FHFA Supplement to 2020 Annual Reports Submitted by Fannie Mae

The following summaries were prepared by FHFA and provide additional information on selected objectives in Fannie Mae's 2020 Underserved Markets Plan. Discussions with Fannie Mae took place during virtual meetings held the weeks of July 19 and July 26, 2021.

Affordable Housing Preservation Market

AHP_Distressed_2: Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties. (Loan purchase)

Fannie Mae described the challenges of implementing this objective under the COVID-19 eviction moratoria. Its strategy has been to repair and resell properties from its real-estate owned (REO) inventory to owner-occupants. With no new properties flowing into Fannie Mae's REO inventory in 2020, the homes that remained were in the worst condition and needed the most extensive repairs. In addition, planned partnerships with non-profit organizations that would have supported owner-occupant home purchases did not materialize when those organizations shifted focus due to the pandemic. Fannie Mae also reported on the ongoing inability of lenders to identify REO properties at loan application. Lenders need this information early in the loan process to inform loan delivery decisions and take advantage of any pricing incentives Fannie Mae could offer. In 2020, Fannie Mae pursued options to address this barrier, including preparing a report for lenders on loans likely to be eligible for distressed property pricing incentives and exploring software solutions, but was unable to find an effective solution.

AHP_MF Rental_1: Adopt an effective approach to purchase small multifamily loans from financial entities with $10 billion or less in assets and purchase loans. (Loan product)

Three CDFIs were in Fannie Mae's approved lender network in 2020, and Fannie Mae bought loans from one of them under this objective. Fannie Mae made operational improvements to improve the loan acquisition process for CDFIs and other small financial institutions with less capacity and secondary market experience, including digitizing the rent roll submission process. Its customer engagement team maintained regular contact with lending partners, including intensive engagement around loan package submissions. Fannie Mae reported that more work is needed to make the process more scalable and repeatable.

AHP_RED_2: Establish a RED initiative to increase loan purchases relating to the Statutory Activity for other comparable State or local affordable housing programs. (Loan purchase)

Fannie Mae described steps it took in 2020 to increase loan purchases under this objective, including training its customer engagement team and lenders on eligible pricing incentives and determining RED eligibility using the Housing Visualization Tool mapping application. In response to a question from FHFA about the declining share of RED-eligible loans under the State or local affordable housing programs Statutory Activity, Fannie Mae cautioned against drawing conclusions based on a comparison of loan characteristics in 2019 and 2020, given the small number of loans purchases in either year. Fannie Mae also explained some of the factors that make targeting loan purchases in RED-eligible areas challenging, including the methodology used to determine eligible census tracts and properties and the longer timeframe that may be needed to complete transactions in RED-eligible areas, especially during the COVID-19 pandemic.

AHP_Section 515_1: Work with the USDA and other stakeholders to adopt an approach resulting in increased preservation of Section 515 properties and purchase Section 515 loans. (Outreach)

Fannie Mae provided information about its technical assistance (TA) partnerships under this objective in 2020. Enterprise Community Partners focused on conducting the Colorado Rural Rental Housing Preservation Academy and reporting lessons learned. The scope of the Academy shifted from seven in-person sessions to 15 virtual sessions in response to the COVID-19 pandemic, as well as provision of direct targeted TA for members of a TA cohort. The Housing Assistance Council (HAC) originally focused on facilitating a peer exchange among four to six organizations, but this plan had to be revisited due to the pandemic, as projects stalled and organizations facing competing priorities were unable to participate. HAC instead began providing one-on-one TA focused on building capacity and organizational knowledge to support Section 515 preservation.

AHP_SF Energy_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. (Loan product)

Fannie Mae described the status of the multiyear Uniform Appraisal Dataset (UAD) update. Energy- and water-efficiency fields to be added to the UAD address green home certifications, energy ratings, and renewable energy features, helping to standardize data collection in this area. In advance of the roll-out of the updated UAD, Fannie Mae built its own database to enable identification and analysis of green homes and support development of its Single-Family Green Bond Program. By the end of 2020, the database included 4,000 new homes with Energy Star certification. Future efforts will focus on obtaining historical datasets and registries that identify existing homes with green certifications that could be occupied by low- and moderate-income borrowers. When a new loan is delivered, Fannie Mae is able to check it against the database to see if it qualifies for the Single-Family Green Bond Program.

AHP_Shared Equity_1: Increase the purchase of mortgage loans that finance shared equity programs. (Loan product)

Fannie Mae described delays in development of a model deed restriction (MDR) for shared equity homeownership (SEH) programs due to capacity constraints among partner organizations during the COVID-19 pandemic. Partner organization Grounded Solutions Network (GSN) is developing the draft MDR in consultation with legal teams at both Enterprises to ensure lenders can refer to a common document. Fannie Mae provided an overview of unresolved issues to be addressed before the MDR can be finalized, including a potential conflict with an FHFA directive on private transfer fees paid to a third party in connection with the sale of a property. Fannie Mae and GSN also began developing a shared equity certification program that would allow SEH program sponsors to self-certify Duty to Serve eligibility. As part of this work, Fannie Mae conducted follow-up interviews with lenders in Florida, where it had explored SEH self-certification in 2019. Lenders indicated that having the SEH programs verify eligibility was beneficial, as it had been costly and time-consuming to identify and monitor eligible programs.

Manufactured Housing Market

MH_Comm Govt_1: Increase liquidity to governmental entity, non-profit organization or resident-owned MHC (collectively "Non-Traditional Owners") through research, data analysis, loan product review and enhancement, implementing a pilot for resident-owned MHC and publishing Fannie Mae's experiences. (Loan purchase)

Fannie Mae provided more information on a purchase proposal for the conversion of seven mobile home parks to resident-owned cooperatives (ROCs). The owner withdrew the proposal for a variety of reasons, including delays in the availability of state funds due to the COVID-19 pandemic. Newly forming ROCs often need funding beyond the 90 percent loan-to-value ratio supported by Fannie Mae's ROC pilot, and the public funding would have bridged that gap.

In 2020, lenders tended to focus on pandemic response and relief efforts, limiting their capacity for the extensive engagement needed to support ROC transactions. To encourage future loan purchases under this activity, Fannie Mae conducted lender trainings and hosted a roundtable on its product enhancement guidelines. Fannie Mae also engaged in targeted discussions with lenders to provide access to data and support deal structuring. Fannie Mae also improved pricing significantly and made low-cost assessments of non-traditional MHCs available to lenders. Pandemic-related reserve requirements that Fannie Mae put in place in 2020 also presented an obstacle and have since been lifted.

Rural Housing Market

Rural_HN Populations_1: Rebrand and market Fannie Mae's Native American Conventional Lending Initiative (NACLI) (Outreach)

Fannie Mae described its outreach to lenders under this objective, including those with expertise in the Section 184 Indian Home Loan Guarantee program and significant engagement with tribal communities. These lenders provided feedback on flexibilities Fannie Mae should incorporate in its NACLI variance to support Native American homeownership, including to streamline title requirements. Competing priorities related to the COVID-19 pandemic disrupted significant progress toward executing a memorandum of understanding between a lender and two tribes on the NACLI variance; this disruption was exacerbated by a change in bank management.

Fannie Mae also provided information on its web-based appraisal training, which drew 68 participants, including members of tribal communities. The training provided information on Fannie Mae's appraisal flexibilities and its role in the mortgage market in general, including supporting conventional homeownership on tribal trust land. Fannie Mae reported a level of participation and engagement during the webinar that was stronger than expected given that tribal communities were dealing with multiple pandemic-related issues.

Finally, Fannie Mae described its work in 2020 providing technical assistance to New Mexico pueblos. Despite a variety of challenges related to the pandemic, technology, and staffing, one tribe made significant advances in addressing challenges in the Bureau of Indian Affairs (BIA) process to review and approve mortgage documentation in leasing agreements. As part of a demonstration transaction, Fannie Mae worked with the tribe to identify deficiencies that contributed to ongoing rejections and prolonged the review period. The result was a step-by-step description of the lease and mortgage approval process that was approved by the tribal council that has the potential to reduce the review period from 5 to 7 months to 30 to 45 days.

Rural_HN Populations_3: Create and implement work-plans and advance strategies that support development of affordable multifamily housing for Native Americans and agricultural workers. (Outreach)

Under this objective, Fannie Mae worked with technical assistance (TA) providers CRHDC and Enterprise Community Partners to determine the scope and timeline of a TA engagement, identify strategic objectives, and recruit participants. Few affordable multifamily projects for Native Americans and agricultural workers obtain conventional debt financing, as they tend to fall outside of Fannie Mae underwriting standards. In addition, the low rents received at these affordable properties can make it difficult to support debt. As a result, TA focused on accessing federal, state, local, and tribal funding sources. Partners met on a monthly basis to provide feedback and collaborate on program improvements.

In response to a question from FHFA, Fannie Mae described challenges and opportunities identified in the TA impact report prepared under this objective. On the single-family side, the report highlighted the need for additional relationship-building and capacity-building among partners. Continued engagement and trust-building was also identified as an important next step on the multifamily side, along with developing and launching a toolkit of resources for all stages in the Low-Income Housing Tax Credit development process.

Rural_HN Regions_3: Create a work-plan and increase multifamily loan purchases in Middle Appalachia, the Lower Mississippi Delta, rural tracts in persistent poverty counties, and the colonias. (Loan purchase)

Fannie Mae explained why multifamily loan purchases in high-needs rural regions are difficult to scale, even with aggressive pricing incentives. Reasons include:

(1) these deals generate less revenue than other deals but have similar transaction costs;

(2) the properties are located in remote locations, while lenders prefer to expand their reach starting with rural properties closest to metro areas;

(3) lenders tend to gravitate to less complex transactions; and

(4) available subsidy for some of these transactions has decreased.

Fannie Mae also noted that credit and pricing tightened in the early stages of the COVID-19 pandemic and many small multifamily loans did not close.

Rural_HN Regions_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 described the ways it has leveraged its Housing Visualization Tool (HVT) to create state and regional maps for individual users, such as state housing finance agencies (HFAs) and lenders. Fannie Mae expects customized maps to help drive business development by making it easier for partners to focus their outreach and lending activity in Duty to Serve-eligible areas, such as high-needs rural regions. For example, the West Virgina HFA used the HVT to identify and target for outreach small financial institutions in high-needs rural regions. Fannie Mae offered training on the HVT in group and individual settings in 2020, including providing customized trainings for HFAs based on their areas of interest. Fannie Mae has also demonstrated the HVT on customer calls and during one-on-one meetings with lenders, and received feedback on additional data fields to include – e.g., broadband speed, employment rate, location of hospitals, etc.

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

Fannie Mae reported on lessons learned while implementing this objective in 2020, including that seller-servicers prefer the reliability of flow transactions over bulk transactions. Fannie Mae tried working with a CDFI to put together a bulk deal, but encountered difficulty engaging servicers and lenders, who were often unfamiliar or unprepared to deliver or service a pool of loans with higher debt to income and loan to value ratios.. With multiple competing priorities in 2020—including COVID-19 response and high refinance volume—lenders had limited resources available to address these challenges. In addition to poor timing and related capacity constraints, potential partners cited statutory limitations and risk considerations (legal, counterparty, servicing, etc.) as obstacles to their participation in a bulk transaction.