2023
Affordable Housing Preservation
Outreach

ACTIVITY:

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

OBJECTIVE:

1. Promote best practices and standardization for shared equity programs through a model deed restriction and a certification system for shared equity programs.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Evaluate usage of model deed restriction and identify other barriers to standardization.	Performed an in-depth document review for more than 100 shared equity programs	
☒ Evaluate the effectiveness of model documents in expanding lender participation in the programs that adopt them.	In April, we presented the then-forthcoming shared equity *Selling Guide* update at our Selling Policy Advisory Forum to promote the Model Deed Restriction (MDR) and solicited lender feedback. In December, we released a *Selling Guide* announcement allowing lenders to simplify their review of programs on our Certified Shared Equity Program List. If a program is using one of the three model documents, Fannie Mae will review and ensure compliance with our guide requirements	
☒ Document and gather feedback to understand benefits and inform enhancements to documents or processes.	Engaged lenders throughout the year to raise awareness of the MDR and solicit feedback.	
☒ Continue marketing and outreach efforts with lenders and stakeholders to	In May, we updated and simplified the Shared Equity section of the *Selling Guide*, which included reference to and promoted use of the MDR. The update	

expand the usage of model documents and participation in programs.	was promoted in our Selling and Servicing newsletter. In June, we spoke about the benefits of shared equity programs adopting use of the MDR at our annual Affordable Lending Summit. In September, we promoted the model documents at the Habitat for Humanity Top 40 Symposium to encourage adoption of MDR and model ground lease documents. In December, we published a *Selling Guide* update that links to the certified program list and provides lenders rep and warrant relief for all certified Community Land Trust (CLT) programs and shared equity programs that utilize the MDR.	
☒ Evaluate the effectiveness of the certification system and continue to promote awareness to new partners.	In January, Grounded Solutions Network (GSN) sent a promotional email about the certification system to their entire membership. We updated the loan-level price adjustment (LLPA) matrix to clarify for lenders that affordable housing preservation loans including loans with shared equity qualify for the <100% Area Median Income (AMI) LLPA waiver. Starting in Q2, we updated the certification document review process to include review for private transfer fees and the use of the MDR and performed a re-review of all certified programs. In December, we published the Certified Shared Equity Program List to a public-facing webpage and updated the *Selling Guide* to provide lender relief for programs on the list.	
☒ Obtain feedback from lenders and shared equity programs to evaluate the efficiencies and usefulness of the certification system.	In August, we participated in two lender engagement sessions, hosted by Florida Housing Coalition (FHC). We shared the May *Selling Guide* changes at the FHC conference.	

	Lenders informed us that they could not find certified programs on the certified list. We discovered that although the programs had been certified, the issue stemmed from the timing of the quarterly schedule updates to the certified list. Lenders shared that it was challenging to have correspondent channels access the certification list, which resided on Fannie Mae Connect™ for most of 2023.	
☒ Update certification systems and processes based upon lender and practitioner feedback.	In response to lender and shared equity program feedback, we moved the published list of certified programs from a lender-facing online resource to a publicly available webpage. This was done in tandem with a December *Selling Guide* update that references the certification system as well as the benefits to lenders who use it. By end of year, we transitioned the certification system to an in-house hosted platform giving Fannie Mae enhanced control and agility to make updates as we continue to evolve our shared equity offerings and policies. We also increased the frequency of updating the certified list from quarterly to monthly.	
☒ Conduct targeted outreach to shared equity programs and lenders not yet participating in the certification system.	In 2023, we added eight new lenders eligible for the Special Requirements incentive to identify delivery of shared equity loans. GSN promoted the certification system to new members as well as existing membership throughout the year. In March, we published a video promoting the use of manufactured housing on a CLT (Land Home Financial Services). In June, we updated a CLT eLearning module to all lenders. We also updated	

	Desktop Underwriter® to trigger a message to review Duty to Serve criteria when a lender inputs the special feature code for shared equity loans. In May, we partnered with GSN on a presentation introducing CLTs to an audience of real estate professionals, including appraisers. In September, we met with Guaranteed Rate to review information about CLTs and the certification process for shared equity programs. In October, we presented shared equity to the New York Mortgage Bankers Association. In December, we created a dedicated shared equity landing page to centralize all shared equity materials, provide a gateway for shared equity programs to apply for certification, and host the certified programs list.	

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?

We believe we exceeded “meaningful impact” due to activities (outlined in greater detail below) that serve as a foundation for future impact:

Issued two *Selling Guide* updates that completely revamped and simplified the shared equity section of the guide and issued a policy update that provides rep-and-warrant relief to lenders for loans for shared equity programs that utilize any model document.

Brought the entire shared equity certification system and platform in-house so that we can respond more quickly to market needs and align with policy updates. In tandem, we also moved the certified list from a lender-facing portal to a new, public-facing shared equity landing page.

In late 2022, as we were preparing for a single *Selling Guide* provision on shared equity, we identified an issue with the required GSN 2011 model ground lease: It provides for a discretionary transfer fee to the CLT at the end of the lease term. In consultation with Freddie Mac, we concluded that this was inconsistent with the private transfer fee covenant (PTFC) regulation issued by FHFA in 2022. Resolution of the PTFC issue is critical to Fannie Mae's support of the shared equity market. In performing an in-depth review of over 100 shared equity program legal documents, we found that approximately two-thirds have PTFCs. This indicates that the PTFCs are a common feature of shared equity programs. This affirms that our collaborative work with FHFA to issue an interim waiver, while FHFA finalizes a rule that allows Fannie Mae to purchase shared equity loans with PTFCs, is highly impactful to our ability to provide liquidity to this market. Pursuant to receipt of the PTFC waiver from FHFA, in March we issued a lender letter clarifying that shared equity loans with PTFCs that meet Duty to Serve requirements are eligible for delivery to Fannie Mae.

In May, we issued a *Selling Guide* Announcement that simplified and modernized the shared equity section. We reorganized and consolidated all shared equity information and requirements in one place, updated the section to accommodate and promote the use of the MDR, enhanced consumer protection requirements, and introduced Form 2200 for deed restricted loans, which is similar to the existing Form 2100 that is used for CLT loans.

In December, we issued a second *Selling Guide* Announcement that references and links to our Certified Shared Equity Program List. In tandem with this *Selling Guide* Announcement, we made the certified list publicly available on a new shared equity landing page; it was previously only available to lenders through the Fannie Mae Connect portal. We made the list public in response to practitioner feedback that they would like to view and share/promote their program certified status. We also promoted the benefits to lenders to use the certified list, specifically that using the list simplifies their review of shared equity programs; for programs that use model forms, lenders are relieved of reviewing the program's legal documents for compliance with Fannie Mae requirements. We also structured the list to include a PTFC flag to help lenders identify programs with PTFCs to relieve them from having to review programs for PTFCs.

In December, we also launched the program certification Shared Equity Program Platform (SEPP) on a Fannie Mae-hosted website. Until then, the platform had been hosted on GSN's site. As we worked through policy updates for shared equity loans, we realized that SEPP is more than a program certification platform — it is a reflection of our policies. As part of the new platform launch, we updated the survey questions that programs respond to in order to apply for certification, and we implemented more robust document review protocols. We also switched to a 100% document review protocol, replacing the random sample audit approach previously used. In tandem with the document review protocol change, we completed a review of the legal documents for all certified programs. Ultimately, moving SEPP in-house and reviewing 100% of certified program documents gives us more flexibility and agility to manage our policy changes as well as react to the needs of this market. We've also moved from a quarterly to a monthly schedule to add new shared equity programs to the certified program list, which dramatically reduces the certification process time to better support our lenders and shared equity programs. At the end of the year, we had 102 certified programs, an increase of about 17% from 87 programs at the beginning of the year.

We educated and trained lenders throughout the year on shared equity lending and addressed specific shared equity program-level questions and loan-level questions. Our outreach helped generate shared equity loan deliveries from lenders such as CalCon Mutual Mortgage and Elevations CU, which had not previously delivered CLT loans. Other specific lender engagements included Fifth Third Bank, Citizens Bank, Truist, Guaranteed Rate, U.S. Bank, Wells Fargo, Citi, Glacier Bank, Banco Popular, and Guild Mortgage.

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

By the third quarter of 2023, we completed a full re-review of all certified program documents, which gave Fannie Mae greater insights into what language is commonly contained in shared equity legal documents. We found that CLT legal documents are generally consistent in terms of program requirements and structure, likely due to the standardization achieved through wide-spread use of the model ground lease documents. For shared equity programs using a deed restriction, we found that most of the programs we reviewed do not use legal documents based on the MDR. This is not surprising, as the MDR is relatively new. It takes both time and financial resources for a shared equity program to change its legal documents, which creates a barrier to adoption of the MDR. For deed restricted programs, we found a few common elements of program requirements that vary across programs — for example, the term of the affordability period, a requirement for mandatory arbitration, and whether program approval is required for refinancing or subordinate financing.

Through our lender engagement, we learned about several barriers to origination and delivery of shared equity loans. Shared equity loans often require layers of subsidy beyond the below-market purchase price provided by the shared equity program. This increases the complexity of the transaction and complicates the coordination of loan funding, which disincentivizes loan officers to take on these types of loans. In addition, we heard that there are layers of complication in the origination process and that these complications will differ from lender to lender. For example, specialized appraisal skills are needed, and some loan originations systems are not set up to handle specific elements of shared equity loans, such as performing the affordable loan to value calculation. Even trained loan officers may not be confident in their ability to review shared equity programs and loan parameters for compliance. Lenders also provided an interesting insight about buyers: Some buyers are skeptical of the shared equity structure and liken shared equity to an alternative to renting rather than homeownership.

Throughout 2023, we fielded requests from lenders asking to review shared equity program docs for compliance. These requests confirmed that lenders continue to be uncomfortable assessing program compliance. To address this concern, we now respond to these inquiries by requesting that the shared equity program apply for certification through our platform, which helps promote the platform to both lenders and programs and more efficiently addresses one-off requests.

Our Distressed Properties place-based initiative with SHARE Baltimore supports the creation of a CLT hub-and-spoke model where five CLTs consolidate administrative and fundraising activities to share expertise and best practices, gain efficiencies of time and expense, and efficiently raise increased levels of capital to support property acquisition and repair as well as operational costs. Through the development of this collaborative model, SHARE has had challenges achieving these goals while balancing the autonomy and uniqueness of each separate CLT. The CLT model was made to be adaptable to specific community needs, informed by the people who live there. This is a strength of CLTs, allowing them to customize their approach to the creation and preservation of affordable housing and support services they provide to homebuyers. However, it makes consolidation of CLT functions difficult as each individual entity has community-specific needs and goals. In short, the uniqueness of each CLT or shared equity program is a basis for their effectiveness in their communities but also a challenge to standardization of the shared equity model.

Through the SHARE initiative, we also gained valuable insight into the challenges they are experiencing with buyer qualification for financing, even when substantial subsidy is available and when working with lenders who have created specific lending programs for their CLT. These insights support the conclusion that the current environment – marked by high housing prices and elevated interest rates – creates substantial barriers for access to credit for lower-income people, even when subsidy and specialized lending programs are utilized.

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

N/A