Fannie Mae

2023
Affordable Housing Preservation
Loan Purchase

ACTIVITY:

G. 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 the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Purchase 28-33 loans used to purchase or refinance homes with energy, water, or energy debt refinance.	Fannie Mae acquired 30 loans used to purchase or refinance homes with energy, water, or energy debt refinance.	

SELF-ASSESSMENT RATING OF PROGRESS:

☒ Target met
☐ Target exceeded
☐ Target partially completed
☐ No milestones achieved

IMPACT:

☐ 50 – Very Large Impact
☐ 40
☒ 30 – Meaningful Impact
☐ 20
☐ 10 – Minimal Impact
☐ 0 – No Impact

IMPACT EXPLANATION:

1. How and to what extent were actions under this objective impactful in addressing underserved market needs, or in laying the foundation for future impact in addressing underserved market needs?

Broader market trends have resulted in significantly lower single-family energy loan volume in 2023. Specific drivers for this decline include elevated interest rates and the associated "lock-in" effect for existing homeowners, historically high home prices, and limited available housing supply. Thus, overall mortgage purchase and refinance loans, were down significantly in 2023.

This rate-driven decline in overall volume was particularly impactful for single-family energy and water loans. In the past, homeowners have used HomeStyle® Energy and, to a lesser extent, HomeStyle® Renovation during a refinance, to fund home energy improvements or refinance existing energy-related debt.

Despite these headwinds, we were able to purchase 36 loans. These loans were a mix of financing energy improvements and refinancing to extinguish Property Assessed Clean Energy (PACE) loans.

Residential PACE is available in jurisdictions within California, Missouri, and Florida, and is designed to help homeowners finance energy-related property improvements through a governmental property lien tax. However, PACE loans secure a "super-priority lien" status over existing and subsequent first mortgages. In 2010, FHFA, the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration, and the Federal Deposit Insurance Corporation highlighted the risks attendant to PACE lending. That same year, FHFA directed Fannie Mae and Freddie Mac not to purchase or refinance mortgages with PACE liens.[1] Using HomeStyle Energy and other mortgage loan products, borrowers can extinguish a PACE loan during a refinance. Additionally, by extinguishing the PACE loan, the borrowers would likely benefit from an interest rate reduction for these energy assets, making the home more affordable. Despite the low refinance volumes in 2023, homeowners in these three states continue to take advantage of the option to extinguish PACE loans and improving the affordability of their homes.

Finally, in May, we began reaching out to renovation lenders to help them identify energy and/or water improvements in the home renovations. We know these improvements are included in many home renovations, but it is challenging for lenders to identify and track these improvements. We believe that this outreach did not result in incremental Duty to Serve (DTS) energy loans due to renovation loans taking longer to deliver to Fannie Mae. However, we believe that our 2023 outreach may lead to incremental DTS loans in 2024.

2. What did the Enterprise learn from its work about the nature of underserved market needs and how to address them?

The volume of DTS energy loans track closely to limited cash-out refinance (LCOR) loans. Primarily due to higher interest rates, LCOR volumes decreased 85% year-over-year in 2022 and another 85% in 2023. Our loan purchases are consistent with this trend. Fannie Mae is forecasting a greater than 50% increase in refinance volume in 2024. It is reasonable to expect our loan purchases to track any increase.

Two lenders gave us feedback that they find the HUD 203k Calculator very useful in simplifying the loan for originators, and a HomeStyle Renovation and HomeStyle Energy calculator in which we would automate some or part of our Maximum Renovation Amount Worksheet (Form 1035) would simplify our products for loan originators. Their feedback is that the calculations for renovation products in general, including HomeStyle Renovation, are complicated and a barrier to adoption.

3. Optional: If applicable, why was the Enterprise unable to achieve the Plan target?

N/A

[1] Federal Register, Vol. 85, No. 11, Page 2737, https://www.govinfo.gov/content/pkg/FR-2020-01-16/pdf/2020-00655.pdf January 16, 2020.

Affordable Housing Preservation
First Quarter Report: January 1 - March 31, 2023
Loan Purchase

ACTIVITY:

G. Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt

SUMMARY OF PROGRESS:

The following are the 2023 Actions under this Objective:

- Purchase 187 loans used to purchase or refinance homes with energy, water, or energy debt refinance, which represents a 5% increase over the baseline.

As of the end of the first quarter, we have acquired seven (7) single-family energy and water loans. Given the current trajectory, we believe we are at moderate risk of missing the 2023 target of 187 loans.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

☒ Progress delayed and/or partial completion of the objective expected

☐ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Current affordability is at near historic lows, while the affordable housing inventory remains significantly constrained, especially for low- and moderate-income borrowers. In addition, the interest rate on a 30-year fixed rate mortgage has more than doubled from a year ago – from below 3% to above 6% – making it increasingly difficult for low-income households to afford to purchase a home.

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With the higher interest rates, refinances are also down considerably. For the week ending March 31, 2023, the Fannie Mae's Refinance Application-Level Index (RALI) count was down 64 percent compared to the same week last year. The RALI dollar volume was down 64.9 percent compared to the same week last year. In the past, homeowners have used HomeStyle Energy, and to a lesser extent HomeStyle Renovation, during a refinance to fund home energy improvements or refinance existing energy-related debt. The higher interest rates are reducing refinance volume, which in turn is reducing the number of HomeStyle Energy and HomeStyle Renovation loans.

Given our Q1 loan purchase volume and the factors above, we have classified this objective as off-track with a potential to fall short of the 2023 target.

Affordable Housing Preservation
Second Quarter Report: April 1 - June 30, 2023
Loan Purchase

ACTIVITY:

G. Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt

SUMMARY OF PROGRESS:

As of the end of the second quarter, we have acquired nineteen (19) single-family energy and water loans. Given the current trajectory, we believe we are unlikely to achieve the 2023 loan purchase target of 187 loans.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

☐ Progress delayed and/or partial completion of the objective expected

☒ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Broader market trends have resulted in significantly lower single-family energy loan volume during the first half of 2023. Specific drivers for this decline include factors affecting the broader housing market, such as high interest rates and the associated "lock-in" effect for existing homeowners, historically high home prices, and limited available housing supply.

With the higher interest rates, refinances are also down considerably. This is particularly impactful for single-family energy and water loans. In the past, homeowners have used HomeStyle Energy, and to a lesser extent HomeStyle Renovation, during a refinance to fund home energy improvements or refinance existing energy-related debt. The higher interest rates are reducing refinance volume, which in turn is reducing the number of HomeStyle

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Energy and HomeStyle Renovation loans. To provide some perspective, over 95% of the DTS Energy-eligible loans in 2022 were from refinances.

We are currently on pace to see the lowest volume of DTS Energy-eligible loans since we started tracking and reporting these loans for Duty to Serve in 2018. In the first six months of 2023 we have purchased 19 loans, or roughly three loans per month. Comparing this monthly average with last year, the monthly average for DTS Energy-eligible loans was 16 loans.

We will continue to conduct outreach and education to lenders throughout the second half of the year; however, given our loan purchase volume for the first half of 2023, and that we do not anticipate market conditions to improve over the rest of this year, we have classified this objective as off-track and unlikely to meet or exceed the loan purchase target of 187 loans. Fannie Mae will be submitting a request for modification of this loan purchase objective.

Fannie Mae

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Third Quarter Report: July 1 - September 30, 2023
Loan Purchase

ACTIVITY:

G. Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt

SUMMARY OF PROGRESS:

As of the end of the third quarter, we have acquired twenty-seven (27) single-family energy and water loans. Given the current trajectory, we believe we are unlikely to achieve the 2023 loan purchase target of 187 loans.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

☐ Progress delayed and/or partial completion of the objective expected

☒ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Given the current trajectory, we believe we are unlikely to achieve the 2023 loan purchase target of 187 loans. Challenging market conditions has worsened since the previous quarter, with interest rates continuing to rise. With the higher interest rates, refinances are also down considerably. This is particularly impactful for single-family energy and water loans which tends to be refinance transactions. Based on Fannie Mae's Refinance Application-Level Index (RALI), for the week ending September 29, 2023, the RALI volume is down 24.6 percent compared to the same week last year and the RALI count is down 23.5 percent. To put it into more historical context, the RALI volume is down 92% from the refinance boom (Q3 2020) and down 62.7% from the 2010-2018 average volume.[1]

Broader market trends have resulted in significantly lower single-family energy loan volume through the third quarter of 2023. Specific drivers for this decline include factors affecting the broader housing market, such as higher interest rates and the associated “lock-in” effect for existing homeowners, historically high home prices, and limited available housing supply.

We are currently on track to see the lowest volume of DTS Energy-eligible loans since we started tracking and reporting these loans for Duty to Serve in 2018. We continue to average about three loans per month, compared to the 2022 monthly average for DTS Energy-eligible loans which was 16 loans.

Lender outreach and training will continue through the end of the year; however, given our loan purchase volume for the first nine months of 2023 and that we do not anticipate market conditions to improve over the rest of the year, we have classified this objective as off-track and unlikely to meet or exceed the loan purchase target of 187 loans. Fannie Mae did submit a request for modification of this loan purchase objective. If the modification is accepted, we would currently be on track to meet this loan purchase objective.

[1] https://www.fanniemae.com/research-and-insights/surveys-indices/refinance-application-level-index