2023
Affordable Housing Preservation
Loan Purchase

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

OBJECTIVE:
2. Increase the purchase of mortgage loans that finance shared equity homes.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Purchase 155 loans used to finance shared equity properties, which is equal to the baseline.	Fannie Mae purchased 301 shared equity loans, surpassing our target by 94%.	

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?

Shared equity properties represent a small percentage of the overall housing stock, and the majority of shared equity programs are of small scale, intentionally operating within limited geographic footprints with the intent to serve the specific needs of their communities. In addition to providing access to affordable housing, shared equity programs often provide support services to their homebuyers, such as coaching and financial assistance. Despite the relatively small size of the shared equity market, it remains an effective approach to creating and preserving affordable housing. Fannie Mae continues to make significant efforts to support the growth of this market through various activities, including:

- Streamlining the shared equity loan origination and delivery process through *Selling Guide* updates and the promotion of the model deed restriction.

- Modifying our Shared Equity Program Platform (SEPP) by updating certification requirements to meet new *Selling Guide* requirements and Policy changes (e.g., private transfer fees, use of the model deed restriction, rep and warrant relief).
- Publishing the Certified Shared Equity Program List in an updated, public-facing, shared equity landing page so that anyone, not just lenders, can access the list of certified programs.
- Updating our *Selling Guide* to reference SEPP and promote the benefits to lenders, including rep and warrant relief for loans for community land trust programs and deed restriction programs that use the model deed restriction. This further promotes adoption of the model deed restriction.
- Performing lender outreach education about shared equity lending, the promotion of shared equity programs, training and job aids for origination and delivery of shared equity loans to Fannie Mae, and loan-level data analysis to ensure proper accounting of shared equity loans delivered to Fanne Mae.
- Fostering practitioner outreach to promote SEPP and the model deed restriction, connect programs with lenders, and acquire feedback to guide our continued efforts to increase liquidity to the shared equity market.

These actions encourage standardization within the shared equity lending market, help increase the volume of shared equity loans delivered to Fannie Mae, lay the foundation for future impacts though the continuous promotion of shared equity programs and shared equity lending, and refine our strategies to increase liquidity to this market.

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

Shared equity practitioners continue to express interest in working with more lenders. Often, a shared equity program has a finite number of lenders (sometimes just one lender), because the origination of shared equity loans requires specialization of systems and processes as well as specialized knowledge for loan officers. We plan to continue to leverage SEPP along with practitioner and lender outreach to spur new relationships between shared equity programs and lenders.

In addition, we learned from lenders that various parts of the origination process of shared equity loans require special skills, processes, and specific changes to their loan origination systems. These include, for example, appraising shared equity properties, performing the affordable loan-to-value calculation, and managing layers of subsidies needed to close loans. The time and financial resources needed to address these complexities, the low volume of shared equity loans, and the fact that shared equity loans tend to be low-balance create significant barriers to shared equity lending. We are exploring ways to address these challenges, and we continue to engage lenders to acquire their feedback and guide our efforts to further streamline shared equity origination and loan delivery.

Shared equity lending continues to be heavily impacted by the elevated interest rate environment, high housing prices, and the gap between increases in housing prices and wages. In order to continue to provide affordable housing options, shared equity programs must provide or source increased subsidies for homebuyers, noting that these programs are competing with other affordable housing programs for funding. A strength of the shared equity structure is that it not only creates but preserves long-term affordability of a property. However, in exchange for maintaining the long-term affordability of the property, homeowners are not able to build wealth through property ownership in the way other affordable housing strategies allow. Public and philanthropic funders consider this trade-off as they determine how to allocate funds, and in cases where the funder prioritizes wealth-building, they will choose to allocate their funds to non-shared equity programs.

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

N/A

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

ACTIVITY:

H. Shared equity programs for affordable housing preservation

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance shared equity homes.

SUMMARY OF PROGRESS:

Following are the 2023 Actions under this Objective:

- Purchase 230 loans used to finance shared equity properties, which represents approximately a 48% increase from the baseline.

As of the end of the first quarter, we have acquired 24 shared equity loans. Given the current trajectory, we believe we are at moderate risk of missing the 2023 target of 230 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.

As a result of increased mortgage rates and limited supply, existing home sales in 2022 were down 17.8% from 2021, as reported by the National Association of Realtors (NAR). Year-over-year drops have persisted in January and February of 2023, according to NAR. This overall trend is reflected in our shared equity transaction pipeline which has been slowing at an increasing rate since the second half of 2022.

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.

Fannie Mae

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

ACTIVITY:

H. Shared equity programs for affordable housing preservation

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance shared equity homes.

SUMMARY OF PROGRESS:

As of the end of the second quarter, we have acquired 58 shared equity loans. Given the current trajectory, we believe we are at high risk of missing the 2023 target of 230 loans.

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.

As a result of increased mortgage rates and limited supply, existing home sales in 2022 were down 17.8% from 2021, as reported by the National Association of Realtors (NAR). Year-over-year drops have persisted in January and February of 2023, according to NAR. This overall trend is reflected in our shared equity transaction pipeline which has been slowing at an increasing rate since the second half of 2022. Compared to 2022 volume at end of Q2, our loan deliveries have reduced by about 60%.

Given our Q2 loan purchase volume and the factors above, we have classified this objective as off-track and certain to fall short of the 2023 target.

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

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

ADDITIONAL INFORMATION (IF APPLICABLE):

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

ACTIVITY:

H. Shared equity programs for affordable housing preservation

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance shared equity homes.

SUMMARY OF PROGRESS:

As of the end of the third quarter, we have acquired 108 shared equity loans. Given the current trajectory, we believe we are at high risk of missing the 2023 target of 230 loans.

The housing market continues to face challenges with affordability at near historic lows. Affordable housing inventory remains significantly constrained, especially for low- and moderate-income borrowers. Mortgage interest rates remain significantly elevated at 20-year historic highs. All of these factors make it challenging for low-income households to afford to purchase a home, even when using shared equity programs.

We have submitted a request to modify this loan purchase target. As part of that request, we have also proposed to change the methodology we use to count Duty to Serve eligible loans to improve the accuracy and completeness of our loan counts. Under this modification request we have proposed a loan target of 155 loans which equals the baseline and we feel is a reasonable target.

Without modification to this loan purchase objective, we have classified this objective as off-track and certain to fall short of the 2023 target.

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):