



## Federal Housing Finance Agency

July 17, 2020

### **DTS Special Procedures for 2020 Requests for Modifications to Underserved Markets Plans and 2021 Plan Extensions**

Under ordinary circumstances, Fannie Mae and Freddie Mac would each have submitted a proposed three-year Duty to Serve (DTS) Underserved Markets Plan (Plan) to FHFA in June 2020, covering 2021-2023.<sup>1</sup> However, in response to the market disruption and uncertainty caused by the COVID-19 pandemic, FHFA has approved temporary adjustments to normal DTS program operations for 2020 and 2021. These changes include:

- The Enterprises will submit to FHFA proposed activities and objectives for one year only (2021), as a one-year extension of their 2018-2020 Plans, by September 15, 2020.
- FHFA expects the next proposed three-year Plans will be due to FHFA on May 1, 2021, covering the period from January 2022 to December 2024.

See Evaluation Guidance 2020-4a. The changes are intended to increase flexibility and streamline administrative processes during a period of great uncertainty. However, the changes also require additional guidance on program standards and procedures in 2020 and 2021.

FHFA prepared these special procedures to provide this guidance and clarify how the DTS program will operate in Plan years 2020 and 2021. While market context informs FHFA's impact evaluations under normal circumstances, given the scale of the market disruption and uncertainty caused by the COVID-19 pandemic, this guidance also clarifies how FHFA will take into account market conditions when making scoring and other program decisions.

#### I. Plan Structure and Submission Process

The Enterprises should include their proposed activities and objectives for the 2021 Plan year as additions or revisions to their 2018-2020 Plans. FHFA will consider those proposed activities and objectives, as well as any requests to modify 2020 Plan objectives, simultaneously. This simultaneous review is intended to streamline administrative processes and recognize the potential for interaction between 2020 modifications and 2021 Plan year actions (e.g., requests to remove proposed actions from the 2020 Plan year through a modification and add those actions to the 2021 Plan year). FHFA anticipates four potential scenarios as part of this process, which are described in Table 1.

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<sup>1</sup> 12 CFR § 1282.32(b).

Table 1. Scenarios for Submitting 2020 Modification Requests and 2021 Plan Year Actions

Scenario	Guidance
<p>A. An Enterprise requests to modify an existing objective in the 2020 Plan year.</p>	<ul style="list-style-type: none"> <li>- The Enterprise should follow existing guidance on how to submit a modification request.<sup>2</sup></li> <li>- The Plan Modification Request Template includes a section entitled “Justification for Proposed Modification.” An Enterprise proposing modifications due to pandemic-related disruptions may prepare a single response to this section to insert in the template for multiple objectives, if applicable. The response should provide a general description of the business reason(s) for modifying the affected objectives.</li> </ul>
<p>B. An Enterprise requests a modification or submits an innovation modification to add a new objective to the 2020 Plan year.</p>	<ul style="list-style-type: none"> <li>- For the 2020 Plan year only, FHFA is removing the cap that limits an Enterprise to one innovation modification in each underserved market.</li> <li>- An Enterprise may choose to add new objectives to its 2020 Plan year through a normal modification or through an innovation modification, following the existing guidance on how to request a modification or submit an innovation modification.</li> <li>- Innovation modification submissions are not subject to public input and are not considered as part of FHFA’s Non-Objection process.</li> </ul>
<p>C. An Enterprise proposes to add a 2021 target for an existing objective in the 2020 Plan year.</p>	<ul style="list-style-type: none"> <li>- The Enterprise should update the 2020 objective to include the 2021 target and any proposed implementation steps for 2021.</li> <li>- The update does not need to address the challenges or expected impact of the objective, although the Enterprise may choose to include this discussion to inform FHFA’s determination of a concept score for the objective.</li> </ul>
<p>D. An Enterprise proposes an entirely new objective for the 2021 Plan year.</p>	<ul style="list-style-type: none"> <li>- The Enterprise should identify the new 2021 objective, the target, and proposed implementation steps, if any, for 2021, and discuss the challenges and expected impact of the objective.</li> </ul>

The 2018-2020 Plans will provide the foundation for the proposed activities and objectives for 2021. Each Enterprise should submit to FHFA a redlined version of its entire 2018-2020 Plan that shows the proposed changes and additions to extend the Plan through 2021, including any

<sup>2</sup> See Evaluation Guidance 2020-4a for details on submitting a modification request.

new targets and new objectives, as well as the sections of the Plan that are not proposed to be revised.<sup>3</sup>

If an Enterprise proposes to modify an existing objective in its 2020 Plan year, it should include the proposed modification in the redlined version of the entire Plan referenced above.<sup>4</sup> In other words, an Enterprise should submit only one redlined version of its 2018-2020 Plan to FHFA in September 2020, with mark-ups to: (1) extend the Plan through 2021, and (2) modify the Plan in 2020.

## II. Public input

As with any new proposed Plan, FHFA will seek public input on all proposed objectives for 2021 (*i.e.*, when an Enterprise proposes to add a 2021 target for an existing objective in the 2020 Plan year or to add an entirely new objective for the 2021 Plan year). FHFA may also seek public input on an Enterprise's Plan modification requests for 2020 if needed to assist it in considering the proposed modification. Please see existing guidance for scenarios in which FHFA is more likely to seek public input on modification requests. FHFA plans to use a single, consolidated public input process for requests to modify 2020 objectives and proposed actions for 2021.

## III. Market conditions

For all categories of objectives, FHFA will give significant consideration to COVID-19 pandemic-related challenges when assigning concept scores and evaluating impact, including FHFA's expectations for year-over-year increases in liquidity. An Enterprise proposing to add a 2021 target for an existing objective in the 2020 Plan year may choose whether to update the baseline for the 2021 target; however, FHFA will treat all baselines as advisory, recognizing the significant market disruption and uncertainty caused by the pandemic.

Under Evaluation Guidance 2020-4a, an Enterprise may request to modify an objective to eliminate or reduce an action or target in the current Plan year where the revisions are in response to special circumstances beyond an Enterprise's control that materially alter its ability to execute an objective through the actions in its Plan. FHFA considers the COVID-19 pandemic to be such a special circumstance, and thus will allow Plan modifications that lower targets due to pandemic-related constraints. An Enterprise must provide a justification for changes to its 2020 Plan year activities and objectives as part of its modification request, even if it proposes to move the actions or targets to the 2021 Plan year.

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<sup>3</sup> FHFA does not expect the Enterprises to add to or amend other sections of the Plan that provide general context about an underserved market or an Enterprise's historical efforts to address needs in that market, such as an executive summary, strategic priorities statement, market overview, or discussion of activities considered but not included, although any Enterprise may choose to do so.

<sup>4</sup> An Enterprise requesting to modify an objective in its 2020 Plan year should also submit a Plan Modification Request Template.

#### IV. Subsequent Plans

FHFA expects that the Enterprises' next proposed three-year Plans will be due to FHFA on May 1, 2021, covering the period from January 2022 to December 2024.