Attachment A: Fannie Mae proposed modifications of 2019-2020 Duty to Serve Underserved Markets Plan

Fannie Mae

Fannie Mae

Manufactured Housing Market

2019 – 2020

Activity: Manufactured housing communities owned by a governmental entity, non-profit organization, or residents (12 C.F.R. § 1282.33 (c) (3)).

Objective 2: Establish pilot program for investments in non-profit organizations, Community Development Finance Institutions (CDFI), small financial institutions, or other entities which have a major focus on MHC with Non-Traditional Owners (Partner and Innovate).

Proposed Modification: Eliminate all 2019 and 2020 actions associated with this Objective.

Justification for Proposed Modification: In 2018, Fannie Mae took steps to establish a Charter Act compliant pilot program for investments in non-profits, CDFI, small financial institutions, or other organizations focused on manufactured housing communities (MHC) owned by governmental entities, non-profits, or residents (Non-Traditional Owners). In developing a pilot proposal, we conducted research and evaluated investment approaches to determine what would have the greatest impact on the market. After much outreach, analysis, and consideration, we determined that the best path forward would be to direct investments into MHC with Non-Traditional Owners in a manner consistent with our proposal to make investments in certain work force equity funds which was formally submitted in February of 2018 (WFE Proposal). We identified experienced potential syndicator partners who had the expertise to make such investments and mapped out a plan for internal Fannie Mae approval.

As discussions with FHFA on the WFE Proposal continued throughout 2018, and a determination on the acceptability of the proposal had not been reached, we concluded that we could not move forward with a pilot program based on that proposal. As an alternative, we began considering investments in CDFI with a focus on Non-Traditional MHC ownership, consistent with the Native American Proposal which was submitted to FHFA in Q3 2018. Unfortunately, this too did not provide a viable alternative as the timing of the proposal submission did not allow for an FHFA determination on the acceptability of the Native American Proposal in time to pursue a pilot program in 2018. Therefore, we submitted an infeasibility assessment for our 2018 actions related to this Objective, which FHFA approved in 2018.

As of April 2019, FHFA has determined that the WFE Proposal will not be approved, and discussions continue on the Native American Proposal. Thus we have chosen to remove this Objective from our Duty to Serve Plan.

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

~~***2. Objective #2: Establish pilot program for investments in non-profit organizations, Community Development Finance Institutions (CDFI), small financial institutions, or other entities which have a major focus on MHC with Non-Traditional Owners (Partner and Innovate).***~~

~~Meeting the Challenges~~
~~As indicated in several public comments, additional challenges for MHC with Non-Traditional Owners include:~~ • ~~There are very few financial entities that specialize in this type of MHC.~~ • ~~Entities that work with MHC with Non-Traditional Owners are often small and local or regional and have limited access to capital for financing, especially with respect to the earlier stages of acquisition/stabilization financing which may include higher LTVs, subordinate debt, and require other forms of long-term capital.~~ ~~To address these challenges, Fannie Mae will:~~ • ~~Design and conduct a pilot program, subject to receipt of FHFA approval, to test entity level financing to nonprofit organizations, CDFI, small financial institutions, or other entities that have a major focus on development and financing of MHC with Non-Traditional Owners.~~ • ~~Utilize pilot results in conjunction with the activities in Objective #1 to help determine the best role for Fannie Mae in supporting MHC with Non-Traditional Owners going forward, to provide long term permanent debt or to invest in intermediary financial organizations working with this product.~~

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

Year	Actions
2019	• ~~Source, underwrite, approve, and fund two investments under the pilot program representing 40 percent of the amount of the appropriate investment identified. Fannie Mae will engage in the following tasks to approve the investments.~~ o ~~Assess counterparty risk.~~ o ~~Determine acceptable performance measures and/or loan covenants.~~ o ~~Identify and mitigate key risks.~~ o ~~Negotiate investment documentation.~~ o ~~Develop appropriate asset management requirements including quarterly review process.~~ o ~~Close and fund investment.~~ o ~~Utilize performance review(s) to inform additional investments to be made in 2020.~~ o ~~Analyze lessons learned in 2019 to determine if any modifications are needed for 2020.~~

Year	Actions
2020	• ~~Source, underwrite, approve, and fund three investments under the pilot program representing the remaining 60 percent of the amount of the appropriate investment.~~ • ~~Conduct quarterly reviews of investments made to date to assess performance under the pilot program. Quarterly reviews will include:~~ o ~~Review of loan covenants (if required) to confirm borrower's financial health.~~ o ~~Review of loan portfolio to confirm that it is performing as expected.~~ o ~~Review of payment history.~~ • ~~During Q4, conduct a review of the pilot program to determine appropriateness in terms of both safety and soundness, mission impact, and implications for Fannie Mae's role in the Non-Traditional Owners MHC market going forward (including during the 2021 – 2023 Plan).~~

~~The need for capital investments in the underserved markets of the type described in this Objective was raised during the outreach Fannie Mae conducted in 2015, the comments that were received on the proposed Duty to Serve rule in 2016, and in the three listening sessions which took place in 2017. These comments define a significant market opportunity for these investments. Investment of this capital would in turn leverage significant funds into manufactured housing, which would enhance the market for MHC. Based on Fannie Mae's significant experience in developing products, acquiring approval and making investments of this nature, we believe this Objective is realistic and may be achieved within the time periods described. Any new investment would be subject to internal approval that would incorporate safety and soundness analysis. Implementation of this Objective is contingent upon a determination that the Objective and related actions are compliant with Fannie Mae's Charter Act, and receipt of FHFA approval.~~

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

Fannie Mae
Rural Housing
2019 – 2020

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

Objective 1: Rebrand and market Fannie Mae's Native American Conventional Lending Initiative (NACLI) and purchase single-family loans (Analyze, Partner and Innovate, Do What We Do Best).

Proposed Modification: Expand mortgage lending access by allowing Fannie Mae approved lenders the ability to deliver the HUD Section 184 Indian Home Loan Guarantee home mortgage product.

Justification for Proposed Modification: The HUD Section 184 program remains a popular and secure mortgage lending option for both Native American homebuyers and lenders. By providing additional liquidity to this market, Fannie Mae will increase the pool of available lenders while providing a variety of options to better serve Native American communities.

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

Note: Fannie Mae seeks extra credit for this Activity.

1. ***Objective #1: Rebrand and market Fannie Mae's Native American Conventional Lending Initiative (NACLI) and purchase single-family loans (Analyze, Partner and Innovate, Do What We Do Best).***

Meeting the Challenges
Native American tribes are one of the most underserved, impoverished minority populations in the country. The Native American Indian Housing Council (NAIHC) estimates that the homeownership rate in Indian country is about 33 percent, substantially below the national average, and Native Americans are four times more likely than the average American family to live in substandard housing. Potential homebuyers wanting to purchase homes on Native American land are faced with substantial challenges making it difficult to attract investors and lending products. These challenges include: • Each tribe has a unique structure of governance, culture, history, and identity. • There are legal complexities involving Native American land (e.g., federally restricted trust land and allotted lands). • Housing located on reservations can be in substandard condition; overcrowding is common due to a high level of unemployment, persistent poverty, and lack of affordable rental housing. • The mortgage lending process on Native American land is confusing and can be overwhelming, compounded by a general lack of understanding of the home purchase and ownership process. • Conventional lending is nearly non-existent, leaving Native American tribes to rely on government lending programs to finance home purchases and refinance transactions. • In order to determine effective ways to finance housing on tribal lands, a better understanding is required of Native American culture, history, and identity as it relates to home ownership. To address these challenges, Fannie Mae will: • Partner with tribal leadership and Tribally Designated Housing Entities (TDHE) to establish a Memoranda of Understanding (MOU) adopting the necessary procedures to participate in Fannie Mae's NACLI loan program, resulting in the provision of increased liquidity. • Increase lending opportunities on Native American lands by fostering collaboration between tribes and Fannie Mae approved lenders. • Collect and analyze mortgage data and loan performance; this information will be made available on Fannie Mae's website, through the use of targeted email campaigns and other highly visible mechanisms to bring clarity to the market. Providing factual information addressing misconceptions about Native American lending, which will help provide additional liquidity to the market. Promoting Fannie Mae's presence in this market and ultimately providing critical information will support and encourage capital sources to venture into lending and investing in this market where they may not have done so previously. • Employ a test and learn approach to enhance a loan product or policy to reach more very low-, low- and moderate-income families. Evaluate the success and aim to develop affordable lending best practices. • Strengthen homeownership knowledge of tribal members by building partnerships with anchor institutions, housing counseling organizations, and financial capability service providers. This collaboration will provide potential homebuyers with assistance to overcome credit and budget barriers, thus improving financial stability for increasing access to affordable rental housing and homeownership opportunities.

SMART Factors

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

<table>
<tr><th>Year</th><th>Actions</th></tr>
<tr><td>2019</td><td>

Purchase between 15 and 40 NACLI and/or HUD Section 184 purchase money or refinance loans.[1]
Baseline: The Baseline is the current three-year average of the number of ~~NACLI~~ loans purchased by Fannie Mae ~~over the last three years~~ which is four~~one~~ loans (2016~~4~~, 1~~0~~; 2017~~5~~, 7~~3~~; 2018~~6~~, 4~~0~~). Fannie Mae acknowledges 2017 is higher than the most current three-year average, however, 2017 purchases consisted of targeted refinances and does not accurately represent the market.
Expand lender outreach to an additional two lenders geographically located near Native American land (i.e., lenders not approached in 2018).
Use the information gathered in 2018 to develop or enhance policy around appraisals on tribal trust lands and share best practices.
Because of known barriers such as lack of affordable supply for high-needs populations, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products such as construction loans or HomeStyle® Renovation and establish a test and learn approach issuing one negotiated variance to select lenders working with high needs populations.
Explore opportunities to bring a culturally specific homebuyer or financial literacy curriculum to an online platform.
Provide technical assistance or identify other opportunities for lenders, Native CDFI or tribe to enhance homeownership opportunities or access affordable capital and liquidity on tribal trust lands.
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<tr><td>2020</td><td>

Purchase between 125 and 200 NACLI and/or HUD Section 184 purchase money or refinance loans.
Enhance NACLI and the MOU with the tribe to incorporate lessons learned as a result of appraiser and lender engagement.
Publish one piece of guidance related to credit or collateral policy regarding tribal trust land. Expand lender outreach to an additional two lenders geographically located near Native American land (i.e., lenders not approached in 2018 or 2019).
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~~The use of conventional lending products to purchase or construct homes is non-existent with this particular high-needs rural population.~~ Fannie Mae has a long history of demonstrated commitment to finding ways to create affordable housing opportunities for Native American families living on tribal trust lands since as early as 1994 and launched our first rendition ~~of this product~~ of NACLI in 1999. Yet t~~T~~oday, NACLI is an existing refinance-only product, ~~but it is~~and an underutilized product in the Fannie Mae Selling Guide and we purchase very few HUD 184 loans. In order to better support mortgage lending among Native Americans, we are committed to providing more liquidity for government-backed loans and to reviving the NACLI product.

Fannie Mae will establish legal agreements, MOUs, with tribes in order to allow for conventional financing. The MOU is a critical piece to the NACLI product and requires updating before new loan acquisitions can be made. Under a MOU, the tribe agrees to maintain certain legal standards supporting mortgage lending—primarily laws permitting land leasing, pledging of leaseholds, mortgage foreclosures, and evictions. Without a legal framework of this type, Fannie Mae cannot

1 In Fannie Mae's proposed Plan dated 5/8/17, significantly higher loan purchase goals for Year 2 (75–125) and Year 3 (200–275) and baseline numbers (31) were proposed. This was a result of our original analysis being completed manually without the application of the "rural" filter and the "< 100% AMI" filter which limit the number of historical loan purchases identified. In addition, the analysis uncovered a number of loans delivered with a transposed identifier code, erroneously increasing the NACLI Baseline. These errors were corrected to establish the correct figures presented in this Plan.

safely and soundly purchase mortgages on Native American lands. The MOU also sets forth Fannie Mae's offer to purchase loans secured by Native American lands and to respect tribal sovereignty through the acknowledgment of tribal court jurisdiction. The legal structure is similar with the HUD Section 184. Based on these significant factors along with our prior knowledge of working with Native American tribes, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Achieving these goals, while maintaining safety and soundness, requires substantial effort and use of Fannie Mae resources. The ultimate opportunity available in this market is to finance more conventional Native American mortgages. To this end, Fannie Mae will conduct loan product work and loan purchases in a safe and sound manner. Activities supporting this Objective require a different paradigm designed to reach disparate communities in a scalable way and, therefore, the work is difficult.

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

Fannie Mae

Rural Housing

2019

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

Objective 1: Fannie Mae will increase purchases of single-family loans in rural areas from small financial institutions (Do What We Do Best).

Proposed Modification: Revision to the loan purchase goal and benchmark to include only mortgage loans funded by Certified Community Development Finance Institutions (CDFIs), Federally Insured Depository Institutions and Federally Insured Credit Unions.

Justification for Proposed Modification: While mortgage bankers and larger financial institutions add important liquidity to rural markets, small depositories and CDFIs often face greater operational challenges and may need additional focus. FHFA also recently clarified that loans purchased from mortgage banks are not eligible for DTS loan purchase credit under the "Financing by small institutions of rural housing" regulatory activity.

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

1. *Objective #1: Fannie Mae will increase purchases of single-family loans in rural areas from small financial institutions (Do What We Do Best).*

Meeting the Challenges
One of the biggest challenges in rural areas for small financial institutions is access to the secondary market and affordable capital. To address this challenge Fannie Mae will: • Purchase ~~an~~ approximately an additional 592~~additional 6,369 to 8,369~~ rural single-family loans from small financial institutions over the remaining two ~~three~~ years of this Plan, which equates to an estimated additional $89~~1.5 billion~~million of liquidity.

SMART Factors

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

Year	Actions
2019	• Purchase between 7,300 and 7,500 loans in rural areas from small financial institutions which are also a certified community development financial institution, insured depository institution, or federally insured credit union, as defined under the Regulation, representing an approximate three to five percent increase over Baseline~~Purchase between 23,800 and 24,300[6] single-family loans in rural areas from small financial institutions, representing an approximate eight to 10 percent increase over the Baseline~~. • **Baseline:** The most current three-year average of the total number of rural loans purchased by Fannie Mae from small financial institutions in rural areas which are also a community development financial institution, insured depository institution, or federally insured credit union, is 7,104 loans. (2016: 7,412; 2017: 7,021; 2018: 6,878). Fannie Mae acknowledges 2016 is higher than the most current three-year average however 2016 represented an unprecedent number of refinances due to historically all-time low interest rates and there has been a downward trend year-over-year since that time. ~~The three year average of the total number of rural loans purchased by Fannie Mae from small financial institutions in rural areas is 22,077 loans. (2014: 18,058; 2015: 22,003; 2016: 26.170). The Baseline is being established at 22,077.~~
2020	• Purchase between 7,500 and 7,700 loans in rural areas from small financial institutions which are also a certified community development financial institution, insured depository institution, or federally insured credit union, as defined under the Regulation, representing an approximate five to eight percent increase over Baseline.~~Purchase between 25,600 and 26,900 single-family loans in rural areas from small financial institutions, representing an approximate 16 to 22 percent increase over the Baseline.~~

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

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