, evidenced by averages for all of the evaluation areas that are above 30. The Enterprise also qualified for a 10 percent upward extra credit adjustment, meaning that the Enterprise included one extra credit-eligible activity that received a cumulative impact score of at least 70 on its underlying objectives, pushing the final performance score into the Exceeds range.~~

~~Example Two~~

- ~~Step One: The Enterprise met the threshold for compliance.~~
- ~~Step Two: The Enterprise received an average impact score of:~~
  - ~~32 on its loan purchase objectives~~
  - ~~35 on its loan product objectives~~
  - ~~40 on its outreach objective~~
  - ~~30 on its investments objective~~
- ~~Step Three: The Enterprise qualified for a 15 percent upward extra credit adjustment.~~

~~**Step One**~~	~~**Achieves Compliance**~~
~~**Step Two** overall performance score~~	~~34.2~~
~~**Step Three** final performance score~~	~~39.33~~
~~**Final Rating:**~~	~~**High Satisfactory**~~

~~Example 2 illustrates that if an Enterprise receives average impact score of above 30 in some of the evaluation areas and a 15 percent extra credit adjustment, its final performance score after Step Three will likely fall within the range for a High Satisfactory rating.~~

~~Example Three~~

- ~~Step One: The Enterprise met the threshold for compliance.~~
- ~~Step Two: The Enterprise received an average impact score of:~~
  - ~~30 on its loan purchase objectives~~
  - ~~30 on its loan product objectives~~
  - ~~30 on its outreach objective~~
  - ~~30 on its investments objective~~

- ~~Step Three: The Enterprise qualifies for a 15 percent upward extra credit adjustment.~~

~~**Step One**~~	~~**Achieves Compliance**~~
~~**Step Two** overall performance score~~	~~30~~

~~**Step Three** final performance score~~	~~34.5~~
~~**Final Rating:**~~	~~**Low Satisfactory**~~

~~Example 3 illustrates that if an Enterprise receives an average impact score of 30 for its objectives under each evaluation area, its Step Two overall performance score will qualify for a passing rating of Low Satisfactory. If the Enterprise also receives a 10 percent or 15 percent upward extra credit adjustment under Step Three, its final performance score will still fall within the range for a Low Satisfactory rating.~~

~~Example Four~~

- ~~Step One: The Enterprise met the threshold for compliance.~~
- ~~Step Two: The Enterprise received an average of:~~
  - ~~20 on its loan purchase objectives~~
  - ~~25 on its loan product objectives~~
  - ~~20 on its outreach objective~~
  - ~~20 on its investments objective~~
- ~~Step Three: The Enterprise qualified for a 10 percent upward extra credit adjustment.~~

~~**Step One**~~	~~**Achieves Compliance**~~
~~**Step Two** overall performance score~~	~~21.5~~
~~**Step Three** final performance score~~	~~24.73~~
~~**Final Rating:**~~	~~**Minimally Passing**~~

~~Example 4 illustrates that average impact scores much lower than 30 for each of the evaluation areas may result in a Step Two overall performance score that falls in the range for a Minimally Passing rating. If enough evaluation areas average much lower than 30, as in this example, then neither a 10 nor 15 percent upward extra credit adjustment under Step Three could push the Enterprise's final performance score into the range for a Low Satisfactory rating.~~

~~These four examples all apply the following chart for converting final performance scores into one of the four passing ratings:~~

~~Ratings Chart for Final Performance Scores~~[23]

[23] ~~Minimally Passing (<30); Low Satisfactory (30-34.99); High Satisfactory (35-39.99); Exceeds ≥40~~

Rating	Minimally Passing	Low Satisfactory	High Satisfactory	Exceeds
Final Performance Score	< 30	30-35	35-40	≥ 40

~~Appendix D: Eligible State Definitions from Qualified Allocation Plans~~

~~**FHFA** has determined that the following states have definitions of high opportunity areas in their Low-Income Housing Tax Credit QAPs that qualify as high opportunity areas for purposes of the Duty to Serve program:~~

~~California~~
~~Connecticut~~
~~Delaware~~
~~District of Columbia~~
~~Florida~~
~~Illinois~~
~~Indiana~~
~~Iowa~~
~~Louisiana~~
~~Maine~~
~~Maryland~~
~~Minnesota~~
~~Mississippi~~
~~Ohio~~
~~Oregon~~
~~South Dakota~~
~~Utah~~
~~Virginia~~
~~Washington~~

~~FHFA will develop and publish on its website a list of census tracts in these states that qualify as high opportunity areas for purposes of the Duty to Serve program, along with a narrative explanation of the basis for the identification of these census tracts.~~