Manufactured Housing Market

STRATEGIC PRIORITIES STATEMENT

Fannie Mae will continue to provide liquidity to the manufactured housing market in the DTS plan years 2022 – 2024 by increasing loan purchase activity and fostering loan product innovation to enable the use of manufactured housing in unique development scenarios. Additionally, we will continue to seek opportunities to reinvent our manufactured housing product suite to include a broader range of consumer options for our lender customers and other market participants, which will further position us to be responsive to industry needs and trends in this plan cycle.

Furthermore, our implementation of the 2022 – 2024 DTS plan will continue to provide us with the opportunity to better understand the unique challenges and opportunities faced by market participants engaged in manufactured home lending, including our lender customers, appraisers, community owners and operators, manufactured home producers, retailers, and consumers. Collectively, we believe our activities will advance opportunities for expanded financing for manufactured homes titled as real property, expanded acceptance of manufactured housing communities (MHCs), and ultimately greater utilization of manufactured homes as a favorable option for homeowners when compared to traditional site-built housing.

With external stakeholder input, we are now requiring 100% Tenant Site Lease Protections (TSLP) on all manufactured housing community loans. We want to ensure that residents of manufactured home communities are afforded standard lease protections regardless of where the community is located and that we engage and support community operators that embrace investment in their communities for the benefit of their residents. Our continued investment in manufactured housing will increase homeownership opportunities, continue to elevate the product as a quality housing solution by educating market participants and guiding industry standards, and represents an important pathway to increasing the nation's affordable housing supply in a sustainable and scalable way.

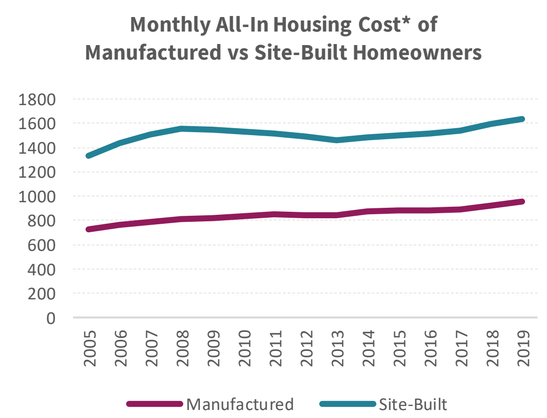
Execute: We will explore new opportunities to provide the manufactured housing market with additional liquidity through industry outreach, loan purchases, and loan product development.

Influence: Fannie Mae will continue to be a standard-setter and expand our reach as a convening partner for major players in the manufactured housing industry. In addition, Fannie Mae will seek to bring parity in lease protection in Manufactured Housing Communities for homeowners and renters. We will continue to use Fannie Mae's market presence to improve financing options available for borrowers.

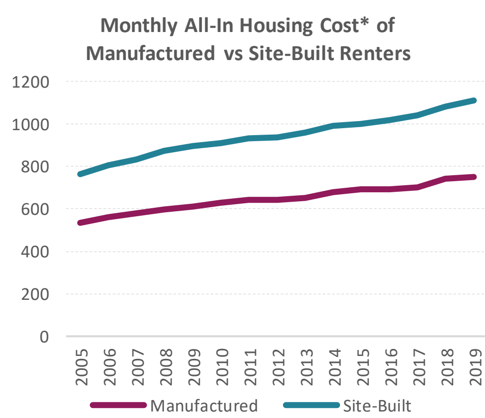
Collaborate: To be responsive to more recent industry trends, we intend to provide financing for manufactured housing communities, which exceed our Multifamily *Selling and Servicing Guide* threshold for park-owned rental units and offer additional loan proceeds to community operators to purchase new units or otherwise improve the infrastructure of their communities.

MARKET OVERVIEW

The Manufactured Housing market provides affordable housing to about 6.7 million households, approximately 4.8 million of which are owner-occupied and 1.9 million are renter-occupied homes,[1] including many households across the below-average income spectrum. The median monthly all-in cost to own or rent a manufactured home is $955, roughly $680 per month lower than for a site-built home. For renters of manufactured homes, the all-in cost is $360 less per month than for renters of site-built homes.



Source: *2019 American Community Survey.*
**** Note:*** *Excludes owners without mortgages.*



Source: *2019 American Community Survey.*
**** Note:*** *Excludes non-cash renters who may contribute services in place of rent or may not pay rent.*

The average sales price of a new manufactured home built and shipped in 2019 was less than half of the sales price of a new site-built home: $82,000 for the average new manufactured home (all types[2]) compared to almost $300,000 for the average new site-built home, excluding land costs. Excluding land costs, this translates to just under $60 per square foot for a manufactured home (all types) compared to $119 per square foot for a site-built home — nearly 50% lower.[3]

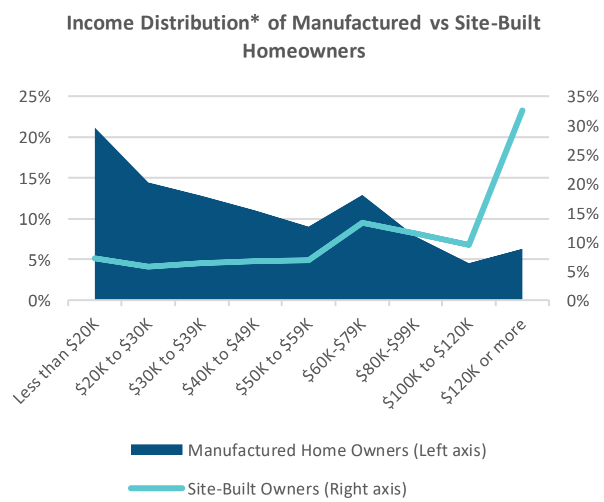
The difference between single-section manufactured versus similarly sized site-built homes was even wider, at just $50 per square foot for a single-section manufactured home compared to $125 per square foot for a similarly sized site-built home.[4]

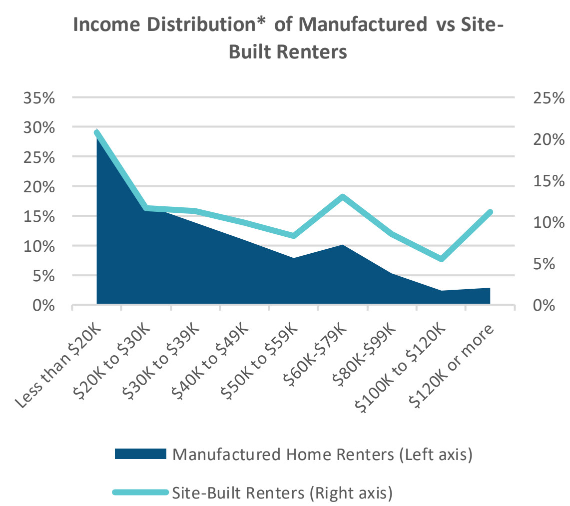
[1] 2019 American Community Survey, Tables B25032 and B25033.
[2] “All types” refers to the weighted average of single- and multi-section homes.
[3] U.S. Census Bureau Manufactured Housing Survey. Cost & Size Comparison: New Manufactured Homes and New Single-Family Site-Built Homes (2014 – 2019).
[4] Ibid 3. RS Means construction cost data used to estimate the sales price for a new 1,072 square foot site-built home.

MANUFACTURED HOUSING RESIDENTS

Residents of owner-occupied manufactured housing tend to have lower incomes than owners of site-built homes. The median annual household income of manufactured housing homeowners is about $40,000, half of the median annual income of site-built homeowners. More than one-fifth of manufactured housing homeowners earn less than $20,000 annually, and over half earn less than $50,000 annually. By contrast, about one-quarter of site-built homeowners earn less than $50,000 annually.

While the distribution of renter household incomes skews lower in all types of housing, manufactured home rentals are particularly important to lower-income renters. Around one-third of renters of manufactured homes earn less than $20,000 per year, and nearly three-quarters earn less than $50,000 per year.



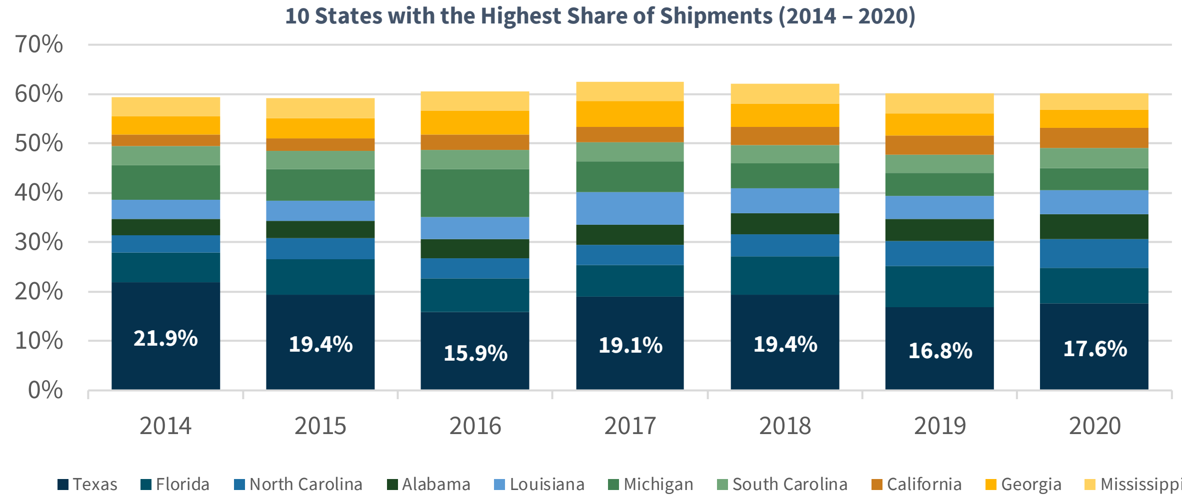


Source: *2019 American Community Survey; Note: Includes owners without mortgages. Both charts represent head of household income.*
**** Note:*** *K=$1,000 therefore $20K = $20,000*

GEOGRAPHIC DISTRIBUTION OF MANUFACTURED HOUSING

Manufactured housing makes up 6.1% of the nation's housing stock, but that share is higher in rural areas. While site-built single-family homes represent about 81% of housing stock in rural areas, manufactured housing constitutes approximately 13%. Apartments are a distant third, representing only about 5% of stock in rural areas.

From 2014 to 2020, shipments of new manufactured homes have been concentrated in southern states, with the exception of California and Michigan. Texas has received the largest share; its portion of new home shipments averaged 18.5% of all new homes shipped annually from 2014 to 2020. Although total concentration has declined very slightly since 2017, shipments to the top 10 states have grown more concentrated, accounting for 60% of annual shipments in 2020, up from 59% six years prior. Only one state in the top 10, Louisiana, saw a decline in shipments, receiving 160 fewer homes in 2020 than in 2014.



Source: *U.S. Census Bureau Manufactured Housing Survey.*
Note: *Excludes shipments with unknown destinations.*

From 2014 to 2019, about one-third of new manufactured homes were shipped to manufactured housing communities (MHCs) on average annually.[5]

CHALLENGES AND NEEDS

Lack of mortgage financing options. Factory-built manufactured homes built to U.S. Department of Housing and Urban Development (HUD) Code may be titled as either personal property ("chattel") or real property. How manufactured homes are titled determines the available options for financing. Units titled as personal property (and not having a lien on underlying land owned by the unit owner) are only eligible for chattel financing, while structures titled as real property (meaning they are treated by local law as a part of the land on which they are placed) may be financed through conventional mortgage loans. Several factors may impact a borrower's decision for titling and financing a manufactured home, including personal credit scores, the recommendations of a buyer's broker or seller, local zoning ordinances, and even the desire to leave recordation of the home and land separate. Most manufactured homes are only classified as personal property, which limits the owners of these homes to chattel financing, leaving the benefits of mortgage financing out of reach.

Local zoning restrictions. Local land use laws may also inhibit the installation of new manufactured homes. Some local zoning barriers for manufactured homes are rooted in municipalities' preference for the aesthetics of site-built homes and in negative historical perceptions regarding the quality and value of manufactured homes. However, recent innovative designs have made some manufactured homes conforming to the HUD Code visually indistinguishable from site-built homes. These types of manufactured homes may have high-pitched roofs, front porches, and decorative windows and trims. In addition, a recent report from FHFA suggests that manufactured homes affixed to land may appreciate at rates similar to site-built homes, better enabling low- and middle-income families to realize the potential wealth-building benefits of homeownership. Despite this progress, not all state and local regulations have kept up with recent developments.

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[5] https://www.manufacturedhousing.org/wp-content/uploads/2020/05/6-UPDATED-Sitebuilt-vs.-MH-2014-2018-Updates.pdf.

Unique distribution model. Traditionally, manufactured homes are sold to consumers through retailers or dealers, who in many states must be licensed to sell manufactured housing. As a result, many consumers who may be interested in exploring manufactured housing are unaware of how to initiate a home search. Moreover, stakeholders in the homebuying process, including real estate agents, counselors, and appraisers, may be unfamiliar with this housing type, so they may not suggest manufactured housing as an option when they are guiding individuals and families through the search process.

Limited production. The production of manufactured housing is limited by the number and capacity of factories capable of producing homes that meet the HUD Code. In many markets, there are fewer factories operating than at earlier peak periods of production, and many factories do not operate at full capacity due to a number of factors, including limited labor supply. Recently, several manufacturers have reported historically long lead times for a new manufactured home to be constructed, which limits the speed at which these homes can be built to address affordable housing shortages.

Declining number of MHCs. In recent years, the number of MHCs has been declining. In suburban areas, MHCs are in danger of being replaced by either traditional apartment buildings or other commercial properties.

Appraisals for manufactured homes. Appraisals for manufactured homes, especially for proposed construction, continue to be a point of friction in the manufactured homebuying process. Relatively few residential appraisers are familiar with manufactured housing as a type of collateral, and gaps in awareness of appraisal techniques may prevent manufactured housing from expanding to new geographic markets. Fannie Mae responded to this market feedback in the first Duty to Serve plan cycle by collaborating with McKissock, a continuing education course provider for appraisers, to develop a seven-hour continuing education course for appraisers, which highlighted Fannie Mae requirements for manufactured home appraisals. While this course has reached thousands of appraisers, we will continue to monitor market feedback on this topic to ensure that we are providing appropriate support to the industry.

MEETING THE CHALLENGES

Fannie Mae will continue to be a reliable source of financing for manufactured homes and communities, providing affordable and stable homeownership and rental opportunities for households around the country. We are committed to sustainably increasing our share of the Manufactured Homes Titled as Real Property (MHRP) market, increasing our role in financing non-traditionally owned MHCs, and working with our partners to increase market adoption of FHFA's tenant site lease protections, as well as advancing innovative solutions to benefit more families and help the industry grow.

Statutory and Regulatory Activities Considered but Not Included

Under the Duty to Serve Evaluation Guidance, Fannie Mae and Freddie Mac are required to consider and address all four of the Regulatory Activities identified for this market, as well as an Additional Activity. Fannie Mae has addressed and included three of the Regulatory Activities identified in the Duty to Serve Final Rule and has added an Additional Activity. We continue to work with our regulator to understand safety and soundness considerations and the viability of a chattel loan pilot program.

Activities and Objectives

A. Regulatory Activity: Support manufactured homes titled as real property (MHRP) (12 C.F.R. § 1282.33 (c) (1)).

In the Manufactured Housing market, most buyers rely on chattel, or personal property, loans to finance their homes.[6] Buyers leverage these loans when they do not own, or otherwise cannot mortgage, the land on which the manufactured home is located.[7] Personal property loans provide fewer origination and servicing consumer protections than do traditional mortgages and typically charge higher interest rates over shorter terms. Due to the dominance of personal property loans in the Manufactured Housing market, some homebuyers face difficulties obtaining real property manufactured home loans. Fannie Mae has sought to address these difficulties in recent years by clarifying its manufactured housing loan products to lenders in a position to serve the market, by making loan product changes in response to industry feedback, and, ultimately, by increasing the number of loans it finances that are secured by manufactured housing.

1. Objective: Acquire purchase money mortgage (PMM) loans secured by MHRP.

Fannie Mae has committed to supporting the expansion of MHRP in the past and will continue to do so during this three-year Plan period through increased loan purchases.

Unlike in the prior Plan cycle, we have decided to exclude refinance loans when planning our loan purchase targets, focusing exclusively on purchase money mortgage (PMM) loans. Fannie Mae will continue to support refinance loans for low- to moderate-income borrowers in this market, but these loans will not be included in our three-year Plan because of the inherent volatility of the refinance business in a volatile interest rate environment. In other words, we believe that including refinance loans would place more weight on market forces and monetary policy than on our own actions.

We considered the circumstances within the market to select the growth target. In manufactured housing, year-over-year growth has fluctuated. In fact, 2019 PMM purchases were slightly lower than in 2018. Between 2017 and 2020, annualized average growth has been about 13%. Moving into the next plan cycle, macroeconomic trends such as increasing housing prices and interest rates suggest that sustained growth in these markets may prove difficult to achieve. However, we recognize that Duty to Serve consumers are likely to be impacted greatly by these broader economic challenges. As a result, we have made what we believe to be a meaningful commitment to this market in the form of an enhanced loan purchase target in Year One. While we do not have the data to feel confident in making additional increases to later years in the Plan, we will commit to working with FHFA to responsibly adjust our targets should market conditions change. In summary, our 2022 manufactured home target is 22% higher than the baseline, while our 2023 target is 13% higher than our baseline. By the third and final year of this Plan cycle, our target is 15.8% higher than the baseline.

Baseline: The baseline of 8,196 loans is the current three-year average of the number of MHRP loans purchased by Fannie Mae. Fannie Mae has set the below targets for 2022 – 2024. Similar to our approach when setting a baseline in the prior iteration of the Duty to Serve Plan, we reference actual loan purchases from a recent period. Our standard approach calculates the simple average of the three years spanning 2018 to 2020. However, 2020 loan

[6] Laurie Goodman and Bhargavi Ganesh, "Challenges to Obtaining Manufactured Home Financing," Urban Institute, June 2018, urban.org/sites/default/files/publication/98687/challenges_to_obtaining_manufactured_home_financing_0.pdf (accessed April 24, 2020).
[7] "Manufactured Homes Provide Housing for Working People," Manufactured Housing Institute, manufacturedhousing.org/affordablehousing (accessed April 24, 2020).

purchases were anomalously high in certain markets, so we focused on determining whether it was reasonable to include or exclude 2020 from each baseline. In manufactured housing, purchases of PMM loans in 2020 were higher than any recent year. However, the year-over-year growth of 13% was generally in line with recent years and continued an existing trend, so we included it in our baseline. Therefore, based on 2018 – 2020 performance, we set a manufactured homes baseline of 8,196 PMM loans for 2022 – 2024.

MHRP Historical Loan Purchases	2018	2019	2020
Loans	8,025	7,766	8,798

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 10,000 loans for conventional manufactured housing, which represents approximately a 22% increase over baseline.	Loan Purchase
2023	Purchase 9,300 loans for conventional manufactured housing, which represents approximately a 13% increase over baseline.	Loan Purchase
2024	Purchase 9,500 loans for conventional manufactured housing, which represents approximately a 16% increase over baseline.	Loan Purchase

2. Objective: Explore opportunities to facilitate financing of loans secured by MHRP located in certain manufactured housing communities.

MHCs provide unsubsidized affordable housing for homeowners and renters in suburban and rural locations across the United States.[8] [9] MHCs are typically privately owned, in which case operators lease sites to homeowners. They can also be owned collectively by residents, potentially through a cooperative or condominium structure.

Fannie Mae has an opportunity to increase the ownership of MHRP located in MHCs by participating in existing industry efforts. One method is the expansion of Fannie Mae's support for single-family financing in resident-owned MHCs. Another potential method is purchasing loans secured in a leasehold structure. Any manufactured home leasehold lending product would be subject to at least the same conditions as site-built leasehold loans.

Baseline: Since 2018, Fannie Mae has financed single-family loans located in certain resident-owned MHCs in New Hampshire, due to New Hampshire's unique titling laws for such properties. The efforts in New Hampshire were limited in scale but will serve as the basis for Fannie Mae's expansion into this space. Additionally, Fannie Mae policy permits single-family manufactured housing leasehold lending in certain projects approved by Fannie Mae's Project Eligibility Review Service, but loan purchases to date related to this policy are limited.

[8] Jose Villarreal, "Innovative Solutions to Support Non-Traditional Ownership of Manufactured Housing Communities," Fannie Mae, July 2, 2019, fanniemae.com/research-and-insights/perspectives/innovative-solutions-support-non-traditional-ownership-manufactured-housing-communities.

[9] While the vast majority of MHCs are contiguous, according to the Fannie Mae Multifamily *Selling and Servicing Guide*, it is possible for an MHC to be made up of non-contiguous parcels. This Objective includes the possibility of financing loans on homes in non-contiguous MHCs.

Year	Target and Implementation Steps	Evaluation Area
2022	Determine scope and parameters to either expand financing of MHRP in resident-owned MHCs and/or introduce an initiative for financing MHRP in privately-owned MHCs. • Conduct legal, regulatory, quantitative, and policy analysis to determine opportunities to expand resident-owned MHC offerings and/or to introduce an initiative for financing homes in privately-owned MHCs. • Identify strengths and weaknesses of current product offerings by analyzing historical loan acquisitions. • Publish lessons learned to inform stakeholders of potential opportunities and challenges. • Engage internal stakeholders to assess operational capabilities, outline scope requirements, and obtain approvals to launch additional offerings.	Outreach
2023	Develop products and strategies that enable the future purchase of loans in MHCs. • In response to industry feedback, implement at least one policy change or variance to expand lending on MHRP located in MHCs. • Conduct analysis to identify MHCs where MHRP loan volumes are possible. • Develop a plan to promote MHC initiatives with lenders, MHC operators, and stakeholders who interact with residents. • Gauge market interest for MHRP in MHCs by engaging and gathering feedback from realtors, appraisers, and other relevant stakeholders. • Conduct a market analysis to determine whether including a loan purchase target in 2024 is feasible. If deemed feasible, engage internal stakeholders to establish an appropriate loan purchase target.	Loan Product

3. Objective: Expand on prior efforts to facilitate financing of loans on homes secured by MHRP located in fee simple developments.

In recent years, Fannie Mae's MHRP loan purchases have surpassed stated goals and have generally trended upward. However, most of these loans were used to finance the purchase or refinance of existing manufactured housing properties. Fannie Mae understands that for manufactured housing to address the affordable housing supply shortage, we must identify opportunities to finance newly constructed manufactured homes.

Due to various factors, including traditionally poor consumer perception and lack of awareness from real estate developers, manufactured housing is uncommon in neighborhood settings, apart from MHCs. Fannie Mae believes that appropriate loan products paired with targeted outreach and education can drive demand for MHRP located in fee simple developments, which would drive new, affordable housing supply and expand the traditional market for manufactured housing.

Baseline: Fannie Mae's efforts in 2018 – 2021 supported the expansion of manufactured housing in fee simple development settings. Initial efforts included identifying potential target geographic markets and developer partners. Fannie Mae will build on this work to identify opportunities to expand manufactured housing in fee simple developments.

Year	Target and Implementation Steps	Evaluation Area
2022	Develop loan products and strategies that streamline lending on MHRP in fee simple developments. • In response to industry feedback, implement at least one policy change or variance to expand lending on MHRP located in fee simple developments. • Conduct analysis to identify geographies where fee simple manufactured housing developments exist or are most likely to thrive. • Develop a plan to promote MHRP financing products to lenders serving manufactured housing developments. • Gauge market interest for MHRP in fee simple developments by engaging and gathering feedback from realtors, appraisers, and other relevant stakeholders.	Loan Product
2023	Launch a location-specific initiative aimed at financing MHRP purchases in fee simple developments. • Select at least one target location where there is demand for lending on MHRP located in fee simple developments. • Report on plan progress and results. • Include a summary of loan characteristics in our report if any purchases occur under this initiative. • Conduct a market analysis to determine whether including a loan purchase target in 2024 is feasible. If deemed feasible, engage internal stakeholders to establish an appropriate loan purchase target.	Loan Product

4. Objective: Respond to industry feedback by broadening eligibility guidelines (or criteria) for single-width MHRP loans.

Fannie Mae's approach to implementing its DTS plan for manufactured housing includes executing on the Plan as written while also soliciting more diverse feedback from market participants to identify additional opportunities to support the origination of manufactured housing mortgage loans. Of particular interest to lender and other non-lender stakeholders is our single-width manufactured housing product, which provides conventional financing for some of the most affordable MH units in the country. We are leveraging the Plan Modification process to allow us to add a new standalone Loan Product objective expanding additional access to credit for some of the most affordable homes on the market.

Baseline: Fannie Mae announced its single-width MHRP Guide product in December 2020 and began purchasing loans in the first quarter of 2021.This product featured several overlays, including a restriction limiting eligible homes to those aged 10 years or less.

Year	Target and Implementation Steps	Evaluation Area
2022	Develop an additional loan product enhancement that broadens eligibility guidelines for single-width MHRP loans. • Based on feedback from lender and non-lender stakeholders, develop a business case for expanding conventional eligibility for single-width MHRP loans. • Leveraging this business case, engage internal stakeholders to solicit approvals for Loan Product enhancement. • Publish enhancement in the *Selling Guide* by end of Q4 2022.	Loan Product

B. Regulatory Activity: Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents (12 C.F.R. § 1282.33 (c) (3)).

There are an estimated 800 non-traditionally owned MHCs around the country, most of which are resident-owned communities. Some resident-owned communities are part of larger network organizations that provide support and technical assistance. Nonprofit and government ownership are also viable solutions to address affordability and stability challenges, bringing experienced management and a mission focused on affordability and sustainability for residents. Some nonprofit housing entities focus specifically on MHCs to help preserve affordability and improve physical conditions. In addition, in some jurisdictions, public housing authorities (PHAs) own and operate MHCs.

The number of non-traditionally owned MHCs has grown in recent years. Over the past few years, Fannie Mae has conducted market outreach and research to gain insights into the needs of non-traditionally owned MHCs and lenders working in this space. Historically, these organizations purchase communities through grants provided by city, county, and state governments, combined with low-interest private loans and tax-exempt bonds. However, a demand exists for additional funding sources and more flexible financing terms as these communities change ownership or refinance. To address this need, Fannie Mae released a product enhancement in 2019 targeting non-traditionally owned communities, and in 2020, Fannie Mae closed three transactions. Through further engagements with our Delegated Underwriting & Servicing (DUS) lenders, Fannie Mae purchased an additional MHC loan on a community owned by a nonprofit in 2021.

1. Objective: Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

~~Fannie Mae has established two separate loan purchase targets under this Objective.~~ Between 2022 – 2024, Fannie Mae will increase purchases of loans secured by MHC properties owned by non-traditional entities, including government entities, ~~or~~ nonprofit organizations, or residents ~~and will continue its resident-owned community (ROC) loan purchase pilot~~. The rationale highlighted above, including the low representation of non-traditional ownership (2%) and highly fragmented market, demonstrate that it is difficult to achieve scale in this space as it currently stands. We will continue our outreach
and education efforts to identify opportunities and support the market.

Baseline for Overall Objective — MHC owned by government entities, nonprofit organizations, or residents: The baseline of two properties represents the average number of properties financed between 2019 and 2021.

~~**Sub-Target Baseline — MHC owned by government entities or nonprofit organizations:** The baseline of two properties represents the average number of properties financed between 2019 and 2021.~~

Historical Loan Purchases of MHC Owned by Residents, Government Entities, or Nonprofit Organizations	2019	2020	2021

Properties	0	3	1
Units	0	405	226

~~**Sub-Target Baseline — ROC loan purchase pilot:** Fannie Mae finalized the terms of the pilot program at the end of 2018, but we have not yet acquired any loans.~~

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase loans secured by five MHC properties which are owned by residents, government entities, or nonprofit organizations, comprising an estimated 808 units and representing a 150% increase from the baseline.~~Purchase loans secured by three MHC properties, comprising an estimated 473 units which are owned by government entities or nonprofit organizations, and representing a 50% increase from the baseline.~~ • Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics. ~~•~~ Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases. • ~~Purchase loans secured by two MHC properties, comprising an estimated 150 units, owned by residents.~~	Loan Purchase
2023	Purchase loans secured by seven MHC properties which are owned by residents, government entities, or nonprofit organizations, comprising an estimated 1,131 units and representing a 250% increase from the baseline.~~Purchase loans secured by five MHC properties, comprising an estimated 788 units which are owned by government entities or nonprofit organizations, and representing a 150% increase from the baseline.~~ • Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics. ~~•~~ Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases. • ~~Purchase loans secured by two MHC properties, comprising an estimated 150 units, owned by residents.~~	Loan Purchase
2024	Purchase loans secured by seven MHC properties which are owned by residents, government entities, or nonprofit organizations, comprising an estimated 1,131 units and representing a 250% increase from the baseline.~~Purchase loans secured by five MHC properties, comprising an estimated 788 units which are owned by government entities or nonprofit organizations, and representing a 150% increase from the baseline.~~ • Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics. ~~•~~ Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases. • ~~Purchase loans secured by two MHC properties, comprising an estimated 150 units, owned by residents.~~	Loan Purchase

C. Regulatory Activity: Manufactured housing communities (MHCs) with certain pad lease protections (12 C.F.R. § 1282.33 (c) (4)).

Residents of MHCs can either own or rent their homes, but they do not own the land on which their homes sit. The property where the manufactured home stands, known as the pad or site, is rented by the owner from the MHC. Tenant site lease protections preserve the affordability and stability of MHCs across the country and are an important means to safeguard tenants from predatory practices. Some states have laws that provide mandatory site lease protections for tenants, but some do not.

Fannie Mae worked with consumer advocates, industry leaders, and lenders to design and launch the first program to encourage manufactured housing community borrowers to voluntarily provide additional consumer protections for the residents of their communities. In 2019, Fannie Mae launched a product enhancement to incentivize MHC borrowers to voluntarily implement FHFA's regulatory criteria for tenant site lease protections (TSLPs). The program has proven to be successful — the industry has been engaged, and we have met our unit targets for the previous two years. Fannie Mae recognizes the importance of protecting MHC residents, and our goal is to standardize tenant site lease protections across the manufactured housing industry.

1. Objective: Increase the number of loan purchases of MHCs with tenant site lease protections.

Over the course of the first three-year Duty to Serve Plan, Fannie Mae conducted outreach and market research to develop a product enhancement, which launched in early 2019. In this next Plan cycle, Fannie Mae is committed to increasing the number of properties we finance that provide these additional consumer protections to their residents and further signaled this commitment by mandating tenant site lease protections on 100% of the tenant sites for each MHC loan purchased by Fannie Mae beginning in 2022.

While we remain committed to ensuring that our TSLP program supports and serves the needs of residents in the manufactured home communities we finance, we are cognizant of the fact that our 100% mandate may cause certain market participants to pursue other financing options, which have fewer consumer protections. Additionally, most of this business to date has come in through our Credit Facility channel, a channel which requires greater internal capacity and resources to manage. As we progress with the implementation of this Objective, we will monitor the execution mix to determine whether it aligns with our more standard flow business.

Baseline: ~~Fannie Mae purchased loans with tenant site lease protections with an unpaid principal balance of $2.33 billion in 2021, which serves as our baseline. Moving into 2022, we are uncertain of volume projections for our TSLP purchases, as the 100% mandate adopted January 1st is predicted to drive certain borrowers toward other financing sources which may not require the same protections. As such, we have adopted a more conservative projection for loan purchase growth across the next three years of the DTS plan but will work with FHFA to responsibly adjust our targets should market conditions change.~~ As 2021 was the first year in which we saw relevant levels of adoption of the tenant site lease protection program, we initially sought to establish a baseline based on 2021 attainment. Our modified baseline is reflective of market headwinds experienced in 2022 and initial market adoption of our mandatory TSLP product. To illustrate this, we adopt a baseline based on the average monthly Mission-adjusted UPB of MHC loans purchased between March to August 2022 — a time frame representative of the first six months of loan deliveries under the mandatory TSLP requirement. When taking the monthly average of these six months and projecting it across the year, we arrive at a modified baseline of $1,800,000,000 in Mission-adjusted UPB.[10]

[10] Note that Fannie Mae erroneously listed its modified loan purchase targets in the redlined version of this Objective in its 2022 Proposed Modifications and Justification document published with the Request for Input on FHFA's website as follows:
2022 Target: $1.95 billion
2023 Target: $2.05 billion
2024 Target: $2.115 billion

Year	Target and Implementation Steps	Evaluation Area
2022	Increase the purchase of MHC loans that include tenant site lease protections meeting the FHFA ~~regulatory~~ Mission criteria to $1,900,000,000 ~~$2,500,000,000~~ delivery UPB, reflecting an approximate 5~~7~~% increase from the baseline.	Loan Purchase
2023	Increase the purchase of MHC loans that include tenant site lease protections meeting the FHFA Mission ~~regulatory~~ criteria to $2,000,000,000~~$2,750,000,000~~ delivery UPB, reflecting an approximate ~~18~~10% increase from the baseline.	Loan Purchase
2024	Increase the purchase of MHC loans that include tenant site lease protections meeting the FHFA Mission ~~regulatory~~ criteria to $2,100,000,000 ~~$3,000,000,000~~ delivery UPB, reflecting an approximate ~~28~~15% increase from the baseline.	Loan Purchase

D. Additional Activity: Additional Manufactured Housing Communities Activities (12 C.F.R. § 1282.33 (d)).

1. Objective: Increase the purchase of MHC loans benefiting from Manufactured Housing Rental flexibilities.

Traditionally, Fannie Mae's investment in manufactured housing communities (MHC) has been limited to financing manufactured housing pads. However, as MHCs in many rural markets are aging and may be dealing with reduced occupancy and associated cashflow constraints, certain community owners and operators would benefit from more flexible financing options to add new affordable housing units to their communities and attract new tenants. Additionally, certain borrowers may operate MHCs with a high percentage of homes owned by the manufactured home community operator, which would historically render them ineligible for Fannie Mae financing.

Manufactured Housing Rental (MHR) broadens our MHC underwriting standards to account for diverse market trends by selectively allowing for a higher percentage of POHs and underwriting the additional income generated from rental manufactured housing units. These enhancements within our MHC execution will afford community owners and operators attractive financing options or even potentially additional loan proceeds to purchase new manufactured housing rental units or otherwise improve the infrastructure and amenities in their communities. Extending this financing for new rental units and other improvements has the dual benefit of increasing the health of the loan collateral while adding new, high-quality housing supply to undersupplied communities.

Note that loans purchased under this objective will necessarily be included under the tenant site lease protection goal as well, due to the revision of the tenant site lease protection guidance from FHFA, which extends those protections to renter-occupied homes in addition to owner-occupied homes.

Baseline: After almost a full year of building out internal procedures and capacity, Fannie Mae began its foray into expanded underwriting for MHR transactions in 2020 by completing three MHR deals totaling $8.8M, 676 pads, and 251 new rental units.

In its first full year of implementation, Fannie Mae closed four MHR transactions in 2021, financing $207M UPB, 7,670 pads, and 1,708 new rental units, meeting the Mission Driven business definition for MHCs, which serves as our baseline. These transactions have been highly specialized and involved a select few counterparties who were interested in leveraging these additional flexibilities to finance new rental units. Therefore, Fannie Mae believes more industry outreach is needed in the first year of the Plan to understand the overall market opportunity and appropriately scale our offering for this emerging market segment.

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase MHR loans on MHC properties to finance an estimated 1,900 new rental units, representing an approximate 10% increase over the baseline. • Develop and execute a plan to solicit feedback on MHR financing from manufactured housing lenders and community operators.	Loan Purchase
2023	Purchase MHR loans on MHC properties to finance an estimated 2,100 new rental units, representing an approximate 23% increase over the baseline.	Loan Purchase
2024	Purchase MHR loans on MHC properties to finance an estimated 2,300 new rental units, representing an approximate 35% increase over the baseline.	Loan Purchase

2. Objective: Supporting renters in manufactured housing communities through credit-building activities.

Traditionally, Fannie Mae's investment in manufactured housing communities has been limited to financing manufactured housing pads. However, with the introduction of new technologies, we recognize that there may be an opportunity to provide additional support to manufactured home renters whose credit histories may be incomplete or insufficient for helping these renters achieve longer-term financial goals, such as homeownership. Additionally, many manufactured home communities are in rural areas and residents may not have access to the same credit building services that may be available in larger, more urban settings.

We are hopeful that engaging residents and MHC community owners and operators will foster productive dialogue with the credit industry regarding the potential of on-time rental payment reporting to produce positive social outcomes for low- and moderate-income renters living in manufactured home communities. To gain a broader understanding of the market landscape and the needs of residents, Fannie Mae would conduct research and industry outreach to better understand the feasibility of working with our Multifamily borrowers and technology vendors to report rental payment data from renters living in manufactured housing communities to credit bureaus, with an eye toward launching a pilot program by the end of 2022. Note that such an offering would not be limited to only owner-occupied manufactured housing units but could be made available to all residents within a manufactured housing community which agrees to participate.

Baseline: Fannie Mae has never facilitated the collection of consumer rental payment information as part of its multifamily manufactured home community business.

Year	Target and Implementation Steps	Evaluation Area

2022	Conduct research and market outreach to evaluate the viability and effectiveness of having manufactured housing community owners and operators report rental payment data to credit bureaus through third-party technology vendors. • Develop and implement an outreach strategy aimed at identifying and selecting external partner(s) who are well-positioned to expand access to credit-building services for manufactured housing community residents, based upon familiarity with MHC operating models and tailored technological product offerings for MHC community operators. • Establish partnership with third-party technology vendor to create a proactive working relationship and position the pilot for launch. • Research and develop an implementation strategy with 1 – 2 vendors and 1 – 2 MHC owners targeting a sample group of properties to participate, identifying incentives needed to entice participation. • Launch rental payment reporting pilot by end of Q4.	Outreach
2023	Assess the viability of expanding the pilot initiative to new vendors and/or new MHC properties, based upon quantitative and qualitative findings. • Assess the impact of the pilot, including rates of renter and landlord usage of rent reporting, number of credit scores established, magnitude of credit score improvement for participants, and any other metrics identified through research and pilot phase. • If feasible, design an enhanced rent reporting program for MHCs by Q4, based upon research and pilot findings, and assess whether a rent reporting program for MHCs could become a standard product offering.	Outreach

Affordable Housing Preservation Market

STRATEGIC PRIORITIES STATEMENT

Our mission in the Affordable Housing Preservation market is to preserve, promote, and expand affordability for renters and homeowners. We do this by helping lenders serve homebuyers and homeowners and providing financing options, and investments such as Low-Income Housing Tax Credits for stable, affordable rental housing in every market, every day. We expect that our Plan commitments to support and expand our programs will result in the preservation of affordable single-family and multifamily rental units, which will help mitigate single-family owner and multifamily resident displacement and the loss of critical affordable housing stock.

Our initiatives and financing products support communities through the preservation of affordable housing and by providing necessary liquidity to rehabilitate, make energy efficient, and retrofit existing affordable housing stock. To support these objectives and based on collaboration and input from external stakeholders, we have expanded an objective to increase market awareness and understanding of energy and water efficiency improvements and financing through industry outreach, research, and evaluation. Additionally, in an effort to expand housing options for low-income renters, we will deploy a pilot that will encourage the adoption of Housing Choice Vouchers in financed properties in specific markets.

Innovate: Develop product enhancements, explore new test-and-learn strategies, and launch pilot products designed to incentivize the creation and preservation of affordable housing. We continue to refine our existing strategies while conceptualizing new ways to meet the affordable housing needs of homeowners and renters.

Expand: Support neighborhood stabilization for homeowners by expanding owner-occupant distressed property purchase initiatives and promoting best practices and standardization for shared equity programs.

Grow: Build on our success in promoting energy and water efficiency, sustaining our commitment to climate resiliency, and supporting low-income households who, on average, have an 8.6% energy burden, which is three times higher than non-low-income households.[10]

Fannie Mae is uniquely positioned in the market and primed to achieve these goals. The standardization and scale we provide allows us to leverage private capital to preserve affordable housing, and our dedicated teams enable us to have substantial impact in the market.

We have designed project plans that outline specific actions to meet our goals and objectives. For each objective, we describe the need, rationale, and metrics by which we will determine success.

MARKET OVERVIEW

There is a persistent crisis in housing affordability across the nation, affecting both renters and homeowners. In 2019, approximately 9% of owner households, or 7.1 million households, spent more than half of their household income on housing payments and utilities. The situation is worse for renters, as just under a quarter of renters, representing 10.5 million renter households, spent more than half of their household income on rent and utilities the same year. Those 10.5 million households are considered severely cost-burdened, a designation that increases dramatically when focusing on lower-income renters.[11]

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[10] U.S. Department of Energy, Office of Energy Efficiency & Renewable Energy, Low Income Community Energy Solutions, https://www.energy.gov/eere/slsc/low-income-community-energy-solutions.

[11] *The State of the Nation's Housing 2020* (Cambridge, MA: Joint Center for Housing Studies of Harvard University, 2020): Appendix Table A-2.

Rent growth has outpaced household income growth for almost two decades, resulting in increasing housing cost burdens for renters. After adjusting for inflation, from 2001 to 2019, median renter household income rose just 3.4%, while rents rose 15%.[12]

Like the rental housing market, the homeownership market has seen home price growth far outpace that of incomes. Some of the effects of this divergence have been muted due to low mortgage interest rates, but affordability challenges persist for low- and moderate-income (LMI) homeowners and buyers. While the homeownership rate has increased steadily from the low that followed the Great Recession, higher-income households account for *all* of the growth in homeowners from 2013 to 2019.[13]

Access to homeownership for LMI first-time buyers is particularly challenging. Continual growth in home prices requires buyers to contribute more money for down payments and closing costs, which often is an insurmountable obstacle. In addition, access to mortgage credit remains constrained for prospective buyers with lower credit scores, further limiting many households' ability to access homeownership.[14]

The Single-Family Affordable Housing Preservation Market

OVERVIEW OF THE SINGLE-FAMILY MARKET

The Duty to Serve Regulatory Activities in the single-family Affordable Housing Preservation (AHP) market include three distinct market segments:

- Energy or water efficiency improvements on single-family, first lien properties.
- Shared equity programs for affordable homeownership preservation.
- Purchase or rehabilitation of certain distressed properties.

Energy or Water Efficiency Improvements for Single-Family, First Lien Properties

Energy and water efficiency improvements for single-family homes can be financed with first-lien mortgage products supported by Fannie Mae. In addition to income requirements, improvements financed by loans eligible for this Duty to Serve market must be credibly projected to reduce energy or water consumption in the home by at least 15%, and the utility savings generated over the expected life of the improvements must exceed the cost of installation. Lowering energy and water usage and costs can make homeownership more affordable and sustainable by lowering the overall cost of homeownership. Some energy and water efficiency improvements can also help homes become more resilient in the face of natural disasters and resultant utility service interruptions.

Shared equity programs for affordable homeownership preservation

Shared equity programs provide homeownership opportunities at below market rate prices. In exchange for the purchase price subsidy, buyers commit to limitations on resale pricing that will ensure that the housing unit remains

[12] Erik Gartland, "2019 Income-Rent Gap Underscores Need for Rental Assistance, Census Data Show," Center on Budget and Policy Priorities, September 18, 2020, cbpp.org/blog/2019-income-rent-gap-underscores-need-for-rental-assistance-census-data-show.

[13] *State of the Nation's Housing 2020*, Appendix Table A-2.

[14] Laurie Goodman, Alanna McCargo, *et al.*, "Housing Finance at a Glance: A Monthly Chartbook, December 2020," Urban Institute, December 29, 2020, urban.org/research/publication/housing-finance-glance-monthly-chartbook-december-2020.

affordable for subsequent purchasers. Fannie Mae purchases shared equity mortgage loans from the following types of programs:

- Deed Restriction/Below Market Rate Programs.
- Community Land Trusts.
- Shared Equity Cooperatives.

Purchase or rehabilitation of certain distressed properties

Distressed properties include those that are eligible for a short sale or foreclosure sale, or that were acquired through foreclosure (referred to as real estate owned or REO).

SINGLE-FAMILY MARKET SIZE AND DEMOGRAPHICS

Energy and water efficiency

Across the United States, the number of homes owned by those with very low to moderate incomes is estimated to be 36 million.[15] There is no comprehensive data, however, to determine how many of these are energy- and/or water-"efficient" or how many are in need of upgrades. Relative to those with higher incomes, populations of more modest means tend to live in older homes, and older homes are typically less energy- and water-efficient. However, there are nearly always opportunities to lower energy and/or water consumption regardless of income level, home age, or current energy efficiency certifications, like LEED or ENERGY STAR®. Unless a home operates under net-zero energy, the potential to reduce consumption and total housing costs remains.

According to the U.S. Bureau of Labor Statistics, the average household spends 6.4% of income on utilities, fuels, and public services, or about $4,000 per year, with households in the lowest 20% of income earners spending 8.8% of their income on these expenses.[16] A study on energy burdens from the American Council for an Energy-Efficient Economy (ACEEE), highlights that low-income households, as well as Black, Hispanic, Native American, and older-adult households, tend to experience proportionally higher energy costs even within the same region and metro area.[17]

Shared equity

It is estimated that there are more than 225,000 shared equity housing units in the United States.[18] Limited equity cooperative units are the largest contributor to this total, accounting for about 166,000 shared equity homeownership units, the majority of which are located in New York City.[19] Deed-restricted homeownership units account for another estimated 50,000 units nationwide.[20] Finally, there are approximately 12,000 community land

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[15] U.S. Census Bureau, American Community Survey 2015 – 2019. Figure shows the number of owner-occupant households earning less than 120% of their respective Area Median Income (AMI).
[16] U.S. Bureau of Labor Statistics, Consumer Expenditures Survey, 2019, https://www.bls.gov/opub/reports/consumer-expenditures/2019/pdf/home.pdf.
[17] Ariel Drehobl, Lauren Ross, and Roxana Ayala, "How High Are Household Energy Burdens?" American Council for an Energy-Efficient Economy (ACEEE), September 2020, aceee.org/sites/default/files/pdfs/u2006.pdf.
[18] Emily Thaden, "The State of Shared-Equity Homeownership," *Shelterforce*, May 7, 2018, shelterforce.org/2018/05/07/shared-equity.
[19] U.S. Census Bureau, American Community Survey 2015 – 2019.
[20] U.S. Census Bureau, American Community Survey 2015 – 2019.

trust homeownership units throughout the country. According to research conducted in 2019, an estimated 6.6 million potential homeowners could become homeowners through shared equity programs.[21]

Distressed property

The size of the distressed property market has declined substantially since the Great Recession. In 2014, there were more than 727,000 distressed property transactions. By 2019, that figure had declined to less than 280,000 transactions.[22] The foreclosure moratoria instituted in the early part of 2020 largely stopped the entry of new properties into this space. As a result, the number of transactions declined by 30% to 197,000 in 2020.[23] In April 2021, the Consumer Financial Protection Bureau proposed changes to servicing regulations that would generally bar the commencement of new foreclosure proceedings until 2022.

RECENT SINGLE-FAMILY MARKET TRENDS

The effects of the COVID-19 pandemic

The COVID-19 pandemic and resulting recession had a substantial impact on the single-family housing market. Due to mandated telecommuting and online schooling, there was strong demand for single-family homes from still-employed workers seeking larger living spaces and from renters-by-choice accelerating future home purchases. The increased demand resulted in a sudden run-up in home price appreciation. Fannie Mae's Economic and Strategic Research team estimates that 2020 home prices increased by approximately 10.3%, up from 5.4% in 2019.[24]

Energy efficiency

Financing choices for energy and water efficiency improvements are varied in terms of interest rates, payment methods, underwriting, and consumer protections. Each product type has benefits and drawbacks based on the condition of the equipment and the circumstances of the homeowner.

There are hundreds of equipment manufacturers, utility companies, energy programs, and financing agents, which creates a challenging environment for the standardization and support of products that finance energy and water upgrades. Consumers may choose not to use mortgage financing to pay for energy and water upgrades because the required time and effort does not align with the scope of improvements they wish to make, or they may be unaware of the best way to select or finance such improvements.

Shared equity

As communities seek ways to address housing affordability challenges, many are starting to look to shared equity structures as potential solutions. Recent research supported by Fannie Mae found that inclusionary housing programs administered by state and local entities, which set aside specified dwelling units in condominium and other housing projects for LMI purchasers, have yielded more than 31,000 affordable homeownership units, with

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[21] Kristin Perkins, Shannon Rieger, *et al.*, *The Potential for Shared Equity and Other Forms of Down Payment Assistance to Expand Access to Homeownership* (Cambridge, MA: Joint Center for Housing Studies of Harvard University, October 2019).

[22] Fannie Mae tabulation of data obtained from Moody's Analytics.

[23] Fannie Mae tabulation of data obtained from CoreLogic.

[24] "Housing Forecast: January 2021," Fannie Mae, January 11, 2020, https://www.fanniemae.com/media/37951/display.

341 distinct programs offering shared equity homeownership opportunities that meet DTS eligibility requirements.[25] Additionally, new community land trusts are being established in areas throughout the country.

Distressed property

Foreclosure moratoria served a much-needed and worthwhile purpose in protecting households from displacement during the COVID-19 pandemic. However, they also severely disrupted the normal flow of properties through foreclosure and asset disposition pipelines, preventing their transition to new buyers. It is possible that a sizable number of the properties underlying these mortgages will enter the distressed property market once the forbearance and foreclosure moratorium periods expire. Developing strategies to facilitate purchases of portions of these properties by owner-occupant and mission-minded buyers may help supply critical affordable housing stock.

SINGLE-FAMILY CHALLENGES AND NEEDS

Energy and water efficiency

Significant barriers exist for very low-, low-, and even moderate-income households to make energy and/or water efficiency improvements that will yield long-term cash savings. Home energy repairs and improvements may require a large amount of upfront capital, which these populations typically do not have. A study by the Lawrence Berkeley National Laboratory estimated comprehensive energy improvements for a home to cost between $5,000 and $15,000.[26]

Even smaller steps, such as purchasing insulation, weatherization materials, or using a rebate program to install a lower-cost smart thermostat, may pose enough of burden to outweigh potential benefit. Homeowners also may be challenged with understanding their best options for equipment and financing so that they may achieve meaningful savings. Lack of standardization and recognition of the value of improvements in the real estate market also deter some from making upgrades.

Shared equity

Inclusionary housing programs can be a valuable means of adding new shared equity inventory in markets where development is occurring. However, other mechanisms for growing the supply of shared equity units are also needed. For most shared equity programs, demand already outpaces supply, a trend expected to persist as home price appreciation continues to outpace income growth.[27]

Distressed properties

In the distressed property market, forbearance plans and foreclosure moratoria invoked to counter impacts of the pandemic will eventually terminate as the nation emerges from the COVID-19 crisis. While most homeowners will by then have seen their incomes recover and will be able to resume making mortgage payments, many, unfortunately, will not. In the years following the Great Recession, foreclosure backlogs and limitations of the distressed property

[25] *Inclusionary Housing in the United States: Prevalence, Practices, and Production in Local Jurisdictions as of 2019* (Washington, D.C.: Fannie Mae, December 2020), multifamily.fanniemae.com/media/14236/display?_ga=2.268655281.1939890698.1612476544-1077800143.1559048784.

[26] Mark Zimring, Merrian Goggio Borgeson, *et al.*, *Delivering Energy Efficiency to Middle Income Single Family Households* (Berkeley, CA: Lawrence Berkeley National Laboratory, December 2011).

[27] Clare Trapasso, "What to Expect in 2021's Housing Market: This Is How Much Home Prices Will Rise," *realtor.com*, December 2, 2020, realtor.com/news/trends/housing-market-2021-forecast.

disposition system impacted the ability of communities to recover from the recession.[28] Substantial research conducted on the impact of vacant and distressed properties on surrounding property values has demonstrated that foreclosures have significant negative impact on property values, with far-reaching effects on homeowners and communities.[29] Further, research has shown that the longer an REO property remains unsold, the greater the neighborhood price externalities become. Properties located in low-income, minority neighborhoods are slower to sell, making the challenge of distressed properties particularly acute for such neighborhoods.[30] In the aftermath of the pandemic, it will be important to develop strategies for the efficient disposition of properties to new owners likely to achieve positive outcomes for individuals and communities.

MEETING THE CHALLENGES IN SINGLE-FAMILY

Building upon the work we have done to date, this Underserved Markets Plan sets forth an ambitious agenda to further mature and refine our impact on the AHP market. Having identified where we can add the most value, we will expand our efforts to provide liquidity, resources, leadership, and partnership to support the energy efficiency, shared equity, and distressed property segments of the single-family housing market. Through the promotion of market standardization, increased loan purchases, and innovations born of collaboration with industry stakeholders, we will seek to address the growing need for affordable, efficient, and sustainable homeownership throughout the country.

The Multifamily Affordable Housing Preservation Market

OVERVIEW OF THE MULTIFAMILY MARKET

The multifamily AHP market includes properties that, because of a federal, state, or local subsidy, or a combination thereof, are subject to a regulatory agreement or recorded restriction that limits rents, imposes maximum income restrictions on tenants, or places other affordability restrictions on the use or occupancy of the property.

In all, there are nine programs that are Statutory Activities and seven programs that are Regulatory Activities in the Final Duty to Serve Rule, in addition to allowable Additional Activities that serve segments of the AHP market.[31]

Some examples of programs that fall under this definition include:

- The Federal Low-Income Housing Tax Credit (LIHTC) Program.
- Section 8 and Project-Based Rental Assistance (PBRA) and Project-Based Vouchers
- U.S. Department of Agriculture (USDA) Rural Rental Housing Loans under Section 515 (RD 515).
- Inclusionary zoning programs and/or resale restrictions.
- Other state, local, or federal subsidies that are conditioned on the affordability of some or all the units in the property.

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[28] Joe Light, "Foreclosure Backlog Slows Housing Recovery in Some States," *The Wall Street Journal*, November 14, 2014, wsj.com/articles/foreclosure-backlog-slows-recovery-in-some-states-1415989098.

[29] James Alm, Robert D. Buschman, and David L. Sjoquist, "How Do Foreclosures Affect Property Values and Property Taxes?" *Land Lines*, Lincoln Institute of Land Policy, January 2014.

[30] Lei Zhang, Tammy Leonard, and Resha Dias, "Foreclosed and Sold: An Examination of Community and Property Characteristics Related to the Sale of REO Properties," *Urban Affairs Review* (2017), p. 53.

[31] "Enterprise Duty To Serve Underserved Markets," Federal Housing Finance Industry, 2016, govinfo.gov/content/pkg/FR-2016-12-29/pdf/2016-30284.pdf.

Low-Income Housing Tax Credit

The federal Low-Income Housing Tax Credit (LIHTC) program was created in 1986 to support the production and preservation of affordable rental housing and is the main source of new affordable supply in the U.S. Properties financed by the LIHTC program are required to set aside units for low-income renters. The program is administered by states, which may impose requirements and incentives for a greater percentage of affordable units and/or units that serve renters with incomes lower than 60% of Area Median Income (AMI) than the federal minimums. According to a report published by HUD in 2019, an estimated 44% of LIHTC households have incomes at or below 30% of AMI.[32] States can also determine different demographic groups to be served, such as seniors or people with disabilities.

Project-Based Section 8

The Section 8 Program, administered by HUD, has two key components: tenant-based rental assistance and project-based rental assistance. Under the tenant-based program, eligible households receive Housing Choice Vouchers that subsidize a portion of their rent, and they can choose any housing that meets program requirements. The Section 8 Project-Based Rental Assistance (PBRA) programs enable more than 2 million people in 1.2 million low-income households to afford modest apartments by contracting with private owners to rent some or all of the units in their housing developments to low-income families.[33]

USDA Rural Rental Housing Loans under Section 515 (RD 515)

The preservation of properties with maturing USDA Section 515 Rural Rental Housing loans is a critical need in rural America. With a portfolio of over 380,000 rental units across the United States, Section 515 is a principal source of rental housing finance in rural areas.[34] Most households living in 515 units are seniors and people with disabilities, and the average income of Section 515 renters is $13,600.[35]

State and Local Affordable Housing Programs, including Inclusionary Housing

State and local governments across the U.S. have developed programs to address the affordable housing needs in their jurisdictions. While these programs alone cannot fill the need for affordable housing, ~~they~~ the state and local government entities are well-positioned to understand their communities' specific needs and design and administer programs that meet them. Local programs can be tailored to serve certain populations, neighborhoods, and income groups, and can adapt to changing needs over time. Inclusionary ~~H~~housing programs are a type of state or local program that require or incentivize the inclusion of affordable units in newly constructed properties, and though it is difficult to accurately size this market (not all identified programs track the number of units created), inclusionary housing programs
are an important source of new affordable units in many jurisdictions across the U.S.

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[32] *Understanding Whom the LIHTC Program Serves* (Washington, D.C.: U.S. Department of Housing and Urban Development Office of Policy Development and Research, December 2019), https://www.huduser.gov/portal/si tes/default/files/pdf/LIHTC-TenantReport-2017.pdf.

[33] "Policy Basics: Section 8 Project-Based Rental Assistance," Center for Budget and Policy Priorities, 2017, cbpp.org/research/housing/section-8-project-based-rental-assistance.

[34] Properties provided via file to Fannie Mae from the Public and Affordable Housing Research Corporation based on data from the National Housing Preservation Database.

[35] *Rental Housing for a 21st Century Rural America: A Platform for Preservation* (Washington, D.C.: Housing Assistance Council, September 2018) https://ruralhome.org/wpcontent/uploads/storage/documents/publications/rrreports/HAC_A_PLATFORM_FOR_PRESERVATION.pdf.

Rental Assistance Demonstration Program

Over the course of decades of under-funding, public housing has physically deteriorated due to lack of capital financing. The Rental Assistance Demonstration (RAD) Program was established in 2012 to allow Public Housing Authorities (PHAs) and owners of other HUD-assisted properties to convert their properties from their original HUD financing to project-based Section 8 contracts. This change allows owners to access private sources of capital financing, with a vital goal of improving the quality of this affordable housing and addressing deferred maintenance. Without new capital, these properties are at risk of demolition and disposition; in fact, about 10,000 units are lost from the public housing inventory each year.[36] Properties that undergo a RAD conversion enter into long-term, project-based Section 8 contracts, ensuring affordability for low-income residents and financing sustainability for the properties.

MULTIFAMILY MARKET SIZE AND DEMOGRAPHICS FOR FEDERALLY ASSISTED PROGRAMS

The market opportunity varies greatly by AHP program. In 2019, approximately 81,000 properties,[37] containing about 4.9 million affordable rental homes,[38] received federal project-based assistance to serve low-income families. The share of federally assisted rental units represented approximately one-tenth of all rental stock in 2019.

As shown in the table below, just two programs fund most apartments receiving federal assistance: 49% of rental units are supported by LIHTC and 29% by Project-Based Section 8 contracts. There is some overlap, however, as just over 25% of LIHTC-assisted units also receive assistance under Project-Based Section 8[39] to ensure that tenants spend no more than 30% of their household income on rent and utilities. Excluding public housing, which is generally owned and operated by local municipalities or counties, the remaining number of units supported by other federal housing programs drops sharply. However, in 2019, another 8% of units were assisted by the Section 515 Rural Rental Program, administered by the USDA.

Market Size of Select Programs Identified by Statute Under Duty to Serve

Program	Number of Properties	Number of Low-Income Units	Share of Federally Assisted Homes
Low-Income Housing Tax Credits (LIHTC)	35,000	2.5 million	50%
Section 8 Project-Based Rental Assistance	22,000	1.4 million	28%
Section 515 Rural Rental	12,000	380,000	8%

Source: *2021 Picture of Preservation Retrieved from preservationdatabase.org/reports/preservation-profiles October 12, 2021.*

[36] "RAD Program Details for Residents," U.S. Department of Housing and Urban Development, hud.gov/RAD/program-details-residents.

[37] *2020 Picture of Preservation* (Washington, D.C.: National Low-Income Housing Coalition and Public and Affordable Housing Research Corporation, 2020).

[38] *2020 Picture of Preservation*, National Low-Income Housing Coalition and Public and Affordable Housing Research Corporation, 2020. Note: The 4.9 million unit estimate include properties assisted by LIHTC, HUD Section 8 Project-Based Rental Assistance, Section 202 direct loans, HUD insurance programs, State Housing Finance Agency (HFA) Funded Section 236, Section 515 rural rental housing loans, Section 514 direct loans, rural development Section 538, HOME Assistance, and Public Housing.

[39] *2018 State HFA Factbook* (Washington, D.C.: National Council of State Housing Finance Agencies, 2018).

RECENT MULTIFAMILY MARKET TRENDS

The Effect of the COVID-19 Pandemic

The COVID-19 pandemic has been devastating for many individual renters. The U.S. Census Bureau's Household Pulse Survey from August 2020 indicates that many renters reported missing a rent payment or worried about next month's payment, while 1 in 6 households reported not paying August 2020 rent on time.[40] At the same time, other renters exchanged more expensive, densely populated urban submarkets for less expensive suburban submarkets. As
a result, the COVID-19 pandemic's overall impact on the multifamily rentals market was smaller than expected.[41] Fannie Mae's Multifamily Economic and Strategic Research team estimates that the multifamily vacancy rate grew by only one half of 1% in 2020 to 6%, bringing it back to its long-term average, while rents overall declined by less than one percent in 2020.[42] As a result, the pandemic-induced recession has not reversed the long-term affordability issues affecting renters and has even exacerbated it in some instances.

State and Local Governments Step In

With an ongoing decline in housing affordability and increasing construction costs over the past decade, many state and local governments have been looking for solutions to increase the supply of new single-family and multifamily affordable housing. Certain jurisdictions have been adopting inclusionary housing programs. According to a recent survey, in 2019, there were over 1,000 inclusionary housing programs in 31 states and the District of Columbia, and an average of 19 new programs have been added annually since 2000.[43] Given that over 40% of inclusionary housing programs do not appear to track either fees or units generated by these programs, it is not possible to accurately ascertain the market size for affordable units created. However, a subset of 258 programs created a total of about 110,000 affordable units, including 70,000 affordable rentals, 31,000 single-family homes, and 9,000 units with tenure unknown.[44]

MULTIFAMILY CHALLENGES AND NEEDS

Based on the most recently available data, there are 7.7 million renter households that pay more than one-half of their income for rent, live in severely inadequate conditions, or both.[45] To keep this figure from rising further, it is important to preserve existing and increase new supply of federally assisted affordable rentals, particularly the rentals under the LIHTC and Section 8 programs, which together assist over 3 million units.

However, challenges remain. Financing affordable properties does not always coincide with the expiration of federal assistance, as refinancing is generally dependent on prevailing interest rates, among other factors. In addition, the Section 8 program is subject to appropriations through the annual federal budget, which can, and does, vary from year to year. Furthermore, the number of properties in these programs grows very slowly.

[40] huduser.gov/portal/pdredge/pdr-edge-spotlight-article-092820.html.
[41] huduser.gov/portal/pdredge/pdr-edge-spotlight-article-092820.html.
[42] Fannie Mae Multifamily Economic and Strategic Research Estimates as of January 20, 2021.
[43] *Inclusionary Housing in the United States: Prevalence, Practices, and Production in Local Jurisdictions as of 2019* (Washington, D.C.: Fannie Mae, December 2020), multifamily.fanniemae.com/media/14236/display.
[44] *Inclusionary Housing in the United States: Prevalence, Practices, and Production in Local Jurisdictions as of 2019* (Washington, D.C.: Fannie Mae, December 2020), multifamily.fanniemae.com/media/14236/display.
[45] *Worst Case Housing Needs: 2019 Report to Congress* (Washington, D.C.: U.S. Department of Housing and Urban Development Office of Policy Development and Research, June 2020).

For example, on net, the LIHTC programs added only about 63,000 units from 2018 to 2019, with the Project-Based Section 8 program adding only about 11,000 units,[46] many of which are former Public Housing units that converted to the Section 8 and LIHTC platforms.

Another priority is energy efficiency measures that can help limit housing costs for renters. While green building, sustainability, and energy efficiency (collectively "green") principles have become increasingly integrated into the multifamily housing sector in the past five years, obstacles remain, most notably that a property owner must decide whether to make efficiency improvements that result in increased affordability for tenants yet yield little financial benefit for the owner.

MEETING THE CHALLENGES IN MULTIFAMILY

Fannie Mae will continue to provide reliable and affordable financing to preserve multifamily properties with federal subsidies as well as those assisted by state and local programs. We will work with partners in the industry to address the changing needs of the market through training and product development and will continue to conduct outreach and research that identifies and leverages the work of state and local governments to address their affordable housing needs. We are committed to creating and maintaining partnerships, innovating to meet the challenges of this market, and ultimately serving households around the country.

Statutory and Regulatory Activities Considered but Not Included

Under the Duty to Serve Evaluation Guidance, Fannie Mae and Freddie Mac are required to consider and address at least seven of the Statutory and Regulatory Activities identified for this market. Fannie Mae has addressed and included four Statutory Activities and five Regulatory Activities, as well as one Additional Activity in the Affordable Housing Preservation Market.

Activities and Objectives

A. Statutory Activity: The project-based and tenant-based rental assistance housing programs under Section 8 of the U.S. Housing Act of 1937, 42 U.S.C. § 1437f (C.F.R. § 1282.34 (c) (1)).

Many Section 8 PBRA units are at risk of losing their affordability status in coming years. According to data from the Public and Affordable Housing Research Corporation, between 2022 and 2024, 65,152 PBRA units will reach expiration. For developments in high-opportunity neighborhoods, when the housing assistance payments (HAP) contract expires, there is risk of the owner not renewing and converting the units to market-rate rents or converting to condominiums. When this happens, those affordable units are permanently lost to the affordable housing supply. In addition, the stock of development with PBRA is aging and in need of capital investment to make physical improvements so that properties do not deteriorate to the point where they are not safe.

[46] Public and Affordable Housing Research Corporation tabulations of the National Housing Preservation Database provided to Fannie Mae.

Preserving affordable units is more-cost effective than building new ones, and units with PBRA maintain their deep subsidy. Section 8 PBRA properties need reliable and affordable financing sources to ensure their physical and financial sustainability. Preserving Section 8 properties is an important part of Fannie Mae's affordable business, and we remain committed to serving this market, which provides stable housing to so many LMI households.

1. Objective: Provide a steady source of capital and liquidity through the purchase of loans secured by Project-Based Section 8 properties.[47]

Fannie Mae provides a stable source of liquidity for preserving Section 8 PBRA housing. We have developed products that work efficiently and effectively for this type of subsidized affordable housing and will continue our partnerships with lenders and housing practitioners in this market.

Baseline: From 2017 to 2019, Fannie Mae purchased an average of 140 Project-Based Section 8 loans, highlighted in the chart below. The number of loans purchased annually declined each year over this three-year period due to general market fluctuations, a declining number of properties with expiring Section 8 contracts, and the partial U.S. government shutdown at the beginning of 2019. Due to several unprecedented factors, this number changed dramatically in 2020 when Fannie Mae acquired a record number of Section 8 loans — 229 in total. Market uncertainty for investors due to the COVID 19 pandemic and record unemployment rates as well as the favorable rate movement brought a significant shift in investment and financing toward "safer" properties with Section 8 contracts, as Section 8 contracts are not wholly dependent on tenant rent payment and instead have guaranteed income in the form of Section 8 HAP payments. Based on our research and 2021 acquisition data, the unique market conditions and record number of acquisitions in 2020 were an outlier to historical acquisition data, and the number of Section 8 properties may continue to decline as was seen in 2017 – 2019 as the market corrects. Furthermore, there are no expected additional subsidies coming into this market, which will continue to reduce available inventory.

Considering the historical data of our Section 8 loan purchases, along with the unique and temporary market distortions of 2020, we propose 1) an updated baseline of five years to include 2016 – 2020 data, and 2) a loan target purchase of 159, which is the five-year baseline, and no additional growth over each plan year.

Fannie Mae will continue to highlight Section 8 preservation and lean into credit and pricing at every opportunity and would embrace purchasing additional Section 8 loans if subsidy resources increase during this plan cycle.

Section 8 Loan Purchases	2016	2017	2018	2019	2020
Loans	139	158	141	129	229
Rental units	18,960	18,803	25,290	16,826	28,258

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 159 Section 8 loans.	Loan Purchase
2023	Purchase 159 Section 8 loans.	Loan Purchase
2024	Purchase 159 Section 8 loans.	Loan Purchase

[47] Loans that qualify for the Section 8 loan purchase objective may also qualify for other Duty to Serve loan purchase objectives.

B. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485 (C.F.R. § 1282.34 (c) (7)).

Fannie Mae's work in the Section 515 space focuses on preserving the affordability of these units by developing financing solutions in partnership with industry leaders and the USDA, as well as supporting technical assistance (TA) programs that educate owners, developers, and mission-oriented buyers about Section 515 preservation. Our goal is to preserve Section 515 units at risk of exiting the program.

1. Objective: Promote greater preservation of USDA Section 515 properties through loan purchases.

Fannie Mae will purchase loans secured by Section 515 properties. Our ability to purchase loans secured by Section 515 properties is contingent upon reaching an agreement with the USDA on a loan subordination agreement that would enable financing and issuance of mortgage-backed securities for these loans. Without this agreement, a threshold issue exists for Fannie Mae.

From 2018 – 2021, Fannie Mae partnered with USDA Rural Development (RD) to work toward an agreement on subordination terms for Fannie Mae to finance Section 515 properties in the secondary market. To this end, we engaged with lenders to learn more about their 515 preservation portfolios and loan characteristics. We made meaningful progress in the development of a loan financing solution to allow Fannie Mae to finance the preservation of 515 properties; however, we did not reach an agreement with the USDA over the course of the 2018 – 2020 Plan. Nonetheless, ~~O~~our 2021 Plan includes a loan product enhancement developed in partnership with the USDA that will enable us to purchase these loans. We are committed to leveraging our relationships with the USDA and our Delegated Underwriting and Servicing (DUS®) lenders to facilitate the loan purchase targets outlined below.

Baseline: From 2022 – 2024, Fannie Mae plans to purchase 28 loans secured by Section 515 properties. This will contribute an estimated \$14 – \$56 million of liquidity to the Section 515 program and support approximately 700 households. The target was determined by analyzing data provided by the USDA of Section 515 properties expected to exit the program. The USDA estimates that 183 properties, or 3,822 units, are set to exit the program from 2022 – 2024. Fannie Mae applied a factor of 15% to the expected maturities by year, to reflect our projected market share.

However, meeting these loan purchase goals will be challenging. Fundamentally, preservation of these properties tends to require the coordination of multiple sources of financing and, often, some form of public or private subsidy. When any of these factors is constrained, the pipeline of viable 515 preservation loans is limited. For example, DUS lenders have shared that their opportunities to lend on 515 properties rely on the ability of the borrower to defer or re-amortize 515 debt, which depends on many factors outside the control of the lender or Fannie Mae. If solutions, such as additional funding for ~~the~~ USDA's Multifamily Preservation and Revitalization (MPR) program, arise, we expect more opportunities to finance loans on these properties. These practical challenges mean that achieving these loan purchase goals will require a significant amount of effort and innovation by multiple entities. When opportunities do arise, Fannie Mae will make every reasonable effort to provide liquidity under our current *Guide* with waivers and accommodations as necessary.

Section 515 Loan Purchases	2022	2023	2024
Properties with expiring subsidy	39	60	84

Proposed target	6	9	13

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase six loans that finance the preservation of Section 515 properties, which represents 15% of the properties with expiring subsidy for the year.	Loan Purchase
2023	Purchase nine loans that finance the preservation of Section 515 properties, which represents 15% of the properties with expiring subsidy for the year.	Loan Purchase
2024	Purchase 13 loans that finance the preservation of Section 515 properties, which represents 15% of the properties with expiring subsidy for the year.	Loan Purchase

2. Objective: Support technical assistance programs that facilitate the preservation of Section 515 properties.

Once properties exit the Section 515 program, they lose RD affordability restrictions. As a result, residents are no longer eligible to receive USDA Rental Assistance. The USDA provides paths for 515 owners to remain in the 515 program (or sell properties to owners who will remain in the 515 program), thereby retaining rental assistance eligibility. However, the 515 refinance and transfer process can be cumbersome and complex. Owners and potential buyers can benefit from TA programs to understand how to successfully navigate the process. TA programs deliver industry best practices and expert knowledge about the USDA's refinance and transfer process to organizations interested in preserving the affordability of RD housing. By supporting TA programs that target these efforts, Fannie Mae assists TA recipients to deploy their development resources effectively and efficiently. Moreover, the support maximizes the probability of a property successfully remaining in the 515 program, which is the element most important to maintaining affordability.

Baseline: From 2019 – 2021, Fannie Mae partnered with two national nonprofit organizations to deliver TA directly to Section 515 owners and buyers with an affordable mission and preservation focus, including housing authorities, state housing finance agencies (HFAs), and nonprofit developers. These partnerships resulted in two successful Preservation Academies and two Buyer-Seller Conferences, as well as direct TA to over 30 recipients.

Year	Target and Implementation Steps	Evaluation Area
2022	Partner with nonprofit organizations to deliver TA to at least 20 organizations working to preserve the affordability of Section 515 properties and to provide measurable impact through TA efforts. • Provide TA in the transfer analysis, negotiation, underwriting, and application process. • Work with the organizations to identify and secure funding from other sources. • Assess the results of TA provided in 2021 and identify opportunities and strategies to strengthen the program's effectiveness and increase its scale in 2022. • Plan the 2022 TA program, coordinate with USDA in planning, where possible, and identify organizations for TA delivery (owners of 515 properties at risk of exiting the program and mission-oriented entities seeking to preserve 515 properties). • Execute the 2022 TA program by working with providers to design programs that measure progress toward loan purchases through agreed-upon milestones. • Document at least six submitted loan applications that would maintain both 515 debt and 521 rental assistance. • Secure funding for at least three properties that maintain both 515 debt and 521 rental assistance.	Outreach

Year	Target and Implementation Steps	Evaluation Area
2023	Partner with nonprofit organizations to deliver TA to 20 organizations working to preserve the affordability of Section 515 properties. • Provide TA in the transfer analysis, negotiation, underwriting, and application process. • Work with organizations to identify and secure funding from other sources. • Assess the results of TA performed in 2022 and incorporate opportunities and strategies to strengthen the program's effectiveness and increase its scale in 2023. • Plan the 2023 TA program and identify organizations for TA delivery (owners of 515 properties at risk of exiting the program and mission-oriented entities seeking to preserve 515 properties). • Execute the 2023 TA program. • Analyze results of the 2023 TA program at the property level to determine success of the program and inform future work.	Outreach
2024	Partner with nonprofit organizations to deliver TA to 20 organizations working to preserve the affordability of Section 515 properties. • Provide TA in the transfer analysis, negotiation, underwriting, and application process. • Work with organizations to identify and secure funding from other sources. • Assess the results of TA provided in 2023 and identify opportunities and strategies to strengthen the program's effectiveness and increase its scale in 2024. • Plan the 2024 TA program and identify organizations for TA delivery (owners of 515 properties at risk of exiting the program and mission-oriented entities seeking to preserve 515 properties). • Execute the 2024 TA program. • Analyze results of the 2024 TA program at the property level to determine success of the program. and inform future work.	Outreach

C. Statutory Activity: Low-Income Housing Tax Credits (LIHTC) under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42 (C.F.R. § 1282.34 (c) (8)).

Fannie Mae provides affordable financing to properties within the LIHTC program. We have done product development work to ensure that our products work efficiently and effectively within the framework of LIHTC properties, including our MTEB (MBS as Tax-Exempt Bond Collateral) product, which works very well for LIHTC deals financed with tax-exempt bonds. We will continue to conduct market outreach and stakeholder education to ensure that we are meeting the needs of this important market.

1. Objective: Increase liquidity to the LIHTC debt market by purchasing loans secured by LIHTC properties.

Loan purchases secured by LIHTC properties are essential to the preservation of affordable rental units for very low-, low-, and moderate-income families across the country. Fannie Mae will serve this market through our annual loan purchase goals and by continuing to innovate on our LIHTC-compatible loan and bond collateral products.

We will also conduct research and outreach to the LIHTC market to identify LIHTC properties that are at higher risk of exiting the program. Risk factors may include ownership type, location, and lack of recent capital subsidy. More work is needed to determine which properties are most in need of preservation financing.

Baseline: Over the past three years, we have increased our LIHTC loan purchase targets through concentrated stakeholder outreach and product development. We have focused efforts on MTEB, a product that works well with 4% LIHTC credits. In previous plans, we have reported only on LIHTC loans with at least seven years remaining in the initial compliance period. For this Plan, and going forward, we will track and report all LIHTC loans that are in their initial 15-year compliance period, as well as those in the extended use period. From 2018 – 2020, based on the updated methodology, Fannie Mae averaged 190 loan acquisitions annually, which is our baseline, representing an average of approximately 24,440 units annually. We plan to build on our success by conservatively increasing loan purchase targets year over year, with careful consideration of risk and market conditions.

Fannie Mae considered several factors when designing LIHTC goals for this plan, including sources for preservation deal flow: originations for properties in their extended use period, and new LIHTC allocations for rehabilitation deals.

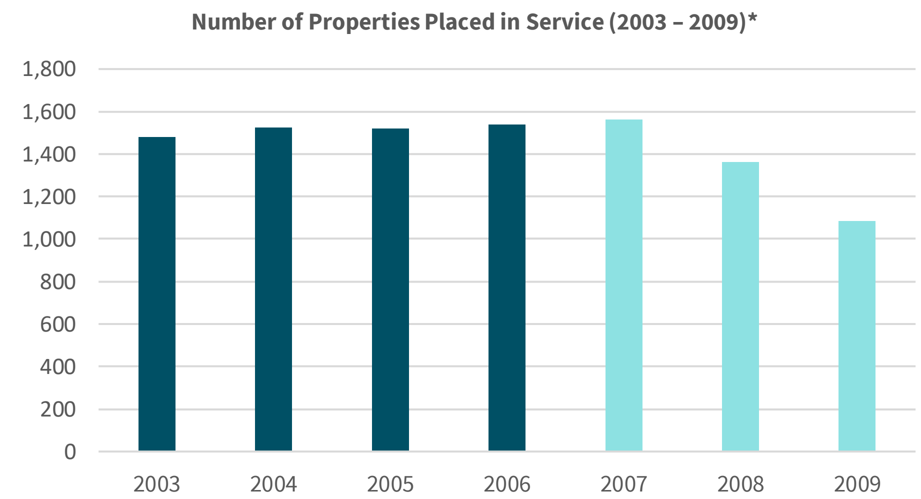
LIHTC Extended Use and Preservation

We anticipate that the market opportunity for preservation of LIHTC properties nearing the end of their initial 15-year compliance period and entering extended use will decline significantly in 2023 and 2024, as shown in the table below.

LIHTC Expiration Year	Properties with Expiring LIHTC (in Extended Use)	Units w/ Expiring LIHTC (In extended Use)
2022*	1,485	128,700
2023**	1,335	109,000
2024**	1,080	89,000

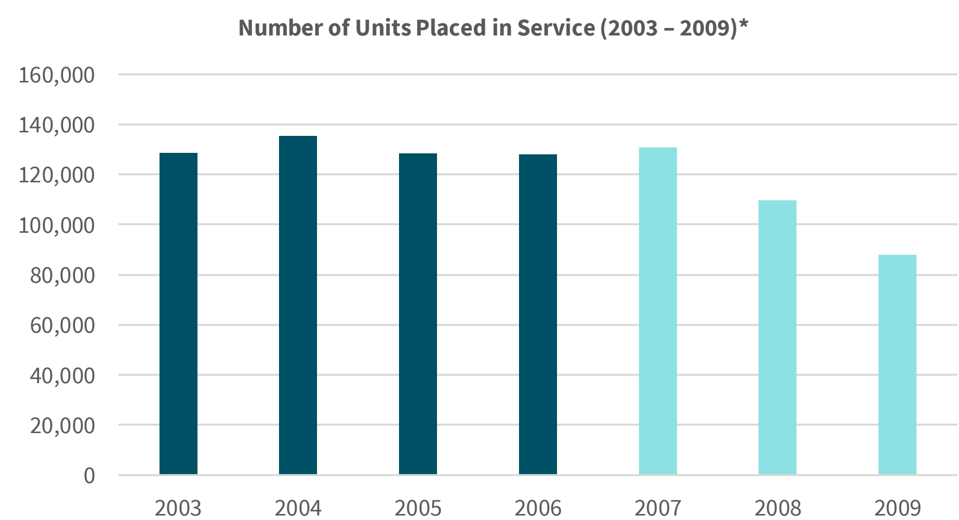
Source: *National Housing Preservation Database (NHPD) properties assisted with LIHTC (Active) retrieved 8/24/2021 for properties in Extended Use. NCSHA for new LIHTC allocations for rehab/preservation.*
** While 4% floor implemented in 2020 remains in force, the 12.5% increase to the amount of credits available to states each year between 2018 and 2021 expired after 2021 so fewer properties/loans available for preservation/rehab.*
*** Fewer rehab/preservation deals available in 2023 – 2024 due to fewer properties placed in service in 2008-2009 during the Great Recession.*
Notes: *12.5% boost in state credit allocations expired at the end of 2021. We assumed 10% of properties would not be able to break even with the expiration of the boost. A 5% increase in new allocations is assumed thereafter to be conservative. However, inflationary pressures, rising interest rates making the 4% minimum floor less valuable and fact that many states have reached their private activity bond cap, make it possible that there will not be any growth in the market. The average number of units in properties financed by Fannie Mae under Duty to Serve for 2018 – 2020 was 138. This was used to translate property/loan goals to an estimate based on units.*

This is because there were fewer LIHTC properties/units placed in service during the Great Recession, specifically in 2008 and 2009, as shown in the table below, and the downstream effects will begin to show during this plan. According to the National Preservation database, an average of 1,515 properties were placed in service annually from 2003 – 2006. While the number of properties placed in service in 2007 was on par with previous years, there was a significant decline during the Great Recession in 2008 and 2009, when approximately 155 and 425 fewer properties were placed in service, respectively. This reduction in properties placed in service leads to fewer properties entering their extended use period in 2023 – 2024.



** Corresponds to units in properties in extended use for the DTS 2018 – 2024 plan years.*
Source: *National Housing Preservation Database (NHPD) properties assisted with LIHTC (Active) retrieved 8/24/2021.*

Similarly, there was a decline in units placed in service during the Great Recession, which will have an impact on this plan. In terms of units, prior to the Great Recession, from 2003 – 2006, an estimated 130,000 units were placed in service on average annually. While the number of units placed in service in 2007 was on par with previous years, the number of units placed in service declined by an estimated 20,000 and 42,000 from the pre–Great Recession average, respectively. Therefore, there will be fewer units overall in properties entering their extended use period in 2023 – 2024.



**Corresponds to units in properties in extended use for the DTS 2018 – 2024 plan years*
Source: *National Housing Preservation Database (NHPD) properties assisted with LIHTC (Active) retrieved 8/24/2021.*

New Allocations for LIHTC Rehab

New allocations for LIHTC rehab deals are expected to remain steady during this plan but will be tempered by the loss of the temporary 12.5% increase to the amount of credits available to states each year between 2018 and 2021. We expect several headwinds in future years that will affect new LIHTC business opportunities, including rising interest rates, supply chain and labor shortage issues adding to project cost, and increased competitive pressures.

These tables demonstrate prior years' market opportunity for preservation rehab with new LIHTC allocations, based on historical data.

Table 1: Market Opportunity for Rehab with New LIHTC Allocations, Historical Data Based on NCSHA 2018 – 2020 Factbooks (property count)

LIHTC Expiration Year	Properties for Refi
2018	400
2019	360
2020	550
Three-year average	**435**

Source: Table B: National Council of State Housing Finance Agencies (NCHSA) Annual Surveys of State Housing Finance Agencies for 2018 – 2020. (Derived from data in Tables 3A and 5 rehab only.)
Notes: 1) Rehab properties derived from Table 5 based on total units divided by properties to get an average units per property for rehab. This average is assumed to be a realistic indicator of the average size of properties receiving credits for rehabilitation since 4% credits are generally used for rehab. This average was applied to table 3A as well to get number of properties receiving 9% LIHTC for rehab.

Table 2: Market Opportunity for Rehab with New LIHTC Allocations, Historical Data Based on NCSHA 2018 – 2020 Factbooks (unit count)

LIHTC Expiration Year	Units for Refi
2018	55,900
2019	51,300
2020	69,100
Three-year average	58,700

Source: *Table B: National Council of State Housing Finance Agencies (NCHSA) Annual Surveys of State Housing Finance Agencies for 2018 – 2020. (Derived from data in Tables 3A and 5 rehab only.)*
Notes: *1) Excluded new construction and substantial rehab which is like new construction.*

This table projects the market opportunity for new LIHTC allocated to rehab considering 1) the temporary increase in LIHTC allocations from the 2018 Consolidated Appropriations Act at the end of 2021 and 2) incorporates a 5% growth rate, which takes into account that LIHTC allocated to states are indexed for inflation annually offset by rising construction costs, rising interest rates that may make the 4% floor less valuable, and the fact that many states have reached their private activity bond cap limiting additional allocations of 4% credits.

Table 1: Market Opportunity for New LIHTC, projected data based on expiration of 12.5% increase to the amount of credits available to states each year between 2018 and 2021 and 5% growth thereafter (property count)

LIHTC Expiration Year	Units for Refi
2021	550
2022[1)]	495
2023	520
2024	545

Notes:
1) 2021 estimate assumed in line with 2020 figure because 4% minimum and 12.5% increase to the amount of credits available to states each year between 2018 and 2021 are still in effect. However, 12.5% increase to the amount of credits available to states each year between 2018 and 2021expired at the end of 2021. We assumed 10% of properties would not be able to break even with the expiration of the boost in 2022.
2) A 5% increase in new allocations is assumed thereafter to be conservative. However, inflationary pressures, rising interest rates making the 4% minimum floor less valuable and fact that many states have reached their private activity bond cap, make it possible that there will not be any growth in the market.

Table 2: Market Opportunity for New LIHTC, projected data based on expiration of 12.5% increase to the amount of credits available to states each year between 2018 and 2021 and 5% growth thereafter (unit count)

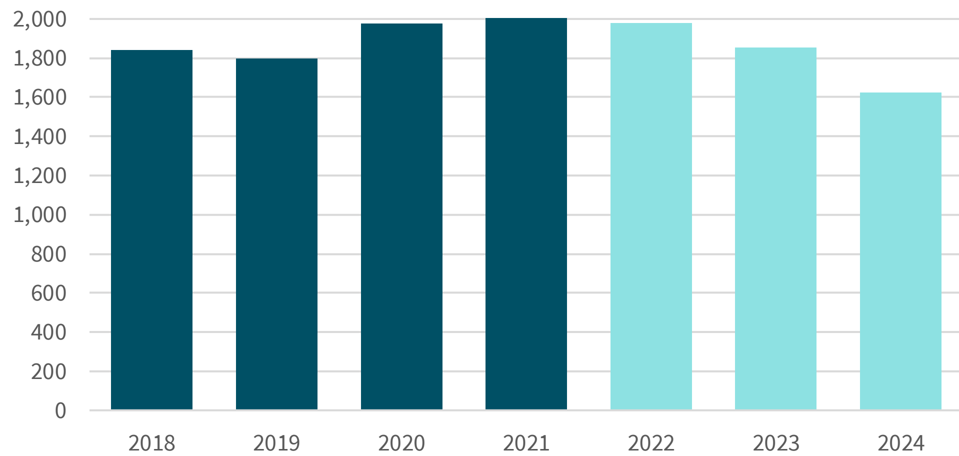
LIHTC Expiration Year	Units for Refi
2021	69,100
2022[1)]	62,200
2023	65,300
2024	68,500

Notes:
1) 2021 estimate assumed in line with 2020 figure because 4% minimum and 12.5% increase to the amount of credits available to states each year between 2018 and 2021 are still in effect. However, 12.5% increase to the amount of credits available to states each year between 2018 and 2021 expired at the end of 2021. In 2022, we assumed 10% of properties would not be able to break even with the expiration of the boost.
2) A 5% increase in new allocations is assumed thereafter to be conservative. However, inflationary pressures, rising interest rates making the 4% minimum floor less valuable and fact that many states have reached their private activity bond cap, make it possible that there will not be any growth in the market.

LIHTC Market Expectations for 2022 – 2024 Plan Year

Overall, Fannie Mae is not anticipating new LIHTC allocations will offset the loss in the of number of properties entering extended use due to the effects of the Great Recession in years 2008 – 2009 unless new legislation is passed that specifically addresses this need. We anticipate that the total properties eligible for preservation will decrease beginning in 2023 and continuing into 2024, as shown below.

Total Properties Eligible for Preservation (2018 – 2024)



Source: *National Housing Preservation Database (NHPD) properties assisted with LIHTC (Active) retrieved 8/24/2021. and NCSHA Factbook for 2018 – 2020 for new allocations.*

Notes:

1) LIHTC Expiration Year for Non-New York State Properties = "LIHTC Start Year" +15. For New York State, LIHTC Expiration Year = "LIHTC Start Year" + 30 for 9% credits, "LIHTC Start Year + 15 for all others.

2) Properties with 2 LIHTC Allocations assumed to have a single refi opportunity if the "LIHTC Start Year" is the same for both allocations. Properties with 2 LIHTC Allocations assumed to have 2 different refi opportunities if "LIHTC Start Year" is different for LIHTC allocation 1 and 2 and the difference is greater than 5 years.

Fannie Mae remains committed to the LIHTC debt market, and we will continue to find innovative ways to serve the market, including considering product developments and enhancements.

Fannie Mae Market Share 2022 – 2024

Source: *National Housing Preservation Database (NHPD) properties assisted with LIHTC (Active) retrieved 8/24/2021 for properties in Extended*

LIHTC Expiration Year	Properties with Expiring LIHTC (in Extended Use)	New Allocations for Preservation (Rehab)	Total Market Opportunity for Preservation	Fannie Mae Proposed Acquisitions (properties/loans)	Fannie Mae Proposed Acquisitions[3)] (estimated units)	Fannie Mae Market Share
2021	126,500	69,100	195,600	N/A	N/A	N/A
2022*	128,700	62,200	190,900	205	28,500	15%
2023**	109,000	65,300	174,300	205	28,500	16%
2024**	89,000	68,500	157,500	205	28,500	18%

Use. NCSHA for new LIHTC allocations for rehab/preservation.
** While 4% floor implemented in 2020 remains in force, the 12.5% increase to the amount of credits available to states expired after 2021 so fewer properties/loans available for preservation/rehab.*

*** Fewer rehab/preservation deals available in 2023 – 2024 due to fewer properties placed in service in 2008 – 2009 during the Great Recession.*
Notes:
1) The 12.5% increase to the amount of credits available to states expired after 2021. We assumed 10% of properties would not be able to break even with the expiration of the boost.
2) A 5% increase in new allocations is assumed thereafter to be conservative. However, inflationary pressures, rising interest rates making the 4% minimum floor less valuable and fact that many states have reached their private activity bond cap, make it possible that there will not be any growth in the market.
3) The average number of units in properties financed by Fannie Mae under Duty to Serve for 2018 – 2020 was 138. This was used to translate property/loan goals to an estimate based on units.

Therefore, to show our continued commitment to this market, we are modestly increasing our target loan purchases in 2023 and 2024. This increase reflects a realistic assessment based on anticipated opportunities, market realities, and Fannie Mae's business model, which is to purchase newly originated loans. This is a steady increase over our estimated 10% average share of the LIHTC market during the first plan cycle. With the anticipated decline in eligible LIHTC properties and increase in loan purchase targets, our expected market share will continue to steadily increase overall. If there is an increase in LIHTC subsidies over the course of this plan, we will revisit our targets for subsequent years.

LIHTC Loan Purchases	2018	2019	2020
Loans	165	203	202
Rental units	24,723	27,330	26,700
Avg units per property	150	134	132

Year	Target and Implementation Steps	Evaluation Area

2022	Purchase 205 loans, comprising an estimated 28,500 units that meet the Fannie Mae LIHTC definition, which represents an 8% increase over the baseline.	Loan Purchase
2023	Purchase 205 loans, comprising an estimated 28,500 units that meet the Fannie Mae LIHTC definition, which represents an 8% increase over the baseline.	Loan Purchase
2024	Purchase 205 loans, comprising an estimated 28,500 units that meet the Fannie Mae LIHTC definition, which represents an 8% increase over the baseline.	Loan Purchase

D. Statutory Activity: Other comparable State or Local affordable housing programs (C.F.R. § 1282.34 (c) (9)).

Fannie Mae provides financing for affordable developments that are part of State or Local programs through our Multifamily Affordable Housing (MAH) business. Liquidity through the secondary mortgage market is vital to the availability of affordable financing for these developments. We have conducted outreach to learn about the various programs around the country and identify and share best practices. Our outreach and research efforts included partnering with researchers to identify inclusionary housing programs administered by states and localities. As the affordable housing crisis continues and potentially worsens in the years following the COVID-19 pandemic, affordable housing practitioners at all levels will be working to meet the needs of low- and moderate-income households, and inclusionary housing programs will be an important component of creating new affordable housing supply.

As we move into the 2022 – 2024 Plan, it is important to acknowledge that local government budgets have been strained due to the COVID-19 pandemic, and many programs could continue to face budget cuts in the coming years. According to The Brookings Institution, state and local governments are expected to face revenue shortfalls for many years, with a projected decline in revenue of 5.7% in 2021 and 4.7% in 2022.[48] While we cannot predict how this will affect funding to housing programs over the three-year Plan cycle, this is a factor we will consider in our work in this market for 2022 – 2024.

1. Objective: Purchase loans secured by properties under State or Local affordable housing programs.

Fannie Mae will purchase loans secured by properties that are a part of State or Local affordable housing programs. Fannie Mae has developed criteria for including loans in this objective and will continue to conduct research and determine best practices for tracking as new State and Local programs are created.

Baseline: Fannie Mae began tracking and reporting State or Local affordable housing programs for Duty to Serve purposes in 2019, and the baseline is the average of the State or Local loan purchases in 2019 and 2020.

State or Local Loan Purchases	2018	2019	2020
Loans	N/A	51	72
Rental units	N/A	8,328	10,140

[48] Louise Sheiner and Sophia Campbell, "How much is COVID-19 hurting state and local revenues?" *Brookings*, September 24, 2020, brookings.edu/blog/up-front/2020/09/24/how-much-is-covid-19-hurting-state-and-local-revenues.

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 64 loans secured by properties under Fannie Mae-approved State or Local affordable housing program, which represents a 5% increase over the baseline.	Loan Purchase
2023	Purchase 66 loans secured by properties under Fannie Mae-approved State or Local affordable housing program, which represents an 8% increase over the baseline.	Loan Purchase
2024	Purchase 68 loans secured by properties under Fannie Mae-approved State or Local affordable housing program, which represents an 11% increase over the baseline.	Loan Purchase

E. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

Over the past few years, Fannie Mae has expended considerable effort developing product enhancements and stakeholder engagement with a continued goal of providing affordable financing for properties undergoing RAD conversions. Between 2018 and 2020, Fannie Mae purchased 33 loans secured by RAD properties. These deals are complicated — there are multiple counterparties involved and various approval processes and site inspections to complete — and they take a high degree of coordination. We have developed relationships with PHAs to better understand the needs and challenges of owners of public housing properties so that we can be a reliable source of financing as more deals enter into and move through the RAD pipeline.

As of 2020, seven years after the first RAD conversion, 140,000 affordable units have been improved and preserved through RAD.[49] HUD continues to support the conversion of properties from the PHA platform, so we expect there to be a large pipeline of PHAs and multifamily properties seeking third-party financing opportunities over the next few years. The deals that come through the pipeline will likely be challenging to execute due to the complex nature of RAD transactions. While difficult, those property conversions completed in the early years of RAD may have been more straightforward and financially viable than those that remain.

1. Objective: Purchase loans for RAD properties.

Fannie Mae will continue to purchase loans secured by RAD properties in 2022 – 2024. Third-party financing is essential to the preservation of these affordable units. Fannie Mae will meet the needs of this market by providing financing that is affordable, efficient, and scalable for RAD properties. Fannie Mae will continue outreach and capacity-building efforts, as well as explore product enhancements and partnerships that enable the scalability of RAD conversions, even for small- to medium-sized PHAs.

Baseline: ~~The baseline is a three-year average of 11 loans. Prior to the current Plan cycle, Fannie Mae tracked and reported to FHFA based on the number of RAD properties. Beginning with this Plan, Fannie Mae will track and report on RAD loans to ensure greater consistency across Affordable Housing Preservation Plan objectives. A three-year average is appropriate given the relatively small size of the program, which can cause large fluctuations in loan counts from year to year. Fannie Mae's goal reflects a meaningful increase in loan purchases over the baseline in the context of an overall shrinking market of eligible PHA conversion opportunities.~~ The current baseline is a three-year average of 11 loans. However, Fannie Mae has determined that counting the number of loans is not as appropriate a measurement as counting the number of units that have been converted to RAD as a result of Fannie

[49] "$10 Billion Invested in RAD-Converted Public Housing," U.S. Department of Housing and Urban Development Rental Assistance Demonstration (RAD) Office of Recapitalization, 2020, hud.gov/sites/dfiles/Housing/documents/RAD_10B_Flyer_10-2020.pdf.

Mae financing. It is very common for single loan executions to contain multiple properties. By counting loans only, we are not capturing the true impact of this objective. As such, basing this objective on units rather than loans would be most meaningful.

A four-year average (2018 – 2021) is appropriate given the relatively small size of the program, which can cause large fluctuations in unit counts from year to year. Therefore, the baseline has been modified to be established on the average number of RAD units that have been financed over this four-year period. In addition, we have taken into consideration Fannie Mae's relatively small share in the RAD market. Over the past four years, Fannie Mae has financed 7,923[50] RAD units of the total 68,034 units converted during this time period, which translates to approximately 12% of the total RAD units that were converted. Currently, there are an estimated 54,000 units waiting to convert to RAD. This translates to 13,500 units converting each year over a four-year period. Applying the estimated 12% market share to this yearly amount results in a proposed baseline of 1,620 units per year.

With respect to the target, Fannie Mae is taking into account transactions that are considered to be outliers and were included in our baseline calculation. From 2018 – 2021, there were three large outlier transactions that accounted for 3,435 units, which equates to over 40% of total RAD units, and an average of 1,981 units during this period. In contrast, for 2022, Fannie Mae realistically anticipates delivering just over 1,000 units. Aside from the outlier transactions during the 2018 – 2021 period, other factors have contributed to the lower target number, including delays due to COVID, resource constraints on PHAs, and increases in interest rates and construction costs. Based on these collective factors, the below-baseline target is 1,000 units for 2022, with 10% increases on a year-over-year basis through 2024.

RAD Loan Purchases	**2018**	**2019**	**2020**	**2021**
Rental units	~~2,261~~2,214	1,307	~~3,391~~3,474	961

Year	**Target and Implementation Steps**	**Evaluation Area**
2022	Finance 1,000 RAD units.~~Purchase 12 loans for RAD properties, which represents a 9% increase over the baseline.~~	Loan Purchase
2023	Finance 1,100 RAD units, which represents a 10% increase over the baseline.~~Purchase 13 loans for RAD properties, which represents an 18% increase over the baseline.~~	Loan Purchase
2024	Finance 1,210 RAD units, which represents a 21% increase over the baseline.~~Purchase 14 loans for RAD properties, which represents a 27% increase over the baseline.~~	Loan Purchase

F. Regulatory Activity: Finance improvements on multifamily properties: (a) which reduce energy or water consumption by tenant or property by at least 15%; and (b) where the savings generated over the improvement's expected life will exceed its cost (FHFA Criteria) (12 C.F.R. § 1282.34 (d)(2)).

[50] Please note that the 7,923 RAD units reflects Section 8 units.

Over the last decade, green building, sustainability, and energy efficiency have become increasingly integrated into the multifamily housing sector. Energy and water costs contribute substantially to the overall housing cost burden for many families. For low-income households, utilities costs can amount to more than 7% of total household earnings.[51] Providing financing for energy efficiency improvements reduces household expenses, freeing up income for other household needs such as education, transportation, health care, and saving for the future. In addition to reducing utility costs, green building practices also create healthier homes, providing long-term benefits for those who live in them.

We issued our first Multifamily Green Mortgage-Backed Security (MBS) in 2012, after launching our Green initiative in 2010. Over time, we have refined our product offerings in response to market and investor needs. Our Green business is focused on improving the environmental footprint, operational efficiency, and longevity of multifamily properties.

Fannie Mae has become a leader in the green financing market. We will continue to be a reliable source of liquidity to this market, educate lenders and property owners on the benefits of green financing, and evaluate our products to increase impact and meet the emerging needs and opportunities of the market.

1. Objective: Increase positive environmental and social impact of green financing through development of market awareness and understanding of energy and water efficiency improvements and financing.

The positive impacts of Fannie Mae Green Financing include reduced use of limited natural resources and increased affordability to tenants, but a realization of these benefits relies on wide adoption of these loans and successful project completions, which in turn relies on educating the market. While the level of knowledge among our borrower and lender partners about multifamily green financing and green improvements has risen dramatically in the last few years through our education efforts under our 2018 – 2021 Duty to Serve plans, there is still a significant opportunity to build market capacity. Fannie Mae has improved our Green Financing program every year since 2010 through outreach, research, and evaluation; in 2022 – 2024, we will build on our previous efforts to increase industry stakeholders' understanding of energy and water efficiency improvements and financing options. We will continue to educate through conferences, trainings, roundtables, and published reports. Based on our experience, these forums are an effective way to communicate, learn, and build industry consensus. In addition, we will conduct research and analyses to continuously improve our product offerings, outreach materials, and research briefs. These activities will support and amplify the positive impacts of Fannie Mae's Green Financing incentives.

Baseline: Over the course of the first Duty to Serve Plan, Fannie Mae executed significant outreach to lenders and borrowers to raise awareness about our Green Mortgage Loans. We conducted trainings, participated in conferences, held one-on-one meetings with lenders, and hosted events to facilitate the exchange of information across the industry. We believe this targeted outreach and education remains essential to our success in green financing, as the green building landscape is ever evolving. In our 2022 – 2024 Plan, we will build upon our strong foundation of expertise and partnerships with lenders and borrowers in the industry to continue providing leadership to this market.

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[51] Drehobl and Ross, *Lifting the High Energy Burden*, Energy Efficiency for All and American Council for an Energy-Efficient Economy, April 2016.

Year	Target and Implementation Steps	Evaluation Area
2022	Increase the impact of Fannie Mae Green Financing through program development and enhanced stakeholder understanding of energy and water efficiency and financing opportunities. • Develop a roadmap for integration of building electrification into Fannie Mae's green financing offerings to advance a low carbon economy and hold a lender learning series on building electrification and decarbonization. Electrification is the process of replacing fossil fuel-dependent building systems with those that use electricity. This is often cited as the single most important lever to reduce emissions in the building sector. Electricity produces fewer emissions than fossil fuels,[52] and the electric grid is getting cleaner over time with increased generation from lower carbon and renewable sources. To develop the roadmap, Fannie Mae will evaluate ways to incentivize, require, and/or support building electrification and to enable property owners to respond to local laws that require decarbonization and electrification. Because electrification can increase the cost of energy for tenants, research on the potential affordability implications will be conducted. • Use knowledge gained from 2021 outreach to lender partners and High Performance Building Consultants to improve guidance and/or refine requirements for green mortgage loans to increase positive program outcomes. • Design a workplan for a research study focused on increasing the environmental impact of green financing and/or tenant affordability through utility cost savings. Study areas will include:	Outreach
2022	o Using insights from the white paper released in 2021 and leveraging internal data analysis tool created in 2020 – 2021 to inform further analysis of energy and water data and build on program efficacy. Researching billing practices to improve understanding of how savings accrue to tenants and owners. Using results to refine Green Financing business offerings. o Evaluating data on energy and water efficiency, measure installation costs to standardize and improve third-party cost estimates, to increase accuracy and understanding of payback for efficiency measures. • Build on research from 2021 to understand the impact of COVID-19 on energy and water consumption patterns. • Participate in two key energy efficiency/green building industry conferences. • Host one convening of the Green Rental Housing Task Force, capitalizing on the 2021 re-launch of this advisory group. Evaluate and report out on the strategies suggested by members in the 2021 meeting to increase positive impact of green financing.	Outreach

[52] Source: https://www.rff.org/publications/explainers/electrification-101/#:~:text=Electrification%20refers%20to%20the%20process,as%20a%20source%20of%20energy.

Year	Target and Implementation Steps	Evaluation Area
2023	Increase stakeholder knowledge of energy efficiency financing and capacity building. Continue Fannie Mae's leadership efforts in financing, measurement, and verification. • Continue implementation of electrification roadmap developed in 2022 and host two related sessions for the lender learning series. The activities selected for the roadmap in 2022 will direct the implementation in 2023 but may include product development or enhancement to finance electrification, requirements for electrification assessments, and outreach efforts to explain the benefits of electrification to Borrowers and Lenders. • Conduct a research study according to the workplan developed in 2022. The research will include one of the following: o Using insights from the white paper released in 2021 and leveraging internal data analysis tool created in 2020 – 2021 to inform further analysis of energy and water data to build on program efficacy. Researching billing practices to improve understanding of how savings accrue to tenants and owners. Using results to refine green finance business offerings. o Evaluating data on energy and water efficiency measure installation costs to standardize and improve third-party cost estimates to increase accuracy and understanding of payback for efficiency measures. • Continue to show industry presence and leadership by participating at energy efficiency/green building industry conferences. • Develop new resources to support lenders and encourage borrowers to pursue deep energy efficiency retrofits. This may include a focus on decarbonization and electrification. • Use knowledge gained from 2022 outreach to lender partners and High Performance Building Consultants to improve guidance and/or refine requirements for green mortgage loans to increase positive program outcomes. • Host one convening of the Green Rental Housing Task Force, building on the 2021 and 2022 sessions. Continue to solicit and evaluate ideas for increasing the impact of green financing.	Outreach
2024	Drive innovation in energy efficiency financing by continuing the dissemination of knowledge, best practices, and new opportunities to industry stakeholders. • Develop and publish a white paper based on the research study conducted in 2023. o Evaluate the results of the research study to determine whether there are opportunities to increase program impact through product development or policy enhancements. o Incorporate new findings from the research workplan developed in 2022 and the research conducted in 2023 into conference presentations and other outreach. • Evaluate progress of the electrification roadmap developed in 2022 and implemented in 2023, including an assessment of the penetration of electrification concepts and benefits among Borrowers and Lenders, uptake of any products targeted toward supporting electrification, and environmental impact. Continue to share findings by hosting two related sessions for the lender learning series. • Continue to show industry presence and leadership by participating at energy efficiency/green building industry conferences. • Continue to develop new resources to support lenders and encourage borrowers to pursue deep energy efficiency retrofits. • Use knowledge gained from 2023 outreach to lender partners and HPB Consultants to improve guidance and/or refine requirements for green mortgage loans to increase positive program outcomes. • Host one convening of the Green Rental Housing Task Force in 2024, building on the 2023 meeting. Continue to solicit and evaluate ideas for increasing the impact of green financing.	Outreach

G. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3)).

Families across the nation spend more than $230 billion each year on energy to heat, cool, light, and live in their homes. As a result, residential energy consumption accounts for more than 20% of the nation's total energy consumption.[53] Addressing energy and water efficiency is particularly important for low- and moderate-income homeowners, as utility bills constitute a large portion of these families' monthly expenses.

1. Objective: Reduce homeowner utility costs through loan product enhancements that allow homeowners to finance or refinance energy and water improvements.

Understanding of energy- and water-efficient products and their financial impact is limited for both homeowners and homebuyers. Utility companies and state and local energy offices lead programs to address energy and water usage in homes to increase conservation and reduce monthly costs. Retailers also develop energy-efficient and affordable products to help homeowners increase monthly cost savings. Despite these offerings, there remains a significant opportunity to increase program participation and product awareness for homebuyers and homeowners. Fannie Mae is well-positioned to bridge the divide between buyers and energy efficiency programs and products. By connecting low- and moderate-income buyers and owners to existing energy and water conservation programs, Fannie Mae can promote a reduction in energy costs and lower monthly expenses for families.

Additionally, there are communities across the country where preserving existing housing stock is not a prudent strategy or a viable option. Rural areas, especially areas of persistent poverty or ones affected by natural disasters and severe storms that have increased in frequency and intensity as of a result of climate change, have affordable housing stock that cannot be repaired or improved; it must be replaced. Without replacement, affordable housing will be lost in these areas. Fannie Mae will work with housing partners and community members to replace this housing stock with highly energy-efficient, resilient, and affordable homes. Fannie Mae will work to ensure financing is available to these borrowers; however, we cannot guarantee that these loans will be delivered to Fannie Mae.

Based on stakeholder feedback, we have added details to the proposed implementation steps of this objective while also adding a test-and-learn for high energy burden areas. Our approach in this objective is two-fold: create better financing products, programs, and new tools to help reduce the utility costs of low- and moderate-income homebuyers and homeowners while also providing the needed support and guidance to preserve affordable housing in very low-income communities.

Year	Target and Implementation Steps	Evaluation Area
2022	Develop or launch a product enhancement and work with industry partners to decrease homeowner energy and water costs while increasing Duty to Serve AHP Energy loan purchases. • Based on feedback from lender and non-lender stakeholders, develop and/or enhance loan product(s) for homeowners that reduce energy and water costs and address health hazards. • Engage at least 10 lenders to promote loan products for financing energy and water improvements. • Evaluate use cases of the 2021 energy cost estimator project where we modeled the energy consumption and utility bills of approximately 990,000 homes in Fannie Mae's portfolio.	Loan Product

[53] *Energy Efficiency in Affordable Housing* (Washington, D.C.: U.S. Environmental Protection Agency, 2018), p. 1.

Year	Target and Implementation Steps	Evaluation Area
	• Identify five underserved high energy burden markets ~~and~~ to test new approaches to reach high energy burdened populations that are currently not well-served with access to energy-efficient, safe, and healthy green housing. • Based on stakeholder feedback, work with energy industry partners to develop a database of cost-effective home improvement recommendations and local, state, and utility incentives for low- and moderate-income households. • Conduct marketing activities that promote the benefits of energy efficiency improvements to lenders and key industry stakeholders. Educate lenders on upcoming product enhancements.~~Develop a marketing campaign to promote awareness around new consumer tool, new product(s) and/or enhancement(s).~~ • Work with a design-build nonprofit and industry partners, develop and implement plan that will build a pipeline of 20 high efficiency, resilient, and affordable homes in rural areas, to be funded and permitted in 2023. The rural areas of focus will be areas where preservation options are limited due to housing conditions.	
2023	Launch programs and create product enhancements to increase DTS Energy loan purchases. • Evaluate the effectiveness of new products and/or product enhancement(s) launched in 2022 and share results. • Engage 10 new lenders to promote products for energy and water improvements. • Execute a pilot or initiative in at least two high energy burden markets to offer the benefits of green mortgages. • Create and launch a web-based consumer tool for LMI and other households that will provide information on local, state, and utility energy incentives, and location-based types of cost-effective home improvements. • Continue marketing campaign to promote awareness around new tool, product(s), and/or enhancement(s). • Participate in at least two key industry events to promote web-based consumer tool, new product(s), and/or product enhancements. • Continue to work with nonprofit and industry partners to build a pipeline of an additional 30 high-efficiency homes for low-income buyers in rural areas where preservation is limited due to housing conditions, to be funded and permitted in 2024.	Loan Product
2024	Leverage lessons learned from test-and-learn(s) and/or product enhancements to increase DTS Energy loan purchases. • Include DTS-eligible loans in at least one green, social, or sustainable bond offering. • If high energy budget pilot is successful, expand pilot to additional geographies or migrate to a standard offering. • Implement one policy change or variance that streamlines energy and/or water improvement financing. • Engage 10 lenders to inform them of new product(s) and/or enhancement(s). • Evaluate 2022 and 2023 progress toward implementing the pipeline of high-efficiency homes for low-income buyers in rural areas to determine next steps for the initiative.	Loan Product

Baseline: Throughout 2018 – 2021, Fannie Mae engaged utility companies and manufacturers of energy-efficient products to promote energy efficiency programs and home improvements. Utility companies in Massachusetts, Minnesota, and New Jersey have collaborated with Fannie Mae on incentive programs for borrowers. We plan to continue these efforts and expand to additional markets and utilities through 2021. In addition, we formed partnerships to increase the adoption of smart thermostat products among low- and moderate-income families. Fannie Mae plans to explore partnerships with retailers to provide low- and moderate-income families access to products and enhance energy and water consumption in their homes while reducing the upfront cost of these improvements.

2. Objective: Increase the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt.

Fannie Mae will purchase loans that support energy and water efficiency improvements, including loans that refinance existing energy debt such as Property-Assessed Clean Energy (PACE) loans. These loans will help homeowners finance energy and water improvements to a home that will reduce utility bills or reduce the cost of existing energy debt, making homeownership more affordable. Our goal is to increase liquidity of loans that contribute to the preservation of affordable housing by reducing utility bills, which disproportionately impact low-income households.

Baseline: The baseline of 178 loans was derived from the Fannie Mae average of 2018 to 2020 acquisitions, DTS-eligible energy and water improvement loans, and PACE refinance loans. Using this baseline, Fannie Mae has set the DTS energy loan purchase targets for 2023 and 2024. As part of Energy Objective 2, Fannie Mae will focus our 2022 efforts on product enhancements and lender outreach to meet the 2023 and 2024 loan purchase targets.

Historical Single-Family Energy/Water Loan Purchases	2018	2019	2020
Loans	85	173	277

Fannie Mae has collected data on Duty to Serve eligible purchase and refinance loans with energy improvement components from 2018 through 2020. We have also aggregated refinances used at least in part to pay off a homeowner's debt obligation under an existing PACE agreement. There are no discernable trends from 2018 – 2020 among either loan counts in aggregate or among any of the sub-categories (purchase, refinance, and PACE refinance), and the loan counts over those years are highly variable. Therefore, it would be inappropriate to impute a trend into the future or to use a methodology that implies a trend, such as straight-line growth from a previous year. Instead, we believe that a reasonable goal for 2023 would be to exceed the baseline loan acquisition count by at least 5%, or 187 loans. In 2024, building upon the foundational work described in the objectives, we aspire to grow such acquisitions by at least 20% above the 2023 target (26% above the baseline), or 225 loans. These loan acquisition targets balance two competing considerations — the considerable growth opportunities we see for consumers to make energy improvements and the highly volatile loan delivery history of the market to date.

Year	Target and Implementation Steps	Evaluation Area
2022	N/A	N/A
2023	Purchase 187 loans used to purchase or refinance homes with energy, water, or energy debt refinance, which represents a 5% increase over the baseline.	Loan Purchase
2024	Purchase 225 loans used to purchase or refinance homes with energy, water, or energy debt refinance, which represents approximately a 20% increase over the 2023 target.	Loan Purchase

H. Regulatory Activity: Shared equity programs for affordable housing preservation (12 C.F.R. § 1282.34 (d) (4)).

Deed-restricted shared equity programs help maintain long-term affordability by subsidizing homeownership. Typically operated by local governments or nonprofits, requirements and underwriting processes for these programs vary widely depending on the region. As a result of the lack of standardization across programs, lenders providing financing for units in shared equity programs bear increased underwriting burdens for these loans. Nationwide standardization of program requirements based on industry best practices would allow lenders to scale their lending to include multiple geographies and programs.

In addition, shared equity program requirements vary significantly by jurisdiction, making it challenging for lenders to confirm compliance with Fannie Mae and Duty to Serve requirements. These challenges are serious deterrents to large-scale lender participation in shared equity programs and can result in limited financing options for consumers.

1. Objective: Promote best practices and standardization for shared equity programs through a model deed restriction and a certification system for shared equity programs.

Model Deed Restriction:

As two of the primary sources of liquidity for deed-restricted shared equity mortgage loans, Fannie Mae and Freddie Mac are well-positioned to encourage much-needed standardization for these programs. In partnership with Freddie Mac, Fannie Mae is supporting a leading affordable housing nonprofit organization in the creation of model documents and practices that will promote alignment with industry best practices and enable lenders to scale their participation more easily across multiple programs. By communicating the resulting enhanced business opportunity for this market to our network of lending partners, Fannie Mae hopes to increase lender participation in this market and provide homebuyers with additional mortgage financing options.

Baseline: Following the creation of the model documents in 2021, Fannie Mae will leverage its experience with the model community land trust ground lease to evaluate and inform the possible implementation and utilization of the model deed restriction documents in the Fannie Mae *Selling Guide*. Our efforts will include outreach, marketing, and solicitation of feedback to promote and assess the utilization and benefit of the model documents in expanding liquidity for deed-restricted affordable homeownership programs.

Shared Equity Certification Program:

Fannie Mae will proactively enhance underwriting support and increase efficiency in the shared equity market. We will deploy a shared equity certification program designed to identify to lenders programs that meet Fannie Mae and Duty to Serve requirements, bolstering standardization, promoting best practices across programs, and reducing lender risk and burden. Leveraging this certification, Fannie Mae will ease origination processes to increase simplicity for lenders on shared equity loans. Finally, we will review our shared equity policies and assess opportunities to make revisions that support or codify these newly developed resources and processes. By addressing both program improvements and policy changes, Fannie Mae will streamline the underwriting process and mitigate real and perceived risk for lenders that originate and deliver shared equity loans. These efforts will contribute to increased liquidity and consumer choice for shared equity financing.

Baseline: Fannie Mae is in a unique position to undertake these novel efforts. Through the work completed under the previous Underserved Markets Plan, Fannie Mae oversaw the completion of a certification framework and underlying validation systems and processes. As a result of this work, a small number of programs were certified, with results shared with lenders to permit testing and feedback on the certification program. Fannie Mae will work with partners to further evaluate the certification and promote broad participation of shared equity programs and lenders, leading to a more efficient and profitable loan origination process for shared equity loans.

Year	Target and Implementation Steps	Evaluation Area
2022	Expand model deed restriction to additional programs and encourage broader lender participation in programs utilizing model documents. • Document and gather feedback through focus groups, surveys, or interviews to gain an understanding of benefits realized through the implementation of the model deed restriction and solicit recommendations for improvements. • Engage lenders to raise awareness of the model documents, promote the benefits of model documents, and create the opportunity for feedback. • Execute policy or programmatic changes necessary to accommodate model deed restriction documents. Develop a certification system for shared equity programs. • Execute the full public launch of the certification system. • Engage shared equity programs and lenders to promote awareness around the certification system. • Execute policy and/or process changes necessary to incorporate the certification system into Fannie Mae's loan origination and delivery processes.	Outreach
2023	Evaluate usage of model deed restriction and identify other barriers to standardization. • Evaluate the effectiveness of model documents in expanding lender participation in the programs that adopt them. • Document and gather feedback to understand benefits and inform enhancements to documents or processes. • Continue marketing and outreach efforts with lenders and stakeholders to expand the usage of model documents and participation in programs. Evaluate the effectiveness of the certification system and continue to promote awareness to new partners. • Obtain feedback from lenders and shared equity programs to evaluate the efficiencies and usefulness of the certification system. • Update certification systems and processes based upon lender and practitioner feedback.	Outreach
2023	• Conduct targeted outreach to shared equity programs and lenders not yet participating in the certification system.	Outreach
2024	Based upon the evaluation conducted in 2023, identify and execute enhancements to model deed restriction initiative. • If determined to be necessary, make enhancements to model documents. • Determine if additional outreach efforts are needed. • Evaluate documents for non-adopting programs to identify discrepancies with model documents and provide remedies to enable eligibility of non-adopting programs. Continue to promote the certification system to new partners and prepare for re-certification of programs. • Analyze evaluation data to identify trends in program adoption and utilization. • Survey lenders and shared equity practitioners to assess satisfaction with system and associated processes. • Continue to conduct targeted outreach to shared equity programs and lenders not yet participating in the certification system. • Initiate outreach efforts to raise awareness of the re-certification process.	Outreach

2. Objective: Increase the purchase of mortgage loans that finance shared equity homes.

Many shared equity programs have difficulty attracting broad lender participation. As a result, borrowers have limited lender choices for the financing of shared equity homes. In concert with our efforts to promote standardization and simplified underwriting for shared equity loans, we will seek to provide greater liquidity to the shared equity market through increased loan purchases. By enhancing underwriting support, promoting market standardization, and expanding purchases of shared equity loans, we intend to enable lenders to scale their shared equity lending such that these loans are no longer considered a niche offering, but instead become a standard product offering for more lenders. This will result in greater competition and choices for shared equity borrowers.

Baseline: The baseline of 155 loans was derived from Fannie Mae's historical shared equity loan purchases for the year 2020. Significant effort was made in the prior Duty to Serve Plan to identify DTS-eligible shared equity loan purchases. Ultimately, Fannie Mae determined that the best mechanism for identifying such loans was to require lenders participating in our DTS shared equity initiative to represent and warrant at delivery the DTS eligibility of a particular program with which a loan is associated. These lenders are required to add a corresponding special feature code (SFC) to loans originated for properties in programs that they have deemed compliant with DTS guidelines. Loans delivered with this SFC have constituted our "official" DTS shared equity loan purchase count that we tracked internally for 2020. Due to the fact that the first two years of the Plan were devoted to determining the best mechanism to identify DTS-eligible deliveries and garnering lender buy-in, the number of loans purchased rose dramatically by the third year of the Plan — increasing by more than 158% from 2018 and 107% from 2019. Therefore, utilizing the mean number of deliveries for the years 2018 – 2020 did not appear to be a viable strategy for establishing a reasonable baseline for prospective loan purchase targets. Instead, using the final tally of loans purchased in 2020 with the DTS SFC, and in consultation with targeted lenders participating in our DTS shared equity initiative in 2021, we set loan purchase targets for 2022 – 2024 that reflect steady year-over-year growth from the 2020 loan purchase total for DTS-eligible shared equity loans.

Shared Equity Loan Purchases	2020
Loans	155

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 175 loans used to finance shared equity properties, which represents approximately a 13% increase from the baseline.	Loan Purchase
2023	Purchase 230 loans used to finance shared equity properties, which represents approximately a 48% increase from the baseline.	Loan Purchase
2024	Purchase 345 loans used to finance shared equity properties, which represents approximately a 123% increase from the baseline.	Loan Purchase

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

Distressed properties include homes eligible for foreclosure, short sales, and real estate-owned properties (REO). In the period preceding the COVID-19 pandemic, the inventory of distressed properties was decreasing annually,[54] and the foreclosure moratoria enacted to protect homeowners impacted by pandemic-related economic disruptions resulted in further drastic declines in the inventory of distressed properties. It is anticipated that in the aftermath of the pandemic and the expiration of foreclosure moratoria, the market will experience a sizable expansion of the number of distressed properties. However, owner-occupants often face competition in purchasing these homes from for-profit investors who typically repair the properties to resell at higher prices or hold them as rentals, both of which reduce the stock of affordable homeownership housing.

1. Objective: Increase the acquisition of distressed properties by owner-occupants through outreach and new product development focused on the purchase of distressed properties by mission-focused nonprofits or public entities, and/or owner-occupants.

As one of the largest sellers of foreclosed properties in the U.S., Fannie Mae is well-positioned to support efforts to facilitate the acquisition of distressed properties by owner-occupants and entities focused on providing affordable housing for low- and moderate-income households. In addition to providing affordable stock for buyers, these efforts can improve distressed neighborhoods, eliminate blight, and increase investment in targeted communities.

To properly leverage these properties for owner-occupants, both proper financing and assistance in the purchase, renovation, and repair of these properties are necessary. Fannie Mae possesses the substantial experience and product offerings that can contribute to the facilitation of owner-occupant purchases of distressed properties. In addition, our Community First by Fannie Mae™ platform promotes and facilitates the purchase of our REO by mission-focused nonprofits or public entities who administer programs that create and preserve affordability for subsequent owner-occupant buyers. Fannie Mae has conducted extensive outreach to these types of organizations to promote awareness of the Community First platform, which has resulted in these organizations registering as approved buyers for our REO through the platform.

As part of our work in the shared equity space, we have conducted extensive outreach to community land trusts (CLTs), who have indicated that a major challenge for CLTs is the identification of properties for acquisition. The Community First platform can be a useful tool to address this challenge. Also, we have responded to lender feedback, by launching a CLT certification system that streamlines CLT loan review for our lender network by removing the need to use their resources to review individual CLTs to ensure they meet Duty to Serve eligibility. Lastly, we are developing *Selling Guide* updates to accommodate model deed restriction documents that will bring standardization to the shared equity lending space, streamlining and simplifying the loan closing process. The Community First platform and all the work we've completed and continue to pursue in the shared equity space can work together to increase sales of REO that result in rehabilitation of properties, reduction of blight, and creation and preservation of affordability for owner-occupant buyers. The implementation steps below build upon this substantial and innovative body of work.

Lastly, in 2021 we conducted research on interventions undertaken to promote neighborhood stabilization and recovery, sharing the findings of this analysis with stakeholders and practitioners. Fannie Mae will leverage research

[54] *REO & Vacant Properties* (Federal Reserve Banks of Boston and Cleveland and the Federal Reserve Board, 2010), p. 6.

findings and the extensive network of nonprofit and public entities developed through outreach efforts during 2018 – 2021 to develop distressed property disposition strategies that focus on increasing the availability and affordability of distressed properties for purchase by low- and moderate-income owner-occupants.

Baseline: From 2018 – 2020, Fannie Mae successfully repaired 13,726 properties, of which approximately 90% were purchased by owner-occupants. We plan to further expand our repair strategy for our REO inventory by maximizing every opportunity to facilitate renovations and increase owner-occupant purchases of distressed properties.

Year	Target and Implementation Steps	Evaluation Area
2022	Continue to partner with mission-focused nonprofits or public entities and other interested partners to increase owner-occupant purchases of distressed properties. • Leveraging the extensive network of public and nonprofit organizations developed through outreach activities in the 2018 – 2021 shared equity and distressed Underserved Market Plans, continue outreach and engagement efforts to promote and facilitate the acquisition and/or renovation of distressed properties to support subsequent owner-occupant purchases via our Community First platform and, when possible, leveraging CLTs, shared equity, and other affordable programs. • Leveraging findings from the neighborhood stabilization research completed in 2021, deploy an REO disposition strategy in at least two target geographies to facilitate the acquisition and rehabilitation of Fannie Mae REO properties by mission-focused nonprofits, and/or owner-occupants. The strategies may include our enhanced REO repair strategy and/or affordable financing features such as shared equity and CLT transactions to increase and preserve affordability for low- and moderate-income owner occupant buyers. • Review outcomes of the expansion of the First Look program from 20 to 30 days to inform future REO disposition strategies.	Loan Product
2023	Refine and expand strategies to facilitate purchases of distressed properties by public, nonprofit organizations and shared equity program providers for subsequent sale to owner-occupant end buyers. • Use lessons learned in prior years to continue engagement and outreach efforts to promote and facilitate sales to programs that subsequently enable owner-occupant purchases of distressed properties. Included in this work will be a continuous feedback loop, engaging partners that purchase our REO to understand challenges and obstacles to affordable disposition to owner-occupant purchasers, and/or gathering feedback on the effectiveness of aligning Fannie Mae financing products with programs that reduce financing costs and/or expand access to credit for the ultimate disposition to the owner-occupant purchaser. • Evaluate the success of geographic-specific strategies launched in 2022 and expand to at least two additional areas. Success will be determined by an increase in the percentage of REO properties made available, and/or an increase in the percentage or volume of properties sold through the Community First and First Look programs, or directly to owner-occupant purchasers.	Loan Product

Year	Target and Implementation Steps	Evaluation Area
2024	Evaluate and codify strategies based on learnings from geographic specific programs to facilitate owner-occupant end buyer acquisition of distressed properties. • Based upon evaluation findings, incorporate top-performing asset disposition strategies into standard processes and offerings. • Evaluate geographic-specific strategies and publish findings as an update or amendment to the 2021 research on interventions undertaken to promote neighborhood stabilization and recovery. • Continue outreach to partners that purchase our REO to acquire feedback and facilitate evaluation and iteration of our disposition programs. • Based on the evaluation of findings for the geographic-specific strategies launched in 2022 and 2023, refine the disposition strategies and achieve a 10% increase in the volume or percentage of properties sold through Community First and First Look programs or directly to owner-occupant purchasers through these initiatives.	Loan Product

J. Additional Activity: Residential Economic Diversity (RED) Activity (12 C.F.R. §§ 1282.32 (d)(3) and 1282.36(c)(3)).

Fannie Mae will conduct activities within the Affordable Housing Preservation market that contribute to the residential economic diversity of communities. Economic diversity in the form of housing choice vouchers (HCVs) enable people with low incomes to afford modest rents in the private market. Additionally, increasing the acceptance of HCVs has positive effects on the overall supply of affordable housing units in a given market.

1. Objective: Purchase affordable loans to add liquidity to the market in FHFA-determined RED-eligible High Opportunity Areas.

Fannie Mae will purchase loans secured by Section 8, LIHTC, and/or properties supported by State or Local affordable housing programs that also fall within a RED-eligible High Opportunity Area. As an update to RED loan purchases in the previous Duty to Serve Plan, we have expanded the criteria to include Section 8 properties and will focus on affordable housing in High Opportunity Areas.

Baseline: The baseline of 20 loans is the three-year average of the number of Section 8, LIHTC, and State/Local affordable program loans in FHFA's designated High Opportunity Areas purchased by Fannie Mae.

RED Loan Purchases	2018	2019	2020
Loans	11	18	31
Rental units	1,315	2,262	3,878

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 26 RED-eligible loans in High Opportunity Areas secured by LIHTC, Section 8, and/or properties supported by State or Local affordable housing programs, which represents a 30% increase from the baseline.	Loan Purchase
2023	Purchase 30 RED-eligible loans in High Opportunity Areas secured by LIHTC, Section 8, and/or properties supported by State or Local affordable housing programs, which represents a 50% increase from the baseline.	Loan Purchase

Year	Target and Implementation Steps	Evaluation Area
2024	Purchase 34 RED-eligible loans in High Opportunity Areas secured by LIHTC, Section 8, and/or properties supported by State or Local affordable housing programs, which represents a 70% increase from the baseline.	Loan Purchase

2. Objective: Introduce a pilot product to accept Housing Choice Vouchers (HCVs) in markets without source of income (SOI) protections.

The Housing Choice Voucher Program, run by the U.S. Department of Housing and Urban Development (HUD), helps provide housing for very low-income families, seniors, historically underserved populations, and people with disabilities. Renters use a voucher to cover a set portion of their rent and pay the remaining amount out of pocket, which is usually around 30% of their income. Federal housing vouchers are a protected source of income (SOI) in 13 states and 90 localities, meaning renters cannot be rejected because they are using vouchers as a form of payment. Even so, enforcement is not robust, and landlords continue to deny voucher holders across the country.

To address this need for greater acceptance of vouchers, Fannie Mae has created a pricing incentive pilot that will encourage the adoption of HCVs in financed properties. To be eligible for this pricing incentive, a property must 1) be located in Texas or North Carolina, 2) the mortgage loan must not already require the acceptance of HCVs as a financing condition (e.g., LIHTC), 3) borrowers must accept HCVs as a source of income for the life of the loan, and 4) at least 20% of unit rents, with a representative unit mix, are within HUD Fair Market or Small Area Fair Market Rent at acquisition.

Fannie Mae considers landlord acceptance of HCVs a first step toward expanding housing access for voucher holders. The second step is supporting voucher holders who are required to pay security deposits, which are not covered by the voucher and can be one month’s rent at market rates or more in some jurisdictions. This can be a prohibitive cost and sizable financial outlay for voucher-holding individuals and families. To that end, Fannie Mae will conceptualize, develop, and launch a pilot designed to ease the security deposit burden for voucher holders.

Widespread adoption of our pricing incentive among multifamily property owners and security deposit alternatives will expand housing access for families and individuals with vouchers, easing their ability to find an affordable place to live. In addition to promoting economic diversity, greater voucher acceptance and security deposit relief could help make the rental housing market more inclusive and equitable.

Baseline: There is no baseline, as this activity is in the pilot stage.

Year	Target and Implementation Steps	Evaluation Area
2022	Conduct outreach and implementation activities in pilot year to assess market adoption. • Provide a standard quote option for all HCV eligible loans quoted in the cities of Dallas, Austin, and Charlotte regardless of whether borrower asks for an HCV quote option. Limiting the jurisdictions in the first year will provide the opportunity to manage volume in order to assess the risk and return impacts. • Establish partnership with Public Housing Authorities (PHAs) and other housing advocates to create a proactive working relationship and position the product for launch. • Conduct at least three (3) lender and borrower trainings to introduce product enhancement and offer forum for questions. • Conduct five (5) lender and borrower meetings to develop a formal assessment of launch activities and develop best practices. Conduct Research activities to collect information and insights into security deposit landscape and alternatives. • Construct a research plan to evaluate options available to reduce upfront security deposit costs for HCV renters and the effectiveness of those options. Fannie Mae does not yet have insight into the depth or breadth of security deposit alternatives that serve the very low-income renters who have HCVs. • Evaluate conventional housing security deposit alternatives to identify obstacles specific to HCV renters, including cost, reach, and consumer safety. • Research market to gather data on best practices that defray the upfront security deposit costs specifically for HCV renters.	Outreach
2023	Conduct outreach and implementation activities to assess pilot expansion into new markets and determine impact towards residential economic diversity. • Assess the impact of standard HCV quote option on adoption and ability to manage to our risk and return metrics. Expand HCV quote to entire states of TX and NC as assessment confirms. • Continue product trainings and marketing communications for lenders and borrowers, updating content as needed. • Conduct five (5) lender and borrower meetings to determine progress toward goals, using information gathered to inform potential product into more markets. • Launch Fair Housing Testing to monitor borrower compliance. Conduct research and pilot launch activities to reduce upfront security deposit costs for HCV renters. • If feasible and pending results from research conducted in 2022, construct and launch a pilot to evaluate options available to reduce upfront security deposit costs for HCV renters and the effectiveness of those options. Develop a research plan with 1 – 2 vendors and 3 – 5 multifamily landlords who accept HCVs targeting a sample group of properties to participate. • Build our ability to track rates of renter and landlord usage of security deposit alternatives and magnitude of renter savings afforded by use of the alternatives, relative to traditional security deposits.	Outreach
2024	Continue outreach activities to increase loan purchases. • Roll out standard HCV quote option to pilot expansion areas, if feasible. • Continue product trainings and marketing communications for lenders and borrowers, updating content as needed. Conduct research activities to assess results of security deposit pilot. • If feasible and pending launch in 2023, assess results of security deposit pilot. • Based on quantitative and qualitative findings, we will assess the viability of scaling the program and if viable, design an offering.	Outreach

Rural Housing Market

STRATEGIC PRIORITIES STATEMENT

Our commitment to rural communities will expand multifamily affordable rental and homeownership financing options, in addition to promoting capacity-building and industry and stakeholder input opportunities for partners most capable of delivering comprehensive solutions to rural communities. Fannie Mae intends to support the rural housing market through a combined effort of loan purchases, equity investments, product development activities, and outreach to participants and stakeholders in rural housing markets. These efforts will include actions that provide support to rural communities, generally, and, in some cases, to high-needs rural regions or populations, specifically. Ultimately, the intention of our stated objectives outlined in the 2022 – 2024 Plan is to drive innovation that recognizes and responds to these unique dynamics in the rural lending footprint. Fannie Mae's strategic priorities in the 2022 – 2024 plan are as follows:

Collaborate: Based on thoughtful input from industry stakeholders, including lenders, rural housing advocates, and research organizations, our three-year strategy includes activities and milestones that address the unique needs in rural markets. For example, input from lenders and nonprofits supported our inclusion of an objective exploring ways to expand rural down payment assistance through the use of special purpose credit programs. In response to feedback from a wide range of organizations, we have also developed outreach objectives in support of small rural multifamily rental properties and in support of single-family lending in high-needs rural regions. All of these efforts support our plan to grow our presence in rural markets.

Grow: Accelerate and build upon the foundation established during the initial Duty to Serve plan cycle and continue to grow loan purchases in high-needs rural regions, from rural small financial institutions, and for small rural rental properties.

Invest: Bring Fannie Mae's capital to bear by refining our strategy in the LIHTC equity market as well as by researching and implementing an approach to investing in Community Development Financial Institutions (CDFIs) that have expertise in rural markets.

Innovate: Based on continued research and outreach, develop product enhancements and explore new test-and-learn strategies to address needs that are specific to the rural housing market. This includes, potentially, updates to the Single-Family *Selling Guide* on Down Payment Assistance and updated credit and pricing strategies for acquiring loans secured by Small Rural Multifamily Rental properties. We continue to refine our existing strategies while conceptualizing new ways to meet the affordable housing needs of homeowners and renters.

Lastly, we have designed project plans that outline specific actions to meet our goals and objectives. For each objective, we describe the need, rationale, and metrics by which we will determine success.

MARKET OVERVIEW

The Rural Housing market includes an estimated 74 million people in the United States, or 23% of the U.S. population.[55] Rural areas in the U.S. exhibit a combination of housing and socio-demographic attributes that require a focused approach from Fannie Mae and Freddie Mac ("the Enterprises") in order to meet housing finance needs like increased liquidity, strategic partnerships, and technical assistance.

FHFA defines a rural area as: (1) a census tract outside of a metropolitan statistical area (MSA) as designated by the Office of Management and Budget; or (2) a census tract in an MSA but outside of the MSA's Urbanized Areas and outside of tracts with a housing density of more than 64 housing units per square mile as designated by the U.S. Department of Agriculture.[56] FHFA additionally defines high-needs rural regions as rural tracts located in: Middle Appalachia, the Lower Mississippi Delta, colonias, and persistent poverty counties.

RURAL HOUSING RESIDENTS

The latest American Community Survey (ACS) five-year estimates show that when compared to the overall U.S. population, the population in rural areas is:

- Older; more likely to have lower income levels and to be in poverty; less likely to have formal education; and less likely to be employed or participate in the labor force.
- Rural residents are more likely to be white. However, in the Lower Mississippi Delta, rural persistent poverty counties, and the colonias, the population is as or more diverse than the U.S. population.

Table A1 Summary Information for the American Community Survey (ACS) Five-Year Summary Tables, 2015 – 2019

		RURAL	HIGH-NEEDS RURAL	RURAL MIDAPP	RURAL LMD	RURAL PERPOV	RURAL COL**	U.S.
Race	Asian Non-Hispanic Population	1%	1%	0%	0%	1%	1%	5%
	Black Non-Hispanic Population	7%	15%	3%	25%	22%	1%	12%
	Hispanic Population	10%	11%	3%	3%	17%	65%	18%
	White Non-Hispanic Population	78%	68%	92%	70%	53%	29%	61%
	Other Race Non-Hispanic Population	4%	5%	2%	2%	8%	4%	4%
Population Age	Median Population Age*	41.7	40.4	43.2	40.5	38.4	37.0	38.1
Poverty Status	% Poverty Rate	15%	22%	19%	21%	26%	25%	13%
Income	Median Homeowner Income*	$64,783	$51,838	$51,941	$53,042	$48,555	$49,637	$79,270
	Median Renter Income*	$33,416	$26,422	$27,106	$25,590	$24,878	$30,446	$40,505

* Median reported in table is the average median from census tract-level data.
** Analysis for the Rural Colonias is based on the definitions proposed, but not officially adopted, in our 2020 Colonias Investment Areas research at fanniemae.com/about-us/what-we-do/homeownership/duty-serve/colonias-investment-areas-research.

Source: *Computations from the ACS 2015 – 2019 five-year estimates at the census tract level.*

[55] These estimates use FHFA's DTS rural definition, Census 2010 tract land area information, and the American Community Survey (ACS) 2015 – 2019 five-year estimates of the population.
[56] According to the USDA's Rural-Urban Commuting Area Codes #1 and #2. See www.fhfa.gov/DataTools/Downloads/Pages/Duty-to-Serve-Data.aspx.

RURAL HOUSING CHARACTERISTICS

With higher rates of manufactured housing and homeownership, housing in rural areas is distinct from housing nationwide. Single-family ownership comprises 81% of property type in rural regions versus 76% nationwide. Single-family homes are also more affordable in rural areas, where the median home value of owner-occupied homes is $166,344 versus $217,500 nationwide. Manufactured housing represents a greater share of housing type in rural areas and is especially prevalent in high-needs rural regions for both owners and renters. Rural households are less likely to rent than households in metro areas. However, in high-needs, rural-persistent poverty areas, the rental occupancy rate is significantly closer to the national average.

Table A2 Summary Information for the American Community Survey (ACS) Five-Year Summary Tables, 2015 – 2019

		RURAL	HIGH-NEEDS RURAL	RURAL MIDAPP	RURAL LMD	RURAL PERPOV	RURAL COL*	U.S.
	Number of Units	35,219,860	7,229,526	2,636,143	2,433,568	3,828,234	393,540	137,428,986
	Number of Occupied Units	28,357,561	5,770,143	2,115,926	1,963,500	3,014,699	290,571	120,756,048
Property Type	**% Single-Family 1-4 unit**	81%	76%	75%	78%	73%	72%	76%
	% Manufactured Housing	13%	19%	20%	18%	21%	24%	6%
	% Multifamily 5+ unit	5%	5%	5%	4%	5%	3%	18%
Owner Occupancy	**Owner Occupied Units**	20,858,245	4,069,727	1,558,902	1,389,214	2,038,736	209,852	77,274,381
	% of Occupied Owner Occupancy	74%	71%	74%	71%	68%	72%	64%
Property Type for Owner Occupied	**% Single-Family 1-4 unit**	86%	80%	81%	81%	77%	74%	90%
	% Manufactured Housing	13%	20%	19%	19%	22%	25%	6%
	% Multifamily 5+ unit	0%	0%	0%	0%	0%	0%	3%
Renter Occupancy	**Renter Occupied Units**	7,499,316	1,700,416	557,024	574,286	975,963	80,719	43,481,667
	% of Occupied Renter Occupancy	26%	29%	26%	29%	32%	28%	36%
Property Type for Renter Occupied	**% Single-Family 1-4 unit**	66%	65%	60%	70%	65%	65%	52%
	% Manufactured Housing	14%	19%	23%	16%	18%	22%	4%
	% Multifamily 5+ unit	20%	16%	17%	14%	16%	12%	44%
Median House Value of Owner-Occupied Units	**Manufactured Housing**	$82,747	$51,902	$57,497	$45,278	$47,641	$98,803	$48,400
	All Single-Family 1-4 unit (Site-Built+MH)	$166,344	$116,706	$123,665	$110,209	$106,537	$121,458	$217,500

* Analysis for the Rural Colonias is based on the definitions proposed, but not officially adopted, in our 2020 Colonias Investment Areas research at fanniemae.com/about-us/what-we-do/homeownership/duty-serve/colonias-investment-areas-research.

Source: *Computations from the ACS 2015 – 2019 five-year estimates at the census tract level.*

CHALLENGES AND NEEDS

Lack of affordable multifamily capital. Rural housing markets are underserved by the traditional mortgage finance system due to a lack of access to affordable capital, which constricts the supply of rental housing that is available to low- and moderate-income (LMI) households. Many properties face significant obstacles as they pursue sufficient debt financing for development and preservation, owing largely to challenging economic characteristics of rural communities. Additionally, characteristics of multifamily rental financing in rural markets, which are generally smaller properties, increase the cost and difficulty of originating, underwriting, and securitizing loans. This results in fewer options to access affordable capital through primary and secondary market competition.

These challenges are especially pronounced among high-needs rural regions and high-needs rural populations. Many properties in high-needs areas are unable to support any conventional debt financing.

Lack of affordable single-family capital. Affordable homeownership opportunities are similarly limited by the lack of affordable mortgage capital and liquidity in rural communities. Loans originated in rural and high-needs rural communities are more likely to be held in portfolio than in metro areas. Loans originated in rural communities may not conform to secondary market standards, requiring lenders to often retain these loans within their portfolio. With limited access to the secondary market, lenders are unable to efficiently replenish capital and sometimes unable to offer low-cost, fixed-rate loans.

Lower credit scores. Rural mortgage borrowers have lower credit scores on average and are more likely to have a credit score below 680 than the overall population of borrowers. This pattern of lower credit scores is even more pronounced for rural borrowers in high-needs areas.[57]

Higher denial rates. Denial rates are higher for mortgage applicants in rural and high-needs rural areas based on an analysis of HMDA 2019 owner-occupant applications with applicant income under 100% of AMI.

Limited mortgage finance options on Native American trust lands. Even as incomes have risen and credit scores have improved, mortgage financing opportunities for potential homebuyers on Native American trust lands remain limited, as it is difficult to attract lenders. Each tribe has a unique structure of governance, culture, history, and identity. Native American land also has legal complexities that can include federally restricted trust land and allotted lands. Conventional lending is nearly non-existent, and only a small share of government loans are originated on Native American trust land. There is growing demand for homeownership among Native American households and an opportunity for lenders and investors to meet this demand.

MEETING THE CHALLENGES

Fannie Mae will remain proactive in both the rural rental and rural homeownership markets, building strategies and solutions that meet the unique needs and challenges of the rural regions, including underserved rural markets, high-needs rural regions, and Native American and agricultural worker communities. We will direct tax credit equity into rural and high-needs rural markets, work with our lender network to drive more debt capital into underserved rural markets, and partner with industry leaders to improve the supply of affordable housing. In high-needs rural regions, we'll pursue strategic investments to expand the capacity of community development financial institutions (CDFIs). In Native American communities, we will support and build secondary market capacity of Native CDFIs.

[57] See www.fhfa.gov/DataTools/Tools/Pages/Duty-to-Serve-2019-Single-Family-Dashboard.aspx.

Statutory and Regulatory Activities Considered but Not Included

Under the Duty to Serve Evaluation Guidance, the Enterprises are required to consider and address all four of the Regulatory Activities identified for this market. Fannie Mae has addressed and included all four of the Regulatory Activities identified in the Duty to Serve Final Rule, as well as an Additional Activity.

Activities and Objectives

A. Regulatory Activity: Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c)(1)).

In the Final Duty to Serve Rule, FHFA identified four specific high-needs rural regions that experience severe economic challenges and affordable housing obstacles: Middle Appalachia, the Lower Mississippi Delta, colonias, and rural tracts in persistent poverty counties.

Households in high-needs rural regions have lower incomes than those of their urban counterparts. According to the ACS 2015 – 2019 five-year data, the median renter household income in high-needs rural regions is $24,878, approximately $16,000 lower than the national median renter income; homeowner income in high-needs rural regions is $48,555, approximately $31,000 lower than the national median homeowner income.[58] In addition, more rural households live below the poverty line than in the U.S. as a whole.[59] Lower incomes lead to higher cost burdens for renters: In the rural areas of Middle Appalachia, for example, almost 49% of renter households are cost-burdened, compared to 29% of owner households.[60]

Commercial lenders are less likely to provide meaningful debt capital to properties in high-needs rural regions due to the smaller project sizes, lower renter incomes, less density, and valuation challenges because of the lack of comparable properties. Significant subsidy or rental assistance is required for multifamily deals to be viable. These challenges limit the affordable housing supply for renters. As a result, multifamily properties in the high-needs regions are typically older and in greater need of maintenance and renovation. These properties, many built through the USDA Direct Rural Loan Program — Rural Development (RD) Section 515 — are in dire need of preservation resources to ensure affordability for tenants.

1. Objective: Increase liquidity in high-needs rural regions through multifamily loan purchases.

Fannie Mae will purchase loans secured by properties in high-needs rural regions. We will continue outreach with our DUS® lender network to share our commitment to these underserved markets and to provide more granular geographic information to identify and target business in eligible areas.

Baseline: From 2018 – 2020, Fannie Mae encouraged business in the high-needs rural regions through targeted outreach to our DUS lender network and introduced a pricing incentive to facilitate and incent this business. In

[58] Computations from the ACS 2015 – 2019 five-year estimates at the census tract level.

[59] 26% poverty rate in high-needs rural regions compared to 13% in the U.S. overall; computations from the ACS 2015 – 2019 five-year estimates at the census tract level.

[60] Tatyana Zahalak, "Multifamily Challenges and Opportunities in Middle Appalachia," Fannie Mae, October 2018, www.fanniemae.com/media/23401/display.

addition, we increased transparency of eligible deals in the high-needs rural regions by increasing lender engagement and providing lenders with instantaneous insight on DTS-eligibility based on property addresses. As a result, we realized a 25% increase in loan purchases in 2019 and a further increase in 2020. For 2022 – 2024, our baseline is set to 43 loans, the three-year average of loan purchases from 2018 – 2020.

Multifamily High-Needs Rural Regions Loan Purchases	2018	2019	2020
Loans	33	47	50
Units	3,564	5,076	5,400

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 48 loans on multifamily properties in the high-needs rural regions, which represents a 12% increase over the baseline. • Conduct outreach with active lenders in rural areas to share Fannie Mae's interest in qualifying business and provide data to encourage production from lenders.	Loan Purchase
2023	Purchase 50 loans on multifamily properties in the high-needs rural regions, which represents a 16% increase over the baseline. • Conduct outreach with active lenders in rural areas to share Fannie Mae's interest in qualifying business and provide data to encourage production from lenders.	Loan Purchase
2024	Purchase 52 loans on multifamily properties in the high-needs rural regions, which represents a 21% increase over the baseline. • Conduct outreach with active lenders in rural areas to share Fannie Mae's interest in qualifying business and provide data to encourage production from lenders.	Loan Purchase

2. Objective: Acquire single-family purchase money mortgage (PMM) loans in high-needs rural regions.

Borrowers in high-needs rural regions experience challenges in securing financing for home purchases. The number of lenders serving high-needs rural regions has declined significantly in recent decades. As described above, lenders that do operate in high-needs rural regions often retain the loans they originate in their portfolio instead of selling them into the secondary market, thereby limiting liquidity and availability of mortgage financing. There is an opportunity to increase liquidity by increasing loan purchases in high-needs rural regions.

FOCUSING ON PURCHASE MONEY MORTGAGE (PMM) PURCHASES

Unlike in the prior Plan cycle, we have excluded refinance loans from our loan purchase targets, focusing exclusively on PMM loans. Fannie Mae will continue to support refinance loans for LMI borrowers in this market. However, these loans will not be included in our three-year Plan because of the inherent volatility of the refinance business in a shifting interest rate environment, which may place more weight on market forces beyond our control.

IDENTIFYING A GROWTH TARGET

We believe that continued growth over the next three years is reasonable, even amid shifting market conditions. As with the baseline, we considered the circumstances within each market to select appropriate growth targets. In high-needs rural regions, recent average annual growth has been 19%, and each year of the first Duty to Serve Plan resulted in higher loan purchases than the year prior. Moving into this plan cycle, macroeconomic trends such as increasing housing prices and interest rates suggest that sustained growth in these markets may prove difficult to achieve. However, we recognize that Duty to Serve consumers are likely to be impacted greatly by these broader economic challenges. As a result, we have made what we believe to be a meaningful commitment to this market in the form of an enhanced loan purchase target in Year One, which is 23% higher than the baseline. While we do not have the data to feel confident in making annual increases of this size to later years in the Plan, we will commit to working with FHFA to responsibly adjust our targets should market conditions change.

Baseline: The 6,526-loan baseline represents the four-year average of the number of loans purchased by Fannie Mae from 2017 – 2020. Fannie Mae has set the below targets for 2022 – 2024. Similar to our approach when setting a baseline in the prior iteration of the Duty to Serve Plan, we reference actual loan purchases from a recent period.

Single-Family High-Needs Rural Regions Loan Purchases	2017	2018	2019	2020
Loans	5,039	5,942	6,619	8,505

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 8,000 single-family mortgage loans in high-needs rural regions, which represents approximately a 23% increase over the baseline.	Loan Purchase
2023	Purchase 7,900 single-family mortgage loans in high-needs rural regions, which represents approximately a 21% increase over the baseline.	Loan Purchase
2024	Purchase 8,700 single-family mortgage loans in high-needs rural regions, which represents approximately a 33% increase over the baseline.	Loan Purchase

3. Objective: Improve access to affordable financing for underserved homebuyers.

Many Americans rely on homeownership as a means of wealth-building. While homeownership can be an effective asset-building mechanism, lack of financing options, credit and down payment challenges, and rural geographical locations potentially restrict opportunity for underserved households. Moreover, racial inequality in housing and mortgage markets over many decades also continues to exacerbate a wealth gap, resulting in lower homeownership rates for households of color.

We will address one or more of the primary barriers that have limited homeownership opportunities for borrowers and communities that have been historically denied access to mainstream sources of credit. Additionally, we commit to evaluating and, if appropriate, developing a special purpose credit program (SPCP) that is targeted to the needs of residents of designated areas in a high-needs rural region.

Baseline: Under the Duty to Serve 2018 – 2021 Plan, Fannie Mae expanded access to credit for underserved borrowers in high-needs rural regions by changing our guide to allow conventional financing for single-width manufactured homes; allowing buyers to submit an inspection in lieu of an appraisal in geographies where appraisals are limited; and supported two CDFIs serving underserved borrowers through Fannie Mae's seller and servicer approval process.

Year	Target and Implementation Steps	Evaluation Area
2022	Deploy an initiative that will improve access to affordable financing for qualified homebuyers in high-needs rural regions. • Assess existing down payment assistance programs available in each of the high-needs rural regions. • Leverage research conducted in 2021 to update or clarify the *Selling Guide* in order to reduce complexity for lenders and improve their familiarity with Fannie Mae's current down payment assistance offerings. • Continue to collaborate with a diverse group of external stakeholders to promote standardization in down payment assistance programs and processes, such as through the development of potential model second lien documents. • Develop and implement an outreach strategy aimed at identifying and selecting an external partner(s) who is well positioned to expand access to down payment assistance in at least one or more of the high-needs rural regions. • Define success measures and develop a performance monitoring system to track progress and identify future enhancement or expansion opportunities. • Evaluate potential need for a special purpose credit program (SPCP) to improve access to mortgage credit among low- and moderate-income residents living in majority minority communities. Fannie Mae will identify lender partners, target markets and program parameters.	Loan Product
2023	Enhance or expand the initiative while working to remove barriers impeding success. • Assess the down payment assistance initiative's results from 2022 and identify opportunities to strengthen the program's effectiveness and increase its scale. • Document lessons learned and share best practices. • Develop an outreach strategy to promote awareness about the down payment assistance initiative. • Conduct a market analysis to determine if gaps exist and whether expanding or replicating initiative in other high-needs rural regions is feasible. If feasible, engage internal and external stakeholders to determine scope requirements, and obtain necessary approvals. • If appropriate, execute SPCP variance in a high-needs rural region to support greater access to mortgage credit by low- and moderate-income residents of majority minority ~~census tracts~~communities, while exploring ways to reduce SPCP participation hurdles for lenders.	Outreach
2024	Analyze potential policy changes with a focus on increasing borrowers homeownership opportunities in high-needs rural regions and ensuring initiative(s) aligns with enterprise objectives. • Continue to assess the down payment assistance initiative's results from 2023 to identify if additional opportunities exist to further strengthen the program's effectiveness and increase its scale. • Conduct market research to determine if new barriers exist that impede borrowers from leveraging down payment assistance programs. • Review and assess policies to determine if opportunities exist to enhance or create new guidelines that improves a borrower's ability to access homeownership. • If applicable, evaluate success of SPCP to determine how/if to scale or replicate.	Loan Product

4. Objective: Conduct outreach in high-needs rural regions to improve knowledge of local market conditions.

In many respects, lending in high-needs rural regions (HNRRs) can differ from lending outside of HNRRs. The needs of the potential borrowers in those communities and the lenders serving them may require tailored solutions. In response to feedback from mortgage professionals specializing in these regions, Fannie Mae intends to engage with a variety of HNRR stakeholders in a sustained manner and to conduct research to better understand market dynamics in each of the three geographic regions.

Specifically, Fannie Mae commits to working with lenders, Housing Finance Agencies, CDFIs, and nonprofit organizations to better understand local market conditions and lending opportunities in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias.

Additionally, Fannie Mae will embark upon at least one research project that will ultimately conclude in a product development pilot in 2024 that responds to and is informed by the preceding research and outreach. We may explore whether and how CDFIs serving HNRRs tailor their products and tactics to the needs of their local communities. This is important because stakeholders in HNRRs note that CDFIs often provide innovative solutions that might inform our product offerings. We may also explore title clouds or gaps in heirs' property, which can preclude sale or financing and oftentimes require extensive legal assistance. That assistance can be prohibitively expensive and scarce, especially in rural areas. Many organizations, including law schools and other nonprofit organizations, have established a variety of local programs that assist families by providing free or low-cost legal and estate-planning assistance as well as general education about the importance of clear property title and estate planning. In furtherance of these efforts, Fannie Mae could survey the landscape of existing organizations and programs and identify those initiatives or opportunities where Fannie Mae could provide additional support. This is important because many LMI households with title clouds or gaps are prevented from accessing mortgage financing which reduces the financial benefits of their homeownership.

Ultimately, the intention of this Objective is to drive policy innovation that recognizes and responds to these unique dynamics in the HNRRs.

Baseline: Under the Duty to Serve 2018 – 2021 Plan, Fannie Mae conducted significant outreach and research in HNRRs, including proposing a definition for Colonias Investment Areas and sponsoring homebuyer education targeted at residents of HNRRs. This Objective builds upon and expands that targeted outreach.

Year	Target and Implementation Steps	Evaluation Area
2022	Conduct outreach to local housing experts specializing in high-needs rural regions. • Engage at least five lenders specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias, to promote relevant lending products and resources and to continue to gather information about local market conditions. • Engage at least one Housing Finance Agency and/or CDFI specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias, to promote HFA Preferred and HomeReady and to continue to gather information about local market conditions. • Engage at least one nonprofit organization specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias to continue to gather information about local market conditions.	Outreach

Year	Target and Implementation Steps	Evaluation Area
2022	Conduct research to explore opportunities for and challenges to lending in HNRRs. • For example, research may focus on the performance of loans originated by CDFIs with regional expertise; or research may focus on titling issues encountered by homeowners who inherited property as heirs. In the example of heirship, we might conduct outreach with subject matter experts, nonprofits, and other organizations that play a key role in addressing heirs' property legal issues to determine how Fannie Mae can have an impact in high-needs rural regions. That research might result in a white paper that we publish to the public in 2022. We would develop a plan informed by our outreach and analysis to identify opportunities for the following two years.	Outreach
2023	Conduct outreach to local housing experts specializing in high-needs rural regions. • Engage at least five lenders specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias, to promote relevant lending products and resources and to continue to gather information about local market conditions. • Engage at least one Housing Finance Agency and/or CDFI specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias, to promote HFA Preferred and HomeReady and to continue to gather information about local market conditions. • Engage at least one nonprofit organization specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias to continue to gather information about local market conditions. Analyze information gathered through 2022 research to identify appropriate loan product parameters with potential to increase borrower and/or property eligibility. • Continue research, as needed. • Expand awareness around issues. • Identify potential lender outreach, borrower outreach, or changes to credit and/or collateral requirements that would increase lending potential.	Outreach
2024	Conduct outreach to local housing experts specializing in high-needs rural regions. • Engage at least five lenders specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias, to promote relevant lending products and resources and to continue to gather information about local market conditions. • Engage at least one Housing Finance Agency and/or CDFI specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias, to promote HFA Preferred and HomeReady and to continue to gather information about local market conditions. • Engage at least one nonprofit organization specializing in each of Middle Appalachia, Lower Mississippi Delta, the Colonias and to continue to gather information about local market conditions. Pilot a new product, an update to an existing product, or a variance with potential to promote increased liquidity to high-needs rural regions. • Launch a test and learn product variance. • Execute variance while managing risks. • Prepare a plan to assess the results of the variance, including criteria for expanding availability in future years.	Loan Product

5. Objective: Explore feasibility of equity investment to create access to affordable capital.

CDFIs support economic growth in the communities they serve, and they play an important role in providing access to homeownership in high-needs rural regions.

Capital plays an essential role in a CDFI's scope, reach, and impact. CDFIs are accustomed to borrowing low-cost funds, primarily from the government, foundations, and banks; though funds available from all three of these sources are unpredictable and may have limited flexibility. Fannie Mae is in a unique position to support the long-term sustainability and reach of these institutions that serve acutely underserved markets.

Baseline: Under the Duty to Serve 2018 – 2021 Plan, Fannie Mae made available the necessary resources and support to successfully guide two CDFIs through Fannie Mae's seller and servicer approval process.

Year	Target and Implementation Steps	Evaluation Area
2022	Explore feasibility of investing in one or more CDFIs to provide improved access to affordable mortgage lending to consumers in high-needs rural regions. • Conduct industry research and engage CDFIs to acquire ~~data and contribute to improving knowledge~~information. • Perform quantitative and qualitative analysis to inform investment structure and the maximum total investment amount. • Establish investment objective and determine scope requirements. Examine organizational structure to determine roles and responsibilities. • Pursue legal, regulatory, and other essential guidance from necessary stakeholders. • If approved and consistent with our charter ~~successful~~, develop an implementation strategy and deploy the investment in years 2 and 3.	Outreach

B. Regulatory Activity: Housing for high-needs rural populations (12 C.F.R. § 1282.35 (c) (2)).

In the Final Duty to Serve Rule, FHFA identified two specific high-needs rural populations that face significant barriers to obtaining affordable housing: Native Americans in Indian areas and agricultural workers.

According to the Housing Assistance Council (HAC), the aggregated poverty rate for Native American trust lands is 29.2%, considerably higher than the 15.5% national average. Mortgage lending on Native American trust lands is rare. While 9.5% of Native Americans live on trust lands, they account for only a 2% share of Native American mortgage loan activity. Compared to the 22.3 loans originated per 1,000 U.S. residents, only 1.9 loans were originated per 1,000 Native American trust land residents.[61]

A major study of Native American housing needs conducted for the U.S. Department of Housing and Urban Development (HUD) estimated that as of 2015, a total of 68,000 new units were needed in tribal areas "to replace severely inadequate units and eliminate overcrowding."[62] It also concluded that 30,000 units required rehabilitation. These figures include both owner-occupied and rental housing.

Agricultural workers in the U.S. face similar challenges. Approximately one-third of agricultural workers are cost-burdened.[63] In addition, HAC estimates that 17% of agricultural worker housing units are severely substandard, and 16% are moderately substandard. Residents of those substandard units often include children. Moreover, crowding (more than one person per room) is common for agricultural workers, particularly migrants. Almost 31% of agricultural workers live in crowded conditions, according to a 2013 – 2014 Department of Labor National Agricultural Workers' Survey. The stock of USDA Section 514/516 Housing serving agricultural workers is aging, and rehabilitation financing is sorely needed. According to HAC, the development of new units of Section 514/516 Farm Labor Housing has been steadily dropping since 1980. This decrease in housing unit development is partially attributed to development funding not matching rising costs. As a result, the majority of units are over 25 years old.

For both Native American and agricultural worker populations, conventional mortgage financing is not typically a viable option for development or preservation, as many properties are unable to support traditional debt. LIHTC, while quite competitive, is a valuable source of funding — and one to which Fannie Mae will continue to contribute over the course of the 2022 – 2024 Plan.

1. Objective: Support technical assistance programs that enhance the development capacity of organizations serving high-needs rural populations.

Technical assistance (TA) programs deliver industry best practices and expert knowledge about developing housing to serve high-needs rural populations. By supporting TA programs for these markets, Fannie Mae is helping organizations deploy development resources effectively and maximize the likelihood of securing

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[61] *Exploring the Challenges and Opportunities for Mortgage Finance in Indian Country* (Washington, D.C.: Housing Assistance Council, April 2018), https://ruralhome.org/wp-content/uploads/storage/documents/publications/rrreports/rrr-native-american-mortgage-white-paper.pdf.

[62] *Housing Needs of American Indians and Alaska Natives in Tribal Areas: A Report from the Assessment of American Indian, Alaska Native, and Native Hawaiian Housing Needs* (Washington, D.C.: U.S. Department of Housing and Urban Development Office of Policy Development and Research, January 2017), huduser.gov/portal/sites/default/files/pdf/HNAIHousingNeeds.pdf.

[63] *Rural America's Rental Housing: Federal Strategies to Preserve Access to Affordable Rental Housing in Rural Communities* (Washington, D.C.: National Rural Housing Coalition, 2014), novoco.com/sites/default/files/atoms/files/nrhc_rural_america_rental_housing_crisis_071114.pdf (accessed April 24, 2020).

competitive funding. This is a critical element to generate affordable units. Building the capacity of community-focused organizations offers long-term benefits, as those local entities grow and change with their communities.

Baseline: From 2019 – 2021, Fannie Mae partnered with two national nonprofit organizations to deliver TA to nonprofit organizations, housing authorities, and tribal housing entities that serve agricultural workers and Native American communities in rural areas. TA targeting agricultural communities resulted in the submission of two applications for the USDA Section 514 Farm Labor Housing Direct Loan program in 2019 and led to significant development milestones for 18 multifamily properties in 2020. The TA targeting Native American communities resulted in direct TA for 10 organizations and the delivery of TA through an instructor-led institute for a cohort of 7 tribal housing entities.

Year	Target and Implementation Steps	Evaluation Area
2022	Partner with non-profit organizations to deliver TA to 20 organizations working to develop or preserve housing for agricultural workers or Native American communities through RD 514/516 funding, HUD funding allocated for tribal housing, LIHTC, or state and local funding. The majority of the organizations served under this objective will be those who serve agricultural workers. Between 5 – 7 Native American housing projects will also be selected for intensive technical assistance throughout the year. Both of these populations are extremely underserved, and we have determined that it is important to continue providing technical assistance to both populations during this duty to serve cycle. TA provided by non-profit partners will result in: • Participating organizations will receive between 80 and 100 hours of individualized technical assistance. • Completion of at least 10 applications for debt, equity, or state/local assistance. • At least three projects securing funding in 2022. • A new tribal real estate development enterprise will secure financing to launch operations. • At least five educational sessions about the 514/516 program availability and how to ensure stable projects.	Outreach
2023	Partner with nonprofit organizations to deliver TA to 20 organizations working to develop or preserve housing for agricultural workers or Native American communities through RD 514/516 funding, HUD funding allocated for tribal housing, and/or LIHTC. Work with nonprofit partners to: • Assess the results of TA performed in 2022 and incorporate opportunities and strategies to strengthen the program's effectiveness and increase its scale in 2023. • Plan the 2023 TA program and identify organizations for TA delivery (developers of farm labor housing and Native American housing). • Execute the 2023 TA program. • Analyze results of the 2023 TA program at the property level to determine success of the program and inform future work.	Outreach

Year	Target and Implementation Steps	Evaluation Area
2024	Partner with nonprofit organizations to deliver TA to 20 organizations working to develop or preserve housing for agricultural workers or Native American communities through RD 514/516 funding, HUD funding allocated for tribal housing, and/or LIHTC. Work with nonprofit partners to: • Assess the results of TA performed in 2023 and incorporate opportunities and strategies to strengthen the program's effectiveness and increase its scale in 2024. • Plan the 2024 TA program and identify organizations for TA delivery (developers of farm labor housing and Native American housing). • Execute the 2024 TA program. • Analyze results of the 2024 TA program at the property level to determine success of the program and inform future work.	Outreach

2. Objective: Create additional homeownership opportunities for high-needs populations by strengthening Native CDFIs' lending capacity and skill set to operate in the secondary mortgage market.

Native American communities have some of the greatest barriers to accessing capital and basic financial services in the nation. Native CDFIs are specialized, mission-driven organizations that help Native communities grow by increasing their access to credit, capital, and financial services. Native CDFIs support homeownership opportunities providing a range of financing products for Native borrowers and communities that have been historically denied access to mainstream sources of credit.

Lack of quality and affordable housing for Native American communities has been exacerbated by lender challenges navigating the land tenure status of trust land. Due to the complex and unique challenges facing high-needs populations, most traditional lenders are unfamiliar with and unable to serve these markets, further increasing financing challenges. Moreover, reliable and accessible data for this market is scarce. As a result, providing Native CDFIs, who are critical providers of financial services in Indian Country, with resources and access to the secondary market is important to capture opportunities for market growth. Fannie Mae plans to create or enhance product offerings to better serve high-needs rural populations and reduce the challenges faced by these regions.

Baseline: Under the Duty to Serve 2018 – 2021 Plan, Fannie Mae provided technical assistance to multiple Native CDFIs and tribal entities to enhance their mortgage-lending capacity. Most recently, in partnership with Oweesta Corporation, a Native CDFI Intermediary, the Native CDFI Mortgage Lending Cohort was created to address the lack of traditional mortgage lenders. These Native CDFIs will work to advance their mortgage-lending capabilities with the intent of becoming mortgage brokers capable of working in the secondary market.

Year	Target and Implementation Steps	Evaluation Area

2022	Improve mortgage access to Native homebuyers in Indian Areas through partnerships with CDFIs and tribal governments.
	• Evaluate the Native CDFI lending cohort's 2021 progress and provide TA to further build cohort's capacity to access the secondary mortgage market and the whole loan conduit.
	  o Provide at least three trainings on compliance, technology, and licensing related to originating conforming mortgages.
	  o Create a 2022 personalized development plan with at least three cohort members and provide individualized technical assistance to support their implementation of the plan.
	  o Achieve milestones of at least one of these members securing mortgage broker licenses with support of technical assistance.
	• Identify a lender partner to serve as a conduit through which a Native CDFI, who is not yet approved as a Fannie Mae seller servicer, can sell loans to Fannie Mae. Provide the lender with the TA and training resources needed to improve their expertise of Native American mortgage origination and servicing.
	• Execute the NACLI variance with two lender partners to expand access to conventional financing on Native trust land.
	• Continue providing in-depth technical assistance to a group of tribes, lenders and housing organizations.
	• Host at least three training sessions or convenings for Native housing practitioners in target geographies on topics such as homebuyer education, best practices in mortgage lending, and foreclosure prevention.
	• Gather feedback on Fannie Mae's mortgage offerings from Native CDFI cohort members and lender partners to design product enhancements for 2023.
		Loan Product

2023	Align Fannie Mae's Native American Lending Conventional Initiative (NACLI) to effectively serve Native American homebuyers on trust lands. • Solicit industry engagement by participating in at least two industry forums. • Perform mortgage origination and servicing research to simplify trust land lending. • Execute and publish a programmatic change in compliance with Duty to Serve and Fannie Mae eligibility. • Promote enhancements by hosting an online seminar targeting vested stakeholders. • Define expected impact measures and develop a performance monitoring and tracking system. Establish reporting protocols and implement a feedback mechanism for stakeholders. • Conduct a market analysis to determine whether including a loan purchase target in 2024 is feasible. • If deemed feasible, work with internal and external business partners to determine an impactful and appropriate loan purchase target.	Loan Product

3. Objective: Champion efforts that promote or sustain homeownership for Native American populations.

Homebuyer education and counseling are critical to expanding the pool of mortgage-ready homebuyers and preparing Native Americans for sustainable homeownership; however, these areas historically have lacked adequate access to these services. Many Native American prospective homebuyers have little familiarity with the homebuying or mortgage process. In addition, purchasing a home on trust land often means securing a ground lease, which can be a challenging process for a homebuyer. Homeownership counseling can help families' efforts to work with their tribe and the Bureau of Indian Affairs to secure the ground lease and Title Status Report in addition to preparing homebuyers for sustainable homeownership. Despite the need for housing counseling in Indian Country, there are very few HUD-approved housing counseling agencies serving Native homebuyers, particularly those buying homes on trust land. And, until Oweesta Corporation secured intermediary approval in 2021, none of HUD's 60 approved housing counseling intermediaries focused on Native American buyers.

Baseline: Under the Duty to Serve 2018 – 2021 Plan, Fannie Mae collaborated with three Native American organizations to accomplish multiple activities, including: making significant updates to an existing Native homebuyers curriculum and creating an online platform for these resources; addressing the impact of the COVID-19 pandemic on Native American communities; and supporting the Native American CDFI Intermediary's efforts to become a HUD Housing Counseling Intermediary. In 2021, this Native American CDFI Intermediary, Oweesta Corporation, became a HUD-approved housing counseling intermediary. Oweesta Corporation, our proposed partner under this objective, is the only HUD-approved housing counseling intermediary focused on Native American buyers. Oweesta and its members have the expertise to support buyers through the homebuying and financing process on trust land, which can differ significantly from the fee-simple experience. In order to maintain its intermediary approval and to secure funding for member counseling agencies, Oweesta will need to stand up new accounting, administrative, oversight, and reporting processes across its member counseling agencies and potentially build out new technology.

Currently Oweesta has 10 HUD-approved counseling agencies in its network. Out of approximately 1,700 HUD-approved counseling agencies, it is our understanding that fewer than a dozen have a focus on Native American consumers. Traditional housing counseling services are not reaching Native American buyers. In FY 2020, approximately 1% of the total volume of consumers served by HUD-approved agencies were Native American and Native-multi race, according to HUD reporting.

Year	Target and Implementation Steps	Evaluation Area
2022	Expand partnership with Oweesta Corporation, a recently HUD-approved housing counseling intermediary, to support the educational needs of Native American consumers, promote housing stability, and increase the pipeline of mortgage-ready homebuyers. • Complete a needs assessment of intermediary and network members to determine how to best support capacity building of staffing and programming. As referenced above, Oweesta and its member agencies will need to make investments in administrative, financial, and reporting processes to maintain HUD approval. This includes an assessment of current processes and capabilities. Consulting services will be provided to Oweesta and its members to support them in areas identified by the needs assessment. o This assessment will include a review of technology to support requirements for client tracking and HUD reporting of activities. • Create and define success measures, including milestones to support and grow homebuyer readiness programming. • Serve 800 participants through the Native American Intermediary network in 2022. Given the continuing COVID crisis and dynamic needs of Native consumers, these participants may include future homebuyers or existing homebuyers in need of support. This target participant size is meaningful and would increase the total number of Native American consumers served by HUD-approved counselors in FY 2020 by 5%.	Outreach

Year	Target and Implementation Steps	Evaluation Area
2023	Continue expansion of partnership with Oweesta Corporation to support the education needs of Native American consumers and increase the pipeline of mortgage ready homebuyers. • Evaluate the effectiveness of activities completed in 2022 and identify opportunities to improve and/or expand access to homebuyer readiness services to Native American populations. • Expand the Native American HUD approved intermediary network by adding one additional local housing counseling organization. One additional organization is meaningful as it represents substantial growth within this sector and requires significant staff capacity. The process to become a HUD-approved agency also became more rigorous in 2021, likely requiring technical assistance in advance. • Serve 1,100 participants through the Native American Intermediary network in 2023 and increase the number of households who acheive "mortgage readiness." This target participant size is meaningful and would increase the total number of Native American consumers served by HUD-approved counselors in FY 2020 by 7.5%.	Outreach
2024	Expand partnership with Oweesta Corporation to support the education needs of Native American consumers and increase the pipeline of mortgage ready homebuyers. • Review outcomes and provide support to enhance services and programming. • Serve 1,200 participants through the Native American intermediary network in 2024 and increase the "mortgage readiness" of participants by 10% over the three-year period covered by this plan. This target participant size is meaningful and would increase the total number of Native American consumers served by HUD-approved counselors in FY 2020 by 8%.	Outreach

4. Objective: Explore feasibility of equity investment to create access to affordable capital.

CDFIs support economic growth in the communities they serve, and Native CDFIs (NCDFIs) play an important role in providing access to Native American borrowers.

Capital plays an essential role in a NCDFI's scope, reach, and impact. NCDFIs are accustomed to borrowing low-cost funds, primarily from the government, foundations, and banks, though funds available from all three of these sources are unpredictable and may have limited flexibility. Fannie Mae is in a unique position to support the long-term sustainability and reach of these institutions that serve acutely underserved markets.

Baseline: Under the Duty to Serve 2018 – 2021 Plan, Fannie Mae made available the necessary resources and support to successfully guide two CDFIs through Fannie Mae's seller and servicer approval process. Furthermore, Fannie Mae is, has been, and remains actively in contact with multiple NCDFIs under Objectives 1 and 2 of this Regulatory Activity.

Year	Target and Implementation Steps	Evaluation Area

2022	Explore feasibility of investing in one or more NCDFIs to provide improved access to affordable mortgage lending to Native American consumers. • Conduct industry research and engage NCDFIs to acquire information. • Perform quantitative and qualitative analysis to inform investment structure and the maximum total investment amount. • Establish investment objective and determine scope requirements. Examine organizational structure to determine roles and responsibilities. • Pursue legal, regulatory, and other essential guidance from necessary stakeholders. • If approved and consistent with our charter, develop an implementation strategy and deploy the investment in years 2 and 3.	Outreach

C. Regulatory Activity: Financing by Small Financial Institutions (SFIs) of rural housing (12 C.F.R. § 1282.35(c) (3)).

1. Objective: Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

Rural communities have experienced a decline in the number of bank branches, exacerbating mortgage finance obstacles. Fannie Mae is positioned to help financial services providers in rural communities expand their reach. Increasing liquidity in the Rural Housing market can support expanded mortgage options for buyers in rural areas.

FOCUSING ON PMM PURCHASES

Unlike in the prior Plan cycle, we have excluded refinance loans from our loan purchase targets, focusing exclusively on PMM loans. Fannie Mae will continue to support refinance loans for LMI borrowers in this market. However, these loans will not be included in our three-year Plan because of the inherent volatility of the refinance business in a shifting interest rate environment, which may place more weight on market forces beyond our control.

IDENTIFYING A GROWTH TARGET

We believe that modest growth over the next three years is reasonable, even amid shifting market conditions. As with the baseline, we considered the circumstances within each market to select growth targets. With SFIs, year-over-year growth has fluctuated. In fact, 2019 PMM purchases were slightly lower than in 2018. Over a longer time period, annualized average growth has been about 12%. Because we do not expect this level of growth in perpetuity, and because we expect market conditions (like interest rates) to provide headwinds, we chose an annual growth rate of 5%. Therefore, by the third and final year of this Plan cycle, our target is 15.8% higher than the baseline.

Baseline: The baseline of 5,749 loans is the three-year average of the number of loans purchased by Fannie Mae from 2018 – 2020. Fannie Mae has set the below targets for 2022 – 2024. Similar to our approach when setting a baseline in the previous Duty to Serve Plan, we reference actual loan purchases from a recent period. We set an SFI baseline, according to 2018 – 2020, of 5,749 PMM loans.

Single-Family Loans in Rural Areas from SFIs	2018	2019	2020
Loans	5,385	5,265	6,595

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 4,200~~6,037~~ single-family mortgage loans in rural areas from SFIs~~, which represents a 5% increase over the baseline~~. • Conduct research and outreach focused on understanding and responding to shifts within the SFI loan purchase market.	Loan Purchase
2023	Purchase 6,339 single-family mortgage loans in rural areas from SFIs, which represents a 10% increase over the baseline.	Loan Purchase
2024	Purchase 6,656 single-family mortgage loans in rural areas from SFIs, which represents a 16% increase over the baseline.	Loan Purchase

D. Regulatory Activity: Support small multifamily rental properties financing (12 C.F.R. § 1282.35 (d)).

1. Objective: Support rural small multifamily rental property activity.

Fannie Mae will purchase loans secured by rural small multifamily rental properties. These properties, which are defined as having between five and 50 units, are critical forms of housing in rural communities, where large properties are less common than in metropolitan areas.

Fannie Mae has financed this type of lending as part of its normal course of business but has committed to a Duty to Serve loan purchase goal in some but not all years since 2018. Recognizing the relevance of this form of housing for rural renters, Fannie Mae will commit to increasing rural small multifamily loan purchase targets in each year of this Plan cycle, over and above the recent historical baseline.

Baseline: From 2017 – 2020, Fannie Mae has purchased 54, 51, 87, and 66 rural small multifamily rental loans in each respective year. The average over this time period is 65 loans, and we take that to represent a reasonable historical baseline.

Small Multifamily Rental Properties Loan Purchases	2017	2018	2019	2020
Loans	54	51	87	66

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 68 loans, appoximately a 5% increase over the baseline.	Loan Purchase
2023	Purchase 72 loans, approximately a 11% increase over the baseline.	Loan Purchase
2024	Purchase 76 loans, approximately a 17% increase over the baseline.	Loan Purchase

2. Objective: Small rural multifamily rental outreach.

To improve the likelihood of meeting our 2022 – 2024 Small Rural Multifamily Rental loan purchase goals, and to improve the pipeline for this form of lending in future years, Fannie Mae has identified a series of outreach tactics. This outreach is intended to provide a consistent source of information on the Small Rural Multifamily Rental market so that Fannie Mae's loan purchase strategy, including pricing and credit policies, are responsive to market needs while remaining viable and sustainable.

Baseline: As noted under the Small Rural Multifamily Rental Loan Purchase Objective, Fannie Mae has financed this type of lending as part of its normal course of business but has committed to a Duty to Serve loan purchase goal in some but not all years since 2018. Given this, Fannie Mae is aware of the challenges lenders face in generating loans secured by small rural multifamily rental properties and will conduct outreach with these challenges in mind.

Year	Target and Implementation Steps	Evaluation Area
2022	Conduct outreach to support the attainment of small rural multifamily rental loan purchase goals in 2022 and to expand loan pipelines for future years. • Analyze Fannie Mae's nationwide strategy for purchasing small multifamily rental property loans and consider specific opportunities in rural areas. • Engage with DUS lenders to explore specific rural opportunities. • Participate in at least one event with industry stakeholders to promote Fannie Mae's focus on this area of the market. • Analyze whether there is a market need for targeted pricing strategies and, if so, which ones would be economically viable and sustainable; test and learn updates with select lenders as appropriate.	Outreach
2023	Conduct outreach to support the attainment of small rural multifamily rental loan purchase goals in 2023 and to expand loan pipelines for future years. • Continue to engage with DUS lenders to explore specific rural opportunities. • Participate in at least one event with industry stakeholders to promote Fannie Mae's focus on this area of the market. • Analyze whether there is a market need for targeted credit policy updates and, if so, which ones would be economically viable and sustainable; test and learn updates with select lenders as appropriate.	Outreach
2024	Conduct outreach to support the attainment of small rural multifamily rental loan purchase goals in 2024 and to expand loan pipelines for future years. • Continue to engage with DUS lenders to explore specific rural opportunities. • Participate in at least one event with industry stakeholders to promote Fannie Mae's focus on this area of the market. • Revisit pricing and credit policy strategies introduced in prior years and determine whether and how to formalize strategies for all lenders.	Outreach

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

The LIHTC program is a critical tool in creating and preserving affordable housing in the U.S. The affordable rural rental housing industry recognizes the LIHTC program as the most meaningful tool to develop and preserve affordable multifamily housing in underserved rural markets.

Projects supported by the LIHTC program placed nearly 10,000 low-income units in rural communities annually from 2005 – 2014. The non-metro share of all LIHTC projects placed in-service averages between 15% and 25%. Non-metro LIHTC projects have averaged between 40 and 45 units between 2005 and 2014.[64] LIHTC is prevalent in projects serving high-needs rural regions and populations and can be paired with the Loan Guarantee programs from USDA RD to obtain financing on rural properties. It is one of the few affordable rental housing programs to realize increased funding over the past few years.[65]

In 2018, Fannie Mae re-established our LIHTC investment business. We engaged with syndicator partners, developers, and HFAs to better understand the needs and challenges of rural properties relying on tax credits. We partnered with HAC to perform research on the effectiveness of the LIHTC program across the country. As a result, we provided significant equity investments to the development and preservation of affordable multifamily projects in rural markets.

1. Objective: Invest in LIHTC properties in rural areas.

Fannie Mae will invest in LIHTC properties in rural areas. Fannie Mae is committed to remaining a reliable and consistent source of equity.

Baseline: Our baseline for the 2022 – 2024 Plan cycle is 59 investments. The baseline number represents the average number of eligible rural LIHTC equity investments that Fannie Mae made in 2020 and 2021, which we believe are the two years most indicative of the current state of this business. Year-to-year investment activity measured in properties per calendar year will necessarily fluctuate driven both by uncertainties/slippage in calendar year closings of properties we have committed to as well as adjustments in the annual investment cap. However, these fluctuations, which result in irregular year-over-year activity, will not change the aggregate number of property investments or the impact to underserved markets they achieve. Despite the challenges in forecasting the precise timing of our investments, we expect to exceed the baseline of 59 for the next three years.

Rural LIHTC Equity Investments	2020	2021
Investments	65	52

Year	Target and Implementation Steps	Evaluation Area

[64] Andrew M. Dumont, "Rural Affordable Rental Housing: Quantifying Need, Reviewing Recent Federal Support, and Assessing the Use of Low Income Housing Tax Credits in Rural Areas," Finance and Economics Discussion Series 2018-077, Board of Governors of the Federal Reserve System, July 19, 2018, doi.org/10.17016/FEDS.2018.077 (accessed April 24, 2020).

[65] Donna Kimura, "LIHTC Increase Included in Spending Bill," Affordable Housing Finance, March 22, 2018, housingfinance.com/policy-legislation/lihtc-increase-included-in-spending-bill_o (accessed April 24, 2020).

2022	Make equity investments in 78 LIHTC projects in rural areas. • Plan and execute a balanced portfolio and investment strategy that effectively manages risk. • Work with our syndicator partners to achieve the goal by investing equity in both proprietary and multi-investor funds. • Continue industry engagement through a presence in key networks by exploring new relationships or expanding existing relationships. • Maintain support for investments located in high-needs rural regions and high-needs rural populations when opportunities arise.	Investment
2023	Make equity investments in 70 LIHTC projects in rural areas. • Evaluate portfolio and investment strategy based on lessons learned from 2022 and market conditions. • Strengthen syndicator partnerships to achieve the goal by investing equity in both proprietary and multi-investor funds. • Continue industry engagement through a presence in key networks and explore new relationships or expand existing relationships, if feasible. • Maintain support for investments located in high-needs rural regions and high-needs rural populations, when opportunities arise.	Investment
2024	Make equity investments in 70 LIHTC projects in rural areas. • Evaluate portfolio and investment strategy based on lessons learned from 2023 and market conditions. • Continue to strengthen syndicator partnerships to achieve the goal by investing equity in both proprietary and multi-investor funds. • Continue industry engagement through a presence in key networks and explore new relationships or expand existing relationships, if feasible. • Maintain support for investments located in in high-needs rural regions and high-needs rural populations, when opportunities arise.	Investment