FHFA Supplement to 2019 Annual Reports Submitted by Fannie Mae

The following summaries were prepared by FHFA and provide additional information on selected objectives in Fannie Mae's Underserved Markets Plan. Discussions with Fannie Mae took place during virtual meetings held the week of July 13, 2020.

Affordable Housing Preservation Market

AHP_Distressed_1: Increase affordable capital through industry outreach and developing loan financing solutions (Loan product)

Fannie Mae explained how work under this objective fits into the longer context of Fannie Mae's efforts to repair and resell REO properties. As observed through appraisal condition codes and the widened scope of repairs of newly acquired REO properties, REO repairs require much deeper investments today than observed during the Great Recession. In response to a question from FHFA, Fannie Mae confirmed that increasing the repair rate in 2019 contributed to a higher number of REO properties sold to owner-occupants, thus contributing to more community stability.

AHP_MF_Energy_1: Engage stakeholders and conduct research to increase awareness and understanding of energy or water efficiency improvements and financing needs (Loan product)

Fannie Mae explained that the Green Rewards program is very focused on underserved markets and nearly all of its Green Rewards loans are Duty to Serve (DTS)-eligible. The robust outreach campaign in 2019 helped to dispel misinformation and mistaken assumptions about Fannie Mae reducing its engagement in green lending and resulted in a high volume of green lending. Fannie Mae also provided more details about its partnership with Bright Power and the work-intensive process of benchmarking energy savings, including verifying actual energy use at over 1,800 properties.

AHP_RAD_1: Conduct outreach, review potential loan product enhancements and purchase loans secured by RAD properties (Loan product)

Fannie Mae provided additional detail on its work with the New York Housing Development Corporation (HDC) to develop a framework for financing Rental Assistance Demonstration (RAD) program transactions. As a result of this work, at year end, Fannie Mae had multiple RAD properties under application in New York City. Fannie Mae explained its decision to begin these efforts with HDC because of its high volume of transactions and high capacity level. Some aspects of lessons learned from work with HDC should be transferable to work with other places; in addition, Fannie Mae's Public Housing Authority Advisory Council should help to inform those efforts in possible future work with small public housing agencies.

AHP_RED_4: Outreach and stakeholder engagement on the importance of RED in community-level, household, and individual outcomes (Outreach)

Fannie Mae explained that it did not publish the white paper completed under this objective in December 2019 in order to release it as part of a communications campaign at a time of year when the announcement would likely attract more stakeholder attention. (Planned activities will be affected by the COVID-19 pandemic.) Fannie Mae presented the case studies in the white paper in the broader context of state and local affordable housing programs, rather than specifically focusing on lending that qualifies as Residential Economic Diversity (RED) under FHFA's definition for two reasons: First, the broader context is intended to make clear that the company doesn't view RED activities as an appendage or boutique program. Second, RED is inherently a local issue and states and local entities are creating the programs and funding mechanisms needed for this kind of work.

AHP_RED_5: Support affordable housing in high-opportunity areas and mixed-income housing in areas of concentrated poverty through TA and capacity-building for state and local CDOs (Outreach)

Fannie Mae provided more detail about the Sustainable Communities Innovation Challenge projects discussed in its annual report, and cited some early lessons learned. Work with the Guadalupe Neighborhood Development Corporation provides a potential model for working with nontraditional partners to bring more affordable housing into high opportunity neighborhoods; however, additional partners who can provide capacity-building and technical assistance will be critical to help "non-housers" tackle the unfamiliar territory of affordable housing development. Work with Local Initiatives Support Corporation and Atrium Housing to provide wraparound support and services in mixed-income housing provides models for financing the health and services component of service-enriched properties. Fannie Mae also identified possible partners to leverage investments in affordable housing outside of the Innovation Challenge.

AHP_RED_6: Develop and approve product enhancements designed to improve affordable housing preservation and development in high opportunity areas (Loan product)

Fannie Mae provided more information about a Residential Economic Diversity-focused Impact Pool, the goals of the Impact Pool, and the likely impact of the mezzanine debt offering on properties supported through the Impact Pool. Fannie Mae described adjustments it has made to address challenges finding properties to acquire in changing neighborhoods targeted by the Impact Pool and enable acquiring senior loans efficiently when deals become available. Fannie Mae has identified a number of other places pursuing similar initiatives; working with a well-known borrower and strong partners will help to test this model and could inform future work.

AHP_Sec 8_1: Purchase loans secured by properties served by the Section 8 program (Loan purchase)

Fannie Mae described the analysis of internal and external factors it conducted to understand why it fell short of its Section 8 loan purchase target for 2019. In addition to analyzing the data on deals quoted and deals won, the Fannie Mae DTS team also met with internal and external partners to identify pain points and gain insights on why it did not do more business in this submarket. As a result, Fannie Mae made changes to internal process to streamline internal processes and reduce processing time for transactions.

AHP_SF Energy_2: Increase liquidity for Improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans (Loan product)

Fannie Mae provided insights into the role that the separate 2019 Scorecard and Mortgage Industry Standards Maintenance Organization (MISMO) processes play in driving the timeline for progress under this objective, and the potential for progress to be slower than expected as a result of misalignment between these processes. The scope of the Uniform Appraisal Dataset (UAD) has also grown from single-family and condo units to include cooperatives, manufactured housing, and 2-4 unit single-family properties. Fannie Mae described the industry outreach that has informed the standardization process over multiple phases of work, and ongoing efforts to integrate feedback into proposed requirements for a future UAD. Fannie Mae also noted the importance of training once standardization efforts are complete, particularly in communities where energy-efficient features are less common and appraisers have less familiarity with how to value these features.

AHP_Shared Eq_1: Increase the purchase of mortgage loans that finance shared equity programs (Loan product)

Fannie Mae reviewed 300 shared equity programs to inform its effort to move from lender certification to a program self-certifying regime. Fannie Mae determined that 135 of the 300 programs were Fannie Mae-eligible. The winnowing process resulted in important new shared equity partnerships for Fannie Mae. Fannie Mae shared its list of eligible shared equity programs with Fannie Mae sellers that might be interested. One of the challenges under this objective was determining the appropriate level of review to confirm eligibility for nonprofit shared equity partners. A pilot project with the Florida Housing Coalition proved too costly to expand, because the level of review for each partner was more thorough than what was needed and too expensive to be broadly replicable. The shared equity certification program that Fannie Mae is creating will ultimately include linking the loans with the appropriate program.

Manufactured Housing Market

MH_Real Prop_1: Increase the purchase volume of conventional manufactured housing secured by real estate each year of the Plan (Loan purchase)

Although Fannie Mae well exceeded its loan purchase target under this objective, its lending in this segment was somewhat less than the prior year. Factors contributing to the decrease include a change in Fannie Mae's risk appetite and the end of the Home Affordable Refinance Program (HARP). The decline was not due to a decrease in manufactured unit lender engagement.

Fannie Mae's manufactured housing real property volume remained generally consistent as a share of overall volumes of affordable loans.

MH_Real Prop_2: Increase liquidity for manufactured housing titled as real property through industry outreach and increasing purchases (Loan product)

Beyond the details provided in its annual report, Fannie Mae made significant progress in broadening the manufactured housing unit market through variances in 2019. Approved variances under this objective address Accessory Dwelling Units, construction to permanent financing, and increasing the allowable age of credit documents upwards to 18 months for certain borrowers, based on credit characteristics.

Rural Housing Market

Rural_HN Pop_3: Create and implement work-plans and advance strategies that support development of affordable multifamily housing for Native Americans and agricultural workers (Outreach)

Fannie Mae provided more clarity on how its updated work-plan could lead to future investments and capacity building. The partnerships with Community Resources Housing Development Corp (CRHDC) and Enterprise Community Partners could help set up future work. While the development timeline for tribal projects is typically long, this approach of leveraging Fannie Mae's intensive direct staff engagement with tribal technical assistance programs and equity investments could facilitate increased liquidity and more reasonable timeframes.

Rural_HN Pop_4: Purchase single-family NACLI and/or HUD Section 184 loans and produce loan products via supply variance and appraisals (Loan product)

Fannie Mae explained that buyers on Native American reservations are more likely to buy new homes because of the limited resale market. Fannie Mae believes that the lack of data on housing supply, especially for new construction, contributed to challenges acquiring loans in this market. In its favor, each of the transactions it did complete was on tribal trust land, and the transactions were an equal mix of refinances and loan purchases. Fannie Mae had some important lessons learned in this objective. For example, to earn the trust of the high-needs population it is trying to serve, working with smaller institutions and CDFIs seems to be the more successful approach (as opposed to larger lenders). It did make changes to the NACLI variance to allow for more conventional lending; the process was initiated in March and was completed in October.

Rural_HN Reg_5: Develop a data visualization tool to provide rural affordable housing practitioners better insight into the social and economic conditions of high needs rural regions (Outreach)

Fannie Mae provided additional documentation and a demonstration of its data visualization tool. The tool has some interesting datasets and Fannie Mae's demonstrated use case showed how practitioners could use the tool to better reach underserved markets.

Rural_Small Fin Inst_2: Purchase single-family rural loans through bulk transactions from small financial institutions (Loan purchase)

Fannie Mae provided further details on the loan purchase and outreach actions conducted in this objective. Fannie Mae worked with boutique investment banks to help get a foothold in this difficult to reach market. Typically, the loans that were evaluated do not meet DTS area median income (AMI) criteria. Also, many of the seasoned loans in these potential deals present different selling challenges. Ultimately, moving forward, Fannie Mae's sellers that are small financial institutions (SFIs) seem to prefer flow transactions over bulk deals. This approach allows smaller lenders to access liquidity and capital more quickly than holding loans in the SFI's portfolio for 24 to 36 months. In 2019, SFIs seemed to prefer aggregators as a more likely outlet for selling these types of loans.

Rural_Small Fin Inst_3: Gain an understanding of the challenges and opportunities for small financial institutions in rural areas through outreach. (Outreach)

Fannie Mae provided more description of its discussions with lenders and the level of effort to complete outreach actions under this objective. These efforts included extensive calls and interviews with lenders and CDFIs. The partnerships Fannie Mae formed with Fahe and other organizations and its investigation into working with Federal Home Loan Banks could help with increasing liquidity in the future and coming up with strategies to overcome obstacles in this underserved market.