Fannie Mae

Manufactured Housing

2018

Activity: Manufactured homes titled as real property (12 C.F.R. § 1282.33 (c) (1)).

Objective 3: Develop an enhanced manufactured housing loan product for quality manufactured housing and purchase loans (Partner and Innovate, Do What We Do Best).

Proposed Modification: Change Evaluation Criteria from Loan Purchase to Loan Product.

Justification for Proposed Modification: MH Advantage Selling Guide update announced on June 5th. Currently engaging industry including retailers and manufacturers. Increasing awareness and educating our customers. As of 8/31/18, we have purchased 0 loans. Per conversations with manufacturers, they indicate that there is a substantial, and unusually long backlog at manufacturing plants. While specific estimates of the backlog vary, the consensus from our research is that an MH Advantage home will require between four to six months to manufacture and distribute to a retailer. With few homes built to MH Advantage standards currently available, it is plausible that new homes built to these standards will not be available for purchase and finance until early 2019.

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

3. Objective #3: Develop an enhanced manufactured housing loan product for quality manufactured housing and purchase loans (Partner and Innovate, Do What We Do Best).

Meeting the Challenges

The average price point for new, site-built homes continues to increase and in many markets is outpacing income growth, putting purchases out of reach for many very low-, low-, and moderate-income families. Modern quality manufactured housing is an affordable alternative to site-built homes. Nonetheless, the market for quality manufactured housing faces a number of challenges, including:

- Quality manufactured housing may be affordable, but there are financing barriers which do not apply to conventional lending for site-built housing, for example, higher down payment requirements.
- Manufactured housing may be perceived to be of low quality despite improvements made in the quality of construction and features included.

To address these challenges, Fannie Mae will:

- Develop and market a loan product for quality manufactured housing to provide greater liquidity by allowing increased flexibility and reduced requirements.
- Establish a lender and appraiser engagement and education strategy to drive market support for financing of quality manufactured housing.

SMART Factors

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

Year	Actions
2018	• Issue one negotiated variance to select lender(s) or issue one policy change to improve financing options for quality manufactured housing by taking the following actions – by Q2 end: o Define distinguishing construction features or property characteristics of quality manufactured housing. These may include items such as exterior or interior design features, energy efficiency features, foundation systems, or other structural build features. o If necessary, enhance business processes and technology infrastructure. • Enhance, modify, or simplify product offering as needed based on customer feedback and performance of the product. • Purchase between 100 and 250 loans – by Q4 end, representing an approximate one to three percent of the total manufactured housing purchases in Objective #1. These loans are included in the total manufactured housing purchases in Objective #1. o **Baseline**: Previously Fannie Mae introduced a product for the financing of quality manufactured housing loans, MH Select™, which had no deliveries in its last three years of availability (i.e., 2010-2012). However, based on renewed interest in the manufacturing of quality manufactured housing, and anticipated enhancements of and focused marketing for the new financing product, we believe we will be able to acquire between 100 and 250 loans of this product in its first year of production.

Many moderate-income families cannot afford to buy a home due to the increasing costs of newly constructed homes and decreasing supply of existing, affordable homes. This product aims to promote quality manufactured homes as an acceptable alternative to site-built homes and will allow moderate-income families to purchase a manufactured home with lending terms similar to those for site-built homes, ultimately increasing liquidity to the market.

Fannie Mae has significant experience evaluating, developing, setting standards for, and purchasing enhanced loan products. Accordingly, we believe the Objective is reasonable and can be achieved within the time periods described. The ultimate opportunity available in this market is to finance mortgages secured by quality manufactured housing. This enhanced loan product will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be acquired consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product~~Purchase~~	Loan Purchase	Loan Purchase
Concept Score:	30	30	40
• [Discussion of concept score.]			
Income Levels:	Very Low-, Low- and Moderate-Income Levels for all Years		

Fannie Mae

Manufactured Housing

2019 – 2020

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

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

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

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

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

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

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

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

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

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

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

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

Fannie Mae

Manufactured Housing

2019 – 2020

Activity: MHC with certain pad lease protections (12 C.F.R. § 1282.33 (c) (4)).

Objective 1: Conduct research and outreach to determine market opportunities for FHFA's minimum tenant pad lease protections (FHFA Pad Requirements), offer one loan product enhancement, and acquire loans (Test and Learn, Partner and Innovate, Do What We Do Best).

Proposed Modification: Change baseline for 2019 & 2020 from total number of MHC loans purchased to the total number of units which have the tenant pad lease protections in place.

Justification for Proposed Modification: MHC borrowers and lenders have advised Fannie Mae that it will be onerous to get 100% of the leases renewed with protections in place prior to loan acquisition for a number of reasons, including the following:

1. Lease expiration dates do not all occur on the same date. It could take up to 12 months for all of the leases in the park to be renewed which incorporate the Tenant Pad Lease Protections (TPLP).
2. Residents may be unwilling to sign the new lease terms with TPLP~~s~~. They may not understand its purpose nor the MHC owner's intent. Residents may interpret this as "government involvement" and will have questions regarding the protections. Residents will likely need to seek outside counsel for interpretation of the TPLP~~s~~ which will cost time and money.

Disruption to residents is not the intent of this objective. Based upon this feedback, we do not expect 100% of the units within a community to be in compliance upon acquisition as required in the 2018 DTS plan. Our proposed product enhancement will incentivize borrowers based upon the percentage of the units that have incorporated the TPLP prior to loan acquisition. Based upon outreach, borrowers are fairly confident that they could reach a minimum of 50% compliance prior to loan acquisition. The remaining leases will be renewed over time with the TPLP. We are requesting the baseline to be 431 units in 2019 and 615 units in 2020.

<u>2019 baseline calculation</u>

2018 unit average per acquisition of loans < $7million =123 x 50% (leases in compliance) = 61.5 units

61.5 units x 7 loans = 431 units

<u>2020 baseline calculation</u>

61.5 units x 10 loans = 615 units

The unit average per loan of 61.5 was based off of our 2018 YTD production of loans <$7million. Lenders have commented that smaller communities with smaller number of units are more likely to pursue the incentive for TPLP~~s~~ since it will require less work by the community owners to convert the leases. In larger communities, borrowers may find it more difficult to convert a minimum of 50% of the units at the time of acquisition due to the higher number of leases that would need to be renewed within a short period of time.

D. Regulatory Activity: MHC with certain pad lease protections (12 C.F.R. § 1282.33 (c) (4)).

1. ***Objective #1: Conduct research and outreach to determine market opportunities for FHFA's minimum tenant pad lease protections (FHFA Pad Requirements), offer one loan product enhancement, and acquire loans (Test and Learn, Partner and Innovate, Do What We Do Best).***

Meeting the Challenges
The MHC finance market faces several key challenges, including: • Inconsistent legal requirements for tenant pad leases across the country. • No State law that meets all of the FHFA Pad Requirements. • Borrower resistance to adopting consumer-oriented pad leases. To address these challenges, Fannie Mae will: • Conduct research and outreach on potential acceptance by MHC owners of FHFA Pad Requirements. • Identify, approve, and market one product enhancement to Fannie Mae's MHC product that will encourage borrower adoption of the FHFA Pad Requirements. • Purchase loans secured by MHC that are subject to the FHFA Pad Requirements.

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

Year	Actions
2018	• Conduct outreach to three manufactured housing organizations to get more insight on the impact/effectiveness of the FHFA Pad Requirements and similar requirements in different locations as well as which protections have the most impact. • Conduct outreach to five States that require the most significant number of pad lease protections included in the FHFA Pad Requirements to understand how such requirements are enforced and monitored. • Conduct outreach to 10 MHC owners (including ROC) and four lenders to better understand the barriers to incorporating the FHFA Pad Requirements and the market opportunities for financing MHC that meet the FHFA Pad Requirements. • Conduct outreach to five MHC owners to better understand any owner resistance to adopting FHFA Pad Requirements and how to address that resistance. • Based on the outreach and other research results, identify, review, and approve at least one product enhancement for lenders and/or MHC owners that would incent loan purchases secured by MHC that meet the FHFA Pad Requirements. • Review the 2019 loan purchase goal and Baseline to determine any necessary adjustments based on the knowledge attained through the activities completed during 2018.

Year	Actions
2019	• Train three MHC lenders to market the product enhancement to 10 MHC owners to encourage the owners to adopt the FHFA Pad Requirements at their properties based on the response of the MHC owners. • Market product enhancement at appropriate trade conferences to increase awareness and loan purchases. • ~~Purchase seven loans~~ Acquire 431 units secured by MHC that meet the FHFA Pad Requirements. o **Baseline**: Because Fannie Mae has not purchased any MHC loans that meet the FHFA Pad Requirements, a Baseline cannot be reasonable established for these purchases. There are no States that currently require all of the FHFA Pad Requirements. The goal will be to acquire 431 units ~~purchase seven loans~~ meeting the FHFA Pad Requirements, which also includes the purchases that will be made through Fannie Mae's 2019 ROC pilot. ~~Until research and outreach is conducted as noted in 2018, Fannie Mae cannot assume that communities owned by Non-Traditional Owners are more likely to include the FHFA Pad Requirements. As noted in the 2018 actions, the proposed Baseline will be reviewed and possibly adjusted based on knowledge gained through outreach and research actions planned for that year.~~ • Review proposed 2020 loan purchase goal based on 2019 results.
2020	• ~~Purchase 10 loans~~ Acquire 615 units secured by MHC that meet the FHFA Pad Requirements. • Review the product enhancement to determine its impact in the overall financing decision and to identify potential changes that would further increase loan purchases that meet the FHFA Pad Requirements. • Establish goals for the 2020 – 2023 Duty to Serve Plan.

Fannie Mae

Fannie Mae

Affordable Housing Preservation

2019 – 2020

Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

Objective 2: Work with the USDA and other stakeholders to adopt an approach resulting in increased liquidity for preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, Do What We Do Best).

Proposed Modification: Modify Actions to reflect execution and follow through of planned product enhancement.

Justification for Proposed Modification: The Revised Actions reflect specific steps required to implement the planned product enhancement around 515 preservation effectively. In particular, including a focus on communication and trainings of new product enhancements to increase the likelihood of their success.

C. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

1. ***Objective #1: Work with the USDA and other stakeholders to adopt an approach resulting in increased liquidity for preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, Do What We Do Best).***

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

Year	Actions
2018	• Establish a workable strategy to preserve Section 515 properties across the country by undertaking the following: o Meeting with 10 market stakeholders, including rural housing advocates, Section 515 property owners/developers, State HFA, and the USDA to better understand the specific issues with Section 515 properties (e.g., loss of housing stock) and to discuss possible solutions and formulate the most effective and viable strategy. o Engaging with a total of three DUS and special affordable lenders that have experience with Section 515 properties to get insight to ensure that any proposed strategy is viable for potential lenders. o Reviewing Fannie Mae's financing through the USDA's Section 538 program as part of designing an effective strategy to determine if the product could further enhance Fannie Mae's ability to bring liquidity to the Section 515 preservation effort. • Create a comprehensive Section 515 work-plan that will drive loan purchases and other actions during 2019 and 2020. • As part of Fannie Mae's overall LIHTC equity strategy, conduct a review of the potential use of LIHTC equity investments in conjunction with debt on the USDA Section 515 properties. • Process one Section 515 work-plan (including any potential product enhancements) through internal Fannie Mae product development procedures to secure approvals as required. Formulate one loan purchase and two other goals for 2019 – 2020, with an aim to provide financing annually for at least 10 percent of the total Section 515 properties that could potentially exit the program during the three year term of the Plan. Based on USDA's multifamily housing property preservation tool, 122 Section 515 properties could potentially exit the program during the term of the Plan. Accordingly, the loan purchase goal for 2019 and 2020 is to purchase a total of at least 12 loans secured by Section 515 properties. The Baseline will be updated as needed as Fannie Mae's strategy is established during 2018.
2019	• Continue to execute the Section 515 work-plan developed during 2018 by developing a product enhancement that will drive the preservation of properties at risk of exiting the USDA Section 515 program through refinancing and/or loan purchases. Obtain internal product development approval and FHFA approval as required. • Conduct outreach to the three DUS and special affordable lenders identified in 2018 that have experience with Section 515 properties to market and train lenders on the product enhancement, and to obtain feedback on the product enhancement. • Purchase at least six loans secured by Section 515 properties at risk of exiting the program. o **Baseline:** While Fannie Mae has refinanced a small number of Section 515 properties in the past, operationally they have not been formally identified and tracked by Fannie Mae and therefore, their

Year	Actions
	numbers cannot be ascertained. Fannie Mae has determined that establishing a Baseline as a percentage of the total number of Section 515 properties with maturing or prepayment eligible loans is an acceptable initial estimate. As noted above, Fannie Mae has set an initial target of at least 10 percent of expiring Section 515 properties during the Plan (a total of 12 loans). However, a Baseline will be reviewed in conjunction with the product development process during 2018 and cannot be determined at this time. • Confirm loan purchase goals for 2020.
2020	• Purchase at least six loans secured by Section 515 properties at risk of exiting the program. • Through the feedback obtained during 2019 outreach, identify changes to the Section 515 product enhancement that will improve the product's effectiveness in the market. Obtain internal product development approval as required. • Develop loan purchase goals for the 2021 – 2023 Duty to Serve Plan.

Fannie Mae

Affordable Housing Preservation

2018 - 2020

Statutory Activity: Low-income housing tax credit under Section 42 of the internal Revenue Code of 1986, 26 U.S.C. § 42.

Objective 1: Increase purchases of mortgages secured by LIHTC properties. (Do What We Do Best).

Proposed Modification: Revise baseline to exclude loan purchases that would not be eligible for Duty to Serve credit.

Justification for Proposed Modification: In an effort to review and confirm Fannie Mae's loan purchase targets for 2019 and 2020 the team reviewed our historic loan purchases for 2014, 2015, 2016, and 2017 using our now tested and confirmed methodology. It was discovered that a handful of loans in each year were included in our initial baseline that do not meet Duty to Serve eligibility criteria. We propose to revise the baseline, and therefore our targets, to reflect this correction.

D. Statutory Activity: Low-income housing tax credit under Section 42 of the internal Revenue Code of 1986, 26 U.S.C. § 42.

1. ***Objective #1: Increase purchases of mortgages secured by LIHTC properties. (Do What We Do Best).***

Meeting the Challenges
Financing and preserving LIHTC properties has several key challenges, including: • The LIHTC market is sensitive to potential changes in the US Tax Code as recently demonstrated by the decline in LIHTC prices based on a presumption that the corporate tax rate could drop as part of a national tax reform. • While communities on both coasts and interior cities have access to competitive LIHTC equity, the needs of tertiary cities and rural communities are not met. To address the challenges, Fannie Mae will: • Review the LIHTC market to determine key trends and identify issues which may drive Fannie Mae's possible enhancements of our LIHTC debt product. • Review and consider product enhancements that could result in increased loan purchases. • Contribute additional liquidity to the market by acquiring an increased number of loans secured by LIHTC properties. • As noted in Objective #1 of Fannie Mae's activities related to Residential Economic Diversity (RED), incorporate concepts of RED into Fannie Mae's LIHTC Debt Purchase activities.

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

Year	Actions
2018	• Identify two trends and two product enhancement needs in the LIHTC industry, and propose ways to address them in order to increase liquidity to the LIHTC debt market. • Purchase 83 ~~85~~ loans secured by LIHTC properties, representing approximately a ~~13~~ 14 percent increase over the Baseline. o **Baseline**: The average number of LIHTC debt loans purchased by Fannie Mae over the last three years is ~~56~~63 loans (2014: ~~51~~63; 2015: ~~51~~44; 2016: ~~68~~65; 2017: 80). However, given that this average is lower than the number of loans purchased in 2016 and 2017 ~~(annualized at 82 loans)~~ and to account for the upward trend, Fannie Mae is using an average of the 2016 purchases (~~68~~65) and the 2017 purchases (~~82~~80) as our Baseline, or ~~75~~73 loans.
2019	• Purchase ~~89~~ 86 loans secured by LIHTC properties, representing approximately an 18 percent increase over the Baseline. • Confirm loan purchase goal for 2020, including LIHTC debt purchases on properties that serve other Duty to Serve underserved markets including high-needs rural regions, high-needs populations, and RED housing.

Year	Actions
2020	• Purchase ~~95~~ 92 loans secured by LIHTC properties, representing approximately a 26 percent increase over the Baseline. • Plan for the 2021-2023 Duty to Serve Plan.

Fannie Mae
Affordable Housing Preservation
2018 – 2019

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

Objective 1: Engage stakeholders and conduct research to increase awareness and understanding of energy or water efficiency improvements and financing needs (Analyze, Test and Learn).

Proposed Modification: Substitute Action Item.

Justification for Proposes Modification: Our 2018 actions in support of this objective included identifying two potential product enhancements that, if approved, could result in increased loan purchases. In lieu of identifying two potential product enhancements and approving one next year, we are prepared to approve a product enhancement this year. We are proposing to expand the Green Rewards product to include Solar Rewards loans. Similar to the traditional Green Rewards product, Solar Rewards loans will need to demonstrate that the property will generate or save 25% or more of baseline energy through a combination of renewable energy and energy consumption reduction. Accordingly, we would like to strike the fourth bullet for 2019, which requires Fannie Mae to approve one of two product enhancements identified, as we will have met this goal in 2018.

G. Regulatory Activity: Finance improvements on multifamily properties: (a) which reduce energy or water consumption by tenant or property by at least 15 percent; 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)).

1. ***Objective #1: Engage stakeholders and conduct research to increase awareness and understanding of energy or water efficiency improvements and financing needs (Analyze, Test and Learn).***

Meeting the Challenges
The multifamily energy and water efficiency market faces a number of challenges, including: • It is complex, with many participants, products, evolving technologies, standards, and regulations. • Energy and water improvements (collectively Improvements) can require significant upfront capital and financing options are varied and can be costly. • Mortgage products that finance or refinance Improvements have terms that impact eligibility, do not meet the FHFA Criteria, and are not well understood by lenders. • There is a lack of information about the needs and opportunities for Improvements and factors driving outcome. To address these challenges, Fannie Mae will: • Engage stakeholders, including utilities, through roundtable discussions to assess the evolving market and assist market participants in better serving their customers. • Engage lenders for education, to get input into product changes to meet the FHFA Criteria, to simplify loan requirements, increase eligibility, and increase delivery of loans. • Invest in research, data collection, and analysis to improve the market and develop products that will incent stakeholders to engage and assist us to underwrite Improvements effectively and to identify methods to measure savings on Improvements that meet the FHFA Criteria. • Publish information gathered and analyzed to promote liquidity by encouraging capital sources to venture into new lending and investing areas related to Improvements.

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

Year	Actions
2018	• Participate in two key industry conferences and host one energy advisory council meeting with cross-functional industry representation to gain a better understanding of the current market barriers and challenges. • Develop and implement a research plan to clarify the market's understanding of the evolving technical landscape.

Year	Actions
	• Establish and participate in an outreach program to increase multifamily owners'/operators' awareness of and access to energy and water efficiency savings and financing programs. • Conduct a review of Fannie Mae's current product offerings to find ways to potentially overlap with the existing incentives provided by utility and State energy offices. • ~~Identify two potential~~Approve one product enhancement that ~~s that, if approved,~~ could result in loan purchases meeting the FHFA Criteria. • Establish and test a methodology to confirm actual energy savings on ~~Improvements~~improvements.
2019	• Participate in two key industry conferences and host one energy advisory council meeting with cross-functional industry representation to continue to increase Fannie Mae's understanding of the market and to ensure our work is correctly targeted over the previous year. • Continue to expand the outreach by hosting roundtables and participating in industry conferences to increase awareness and access to energy and water efficiency savings and programs that help finance Improvements. • Continue to test and confirm actual energy savings on loans purchased through Fannie Mae's green finance programs. • ~~Approve one of the two product enhancements identified through outreach and research activities.~~ • Analyze lessons learned and make adjustments to the plan if necessary. • Draft work-plan for a white paper to educate key stakeholders on best practices in energy efficiency financing and affordable housing preservation, with the goal to publish during 2020.

Fannie Mae

Fannie Mae

Affordable Housing Preservation

2018 – 2019

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

Objective 2: Facilitate the establishment and dissemination of energy or water efficiency improvements finance industry standards that will facilitate increased liquidity to the multifamily energy efficiency improvements finance market (Partner and Innovate).

Proposed Modification: Incorporated in discussion below.

Justification for Proposes Modification:

2018:

The action item that begins "Engaging with five relevant trade organizations, valuation services, rating groups and appraisal companies" is unclear as written. Fannie Mae proposes to strike the "and" from the phrase and replace it with the word "or", to more accurately convey the original intent of the action. We would also like to add "bond standard groups" to the list after "rating groups", to more completely encompass the list of relevant stakeholders.

2019:

As with the action item from 2018, we would like to edit for clarity and accuracy. In the parent-bullet and second sub-bullet, we'd like to strike the terms "valuations" and "financing commissions" and change the word "and" to "or". We are also proposing to edit the reference to engaging in three industry roundtables by replacing it with reference to the Energy Advisory Committee. The Energy Advisory Committee is a more appropriate and targeted group for this action, and it contains, by design, broad industry representation.

Finally, as Fannie Mae does not publish standards, we would like to change the term "Publish" to "Publicize".

These changes more accurately reflect the current strategies as well as the original intent of the actions which address the stated challenge related to the lack of standards and methodologies for communicating the presence of, types, and value of energy and water efficiency upgrades in residential properties.

G. Regulatory Activity: Finance improvements on multifamily properties: (a) which reduce energy or water consumption by tenant or property by at least 15 percent; 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)).

2. Objective #2: Facilitate the establishment and dissemination of energy or water efficiency improvements finance industry standards that will facilitate increased liquidity to the multifamily energy efficiency improvements finance market (Partner and Innovate).

Meeting the Challenges
Additional challenges facing the residential energy and water efficiency market include: • A lack of standards and methodologies for communicating the presence of, types, and value of energy and water efficiency upgrades in residential properties. • An overall lack of liquidity for mortgages that support financing for Improvements meeting the FHFA Criteria. To address these challenges, Fannie Mae will: • Convene the energy efficiency finance industry to identify and adopt at least one standard for underwriting energy efficiency loans. • Educate the industry on the new standard(s) through engaging with key stakeholders in energy efficiency finance and by publishing the new standard(s). • Incorporate the standards into Fannie Mae's energy efficiency products and documentation.

SMART Factors

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

Year	Actions
2018	• Engage the industry to identify opportunities and challenges in setting standards for underwriting~~, valuations, financing commissions, and~~ or measuring utility savings from Improvements by: o Participating in one industry working group that addresses the need for standardization. o Engaging with five relevant trade organizations, valuation services, rating groups, bond standards groups or~~and~~ appraisal companies to understand similarities and gaps in measurement in order to address standardization issues. • Identify at least two potential industry standards that would facilitate energy efficiency financing.
2019	• Confirm industry adoption of at least one new standard related to underwriting, ~~valuations, financing commissions, and~~ or measuring utility savings from Improvements by: o Developing and implementing a plan to encourage the industry to adopt standards. o Engaging ~~in at least three industry roundtables~~with the Energy Advisory Committee to validate the Plan to reach the industry.

Year	Actions
	o ~~Publishing~~ Publicizing the adopted standard and executing the Plan to reach the industry. • Updating Fannie Mae documentation to incorporate the new standard(s).

Fannie Mae
Affordable Housing Preservation
2019

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)).

Objective 1: Increase liquidity for energy or water efficiency improvements through outreach, research, and developing solutions (Analyze, Partner and Innovate, Test and Learn).

Proposed Modification: Added additional action item in 2019: “Evaluate potential opportunities from engagement in 2018 with State energy financing agencies, utilities, or solar energy financing companies, to determine Fannie Mae’s role, if any, in collaborating with related financing, subsidy, or assistance programs.”

Justification for Proposed Modification: This builds upon work undertaken in 2018 and creates an actionable outcome of that engagement.

H. 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)).

1. *Objective #1: Increase liquidity for energy or water efficiency improvements through outreach, research, and developing solutions (Analyze, Partner and Innovate, Test and Learn).*

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

Year	Actions
2018	• Engage three industry participants that finance Improvements such as State energy financing agencies, utilities, and solar energy financing companies, to identify potential innovative financing opportunities meeting the FHFA Criteria such as developing plans to partner financing, subsidy, or assistance programs with new affordable homeownership opportunities – by Q2 end. • Establish a consumer outreach platform, to increase awareness and access to programs that help finance Improvements that includes homeownership education that can be delivered by non-profits or accessed online; that includes a catalog of or links to programs to finance Improvements; that provides access to online tools and other resources such as the Department of Energy's consumer materials; and that facilitates a regular social media schedule such as leveraging Twitter. Target engagement with 10 stakeholders who interact with consumers, including utilities, lenders, HFA, State and local administrators and/or non-profit groups – by Q3 end. Ten relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Participate in two key industry conferences and host one in-person energy advisory council meeting with cross-functional industry representation (e.g., utility companies, product manufacturers, lenders, realtors, non-profits, government agencies, and consultants) – by Q4 end – for the purpose of developing and building relationships and helping to identify and evaluate strategies and partnerships that will help Fannie Mae execute our Plan. • Establish business-to-business marketing and outreach that includes providing educational materials and lender webinars on financing Improvements with Fannie Mae products for the purpose of helping the market to understand availability, terms and conditions, and opportunities for such loans so that lenders will be able and willing to use and originate them. Target engagement of fifteen lenders and five other stakeholders, including HFA, non-profit organizations, and realtor associations – by Q4 end. Fannie Mae has chosen to target our five largest lenders of our mortgage loan deliveries in 2016 as well as 10 other lenders that represent geographical diversity. Fannie Mae will also work with HFA in two of the top five most populated States, two of the largest non-profit organizations that counsel homeowners, and the nation's largest association of realtors. Twenty relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Develop and execute a research plan – by Q4 end – for the purpose of: (1) improving the market and Fannie Mae's understanding of consumer sentiment, needs and opportunities, future trends, business models, and factors driving Improvements and outcomes; (2) assisting us to underwrite Improvements effectively and identify methodologies to meet the FHFA Criteria; and (3) promoting industry awareness and informing future research. Fannie Mae will: o Investigate the opportunity to acquire data related to home energy ratings, solar panel installation, and/or utility usage on Fannie Mae properties and will analyze such data, as well as secondary research, if able to be secured.

Year	Actions
	o Study consumer behavior or sentiment by executing, directly or through a partnership, one primary consumer research survey and/or focus group or other primary research project. o Analyze our portfolio of loans where borrowers have financed energy or home renovation projects to understand geographic and demographic characteristics and performance. o Publish findings related to one of these research outcomes. • Create variance terms and/or policy updates that enable Fannie Mae to partner with lenders to test and learn one or more market, economic or operational impacts related to financing Improvements, leveraging products such as HomeStyle Energy or HomeStyle Renovation for the purpose of increasing mortgage loan purchases. Fannie Mae will determine test parameters – by Q2 end – based on stakeholder input, conduct related economic, and operational impact analyses – by Q3 end – and issue one lender variance – by Q4 end. One or more participating lenders will be chosen based on level of interest and capacity, potential volume, and market focus. The variance outcome will be evaluated in 2019 and success will be based on actual volume delivery relative to projected delivery as well as positive lender feedback on the changes implemented. If feasible, and depending on research, learnings, and analysis, publish one policy update – by Q4 end.
2019	Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests: • Enhance and continue to execute the business-to-business marketing and outreach by identifying new market entrants and incorporating impact and needs into outreach efforts and updating product materials and webinars. Target engagement with an additional seven lenders and three additional stakeholders (i.e., lenders and stakeholders not approached in 2018) –by Q3 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. Fannie Mae will also work with additional HFA in two more States and work with the non-profit organizations engaged in 2018 to determine additional organizations we should target. Ten additional relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Expand industry leadership efforts by participating in two key industry conferences and seek a leadership role in speaking at one other event for purposes of informing the industry of research findings, product enhancements, and/or market insights. Host one in-person energy advisory council meeting, incorporating feedback from 2018 and including two new participants in order to improve engagement and outcomes – by Q4 end. • Assess findings from Fannie Mae research to date and build upon the outcome of 2018 as well as new trends to acquire additional data and industry research, study consumer behavior or sentiment by executing, directly or through a partnership, one new consumer survey and/or focus group that contributes to a trend analysis, add new acquisitions to the loan analysis, and publish findings related to one of these research outcomes – by Q4 end. • Evaluate the outcomes of variance(s) executed in 2018 and introduce one new variance with terms for one additional policy/product update, or review credit and/or collateral policy identifying opportunities to enhance policy/product parameters – by Q4 end. One variance will focus on opportunities to finance Improvements in high-needs rural areas. If feasible and depending on research, learnings, and analysis, publish one policy update – by Q4 end. • Update the consumer outreach strategy and execute necessary changes to incorporate an analysis of the appropriateness of social media types and frequency, update resources and expand consumer education to two additional non-profit networks or counseling agencies. Fannie Mae plans to focus on large national networks and organizations which can reach a number of affiliated non-profits and as such, has determined that two such entities is appropriate.

Year	Actions
	• Evaluate potential opportunities from engagement in 2018 with State energy financing agencies, utilities, or solar energy financing companies, to determine Fannie Mae's role, if any, in collaborating with related financing, subsidy, or assistance programs.
2020	Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests: • Enhance and continue to execute the business-to-business marketing and outreach campaign by identifying new market entrants, incorporating impact and needs into outreach efforts, and updating product materials and webinars. Target engagement with an additional seven lenders and three other stakeholders (i.e., lenders and stakeholders not approached in 2018 or 2019), representing a significant commitment of time – by Q3 end. The additional lenders and stakeholders will be selected based on evaluation of 2019 activities and responses as well as an assessment of geographical and other needs. Fannie Mae will also work with additional HFA in two more States and work with the non-profit organizations engaged in 2018 and 2019 to determine additional organizations which we should target. Ten additional relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Continue to expand industry leadership efforts by participating in two key industry conferences and speaking at two other events for purposes of informing the industry of research findings, product enhancements, and/or market insights. Host one energy advisory council meeting with cross-functional industry representation, incorporating feedback from 2018 and 2019 and including two new participants in order to improve engagement and outcomes – by Q4 end. • Assess findings from Fannie Mae research to date and build upon outcomes of 2018 and 2019 as well as new trends to acquire additional data and industry research, conduct one new consumer survey and/or focus group that contributes to a trend analysis, add new acquisitions to the loan analysis, and publish findings publicly related to one set of these research outcomes – by Q4 end. • Evaluate the outcomes of variance(s) executed in 2018 and 2019 and introduce one new variance with terms for one additional policy/product update, or review credit and/or collateral policy identifying opportunities to enhance policy/product parameters – by Q4 end. If feasible, and depending on research, learnings, and analysis, publish publicly one policy update – by Q4 end.

Fannie Mae

Fannie Mae
Affordable Housing Preservation
2018 – 2020

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)).

Objective 2: Increase liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans (Partner and Innovate, Do What We Do Best, Test and Learn).

Proposed Modification: Updated Plan to reflect the Evaluation Criteria consistent with FHFA treatment as Loan Product for 2018 and 2019.

Proposed Modification: Clarified language in first actions in 2018 and 2019.

Justification for Proposed Modification: Developing a plan in 2018 will depend upon the outcome of the evaluation, and 2019 will be dependent upon the outcome of the related 2018 action.

Proposed Modification: Added action in 2020 to ensure delivery guidelines will be updated.

Justification for Proposed Modification: If evaluation in prior years result in full guidelines not being established by end of 2019, Fannie Mae will update guidelines in 2020.

Proposed Modification: Added action in 2020 to continue to work with the Uniform Data Committee if the industry has not completed efforts in prior years.

H. 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)).

2. Objective #2: Increase liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans (Partner and Innovate, Do What We Do Best, Test and Learn).

SMART Factors

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

Year	Actions
2018	• Evaluate how to establish loan product standards, guidelines, and tracking to demonstrate that the FHFA Criteria have been met by engaging four administrators of major energy rating and certification programs, by researching 10 energy and water saving calculation methodologies and lists used by State, local, tribal, and utility programs, and by developing a plan to operationalize tracking methodologies, depending on the outcome of the evaluation. Identify a single master list to serve as a benchmark – by Q3 end. Currently Fannie Mae has standards for two energy rating organizations and plans to engage the two largest single family certification programs in evaluating how to leverage credible projections. Fannie Mae has chosen to research 10 programs in order to represent a cross-section of the largest utility providers and geographic diversity. • Hold two meetings – by Q4 end – with interested parties (e.g., the National Realtors Association, Real Estate Standards Organization, the U.S. Department of Energy) to evaluate gaps in appraisal, multiple listing service (MLS), and investor delivery data that is needed by Fannie Mae and the industry in order to identify property-level information about energy and water efficiency features and assess the value impact. Evaluate opportunities to ~~establish a formal partnership with~~collaborate on a standardization effort and sign appropriate agreements if Fannie Mae determines we can do so after conducting due diligence. • Outline a plan for an education and training program for realtors and loan officers so that they and their customers will be able to understand the impact of Improvements on real estate forms. • Purchase between 50 and 100 mortgage loans that meet the FHFA Criteria. [1] Fannie Mae established a proxy Baseline, described below, for 2019 and beyond because operational processes will not be in place during the full year of 2018 to be able to track loans that meet the FHFA Criteria. The targets set for 2018 are based on outreach efforts planned to test methodologies that will enable us to assess them. As such, the 2018 targets are below the proxy Baseline while Fannie Mae establishes tracking methods. o **Baseline:** Fannie Mae currently does not require that the FHFA Criteria be met with our HomeStyle Energy mortgage, nor do we require lenders to account for and report when mortgage loans are used to finance Improvements. Our acquisitions have not been tracked for this purpose. To establish a Baseline and to project loan purchase goals for ~~2019 and~~ 2020 we have used the following data and assumptions:

1 In Fannie Mae's proposed Plan dated 5/8/17, lower purchase goals in Year 2 (50 to 100) and Year 3 (100 to 200) were disclosed and no Baseline was established given that Fannie Mae has not required the FHFA Criteria to be met and our acquisitions have not been tracked for this purpose. Since the original analysis was completed, Fannie Mae determined that other mortgage products besides HomeStyle Energy may include Improvements and we were able to obtain external data to better estimate a proxy Baseline and future loan purchases.

Year	Actions
	▪ HomeStyle Energy – This product was introduced in March 2016 and prior to this Fannie Mae had another energy efficiency mortgage product. From 2010 through 2016, a total of six loans were delivered to Fannie Mae in the target market range, with three of those in 2016. ▪ HomeStyle Renovation – Because this product is used to finance home renovations Fannie Mae assumes that some homeowners included Improvements in their projects. It is most likely that Improvements will be included in a kitchen remodel, bath remodel, or system upgrade (e.g., heating and cooling). According to a study by the Joint Center for Housing Studies (JCHS)[2], respondents reported that 17.2 percent of renovations included kitchen or bath updates or additions and 15.7 were for system upgrades. Therefore, we assumed that approximately 33 percent of HomeStyle Renovation loans had the potential to include an Improvement. The JCHS study also cited that 84 percent of respondents indicated they installed energy efficiency improvements in their projects. As such, we assumed 27.6 percent[3] of HomeStyle Renovation mortgages could have included an Improvement that meets the FHFA Criteria. As we have chosen to use 2016 as a benchmark where HomeStyle Renovation deliveries were 1,740~~37~~, this results in 480 loans meeting our assumption. ▪ Totaling HomeStyle Energy and HomeStyle Renovation loans for 2016, the Baseline we established is 483 mortgage loans.
2019	Based on outcomes in 2018 and to further accelerate industry standardization efforts and liquidity for Improvements, the following will be undertaken: • Depending upon the outcome of the evaluation of loan product standards and guidelines, and if a plan is completed in 2018, u~~U~~pdate Fannie Mae's delivery data requirements to incorporate the identification of Improvements, or continue evaluation and development of standards and guidelines by - Q1 end. • Work with the Uniform Data Committee to gain consensus for updating the appraisal form to include identified fields for property-level information about energy and water efficiency features. If feasible based on the outcome of joint Uniform Data Committee efforts, update Fannie Mae's appraisal policy to incorporate the updated appraisal – by Q4 end. • Continue to work with the industry to drive efforts for standardization on the MLS. Assess progress and required actions to address challenges – by Q4 end. • Launch the lender and realtor training program – by Q4 end. • Purchase between 500 and 550 mortgage loans that meet the FHFA Criteria – by Q4 end. ~~This represents a four to 14 percent increase over the Baseline[4].~~
2020	Based on outcomes in 2018 and 2019 and to further accelerate and sustain industry standardization efforts and liquidity for Improvements: • If not fully established in 2019, update Fannie Mae's delivery data requirements to incorporate the identification of Improvements. • Continue to work with the Uniform Data Committee on updating the appraisal form to include identified fields for property-level information about energy and water efficiency features, if the industry has not completed efforts in prior years. If feasible based on the outcome of joint Uniform Data Committee

2 *Improving America's Housing 2015: Emerging Trends in the Remodeling Market*, Joint Center for Housing Studies of Harvard University.
3 (32.9 percent x 84 percent)
~~4 Of this range, we will target 20 loans to be in high-needs rural regions.~~

Year	Actions
	efforts, update Fannie Mae's appraisal policy to incorporate the updated appraisal if not completed in prior years. • Continue to lead industry meetings to evaluate the status of implementation of appraisal, MLS and delivery data standards and identify additional changes. Assess progress and required actions to address challenges – by Q4 end. • Purchase between 550 and 650 mortgage loans that meet the FHFA Criteria – by Q4 end. This represents a 14 to 35 percent increase over the Baseline[5].

The ultimate opportunity available in this market is to finance increased numbers of Improvements meeting the FHFA Criteria for the target markets and having standards is a critical part of ensuring sources of capital will participate. Fannie Mae plays an active role within the industry to set standards in many areas, including collateral value, data, and property valuation. Based on this experience, coupled with the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described 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.

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

5 Of this range, we target 25 loans to be in high-needs rural regions.

Fannie Mae

Affordable Housing Preservation

2018 – 2020

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

Objective 1: Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).

Proposed Modification: Update Plan for 2018 to reflect Evaluation Factor as Loan Product.

Justification for Proposed Modification: As with Energy and Water Efficiency, Fannie Mae has not had the ability to identify shared equity loans meeting FHFA's standards for Duty to Serve credit because lenders do not report these requirements. Therefore, we need to develop loan product standards before we can deliver shared equity loans per the Duty to Serve regulation.

Proposed Modification: Added action in 2018 to evaluate how to establish methodologies for tracking shared equity loans that meet FHFA's criteria (moved from Objective #2).

Justification for Proposed Modification: This is a critical first step before we can make loan purchases that meet the FHFA criteria. As this step is a loan product development effort tied to purchase goals, this action was moved from Objective #2 to Objective #1.

Proposed Modification: Clarify in 2018 that the Baseline for shared equity loan purchases is a proxy Baseline as Fannie Mae has not previously established a basis for determining the required criteria are met and update the Baseline volumes.

Justification for Proposed Modification: Because we do not have the ability to identify shared equity loans meeting FHFA's standards for Duty to Serve, we have to estimate the Baseline, as such it is an approximation. In the original submitted plan Fannie Mae used 2016 as the starting point for the Baseline as trends from prior years (2014 and 2015) showed increasing volumes. Based upon a recent request from our regulator to provide 2017 numbers, it is apparent that 2016 was not representative of market volume. With interest rates rising, the economic and financial environment for the U.S. housing market is in the process of normalizing and our goals need to be realistic. Given the regulatory environment and rising trend in interest rates, lending volumes are likely to continue to fall as relatively lucrative refinancing volumes dry up and purchase payments become more expensive. As such, we have decided to take a three-year average of purchase volumes—2014, 2015 and 2017—excluding 2016 from such average.

Proposed Modification: Clarify in 2019 and 2020 that purchases may include new program types that Fannie Mae was not able to identify in its 2018 proxy Baseline.

Justification for Proposed Modification: As Fannie Mae grows the market and provides further guidance to lenders on how to report shared equity loans, we may discover that these loans have not previously identified or reported to us; thus, the size of these untracked loans is currently unknown.

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

1. Objective #1: Increase the purchase of mortgage loans that finance shared equity programs (Test and Learn; Do What We Do Best).

Meeting the Challenges
• One of the biggest challenges in the market for shared equity programs for affordable housing preservation is the lack of liquidity in the marketplace. In addition, the industry does not have standards for identifying program features and loan products that meet criteria set forth by FHFA in the Duty to Serve regulation for risk mitigation, sustainability, and affordability for homebuyers. There is also a lack of guidance on what should be identified as a shared equity mortgage loan in the Uniform Loan Delivery Data (ULDD) set. To address these challenges, Fannie Mae will: • Develop methodologies to identify and track loans that finance ~~shared equity~~ shared equity homeownership. • Purchase a total additional 1,100 to 1,300 loans over three years for the purpose of financing shared equity homeownership, which equals an estimated additional $1~~5~~608 million to $~~194~~ 194 million of liquidity over the proxy Baseline.

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

Year	Actions
2018	• Evaluate how to establish methodologies for tracking shared equity loans that meet FHFA's criteria of 30-year affordability, preemptive options to purchase, and limit of proceeds at resale, in order to report accurately loan product deliveries and to refine Baselines for subsequent years. Engage five Fannie Mae lenders who deliver shared equity loans in order to understand how they review and capture these features. • Purchase between 250 and 300 shared equity loans ~~, representing a 20 to 44 percent increase over the Baseline~~that meet the FHFA criteria for shared equity loan purchases. Fannie Mae established a proxy Baseline, described below, for loan purchases in 2019 and beyond because operational processes will not be in place during 2018 to be able to track loans that meet the FHFA criteria for shared equity. The targets set for 2018 are based on outreach efforts planned to test methodologies that will enable us to assess them. o **Baseline**: Fannie Mae's current guidelines do not require, nor do we identify or track, an affordability term of at least 30 years after recordation, or a preemptive option to purchase or limit proceeds at resale as required for shared equity loans qualifying for duty to serve credit. In order to determine a proxy Baseline, we used an assumption, based on industry research, that 75 percent of our shared equity loans met such criteria. We started with the total number of ~~shared equity~~ loans for which we already track as loans in probable shared equity programs that were purchased ~~in 2016, which was 277, when purchase volumes reached a high~~ over the past ~~three~~ four years~~.~~ (2014: 172, 2015: 185, 2016: 277, 2017: 233). Analyzing trend data we used a three-year average that excluded 2016, a year of historically low rates that lead to an unusual volume. The resulting average volume was 197 and aApplying our assumption, we estimate a proxy Baseline of ~~208~~148.

Year	Actions
2019	• Purchase between 350 and 400 shared equity loans, representing a ~~68~~ 137 to ~~92~~ 171 percent increase over the proxy Baseline. These loan purchases may include new program types which Fannie Mae was not able to identify in its proxy Baseline.
2020	• Purchase between 500 and 600 shared equity loans, representing a ~~140~~ 239 to ~~188~~ 307 percent increase over the proxy Baseline. This includes the loan purchases referenced in Objective #2. These loan purchases may include new program types ~~for~~ which Fannie Mae was not able to identify in its proxy Baseline.

The ultimate opportunity available in this market is to finance increased numbers of shared equity loans for affordable housing preservation. Fannie Mae has significant experience purchasing various loans with deed-restrictions and under inclusionary housing programs. Based on this experience, coupled with the help of industry stakeholders, we believe this Objective is achievable within the time periods described. Underwriting standards and credit guidelines that are consistent with safety and soundness will be applied to acquisition of this product.

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

Fannie Mae

Affordable Housing Preservation

2018 – 2020

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

Objective 2: Increase liquidity for shared equity homeownership through outreach, research, and loan product solutions (Analyze, Partner and Innovate, Test and Learn).

Proposed Modification: Moved action to establish tracking methodologies from this Obective to Objective #1.

Justification for Proposed Modification: This is a critical first step before we can make loan purchases that meet the FHFA criteria as it is more of a loan product development effort tied to purchase goals.

Proposed Modification: Expanded action for development of the industry database in 2018 and added actions in 2019 and 2020 to continue its development.

Proposed Modification: Expanded a sub-bullet under the policy review action to identify types of shared equity mortgage loans for which Fannie Mae has not previously provided policy guidance.

Proposed Modification: Added an action in 2018 to cover additional research; grouped the case study under a broader research action.

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

2. Objective #2: Increase liquidity for shared equity homeownership through outreach, research, and loan product solutions (Analyze, Partner and Innovate, Test and Learn).

Meeting the Challenges

The shared equity market faces a number of challenges, including:
• Complexity and fragmentation. It serves various income ranges, differs across geographic markets, and represents a variety of program types.
• Unknown size. Programs are unique and no standard definition exists on what should be included in the "shared equity market." With data gathered by multiple agencies, often in survey form, there is a lack of a unified, loan level data source. There is also a lack of guidance on what should be identified as a shared equity mortgage loan in the Uniform Loan Delivery Data (ULDD) set.
• Lack of support. Shared equity mortgage loan products are generally not well promoted or supported in the larger mortgage finance industry as they add complexities to the loan origination process and to servicing. These complexities and challenges include additional underwriting requirements and steps and representations for the lender and servicer versus other loan types, leading to fears of non-compliance with investor requirements. As a result, lenders avoid originating and selling shared equity mortgages to Fannie Mae.[1]
 	
To address these challenges, Fannie Mae will:
• Develop and execute a robust research and analysis strategy in order to fill knowledge gaps and help expand liquidity:
    o Conduct research and data analysis to understand the market size, challenges, and opportunities for preserving the long-term affordability of shared equity property types, as well as related financing issues.
    o Distribute findings to bring clarity to the marketplace, which encourages capital sources to venture into lending and investing in these market segments where they may not have done so previously.
• Develop and execute a comprehensive outreach strategy to educate and seek input from the industry. In addition to engaging with program providers, housing counselors, other non-profits, government organizations, industry leaders and subject matter experts, engage lenders (1) to educate them further about our existing eligibility guidelines and products and help them in meeting loan delivery requirements and (2) to seek key input to identify potential opportunities to, simplify requirements, increase eligibility, and increase delivery of shared equity mortgage loans.
• Identify potential policy updates in order to increase borrower and property eligibility, simplify loan requirements, and ultimately increase liquidity by leveraging information gathered through outreach, market research, and employing a test and learn approach to assess feasibility.

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

[1] Fannie Mae considers shared equity mortgage loans as those from secured by properties in CLTs, inclusionary zoning programs, or those that have resale restrictions to preserve affordable housing stock in communities over the long term. Descriptions and guidelines may be found in Fannie Mae's *Selling Guide* Chapter B5-5, Community Seconds, CLTs, DU Refi Plus and Refi Plus, and Loans with Resale Restrictions.

Year	Actions
2018	• Work with a leading industry organization to consider the advisability of creating a new housing database that may contribute to calculating the true size and scope of the shared equity market and determine whether to create it. If determined it will be created, provide input and guidance on development and dissemination including assessing existing available data and identifying gaps, recommending additional information to be collected, reviewing survey design, and evaluating how it will be used by stakeholders to increase an understanding of characteristics, trends, and policy impact. • Analyze Fannie Mae's current portfolio of shared equity loans for the purpose of understanding performance and characteristics by geography, program type, and financing in order to provide insights to the industry and inform outreach and product development efforts; publish results for the public – by Q3 end. • Demonstrate industry leadership by: o Participating in one key conference as a means to develop and maintain relationships with program providers, housing counselors, other non-profits, government organizations, industry leaders, and subject matter experts, all of whom can help us to better understand market issues and opportunities; stay abreast of best practices and successful strategies; inform product activities; and communicate the "Duty to Serve" message – by Q4 end. o Facilitating a roundtable with industry stakeholders (e.g., lenders, servicers, program providers, non-profits, government organizations), industry leaders, and subject matter experts to meet – by Q3 end – for the purpose of discussing, analyzing, and solving for the challenges facing shared equity, identifying loan product enhancements, and policy updates and providing input as Fannie Mae implements the activities outlined in the Plan. ~~• Establish methodologies – by Q4 end – for tracking shared equity loans that meet FHFA's criteria of 30-year affordability, preemptive options to purchase and limit of proceeds at resale, in order to report accurately loan product deliveries and to refine Baselines for subsequent years. Engage the five Fannie Mae lenders who deliver the most shared equity loans in order to understand how they review and capture these features.~~ • Review credit and/or collateral policy evaluating opportunities to update shared equity lending parameters for the purpose of: o Identifying variances that will help us test the feasibility of changes. Introduce one product variance – by Q4 end – that will enable Fannie Mae to partner with lenders to test and learn one or more market, economic, or operational impacts for the purpose of increasing mortgage loan purchases. One or more participating lenders will be chosen based on level of interest, capacity potential, volume, and market focus. Fannie Mae will also work with a program provider to identify opportunities and ensure the terms and conditions of the variance will meet the needs of the homeowners. The variance outcome will be evaluated in 2019 and success will be based on actual volume delivery relative to projected as well as positive lender feedback on the changes implemented. o Identifying opportunities to provide lenders and program providers with further guidance on program organizational standards and best practices. o Identifying types of shared equity mortgage loans for which Fannie Mae has not previously provided policy guidance. o Adding clarity to Fannie Mae's *Selling Guide* by making identified updates, if feasible, and depending on research, learnings, and analysis – by Q4 end. • Establish a business-to-business outreach campaign that includes the availability of educational materials and lender webinars about Fannie Mae products for financing shared equity programs for the purpose of helping the market to understand availability, terms and conditions, and opportunities so that

Year	Actions
	borrowers and lenders will be able and willing to use them. Target engagement with 10 lenders (representing our five largest lenders of shared equity mortgage deliveries in 2016 as well as five other lenders who represent geographical diversity), two HFA (representing two of the top five States with the most programs), five shared equity program providers (representing two different program types and that are geographically diverse), and one national industry organization – by Q4 end. Eighteen relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Study the shared equity market through primary research studies for the purpose of contributing to guidance, standards, product development, and market acceptance: o Evaluate the obstacles and opportunities that Fannie Mae faces in increasing its share of mortgages among units produced through inclusionary housing programs by assessing at least five programs. Engage program administrators to understand their policies and practices and lenders working with those programs to understand their related products, practices and preferences. Create a case study framework for a particular shared equity homeownership program such as a CLT or an inclusionary zoning program that will look in-depth at a community for the purpose of helping the industry understand how different parties (e.g., program administrator, government, lenders) work together so that a TBA-eligible mortgage can be created to finance homeowners; begin case study research – by Q4 end.
2019	Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests: • If determined in 2018 the housing database will be created, assess the status of data collection, analyze preliminary available information, and evaluate accessibility and presentation of data to stakeholders. • Leverage market outreach, policy evaluation and outcome of variance(s) executed in 2018 to contribute to loan product and policy development. ~~i~~Introduce one new product variance – by Q3 end. If feasible, and depending on learnings, announce one policy update – by Q4 end. • Evaluate progress and continue analysis of the case study begun in 2018, making appropriate adjustments to the approach, engaging additional stakeholders, and determining preliminary findings; publish results to the public – by Q4 end. • Continue and expand industry outreach activities started in in 2018 to maintain engagement and inform product activities by participating in two key conferences or seminars and speaking at one other event – by Q4 end. Facilitate one roundtable, incorporating feedback from 2018 and including two new participants in order to improve engagements and outcomes – by Q3 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing shared equity properties by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with an additional five lenders and five other stakeholders (i.e., lenders and stakeholders not approached in 2018) – by Q4 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. In particular, a target of three lenders and one program provider will be for those new to shared equity programs. Ten additional relationships over the ones established in 2018 will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.
2020	Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests:

Year	Actions
	• Purchase between 50 and 100 shared equity program loans, an approximate 10 to 15 percent of the total purchases in 2020 from Objective #1. These loans are included in the total shared equity loan purchases in Objective #1, where the Baseline has been described. • If determined in 2018 the housing database will be created, assess its final compilation and presentation and/or enhancements; contribute to a working paper that will use the data to discuss findings and insights that will help communities, lenders, and the public to learn about the growth and dynamics of program characteristics, trends, and policy impact. • Continue and expand industry outreach activities started in 2018 and 2019 to maintain engagement and inform product activities by participating in two key conferences or seminars and speaking at one other event. Facilitate one roundtable, incorporating feedback from prior years and including two new participants in order to improve engagements and outcomes – by Q4 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing shared equity properties by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with an additional five lenders and five other stakeholders (i.e., lenders and stakeholders not approached in 2018 or 2019) – by Q4 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 and 2019 activities and responses as well as an assessment of geographical and other needs. In particular, a target of three lenders and one program provider will be for those new to shared equity programs. Ten additional relationships over the ones established in 2018 and 2019 will be a significant commitment of time and will provide learnings on how to expand engagement in following years.

Fannie Mae

Fannie Mae

Affordable Housing Preservation

2018 – 2019

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

Objective 1: Increase affordable capital through industry outreach and developing loan financing solutions (Analyze, Partner and Innovate, Do What We Do Best).

Proposed Modification: Remove/Replace Action in 2018.

Justification for Proposed Modification: Fannie Mae's goal of both the original and new action has not changed: we seek to maximize the percentage of distressed properties that are sold directly to owner occupants instead of investors. One of the challenges potential homeowners face in purchasing a distressed property is having time, expertise and resources to fix it up. Through our strong relationships with home improvement companies we originally sought to leverage an opportunity to offer home purchasers discounted services and/or spending resources as a means to increase the appeal of owning these properties. In reviewing our REO sales trends and through other sources we know, however, that homes that are already repaired are more appealing to owner occupants.

In Q1 of 2018, Fannie Mae determined a more meaningful and higher volume strategy to increase access to homeownership for owner occupant purchasers would be to enhance the appeal of properties before they are sold rather than relying on homeowners to do it themselves. We began an initiative to increase our efforts and focus on repairing properties before sale. This included repairing a higher percentage of properties than we had in the past and selecting sets of properties where we increased the investment in repairs such as replacing more items and using higher quality products (for example, stainless steel appliances) than in the past. As a result, we saw repaired properties sold to owner-occupants increase by six percent from Q2 end 2017 to Q2 end 2018 (from 86.7% to 91.6%).

In addition, we collaborated with Nest Labs and Goodman Distribution—a national provider of home improvement products—to install Nest smart thermostats in our repaired properties. This will not only enhance the appeal but provides new homeowners reduced utility expenses, improved climate control, and an increased awareness of energy usage.

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

1. ***Objective #1: Increase affordable capital through industry outreach and developing loan financing solutions (Analyze, Partner and Innovate, Do What We Do Best).***

Meeting the Challenges
Financing the purchase or rehabilitation of distressed properties as homes for very low-, low-, and moderate-income families faces a number of challenges, including: • Decreasing supply. Market recovery means the supply of these properties is declining. • Investor advantage. Private investors are able and willing to pay higher prices for distressed properties, which eliminates opportunities for homeowners and non-profits to purchase or rehabilitate them. • Small balances. Mortgage loans are often for small amounts due to the low value of the properties, which discourages lenders from originating them. • Appraisals. Appropriate comparison data is not available to support home appraisals. • Limited homeowner awareness and capabilities. Potential homeowners lack information about how to purchase a distressed home and lack experience and resources to renovate properties, which are often in need of significant repairs. They also may have a greater interest in the purchase of a property that has already been repaired. • Complexity. Renovation mortgages are complex and lenders are often reluctant to originate them due to policies on draw authorizations, LTV limits, property types (e.g., only 1- or 2-units) and loan proceeds limits allowed for the renovation, as well as other operational complexities related to approving and overseeing the contractor and project. • Non-individual underwriting difficulty. Mortgage loan products are designed for individual borrowers and not easily suited for non-profits needing long-term capital for strategies such as financing or maintaining rental portfolios. There is a lack of underwriting standards for non-individuals and limitations on the number of properties that can be financed by an organization. To address these challenges, Fannie Mae will: • Leverage the strong framework we have developed through our Neighborhood Stabilization Initiative efforts and use the information gathered through outreach and market research to identify appropriate financing solutions and product enhancements that, when implemented, will increase awareness of individual and non-profit borrower eligibility and clarify loan requirements, resulting in the provision of increased liquidity to the market. • Employ a test and learn approach to enhance Fannie Mae loan products for both individuals and non-profits that will best serve the needs of very low-, low-, and moderate-income families, thus bringing greater liquidity to the market for these populations. • Increase awareness and access to resources to help potential homeowners with the purchase or rehabilitation of distressed properties, as well as increase efforts to repair our own distressed properties to appeal to owner-occupant purchasers who do not want to rehabilitate the properties themselves. • Establish strategic relationships with vendors and work with housing counselors, community groups, CDFI, customers, and others in the industry to increase awareness and to promote access to resources and capital financing, including third-party grants.

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

Year	Actions
2018	• Demonstrate industry leadership by: o Participating in two key conferences or seminars as a means to develop and maintain engagement and build strategic partnerships with key industry stakeholders such as non-profit developers, housing counselors, community groups, CDFI, and renovation contractors; stay abreast of best practices and successful strategies; inform product activities; and communicate the “Duty to Serve” message – by Q3 end. o Facilitating one housing roundtable with cross-functional industry representation, as noted above, to discuss, analyze, and solve for the challenges facing financing distressed properties and to solicit input as Fannie Mae implements the activities outlined in the Plan – by Q3 end. • Establish a business-to-business marketing and outreach campaign that includes the availability of educational materials and lender webinars about financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products for the purpose of helping the market to understand availability, terms and conditions, and opportunities so that borrowers and lenders will be able and willing to use and originate them. Target engagement with 15 lenders and five other stakeholders including HFA and realtor associations – by Q4 end. Fannie Mae has chosen to target the five largest lenders of our mortgage loan deliveries in 2016 as well as 10 other lenders who represent geographical diversity. Fannie Mae will also work with the HFA in two of the top five most populated States, two of the largest non-profit organizations who counsel homeowners, and the nation’s largest association of realtors. Twenty relationships will be a significant commitment of time and will provide learnings on how to expand engagement in following years. • Establish a consumer outreach program to increase awareness and access to financing that includes education and resources about home purchase and renovation, an update to HomePath®,[1] and a catalog of organizations and programs throughout the United States that provide assistance to consumers with purchase or rehabilitation of distressed properties. Target engagement with 10 organizations that represent a cross-section of size, geography, and type of assistance – by Q4 end. Ten such relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Evaluate opportunities to establish partnerships with State and other programs that can combine subsidies and assistance, together with Fannie Mae mortgage loan products, for the purpose of purchase or rehabilitation of distressed properties. Target engagement with five such organizations – by Q4 end. Fannie Mae has relationships already with programs that provide subsidies to homeowners, but not for the specific purpose of purchase or rehabilitation. • Increase awareness among public entities and non-profits that purchase Fannie Mae-owned distressed properties for the purpose of serving the target markets; develop a targeted list identifying past and potential purchasers and develop and execute a training and outreach plan – by Q2 end. • Evaluate opportunities to (1) purchase bulk mortgage loan purchases from and (2) make investments in institutions or ventures, subject to compliance with Fannie Mae’s Charter Act and receipt of FHFA approval, that support the financing of the purchase or rehabilitation of distressed properties. Target engagement with five non-profit, tribal, and/or government-related organizations, and three CDFI – by Q3 end. Fannie Mae has previously purchased mortgages in bulk and has relationships with organizations that would use investment dollars towards enhancing their ability to purchase and rehabilitate distressed properties for the target market. Engaging a total of eight organizations representing different sizes and geographic diversity, will provide us sufficient input for the evaluation exercise. • Review credit and/or collateral policy identifying opportunities to simplify and overcome challenges with Fannie Mae’s mortgage loan products, such as HomeStyle Renovation, for the purpose of increasing

1 HomePath is Fannie Mae’s online platform for selling our REO inventory. See www.HomePath.com

Year	Actions
	mortgage loan purchases. Specific barriers and challenges that will be reviewed include LTV limits, non-individual borrower underwriting, and small balance loans. Fannie Mae will: o Establish a test and learn approach issuing one negotiated variance to select lender(s). Fannie Mae will determine test objectives and proposed terms – by Q2 end – based on stakeholder input, conduct related economic and operational impact analyses – by Q3 end - and issue one lender variance – by Q4 end. ▪ One or more participating lenders will be chosen based on level of interest, capacity, potential volume of loan delivery, and market focus. ▪ The variance outcome will be evaluated in 2019 and success will be based on actual volume of loan delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented. o If feasible and depending on review, learnings, and analysis, publish one policy update by Q4 end. • ~~Enhance the relationship with a national home improvement company and test a renovation partnership program for the purpose of improving homeowners' access to products and services for rehabilitating distressed properties – by Q2 end.~~Enhance efforts and investment in creating opportunities to increase interest in distressed properties by potential owner occupant purchasers who have a preference for distressed properties that have been fully rehabilitated and look for opportunities to reduce the burden of ongoing housing costs. Actions will include enhancing processes to maximize the percentage of repaired properties sold to owner occupant purchasers; partnering with home improvement providers to utilize products and materials that are energy efficient and/or of high quality; and increasing efforts to educate real estate agents, lenders, and purchasers on opportunities to leverage Fannie Mae mortgage products on distressed properties.
2019	Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests: • Evaluate the home improvement vendor partnership tested in 2018 and make a decision – by Q2 end – to continue or not. If the determination is to continue, develop and execute a plan to maintain a program. • Analyze trends such as appraisals for distressed properties in order to evaluate the impact on product and policy and, based on learnings and if feasible, make updates – by Q4 end. • Continue industry leadership by participating in two key conferences or seminars and speaking at one other event for purposes of informing the industry of research findings, product enhancements and/or market insights. Facilitate one housing roundtable, incorporating feedback from 2018 and including new participants in order to improve engagements and outcomes – by Q4 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with an additional five lenders and three other stakeholders (i.e., lenders and stakeholders not approached in 2018) – by Q4 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. Fannie Mae will work with the non-profit organizations engaged in 2018 to determine additional organizations with whom we should target. Eight additional relationships will be meaningful and will provide learnings on how to expand engagement in following years. • Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Target engagement with an additional five organizations (i.e., organizations not approached in 2018) that provide assistance to consumers with purchase or rehabilitation of distressed properties – by Q4 end. Two of such organizations will be community

Year	Actions
	organizations for the purpose of bringing resources directly to community venues/events serving potential homeowners. These additional five relationships will provide substantial learnings on how to expand engagement in following years. • Based on the outcomes of the 2018 evaluation of opportunities to establish partnerships with State and other programs that can combine subsidies and assistance together with Fannie Mae's HomeStyle Renovation product, create a negotiated variance with select lender(s) and program(s) as a test and learn approach. Fannie Mae will determine variance objectives and proposed terms – by Q1 end – based on stakeholder input, conduct related economic and operational impact analyses – by Q2 end – and issue one lender variance – by Q3 end. o Participating lenders will be chosen (after conducting lender outreach as noted above) based on level of interest, capacity, potential loan delivery volume, and market focus. o The variance outcome will be evaluated in 2020 and success will be based on actual volume delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented. • Evaluate the outcomes of variance(s) executed in 2018 and introduce one new negotiated variance with terms for one additional change to Fannie Mae loan product parameters, or review credit and/or collateral policy identifying opportunities to enhance product parameters – by Q4 end. One variance will focus on opportunities in high-needs rural areas. If feasible and depending on research, learnings, and analysis publish one policy update – by Q4 end.
2020	Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests: • Expand industry leadership by participating in two key conferences or seminars and speaking at two other events for purposes of informing the industry of research findings, product enhancements, and/or market insights. Facilitate one housing roundtable, incorporating feedback from 2019 and including new participants, in order to improve engagements and outcomes – by Q4 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with an additional five lenders (i.e., lenders not approached in 2018 or 2019) – by Q4 end. The additional lenders will be selected based on evaluation of 2019 activities and responses as well as an assessment of geographical and other needs. • Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Target engagement with an additional five organizations (i.e., organizations not approached in 2018 or 2019) that provide assistance to consumers with purchase or rehabilitation of distressed properties – by Q4 end. The focus of 2020 consumer outreach will be on helping homeowners to incorporate energy and water efficiency into their new homes and will leverage the results of Fannie Mae's activities within the related Regulatory Activity in our Plan. Two organizations selected will have experience in working with homeowners on this topic. An additional five relationships will provide learnings on how to expand engagement in following years. • Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Evaluate the outcomes of variance(s) executed in 2019 and introduce one new negotiated variance with terms for one additional change to Fannie Mae loan product parameters, or review credit and/or collateral policy identifying opportunities to enhance product parameters – by Q4 end. One variance will focus on energy or water efficiency upgrade opportunities. If feasible and depending on research, learnings and analysis publish credit and/or collateral policy updates – by Q4 end.

Fannie Mae
Affordable Housing Preservation
2018 – 2020

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

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

Proposed Modification: Modify the Baseline and Target.

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

Moody's REO Inventory Forecast

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

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

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

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

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

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

SMART Factors

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

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

1Fannie Mae is using the average loan balance for 2018 for deliveries through June.

2 In Fannie Mae's proposed Plan dated 5/8/17, significantly lower purchase goals in Year 1 (150 and 200), Year 2 (200 and 250), and Year 3 (250 and 300) were proposed and a small Baseline was established. Fannie Mae focused that draft Plan exclusively on financing rehabilitation, and not purchases alone. Also, at that time we could identify only mortgage loans that financed properties from Fannie Mae's REO inventory and relied only on our internal forecasts. Subsequently, we obtained additional internal and external market data that allowed us to increase our loan purchase goals.

3 Of this range, we will target between ~~100~~ 90 and ~~105~~ 95 loans on properties in high-needs rural regions.

4 Since Fannie Mae submitted our draft Underserved Markets Plan, we have obtained additional national market data as well as purchase volume data that allowed us to more accurately size this market and the Baselines.

~~5 Fannie Mae determined that in 2016, 155 mortgage loans on properties in high-needs rural regions were for the purchase of a REO or short sale.~~

Year	Actions
	percent decline in national inventory from 2016 to 2018, an ~~13.1~~11 percent ~~decline~~ increase from 2018 to 2019, and a ~~24.8~~31 percent increase from 2019 to 2020.

We analyzed that on average ~~given~~ since 2011 loans that Fannie Mae financed for the purchase of REO properties ~~was~~ were approximately three percent of the national REO inventory[6]. We then used the projected national REO inventory for 2018, 2019, and 2020 to apply ~~a three percent~~this purchase rate to determine what we would expect to purchase in each year, absent the work under the Plan.

In addition, to determine Baselines for the financing of short sales, we modeled these as a percentage share of the incoming flow of loans into the national REO inventory. The inflow into REO inventory, as opposed to the REO stock, better aligns over time with the flow of loans through the default process, which is the source of our short sale acquisitions. We analyzed the relationship between our own REO inflows, dispositions, and stock historically to infer a time series of national REO inflows. Then, analyzing our short sale acquisitions as a share of inferred national REO inflows since 2011 we determined that, historically, Fannie Mae financing for the purchase of short sale properties was on average one percent of the national REO inflow in a given year. We then used projected national REO inflows for 2018, 2019, and 2020 to apply a one percent purchase rate to determine what we would expect to purchase in each year, absent the work under the Plan.

For purposes of establishing Baselines for the high-needs rural regions, we looked at Fannie Mae's 2016 Baseline for loan purchases for all distressed properties—the addition of REO and short sales—and the forecasted volumes to assess the relative changes. The following table shows our analysis of projected loan purchases absent any initiatives under the Plan in order to determine yearly Baselines.

	Baseline	
Year	Total	High-Needs Rural
2016	14,063~~02~~	155
2018	~~10,490~~8,102	~~96~~85
2019	~~9,939~~8,477	88~~6~~
2020	~~12,156~~9,882	~~106~~99

Year	Actions
2019	• Purchase between ~~10,900~~9,325 and ~~11,430~~9,750 loans originated for the purchase or rehabilitation of a distressed property,[7] representing approximately a 10 to 15 percent increase over the expected Baseline for 2019.
2020	• Purchase between ~~13,975~~11,365 and ~~14,585~~11,860 loans originated for the purchase or rehabilitation of a distressed property,[8] representing approximately a 15 to 20 percent increase over the expected Baseline for 2020.

6 The average number of REO inventory was ~~466,101~~467,063 and Fannie Mae purchased an average of ~~13,959~~13,672. Note: updated Moody's data showed slightly revised actual inventory and Fannie Mae obtained updated loan purchase totals that resulted in a slight change in these averages. This also caused us to adjust our 2016 baseline by 61 loans.~~.~~
7 Of this range, we will target between ~~95~~ 100 and 10~~0~~5 loans in high-needs rural regions.
8 Of this range, we will target between 115~~20~~ and 120~~5~~ loans in high-needs rural regions.

Fannie Mae
Rural Housing
2018 – 2020

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

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

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

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

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

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

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

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

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

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

Meeting the Challenges
One of the biggest challenges in rural areas for small financial institutions is access to the secondary market and affordable capital. To address this challenge Fannie Mae will: • Purchase an additional 6,369 to 8,369~~4,873 to 6,623~~ rural single-family loans from small financial institutions over three years, which equates to an estimated additional ~~$848 million to~~ $1.5~~2~~ billion of liquidity.

SMART Factors

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

Year	Actions
2018	• ~~Facilitate meetings with three regional wholesale lenders and one credit union service organization or one large aggregator to discuss the creation of an alternative business model allowing small financial institutions access into the secondary market – by Q3 end.~~ • Purchase between 23,200 and 23,400[1]~~18,000 and 18,250~~ single-family loans in rural areas from small financial institutions, representing an approximate five to six percent increase over the Baseline. o **Baseline:** The three year average of the total number of rural loans purchased by Fannie Mae from small financial institutions in rural areas is ~~13,998~~22,077 loans. (2014: ~~10,383~~18,058; 2015: ~~14,401~~22,003; 2016: ~~17,209~~26,170). The Baseline is being established at 22,077. ~~However, given that in 2016 the number of single-family rural loans purchased (17,209) was higher than the three-year average, the Baseline is being established at 17,209.~~ ~~Assist small financial institutions in meeting rural areas loan delivery requirements by engaging 25 small financial institutions to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.~~
2019	• Purchase between 23,800 and 24,300[1] ~~18,500 and 19,000~~ single-family loans in rural areas from small financial institutions, representing an approximate eight to 10 percent increase over the Baseline. • ~~Expand lender outreach to an additional 25 small financial institutions (i.e., lenders not approached in 2018) to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.~~
2020	• Purchase between 25,600 and 26,900~~20,000 and 21,000~~ single-family loans in rural areas from small financial institutions, representing an approximate 16 to 22 percent increase over the Baseline.

1 At Fannie Mae's request, to correct an error in submission that was included in the October 2018 Request for Input, technical corrections have been made to these numbers.

Year	Actions
	~~Expand lender outreach to an additional 25 small financial institutions (i.e., lenders not approached in 2018 or 2019) to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.~~

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

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

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

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

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

Year	Actions
2018	• Facilitate meetings with three small financial institutions and three CDFIs to discuss strategy on increasing loan production or to create an alternative business model allowing CDFIs access into the secondary market. • Assist small financial institutions in meeting rural areas loan delivery requirements by engaging 25 small financial institutions to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.

Year	Actions
	• Perform a research "journey" targeting Small Financial Institutions in rural areas and publish learnings internally with the goal to increase loan deliveries and Fannie Mae penetration in rural areas
2019	• Build upon the research "journey" completed in 2018; provide continued support and engagement for two small financial institutions to support homeownership opportunities • Continue to expand lender outreach to an additional 25 small financial institutions to educate them on Fannie Mae (i.e., lenders not approached in 2018). Examples include facilitation in a Fannie Mae training on products, programs, and technology or approval process.
2020	• Based upon the outreach and journey completed in 2018 and 2019, Fannie Mae will identify opportunities to customize, enhance, or simplify products and establish a test and learn approach issuing one negotiated variance to select lenders • Continue to expand lender outreach to an additional 25 small financial institutions to educate them on Fannie Mae (i.e., lenders not approached in 2018). Examples include facilitation in a Fannie Mae training on products, programs, technology or approval process

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

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

Fannie Mae

Fannie Mae
Rural Housing
2018 – 2020

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

Objective 2: Increase affordable capital through industry outreach and developing solutions to increase single-family loan purchases in high-needs rural regions (Analyze, Partner and Innovate, Do What We Do Best).

Proposed Modification: Move the action: “Monitor progress towards homeownership” to 2019.

Justification for Proposed Modification: Throughout 2018, extensive work was done to identify the two non-profit partners we wanted to engage for activity and negotiate the Statement of Work. The development of the outreach strategy and identifying the households is underway. Financial and housing counseling is usually the first step in a relatively long home buying journey and to effectively monitor progression towards homeownership and measure success, adequate time must be allowed.

Proposed Modification: Move the action: “Work to create a beyond county-based definition of colonias” to 2018 and added an action in 2019 to educate the industry on the definition.

Justification for Proposed Modification: Work on this action was completed earlier than originally planned.

Proposed Modification: Change the 2018 Evaluation Factor from an Outreach Objective to a Loan Product Objective.

Justification for Proposed Modification: The level of effort for loan product development was far more impactful than outreach and required much more effort, time/research and resources than anticipated. Impacts in 2018 include: (1) a selling guide change which will be announced in 12/2018 around collateral policy and will streamline appraisals in high needs rural areas; (2) the progress made with HUD and USDA to develop the means to share data and technology which has made great strides in 2018 as a result of regularly scheduled discussions throughout the year; and (3) the development of a mutually beneficial fee for service contract with two non-profit partners which has been fully executed.

Proposed Modification: Combine stakeholder engagements (e.g., six community based non-profit agencies instead of four community based non-profits and two IDA) because the organizations could be considered one and the same.

Proposed Modification: Move portion of 2019 action, including language “analyze, assess, document, and publish quantitative data”, to 2020 and expanded.

Proposed Modification: Add action to 2019 around engagement with CDFI or other mission driven lenders.

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

Note: Fannie Mae seeks extra credit for this Activity.

2. Objective #2: Increase affordable capital through industry outreach and developing solutions to increase single-family loan purchases in high-needs rural regions (Analyze, Partner and Innovate, Do What We Do Best)

Meeting the Challenges
High-needs rural regions face substantial challenges that make it difficult to attract lenders, investors, and real estate developers. These challenges include: • Economic obstacles such as declining populations, unemployment, high housing cost burdens, persistent poverty, and limited access to lenders providing affordable capital. • Potential borrowers have lower incomes, affecting affordability, are more likely to be self-employed, increasing their risk of unstable and unreliable income, and are less likely to be a first time homebuyer, a criterion often required to receive down payment or matched savings dollars assistance. • Existence of geographic market differentiation; rural loans should not be viewed as one homogenous group. • Lack of quality housing stock; older homes may be in substandard condition and in need of rehabilitation, or could benefit from energy or water efficiency improvements. • Appraising rural properties tends to be more challenging. • Rural properties are more likely to be manufactured homes and have larger lot sizes. • Rural properties have smaller loan balances, and note rates are marginally higher than those for urban loans. • Housing demand is weak and housing is not highly promoted and does not receive an adequate amount of attention given small, dispersed populations as compared to urban areas. • Homeownership can be less expensive than renting in high-needs rural regions, however, poor credit history, financial barriers, and a lack of knowledge about homeownership limit opportunity. To address these challenges, Fannie Mae will: • Perform outreach and market research; use the information gathered to identify appropriate product enhancements that, when implemented, will increase borrower and property eligibility and simplify loan requirements, resulting in the provision of increased liquidity. • Analyze and share the information gathered by publishing and distributing findings to the public. Providing transparency to the industry will encourage new capital sources to venture into or invest in mortgage lending. This activity will provide additional affordable capital to high-needs rural regions. • 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 develop affordable lending best practices. • Strengthen the housing demand by building partnerships with anchor institutions, housing counseling organizations, and financial capability service providers. This collaboration will provide homebuyers with the necessary knowledge to overcome credit and budget barriers, thus improving financial stability and facilitating access to affordable rental housing and homeownership opportunities. • Address the lack of housing supply by advocating for manufactured housing as an affordable option. Approximately 67 percent of all manufactured homes are located in rural communities. Across the nation manufactured housing makes

Meeting the Challenges
up about 10.3 percent of occupied, single-family detached housing, however it is much more prevalent in high-needs rural regions. For example, manufactured housing makes up nearly 21 percent of the single-family detached housing in Middle Appalachia and approximately 17 percent in the Lower Mississippi Delta.

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

Year	Actions
2018	• Facilitate one rural housing roundtable with 15 cross-functional industry representatives including lenders, mission based financial institutions, non-profit organizations, and housing counseling agencies focused on or located in a particular high-needs rural region – by Q4 end. Topics for discussion may include opportunities to expand access to credit, regional needs, challenges in access to housing, and/or financing options, market trends, and potential solutions that addresses the housing challenges facing each high-needs rural region. • Establish a Fannie Mae Rural Housing Advisory Council with subcommittees representing industry stakeholders from each high-needs rural region, and conduct one annual meeting – by Q4 end. Responsibilities could include providing recommendations and strategic information, evaluating performance of an activity outlined in the Rural Housing Plan, serving as an advocate to promote Duty to Serve, assisting in the future development of the Plan, and gathering and presenting material when necessary. • Participate in two regionally based affordable housing conferences as a means to obtain rural housing market insight, share knowledge, gain visibility, communicate the "Duty to Serve" message, collaborate, and build and maintain relationships with important industry stakeholders – by Q4 end. Information gathered will be shared and evaluated to highlight current policies that support the market that are underutilized, and to identify the need to develop new or enhance existing products, policies, or activities outlined in the Plan. • Obtain a comprehensive understanding of one high-needs rural region and customize appropriate solutions by dedicating staff or resources – by Q2 end. In order to determine meaningful impact, Fannie Mae will perform due diligence around the target location and roles and responsibilities and create metrics to evaluate success. If expectations are exceeded, Fannie Mae may look to expand activity to other high-needs rural regions. • Expand availability of financial or housing counseling to households in a high-needs rural region – by Q3 end – by entering into a fee for service contract with two non-profit partners. Develop an outreach strategy to serve at least 100 households through these partnerships. ~~and monitor progress towards homeownership.~~ • Identify opportunities to share detailed information around Fannie Mae technology with the U.S. Department of Housing and Urban Development and the USDA and collectively explore ways to deepen penetration into rural communities – by Q4 end. • Establish a marketing campaign focused on affordable lending products and policies that address known challenges in rural areas with a focus on high-needs rural regions – by Q2 end. Target 25 lenders and 10 additional stakeholders that could include appraisers, mortgage insurance companies, non-profit organizations, CDFI, Housing Finance Agencies (HFA), down payment assistance providers, and/or individual development account (IDA) program providers, and: o Produce and market material through social media, webinars, Fannie Mae's Rural Housing Advisory Council, and conferences.

Year	Actions
	o Create a “rural specific” segment in Fannie Mae’s appraiser newsletter that addresses issues unique to rural areas with a focus on high-needs rural regions. o Develop a training module focused on appraising in rural areas with a focus on high-needs rural regions and publish it in Fannie Mae’s existing appraiser training curriculum – by Q3 end. ~~o~~• Provide technical support such as educational training to stakeholders located in rural areas with a focus on high-needs rural regions to include three lenders, ~~four~~ six community based non-profit ~~housing counseling~~ agencies, ~~two down payment assistance and/or IDA program providers,~~ and three appraisers to optimize homeownership opportunities for potential homebuyers. o Create and implement follow-up surveys to assess longer-term impact of service on client outcomes. • Review Fannie Mae’s collateral policies and procedures to identify opportunities to streamline or enhance guidelines around appraisals in rural areas. ~~o~~• Work to create a beyond county-based definition of colonias; develop identification or database and a map of colonias including surrounding impact areas to enable accurate targeting and tracking.
2019	• Develop and make available – by Q2 end – market research and/or rural housing data sets. Fannie Mae will define topics that (1) have meaningful impact on high-needs rural regions and (2) are chosen to work toward a solution to a problem. Some topics could include challenges of originating low balance loans or appraising properties in high-needs rural regions. This information will be made available to the public and industry stakeholders on Fannie Mae’s website, through the use of targeted email campaigns, and other highly visible mechanisms. This activity of market research promotes transparency, educates the public and housing industry stakeholders, and provides insights and solutions to potential challenges. • Because of known barriers such as lack of down payments from potential borrowers and an aging housing stock in need of updates and renovation in high-needs rural regions, to facilitate the use of Fannie Mae single-family loan products in high-needs rural regions, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products such as HomeReady® or HomeStyle® Renovation and establish a test and learn approach issuing one negotiated variance to select lenders with experience in high-needs rural regions – by Q4 end. • Provide technical assistance such as resources to assist lenders serving the colonias to become approved sellers, and facilitate collaborative partnerships between lenders and interested stakeholders to establish availability of conventional mortgage financing in the colonias – by Q4 end. • Identify opportunities to educate the industry to widely accept the definition of “colonias” developed in 2018~~Work to create a beyond county-based and widely accepted definition of colonias; develop identification or database and a map of colonias including surrounding impact areas to enable accurate targeting and tracking.~~ • Create or expand homebuyer education or financial counseling – by Q2 end: o Monitor the participants’ progress towards homeownership of the two partnerships created in 2018 o Develop or expand two partnerships targeting certain high-needs rural regions creating one documented business plan to reach and engage households in need of housing assistance~~.~~ o Implement an anchor institution partnership to increase homeownership opportunities by identifying and engaging two potential anchor institution partners in high-needs rural regions~~.~~ o Support two partners developing scalable models to teach those living in high-needs rural regions and document best practices to reach and engage households needing financial literacy.

Year	Actions
	o Enhance and expand~~Develop~~ one test and learn service learning program model and training curriculum; ~~analyze, assess, document, and publish quantitative data on clients served against the target outcome.~~ • Work with the industry to promote access to appropriate types of products, resources, and financing that will help very low-, low-, and moderate-income families access appropriate financing and assistance, which could include~~including~~ third-party grants for renovations and energy and water efficiency improvements. • Engage CDFI or other mission driven lenders, identifying potential innovative homeownership, lending, or investment opportunities that have the potential to meet FHFA approval and are consistent with Fannie Mae's Charter Act.
2020	• Analyze, assess, document, and publish quantitative data on clients served against the target outcome of the work completed in 2019 with the one test and learn service learning program model. • As a result of the outreach and product development activities outlines in 2018 and 2019, purchase between 500 and 550 single-family loans in high-needs rural regions, an approximate four percent of the total loan purchases in 2020 from Objective #1. These loans are included in the total loan purchases in Objective #1 where the Baseline has been described.

The long term activities in this Objective are challenging. Activities supporting this Objective require a different paradigm designed to reach communities in a scalable way and, therefore, the work is difficult. Achieving these goals, while maintaining safety and soundness, requires substantial effort and use of Fannie Mae resources. Fannie Mae has significant experience evaluating, developing, and enhancing loan products and policy. Accordingly, Fannie Mae believes this Objective is reasonable and can be achieved within the time periods described. Product changes will be critical to increasing access to affordable capital and reducing limitations and requirements while opening access to Fannie Mae financing to those who otherwise do not meet eligibility requirements. Any variances, which create changes in credit parameters and product guidelines, will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns. The ultimate opportunity available in this market is to finance an increased number of single-family loans in high-needs rural regions.

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

Fannie Mae

Fannie Mae

Rural Housing

2019 – 2020

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

Objective 3: Create a work-plan and increase multifamily loan purchases in Middle Appalachia, the Lower Mississippi Delta, and the colonias (Analyze, Test and Learn, Do What We Do Best).

Proposed Modification: Modify Actions to clearly reflect continued outreach and work-plan execution in the high-needs rural regions.

Justification for Proposed Modification: The Revised Actions reflect Fannie Mae's approach to executing work plans that evolve and grow strategically and tactfully as we gain greater insight into market challenges and opportunities. The Revised Actions also reflect continued outreach to the high-needs rural regions.

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

Note: Fannie Mae seeks extra credit for this Activity.

3. *Objective #3: Create a work-plan and increase multifamily loan purchases in Middle Appalachia, the Lower Mississippi Delta, and the colonias (Analyze, Test and Learn, Do What We Do Best).*

Meeting the Challenges

The multifamily housing markets in Middle Appalachia, the Lower Mississippi Delta, and the colonias, respectively, face substantial challenges, including:

- Economic challenges such as declining rural populations and employment, higher housing cost burdens, persistent poverty, and limited access to lenders that can provide affordable capital.
- High construction costs and operating expenses.
- Rents, which when affordable to low-income residents, undermine the ability of multifamily properties to support debt.
- Small rural communities which lack appropriate multifamily underwriting information, including market comparables, analyses of economic health, and supply/demand indicators.
- Rural loans that cannot be viewed as one homogeneous group but require geographic market differentiation.
- Much of the housing is in substandard condition and needs renovation and energy or water efficiency improvements.
- There is little to no standardization across the rural multifamily debt market which results in a significant barrier to reliable liquidity.
- Traditional lenders cannot attain “economies of scale” in lending in these areas due to the small project sizes coupled with the lack of readily available market information.
- Community Reinvestment Act (CRA) investors are not necessarily interested in these markets based on the size of and geographic distance between communities in these and other rural markets.

To address these challenges, Fannie Mae will:

- Work to establish a deeper understanding of the subject rural markets/submarkets through outreach and research activities in order to determine the most impactful multifamily housing strategy for these high-needs rural regions.
- Upon completion of the identified outreach and research activities, create a work-plan and develop key loan products and enhancements that will provide a foundation for the future purchase of loans secured by housing in these high-needs rural regions.
- Based on the outreach and research activities completed, create a multifamily work-plan and complete updates and/or product enhancements that will provide a foundation for the purchase of loans secured by housing in these high-needs rural regions in the future. Elements to be addressed in the work-plans include the following:
    - Collaborating with partners that have strength in and knowledge of rural markets.
    - Identifying opportunities for standardization of multifamily debt in rural markets.
    - Identifying providers of non-debt capital, including Fannie Mae, subject to FHFA’s approval of Fannie Mae’s participation in the Low Income Housing Tax Credits (LIHTC) equity market.
    - Determining how Fannie Mae can serve as a catalyst to facilitate the provision of reliable capital based on the specific needs of each high-needs rural region.

Meeting the Challenges
o Finding workable strategies to address economies of scale issues faced by financial institutions active in these high-needs rural regions. • Purchase multifamily loans in Middle Appalachia, the Lower Mississippi Delta, and the colonias.

SMART Factors

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

Year	Actions
2018	• In conjunction with Fannie Mae Single-Family: o Facilitate one rural housing roundtable with cross-functional industry representation to discuss, analyze, and solve for the challenges facing high-needs rural regions. o Establish a Fannie Mae Rural Housing Advisory Council with subcommittees representing each of the high-needs rural regions to gain a deeper understanding of the market challenges affecting the high-needs rural regions and discuss how these challenges can be met. o Conduct one annual meeting of the Advisory Council and semi-annual meetings of each subcommittee to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. o Participate in two key conferences as a means to network with key industry stakeholders and to communicate the “Duty to Serve” message. • Based on research and outreach results, create one multifamily work-plan each for Middle Appalachia, the Lower Mississippi Delta, and the colonias that will address key multifamily affordable housing issues, including (1) identification of the three top multifamily housing issues that need to be addressed in these high-needs rural regions; (2) identification of two potential roles for Fannie Mae Multifamily in serving these high-needs rural regions (including an assessment of how potential LIHTC equity investments can facilitate liquidity to the market); and (3) two key actions that would enhance Fannie Mae’s ability to serve these high-needs rural regions. The work-plan will also address customizing appropriate solutions by dedicating staff or resources to one or more specific high-needs rural regions – by Q2 end – which will include the determination of a full time employee, partnership or vendor relationship, definition of roles and responsibilities, and appropriate metrics to evaluate success. • Identify three potential product enhancements the purpose of which is to facilitate the provision of liquidity to Middle Appalachia, the Lower Mississippi Delta, and the colonias, to be submitted to Fannie Mae’s internal product enhancement and development approval process during 2019. • Identify at least one strategy that could facilitate increased standardization for multifamily loans in the high-needs rural regions.
2019	Based on the work completed in 2018: • Process at least one product enhancement and one standardization element identified in the work-plan through the product enhancement and development approval procedure, and implement the product enhancement(s) and standardization element. • Implement the two identified key actions that will enhance Fannie Mae’s role in and ability to serve the multifamily market in Middle Appalachia, the Lower Mississippi Delta, and the colonias.

Year	Actions
	• Revise and document updated work-plans including considering proposing additional product enhancements or key actions. • Facilitate one rural housing roundtable with cross-functional industry representation to continue to discuss, analyze, and solve the challenges facing high-needs rural regions. • Conduct one annual meeting of the Advisory Council to continue to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. • Participate in two key conferences as a means to continue to network with key industry stakeholders and to communicate the "Duty to Serve" message. • Confirm 2020 multifamily loan purchase goals.
2020	Based on the work performed in 2018 and 2019, increase loan purchases as follows: • Purchase nine multifamily loans in rural areas in Middle Appalachia. o **Baseline**: The three year average of Fannie Mae's multifamily loan purchases in Middle Appalachia is five loans (2014: 4; 2015: 5; 2016: 6). For purposes of the Baseline, Fannie Mae will use the higher purchase level of six loans as reflected in the 2016 purchases. o Fannie Mae's initial loan purchase goal of nine multifamily loans will be based on increasing multifamily loan purchases by 50 percent over the Baseline. • Purchase 17 multifamily loans in rural areas in the Lower Mississippi Delta. o **Baseline**: The three-year average of Fannie Mae's multifamily loan purchases in the Lower Mississippi Delta is nine loans (2014: 13; 2015: 4; 2016: 11). For purposes of the Baseline, Fannie Mae will use the higher purchase level of 11 loans as reflected in the 2016 loan purchases. o Fannie Mae's initial loan purchase goal of 17 multifamily loans will be based on increasing multifamily loan purchases by 50 percent over the Baseline. • Purchase five multifamily loans located in the colonias. o **Baseline**: Because the colonias have not been sufficiently defined and tracked by Fannie Mae, there are no previous loan purchases to be used to establish a Baseline. In addition, Fannie Mae needs to better understand the market in order to establish an acceptable Baseline. As such, the initial Baseline will be set at five multifamily loan purchases. This Baseline may be adjusted as Fannie Mae's research and outreach better defines the market. • Implement additional key actions and/or product enhancements that were potentially identified as part of the updated work-plans. • Revise and document updated work-plans including considering proposing additional product enhancements or key actions. • Facilitate one rural housing roundtable with cross-functional industry representation to continue to discuss, analyze, and solve the challenges facing high-needs rural regions. • Conduct one annual meeting of the Advisory Council to continue to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. • Participate in two key conferences as a means to continue to network with key industry stakeholders and to communicate the "Duty to Serve" message. • ~~In Q3, c~~Conduct one survey of key stakeholders in Middle Appalachia, the Lower Mississippi Delta, and the colonias to assess the impact of Fannie Mae's work-plan.

Year	Actions
	• ~~In Q4, i~~Identify and document at least four key lessons learned from the work completed during the three years of the Plan and use this information as well as the research results to prepare the 2021 – 2023 Duty to Serve Plan.

The ultimate goal in these markets is to increase liquidity to Middle Appalachia, the Lower Mississippi Delta, and the colonias. Fannie Mae will be able to draw on our past experience in various local markets across the country as we work through our outreach and research. Any product enhancement and development work will factor in appropriate safety and soundness standards. Fannie Mae has significant experience studying and analyzing submarkets, designing enhanced loan products to address their needs, and purchasing loans in the submarkets. 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. Any mortgages purchased under this Objective will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

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

Fannie Mae
Rural Housing
2018 – 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: Modify Action to reflect increased magnitude of base research.

Justification for Proposed Modification: Revised Action reflects the increased magnitude of research required to fully understand the path of homeownership for Native Americans. Finding ways to create affordable housing opportunities for Native American families living on tribal lands is challenging. Native American tribes are historically one of the most underserved, impoverished minority populations in the country. Culture, history and identity must be understood and respected. Fannie Mae's current suite of mortgage products may not meet the needs of tribal members interested in homeownership and, therefore, product development is necessary. In order to be successful, Fannie Mae needs to better understand the underlying views of Native Americans as a group towards home and first-time home ownership and how their social and cultural beliefs, history and identity connect to the process towards homeownership.

Proposed Modification: In 2019, revise Evaluation Factor from a Loan Purchase to a Loan Product.

Justification for Proposed Modification: After performing extensive research and gaining a solid understanding of the needs on tribal trust lands, Fannie Mae's current suite of mortgage products may not meet the needs of tribal members interested in homeownership and, therefore, additional product development is necessary. A resale market of existing homes is nonexistent for homes are passed down in the family. Access to affordable supply and new construction products is by far the greatest need on tribal trust lands, followed by rehabilitation of existing units and a standardized secondary market for manufactured housing loans not secured by real estate a/k/a chattel. Mortgage products need to be developed with an understanding of social and cultural beliefs, history and identity and connection to the land.

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.

Year	Actions
2018	• Facilitate one rural housing roundtable with 10 cross-functional industry representatives including lenders, mission based financial institutions, non-profit organizations, tribal leadership, and TDHE. Topics of discussion may include opportunities to expand access to housing and financing, regional needs, housing market challenges, market trends, and potential solutions that address the challenges facing Native American tribes. • Visit and engage with at least two tribes on their own lands to listen and learn about their homeownership goals; educate tribes about Fannie Mae and our suite of mortgage products. • Facilitate at least one Fannie Mae selling guide change that benefits or simplifies access to conventional financing – by Q3 end. • Engage three appraisers from two different tribal regions or States with experience in appraising properties on Native American lands to gather intelligence and knowledge about the unique challenges. • Conventional lending is not available to Native American tribes seeking to buy or construct homes on trust lands or other restricted areas. Fannie Mae will identify and engage two lenders with the ability to actively originate loans on tribal trust land – by Q2 end. • Execute at least one variance with a lender to accept delivery of loans on tribal trust land. • Partner with one housing counseling agency and create one specialized Native American focused homebuyer education and financial counseling curriculum – by Q2 end. • Execute at least two MOUs with two Native American tribes – by Q3 end. • Research Native Americans' underlying views of home and first-time home ownership and document learnings. Interview 25 tribal member households by working with trusted counselors, educators, and other third parties – by Q4 end. • Establish a marketing campaign focused on the NACLI product, targeting 10 lenders geographically located near Native American land, and 10 other stakeholders including, TDHE, non-profit organizations, Native American CDFI, HFA, and down payment assistance and/or IDA program partners. o Market information via social media, webinars, and other mechanisms – by Q3 end. ~~o Leveraging the specialized homebuyer education curriculum, work with counselors, educators, and other third parties to engage 25 tribal member households to monitor and document their progress towards homeownership – by Q4 end.~~ o Provide training and/or support to three lenders, four non-profit counseling agencies, and two TDHE to optimize homeownership opportunities for Native Americans – by Q4 end.
2019	• Purchase between 15 and 40 NACLI purchase money or refinance loans.[1] o **Baseline**: The Baseline is the average of the number of NACLI loans purchased by Fannie Mae over the last three years which is one loan (2014, 0; 2015, 3; 2016, 0).

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.

Year	Actions
	• 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.
2020	• Purchase between 125 - 200 NACLI 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 ~~appraisals of~~ 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).

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 in 1999. Today, NACLI is an existing refinance-only product, but it is an underutilized product in the Fannie Mae Selling Guide. 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 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. 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 ~~Purchase~~Product	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

Fannie Mae

Fannie Mae
Rural Housing
2019 – 2020

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

Objective 3: Create and implement work-plans and purchase loans secured by multifamily housing for Native Americans and agricultural workers (Analyze, Do What We Do Best).

Proposed Modification: Modify Actions to clearly reflect continued outreach and work-plan execution in the high-needs rural populations.

Justification for Proposed Modification: The Revised Actions reflect Fannie Mae's desire to enhance our commitment to outreach. The proposed modifications will increase our engagement with key stakeholders which we believe is critical in order to develop a robust strategy for addressing the needs of these populations. In addition, we propose to accelerate our product development timing so that by the end of 2019 we will have an approved product enhancement.

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.

3. Objective #3: Create and implement work-plans and purchase loans secured by multifamily housing for Native Americans and agricultural workers (Analyze, Do What We Do Best).

Meeting the Challenges
The rental housing markets for Native Americans and for agricultural workers face a number of challenges, including: • The opportunity to finance multifamily housing for each of these high-needs rural populations is believed to be very limited given: o Economic challenges such as persistent poverty and limited access to lenders that can provide affordable capital. o Communities in the areas in which these high-needs rural populations reside often lack appropriate multifamily underwriting information, including market comparables and analyses of economic health and supply/demand indicators. o Loans in the rural areas in which these high-needs rural populations often reside, cannot be viewed as one homogeneous group but require geographic market differentiation. o Much of the housing in which these high-needs rural populations reside is in substandard condition and needs energy or water efficiency improvements. o Traditional lenders cannot reach “economies of scale” in lending in the areas in which these high-needs rural populations reside due to the small project sizes coupled with the lack of readily available market information. o CRA investors are not necessarily interested in the markets in which these high-needs rural populations reside based on the size of and geographic distance between communities. o Native American communities are sovereign States and tribal lands have significant restrictions that may create barriers to acquiring a traditional mortgage. To address these challenges, Fannie Mae will: • Work to establish a deeper understanding of the subject rural markets/submarkets through outreach and research activities in order to determine the most impactful multifamily housing strategy for these high-needs rural populations. • Upon completion of the identified outreach and research activities, create work-plans and develop key loan products and enhancements that will provide a foundation for the future purchase of loans secured by affordable housing for Native Americans and agricultural workers. • Purchase multifamily loans that support affordable housing for Native Americans and agricultural workers.

SMART Factors

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

Year	Actions
2018	• In conjunction with Fannie Mae Single-Family efforts: o Facilitate one rural housing roundtable with cross-functional industry representation to discuss, analyze, and solve the challenges facing high-needs rural populations. o Establish a Fannie Mae Rural Housing Advisory Council with subcommittees representing each of these high-needs rural populations to gain a deeper understanding of the market challenges affecting these high-needs rural populations and discuss how these challenges can be met. o Conduct one annual meeting of the Advisory Council to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. o Participate in two key conferences as a means to network with key industry stakeholders and to communicate the "Duty to Serve" message. • Based on research and outreach results, create one multifamily Native American work-plan and one agricultural workers work-plan that will address key multifamily affordable housing issues, including, respectively, (1) identification of Native American and agricultural worker communities; (2) identification of the three top multifamily housing issues that need to be addressed in these communities; (3) two potential roles for Fannie Mae Multifamily in serving each of these communities; and (4) two key actions (e.g., reviewing Fannie Mae's current products to determine what potential changes could be made to increase liquidity to these populations, or survey lenders to document barriers to lending to these populations) that would enhance Fannie Mae's ability to serve the multifamily market for both populations. • As part of the outreach and product development work occurring in connection with purchasing rural loans from small financial institutions, determine if any of the small financial institutions have a focus on Native American or agricultural worker housing that can be leveraged to increase liquidity to Native Americans and agricultural workers. • Identify three potential product enhancements (total) that could facilitate the provision of liquidity to Native Americans and agricultural workers to be submitted to Fannie Mae's internal product enhancement and development approval process for consideration during 2019.
2019	Based on the work completed in 2018: • Process at least one product enhancement identified in the work-plan through the internal product enhancement and development approval process that will facilitate the provision of liquidity to housing for Native Americans and agricultural workers, and implement the product enhancement(s). • Implement the two identified key actions from the work-plan that will enhance Fannie Mae's role and ability to serve the affordable housing needs of both Native Americans and agricultural workers. • Revise and document updated work-plans including considering proposing additional product enhancements or key actions and confirming loan purchase Baselines and goals for 2020. • Facilitate one rural housing roundtable with cross-functional industry representation to continue to discuss, analyze, and solve the challenges facing high-needs rural populations. • Conduct one annual meeting of the Advisory Council to continue to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. • Participate in two key conferences as a means to continue to network with key industry stakeholders and to communicate the "Duty to Serve" message.

Year	Actions
2020	Based on the work completed in 2018 and 2019: • ~~Implement product enhancement(s) approved during 2019.~~ • Implement additional key actions and/or product enhancements that were potentially identified as part of the updated work-plans. • Revise and document updated work-plans including considering proposing additional product enhancements or key actions. • Purchase one loan for multifamily housing serving Native American populations and three loans for multifamily housing serving agricultural worker populations. o **Baseline:** Over the last three years, Fannie Mae has not purchased any multifamily loans on rental housing for Native Americans or agricultural workers. Until such time as Fannie Mae completes the outreach and research described for this Objective, it cannot reasonably determine a more accurate Baseline than zero. • Facilitate one rural housing roundtable with cross-functional industry representation to continue to discuss, analyze, and solve the challenges facing high-needs rural populations. • Conduct one annual meeting of the Advisory Council to continue to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. • Participate in two key conferences as a means to continue to network with key industry stakeholders and to communicate the "Duty to Serve" message. • Conduct a survey of key stakeholders to assess the impact of each of Fannie Mae's work-plans for these high-needs rural populations~~ – in Q3~~. • Identify and document at least four key lessons learned from the work completed under each of the work-plans and use those findings, as well as the survey results, in the planning process for the 2021 – 2023 Duty to Serve Plan – in Q4.

The ultimate goal of this Objective is to determine the most impactful strategy for Fannie Mae to increase liquidity to the Native American and agricultural workers multifamily markets. Fannie Mae will be able to draw on our past experience and relationships in various local markets across the country as we work through our outreach and research. Based on our previous experience in conducting outreach and research, product development, and multifamily financing, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Any product enhancement and development work will factor in appropriate safety and soundness standards.

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

Fannie Mae

Rural Housing

2018 – 2020

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

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

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

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

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

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

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

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

1 As defined under the Regulations.

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

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