



REQUEST FOR INPUT ON FANNIE MAE AND
FREDDIE MAC PROPOSED MODIFICATIONS
TO THEIR 2018-2020 DUTY TO SERVE PLANS

October 2019



Division of Housing Mission and Goals

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Introduction

The Federal Housing Finance Agency (FHFA) is requesting public input on proposed modifications by Fannie Mae and Freddie Mac (the Enterprises) to their 2018-2020 Underserved Markets Plans (Plans) under the Duty to Serve (DTS) program.

Background

On December 13, 2016, FHFA issued a final rule implementing the DTS provisions mandated by the Housing and Economic Recovery Act of 2008.¹ The statute requires the Enterprises to serve three specified underserved markets – manufactured housing, affordable housing preservation, and rural housing – in a safe and sound manner by increasing liquidity for mortgage investments and improving the distribution of investment capital available for residential financing for very low-, low-, and moderate-income families in those markets.

The DTS regulation requires the Enterprises to create Underserved Markets Plans detailing the specific objectives and activities they plan to implement to fulfill the DTS mandate. These three-year Plans went into effect on January 1, 2018. The DTS regulation allows an Enterprise to request to modify its Plan at any time, and FHFA and the Enterprises may seek public input on the proposed modifications if FHFA determines that public input would assist its consideration of the proposed modifications.² FHFA must provide a Non-Objection to a proposed modification for it to become part of a Plan.³

This request for input seeks public input on certain modifications proposed by the Enterprises where FHFA has determined that feedback would assist FHFA in considering the proposed modifications. The Plan modification review process established pursuant to Chapter 1 of FHFA's DTS Evaluation Guidance is described below. The review process is intended to enable the Enterprises and FHFA to apply lessons learned and improve the Plans in an expeditious manner, while also providing transparency to the public about substantial changes to the Plans.

¹ 12 U.S.C. 4565.

² 12 CFR 1282.32(g).

³ *Id.*



Overview of Modification Process

As FHFA and the Enterprises continue to implement the DTS program, FHFA believes that it is a best practice for the Enterprises to assess their three-year Plans and propose modifications of those Plans, where appropriate, on an annual basis. While Plan modifications are allowed under FHFA’s regulation and Evaluation Guidance, they are not a required part of the DTS process.

Chapter 1 of the Evaluation Guidance states that a proposed Plan modification should include a sufficient basis and explanation for why the modification is appropriate. FHFA has advised the Enterprises to use a “Plan Modification Request” form to request and justify a proposed modification. The two-part standard that must be met to receive a Non-Objection is: (1) the specific underserved market section to be modified will maintain an average preliminary concept score of 30 or higher; and (2) the specific underserved market section will include at least the required number of loan purchase objectives with a preliminary concept score of 30 or higher (on a scale from 0 to 50 points).

The DTS regulation provides that proposed modifications will be subject to public input “if FHFA determines that public input would assist its consideration of the proposed modifications.”⁴ FHFA has determined that public input would be helpful in considering proposed modifications that would make a substantial change to the content of a Plan, or could affect the concept score of an objective. FHFA has discretion to determine which proposed modifications will be subject to public input on a case-by-case basis.

In order to help the Enterprises and the public understand how FHFA uses its discretion in deciding when to seek public input on modification requests, FHFA has identified the following examples of modification requests that FHFA considers substantial and for which FHFA is *more* likely to seek public input:

- Reducing a quantitative target by 40 percent or more, especially when that reduction is not accompanied by a change in the historical baseline for that action; and
- Eliminating an objective entirely.

FHFA has identified the following examples of modification requests that FHFA does not consider substantial and for which FHFA is *less* likely to seek public input:

⁴ *Id.*



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- Changing a historical baseline or numerically measurable target due to a miscalculation. In light of the wide variety of activities in the Plans, it is conceivable that the Enterprises and FHFA may disagree about how to conceptualize or count certain metrics, such as the number of units eligible for DTS credit under a certain activity. As FHFA and the Enterprises reconcile these discrepancies, an Enterprise may need to change its baseline or target accordingly; and
- Modifying the measurable quantity of an objective by a modest amount, which FHFA deems to be an increase or decrease of less than 10 percent.

FHFA will issue Non-Objections to the Enterprises to the proposed modifications, where appropriate, after consideration of the public input received on this request for input, by December 16, 2019. Upon the issuance of a Non-Objection, FHFA intends to publish the following documents on FHFA's public website, with any confidential and proprietary information omitted:

- The modified Plans the Enterprises submitted that received a Non-Objection from FHFA;
- Redlined versions of the portions of the modified Plans containing all modifications, including technical edits;
- Both of the Enterprises' completed "Plan Modification Request" forms for each proposed modification that received a Non-Objection from FHFA. These documents will be published to provide the public with insight into the reasons the Enterprises modified their Plans.

Input Questions on the Proposed Plan Modifications

To help inform FHFA's consideration of Fannie Mae's and Freddie Mac's proposed Plan modifications, FHFA is requesting input from all interested parties on the following:

1. What is the proposed modification's potential impact on the related objective(s) in the Plan and on the underserved market as a whole?
2. Are there any market conditions FHFA should consider related to the proposed modification?
3. Are there any safety and soundness concerns related to the proposed modification?
4. What additional information might be helpful in evaluating the proposed modification?
5. Is the proposed modification appropriate based on the information and justification provided by the Enterprise? If not, why not?
6. Is there any other feedback on the proposed modification that FHFA should consider?



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FHFA also welcomes additional input on any issues raised in considering these proposed modifications that are not directly responsive to these questions.

FHFA is seeking public input on the Enterprises' proposed modifications in the following two sections as these modifications would make a substantial change to the content of the Plans, or could affect the concept score of an objective. A title has been given to each proposed modification to identify it by Enterprise, underserved market, Activity number, and Objective number. To aid FHFA in reviewing all feedback, responses should refer to each proposed modification by the Activity title. Responses should be as specific as possible when referring to individual Activities and Objectives.

The "Plan Modification Request" forms submitted for each of the proposed modifications that are the subject of this request for input are included at the end of this request so that the public may understand the Enterprises' justifications for each proposed modification. For more background information, see the Enterprises' Underserved Markets Plans and the DTS Plan Snapshots, which can be accessed from the Duty to Serve program [homepage](#) on the FHFA website.

Proposed Modifications to Fannie Mae's Plan

Fannie Mae has submitted 24 modification requests to FHFA, and FHFA has identified the following 15 for public input. FHFA will consider all 24 modification requests as part of its review process.

Manufactured Housing

- **Manufactured Homes Titled as Real Property Activity, FNM_MH_A-2:**
Manufactured Housing, Objective #2 – 2019: Clarify language on homebuyer education to focus on training and resource support to housing counselors. 2020: Reduce loan purchase target.
- **Manufactured Homes Titled as Real Property Activity, FNM_MH_A-3:**
Manufactured Housing, Objective #3 – 2019: Eliminate loan purchase actions and change evaluation area type from loan purchase to loan product; add new loan product actions focused on business-to-business and consumer outreach and education. 2020: Reduce loan purchase target and change evaluation area type from loan purchase to loan product.

Affordable Housing Preservation

- **The Supportive Housing Program for the Elderly under Section 202 of the Housing**



Act of 1959 Activity, FNM_AHP_B1: Affordable Housing Preservation, Objective #1 – 2019 and 2020: Establish loan purchase baseline, and convert unit of measurement for loan purchase targets from number of units to number of loan purchases.

- **The Rural Rental Housing Program under Section 515 of the Housing Act of 1949 Activity**, FNM_AHP_C1: Affordable Housing Preservation, Objective #1 – 2019: Eliminate loan purchase actions and change evaluation area type from loan purchase to outreach; add technical assistance and research tasks. 2020: Change evaluation area type from loan purchase to loan product and add lender outreach and training actions.
- **Purchase or Rehabilitation of Certain Distressed Properties**, FNM_AHP_K2: Affordable Housing Preservation, Objective #2 – 2019 and 2020: Revise baseline and targets for the purchase of loans originated for the purchase or rehabilitation of a distressed property.
- **Energy or Water Efficiency Improvements on Single-Family, First Lien Properties that Meet the FHFA Criteria Activity**, FNM_AHP_H2: Affordable Housing Preservation, Objective #2 – 2019 and 2020: Modify actions to align with industry timelines for the Uniform Loan Delivery Dataset and Uniform Appraisal Dataset; and reduce loan purchase targets in both years. 2020: Change evaluation area type from loan purchase to loan product.
- **Shared Equity Programs for Affordable Housing Preservation Activity**, FNM_AHP_I-1: Affordable Housing Preservation, Objective #1 – 2020: Eliminate loan purchase actions and change evaluation area type from loan purchase to loan product; add new loan product actions to improve its ability to determine DTS eligibility among shared equity programs.
- **Shared Equity Programs for Affordable Housing Preservation Activity**, FNM_AHP_I-2: Affordable Housing Preservation, Objective #2 – 2020: Eliminate loan purchase actions and change evaluation area type from loan purchase to loan product.
- **Residential Economic Diversity Activity**, FNM_AHP_M-4: Affordable Housing Preservation, Objective #4 (*New Objective*) – 2019 and 2020: New objective includes educational and outreach actions focused on residential economic diversity for lenders, borrowers, state housing finance agencies, and other state and local stakeholders.
- **Residential Economic Diversity Activity**, FNM_AHP_M-5: Affordable Housing Preservation, Objective #5 (*New Objective*) – 2019 and 2020: New objective to form partnerships with state and/or local entities to increase capacity and share lessons learned



to support residential economic diversity.

Rural Housing

- **Housing in High-Needs Rural Regions Activity**, FNM_RH_A-4: Rural Housing, Objective #4 (*New Objective*) – 2019 and 2020: New objective contains loan product development actions.
- **Housing for High-Needs Rural Populations Activity**, FNM_RH_B-1: Rural Housing, Objective #1 – 2019: Eliminate loan product actions and loan purchase target and expand outreach activities; change evaluation area type from loan product to outreach. 2020: Eliminate loan purchase target; add new training and outreach activities; and change evaluation area type from loan purchase to outreach.
- **Housing for High-Needs Rural Populations Activity**, FNM_RH_B-3: Rural Housing, Objective #3 – 2019: Eliminate loan product action. 2020: Eliminate loan purchase action. Change evaluation area type from loan product to outreach in both years, and add new technical assistance activities in both years.
- **Housing for High-Needs Rural Populations Activity**, FNM_RH_B-4: Rural Housing, Objective #4 (*New Objective*) – 2019 and 2020: New objective contains modified loan product and loan purchase actions eliminated from Objective #1 under this activity.
- **Financing by Small Financial Institutions of Rural Housing Activity**, FNM_RH_C-2: Rural Housing, Objective #2 – 2020: Eliminate loan purchase actions and replace with test-and-learn transactions; change evaluation area type from loan purchase to outreach.

Proposed Modification to Freddie Mac’s Plan

Freddie Mac has submitted 18 modification requests to FHFA, and FHFA has identified the following 6 for public input. FHFA will consider all 18 modification requests as part of its review process.

Affordable Housing Preservation

- **USDA Section 515 Activity**, FRE_AHP_4-A: Affordable Housing Preservation, Objective A – 2019: Eliminate all actions under this objective.
- **USDA Section 515 Activity**, FRE_AHP_4-B: Affordable Housing Preservation, Objective B – 2020: Eliminate all actions under this objective.



Rural Housing

- **High-Needs Rural Regions Activity**, FRE_RH_1-I: Rural Housing, Objective I – 2020: Eliminate all actions under this objective.
- **Financing by Small Financial Institutions of Rural Housing Activity**, FRE_RH_3-A: Rural Housing, Objective A – 2019 and 2020: Revise baseline and reduce loan purchase targets.
- **Small Multifamily Rental Properties in Rural Areas Activity**, FRE_RH_4-A: Rural Housing, Objective A – 2019: Eliminate all actions under this objective.
- **Small Multifamily Rental Properties in Rural Areas Activity**, FRE_RH_4-B: Rural Housing, Objective B – 2020: Eliminate all actions under this objective.

Public Input Instructions

FHFA will accept public input on this request for input no later than November 15, 2019. Submissions may be delivered by one of the following two ways:

(1) Submitted to the DTS webpage at <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve.aspx>; or

(2) Addressed to FHFA, Division of Housing Mission and Goals, 400 Seventh Street, S.W., Seventh Floor, Washington, D.C. 20219.

Submissions to FHFA will be publicly posted without change, including personal information such as name, street address, email address, and telephone number.



**Fannie Mae RFI Modifications
Justification and Redline Documents**



Fannie Mae
Manufactured Housing
2019 – 2020

Activity: Manufactured homes titled as real property (12 C.F.R. § 1282.33 (c) (1)).

Objective 2: Increase liquidity for manufactured housing titled as real property through industry outreach and increasing purchases (Analyze, Partner and Innovate, Do What We Do Best).

Proposed Modification 1: Clarify language on second action item around homebuyer education in 2019: “Provide training and resource support to housing counselors on the topic of manufactured housing so that they are better equipped to provide counseling to manufactured home buyers.”

Justification for Proposed Modification 1: To expand the scope and availability, we need to provide additional training and resources to housing counselors on manufactured housing. This is how we get buy-in from the industry, to then be able to add in manufactured housing into counseling and education efforts that face consumers.

Proposed Modification 2: Reduce loan purchase target in 2020 from 450 to 100. “Purchase at least 100 manufactured housing loans titled as real property directly resulting from Objective #1. These loan purchases will result from variances and policy changes issued in 2018 and 2019 and are included in the total manufactured housing purchases in Objective #1.”

Justification for Proposed Modification 2: Fannie Mae made several policy changes and variances to its MH products in response to industry feedback. These include expanded offerings related to construction-to-permanent financing structures, renovation loans, energy-efficiency loans and loans on homes in condominium projects. To date, industry adoption of these variances and products appear lower than anticipated, but Fannie Mae remains committed to promoting these options for lenders.



A. Regulatory Activity: Manufactured homes titled as real property (12 C.F.R. § 1282.33 (c) (1)).

2. **Objective #2: Increase liquidity for manufactured housing titled as real property through industry outreach and increasing purchases (Analyze, Partner and Innovate, Do What We Do Best).**

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • Evaluate the outcomes of variance(s) and policy change(s) executed in 2018 as well as findings from industry and customer engagement to identify, validate, and prioritize opportunities to enhance, simplify, clarify, and expand our manufactured housing policies and product offering. Introduce one new negotiated variance with terms for at least one additional change to Fannie Mae loan product parameters, or depending on research, learnings, and analysis, publish at least one policy update. • Expand the scope and availability of homebuyer education and financial counseling based on diverse industry perspective and collaboration, identifying areas targeted to benefit manufactured housing homebuyers and homeowners because education and counseling are equally important for manufactured housing homebuyers as they are for any affordable housing. • Provide training and resource support to housing counselors on the topic of manufactured housing so that they are better equipped to provide counseling to manufactured home buyers. • Continue to engage appraisers via webinars, Fannie Mae Appraiser Update newsletter, or presentations at appraisal roundtables, seminars, workshops, or panel discussions to provide information and education about Fannie Mae policies, including policy changes. • Continue industry outreach activities started in 2018 to maintain engagement and inform product activities. <ul style="list-style-type: none"> ○ Host one manufactured housing roundtable with cross-functional industry representation and discuss new challenges facing the market. Feedback and engagement will inform future decisions and prioritizations. ○ Participate in two key industry conferences to remain current on activities and developments in the market and to inform future decisions and prioritizations.
2020	<ul style="list-style-type: none"> • Purchase between 450 and 500 <u>at least 100</u> manufactured housing loans titled as real property, an approximate five percent of the total purchases in 2020 from Objective #1. These loan purchases will <u>directly</u> result from variances and policy changes issued in 2018 and 2019 and are included in the total manufactured housing purchases in Objective #1. • Continue industry outreach activities started in 2018 to maintain engagement and inform product activities. <ul style="list-style-type: none"> ○ Host one manufactured housing roundtable with cross-functional industry representation to capture diverse perspectives. ○ Participate in two key industry conferences to remain current on activities and developments in the market and to inform future decisions and prioritizations.



Year	Actions
	<ul style="list-style-type: none"><li data-bbox="269 348 1573 491">• To promote transparency and describe progress made to increase access to credit for manufactured housing, publish to the public a summary of learnings since 2018 including items such as qualitative market information, trended data for Fannie Mae's manufactured housing loan portfolio, and performance data about variances or policy changes issued.



Fannie Mae
Manufactured Housing
2019 – 2020

Activity: Manufactured homes titled as real property (12 C.F.R. § 1282.33 (c) (1)).

Objective 3: Develop an enhanced manufactured housing loan product for high - quality manufactured housing (Partner and Innovate, Do What We Do Best).

Proposed Modification 1: Add language to first action item in 2019 to account for policy updated in 2018: “If enhancements or clarifications were delivered prior to 2019, engage with industry participants to assess the value of those enhancements or clarifications and seek input on additional areas that may affect appraisal policy.”

Justification for Proposed Modification 1: Policy was updated in 2018.

Proposed Modification 2: Clarify language on second sub-bullet under first action item in 2019: “Assess appraisals for loans delivered in 2018 or 2019 under the variance or product offering.”

Justification for Proposed Modification 2: There were no deliveries in 2018 because much of that year was spent reengaging with industry after the initial launch of MH Advantage and revising the product accordingly. Given the long lead time associated with building, selling, and financing these homes, purchases in 2018 and 2019 became unlikely.

Proposed Modification 3: Switch 2019 evaluation area from Loan Purchase to Loan Product, remove loan purchase target for 2019, and add the following action items:

- “Identify opportunities to market loan product and disseminate key information to manufactured home retailers and other key industry stakeholders. Launch campaign and evaluate success.”



- “Conduct foundational research to gauge consumer perception of manufactured housing, and leverage findings to build out consumer-facing education campaign. Launch campaign and evaluate success.”
- “Support consumer and lender product adoption by promoting the installment of manufactured homes in subdivisions.”

These actions are necessary to address the reality that introducing a new manufactured housing finance product that involves commitment from participants across the industry is difficult. Fannie Mae’s role as product developer is not limited to introducing a product in its Selling Guide, it also entails significant outreach and education to lay the groundwork for future success, in the form of loan purchases.

Justification for Proposed Modification 3: 2019 has been and will continue to be a critical year for promoting MH Advantage through product development, marketing, and engagement with industry partners. As such, the most appropriate markers of success are not loan purchases, but tangible efforts to increase the product’s viability and long-term success.

- Retailers are the lynchpin of MH sales, and in spite of significant effort to secure their support for MH Advantage, there remain significant awareness gaps at this time. We recognized this and worked with Marketing to build out a retailer marketing campaign, which will launch in 6 markets in Q3.
- MH Advantage is intended to attract homebuyers who are priced out of site-built, but buyers seeking site-built don't know about manufactured home options or the loan products to finance them. We recognized this and produced a consumer-facing campaign which targets consumers in 6 high-volume MH states.
- First loans were purchased through homes in a subdivision development, and all of the top 3 manufacturers are making this a priority in 2020 and beyond. Fannie Mae will remain focused on potential volumes through this channel.
- MH C2P was asked for by prominent MH lenders for at least a year, and we modified the Selling Guide in August 2019 to accommodate this request. Fannie Mae will continue to promote this offering as a key feature available to lenders interested in MH Advantage, and MH generally.

Proposed Modification 4: Switch 2020 evaluation area from Loan Purchase to Loan Product, remove existing loan purchase target, and add the following action items:



- As appropriate, continue product development activities initiated in prior years.
- Build upon consumer awareness created with 2019 campaign by continuing to target consumers in high-volume MH markets, and extending into new markets if feasible.
- Develop outreach strategy aimed at educating and promoting product adoption amongst non-traditional MH stakeholders.
- Purchase 25 loans. These loans are included in the total manufactured housing purchases in Objective #1.

Continued product development work that builds on initiatives begun in prior years is critical for the long-term success of this product, which is worthwhile because it addresses a need in the affordable housing market.

Further, this is a meaningful loan purchase target and, in fact, represents a significant increase in purchase volumes as compared to 2018 and 2019. The target is derived from ambitious projections of 2020 loan purchases as reported by lenders that have expressed commitment to growing this product. It is based on both homes sold through the traditional MH retail channel as well as the real estate developer channel, each of which require distinct support strategies from Fannie Mae and its customers.

Justification for Proposed Modification 4: Very few loan deliveries in 2019; delayed communication timelines from manufacturers; limited consumer visibility of manufactured home options; fragmentation in distribution model and lack of meaningful support from industry trade groups.



A. Regulatory Activity: Manufactured homes titled as real property (12 C.F.R. § 1282.33 (c) (1)).

3. Objective #3: Develop an enhanced manufactured housing loan product for quality manufactured housing and purchase loans (Partner and Innovate, Do What We Do Best).

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • Explore opportunities to enhance or clarify policy to support appraisals that account for the value of distinguishing construction features or property characteristics specific to the variance or policy change implemented in 2018. <u>If enhancements or clarifications were delivered prior to 2019, engage with industry participants to assess the value of those enhancements or clarifications and seek input on additional areas that may affect appraisal policy.</u> <ul style="list-style-type: none"> ○ Engage appraisers about Fannie Mae requirements and acquire feedback to establish best appraisal practices. ○ Assess appraisals for loans delivered in 2018 <u>or 2019</u> under the variance or product offering. • Enhance, modify, or simplify product offering as needed based on customer feedback and performance of the product. • <u>The following actions are necessary to address the reality that introducing a new manufactured housing finance product that involves commitment from participants across the industry is difficult. Fannie Mae's role as product developer is not limited to introducing a product in its Selling Guide, it also entails significant outreach and education to lay the groundwork for future success, in the form of loan purchases.</u> <ul style="list-style-type: none"> ○ <u>Identify opportunities to market loan product and disseminate key information to manufactured home retailers and other key industry stakeholders. Launch campaign and evaluate success.</u> ○ <u>Conduct foundational research to gauge consumer perception of manufactured housing, and leverage findings to build out consumer-facing education campaign. Launch campaign and evaluate success.</u> ○ <u>Support consumer and lender product adoption by promoting the installment of manufactured homes in subdivisions.</u> • <u>Purchase between 250 and 500 loans, representing an approximate three to five percent of the total manufactured housing purchases in Objective #1. These loans are included in the total manufactured housing purchases in Objective #1.</u>
2020	<ul style="list-style-type: none"> • Enhance, modify, or simplify product offering as needed based on customer feedback and performance of the variance or product. • <u>As appropriate, continue product development activities initiated in prior years.</u> • <u>Build upon consumer awareness created with 2019 campaign by continuing to target consumers in high-volume MH markets, and extending into new markets if feasible.</u>



Year	Actions
	<ul style="list-style-type: none"> • <u>Develop outreach strategy aimed at educating and promoting product adoption amongst non-traditional MH stakeholders.</u> • <u>Purchase 25 loans. These loans are included in the total manufactured housing purchases in Objective #1.</u> <ul style="list-style-type: none"> ○ <u>Continued product development work that builds on initiatives begin in prior years is critical for the long-term success of this product, which is worthwhile because it addresses a need in the affordable housing market.</u> <p><u>Further, this is a meaningful loan purchase target and, in fact, represents a significant increase in purchase volumes as compared to 2018 and 2019. The target is derived from ambitious projections of 2020 loan purchases as reported by lenders that have expressed commitment to growing this product. It is based on both homes sold through the traditional MH retail channel as well as the real estate developer channel, each of which require distinct support strategies from Fannie Mae and its customers.</u></p> • Purchase between 500 and 750 loans, representing an approximate five to seven percent of the total manufactured housing purchases in Objective #1. These loans are included in the total manufactured housing purchases in Objective #1.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase Product	Loan Purchase Product
Income Levels:	Moderate-Income Level for all Years		



Fannie Mae
Affordable Housing Preservation
2019 – 2020

Activity: The supportive housing program for the elderly under Section 202 of the Housing Act of 1959, 12 U.S.C. § 1701q.

Objective 1: Consider loan product changes, prepare work-plan, and purchase Section 202 loans (Analyze, Do What We Do Best).

Proposed Modification: Establish a baseline based on analysis of historical loan acquisition data and recalculate goal to reflect updated baseline information. Reformat goal to count loan purchases instead of unit counts to better align with other AHP loan acquisition targets.

Justification for Proposed Modification: Prior to 2019, Fannie Mae did not track delivery of Section 202 loans. When we finalized our Duty to Serve Plan in 2017, we used an estimate of our historic Section 202 production. Fannie Mae assumed that four percent of Fannie Mae's historic Section 8 loan purchases would be Section 202 loans, which would match the percentage reflected in the marketplace as a whole. In reality, the large majority of Section 202 refinances were completed with FHA financing. In early 2019, Fannie Mae reviewed the National Housing Preservation Database and HUD source data to cross reference the properties included in Fannie Mae's book of business with properties with active Section 202 subsidy. We determined that Fannie Mae acquired loans for just two Section 202 properties. We have updated our 2019 and 2020 loan purchase targets to reflect the revised baseline.



B. Statutory Activity: The supportive housing program for the elderly under Section 202 of the Housing Act of 1959, 12 U.S.C. § 1701q.

1. **Objective #1: Consider loan product changes, prepare work-plan, and purchase Section 202 loans (Analyze, Do What We Do Best).**

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • Finance 1,300^{two} Section 202 units^{loans}, representing <u>a 100 percent increase over the historical baseline</u>4.1 percent of Fannie Mae's Section 8 unit goal in 2019. <ul style="list-style-type: none"> ○ Baseline: Between 2016 and 2018, Fannie Mae acquired two loans secured by Section 202 properties, both in 2017, for an average acquisition of less than one loan per year. We therefore will set the historical baseline for this Objective at one loan. Fannie Mae does not operationally track Section 202 unit financings so it is unable to identify our previous Section 202 unit financings over the last three years to establish a Baseline. Section 202 financing requests that lenders bring to Fannie Mae are delivered as "Section 8 preservation" loans that meet Fannie Mae's Section 8 underwriting guidelines; in other words, these loans are not identified as Section 202 properties which is why Fannie Mae does not have information regarding the historic number of Section 202 properties in our book. In order to estimate a proxy Baseline for Section 202 loans, Fannie Mae reviewed the Preservation Database (2017 update) to determine the proportion of Section 8 loans that are Section 202 properties and apply that ratio to Fannie Mae's targeted Section 8 loan purchase goals. While not perfect, as it infers that the expiring 202 units are a uniform percentage of expiring Section 8 units each year, it gives Fannie Mae a reasonable order of magnitude for estimating initial loan purchase goals. The 2017 Preservation Database indicates that Section 202 loans are approximately 4.1 percent of all Section 8 loans. Accordingly, Fannie Mae is establishing our Section 202 unit financing goal as 4.1 percent of our 2019 Section 8 unit financing goal (31,730 units), or 1,300 Section 202 units. As noted above, Fannie Mae will confirm the estimated Baseline and loan purchase goals as part of our product development work in 2018. • Continue to conduct outreach to key stakeholders in Section 202 to update and adjust strategy as needed. • Confirm 2020 loan purchase goals.
2020	<ul style="list-style-type: none"> • Finance 1,238^{three} Section 202 units^{loans}, representing <u>a 200 percent increase over the historical baseline</u>4.1 percent of Fannie Mae's Section 8 unit goal in 2020.



Fannie Mae Rural Housing Market 2019 – 2020

Activity: Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

Objective 1: Work with the USDA and other stakeholders to adopt an approach resulting in increased liquidity for preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, Do What We Do Best).

Proposed Modification: Change the 2019 Objective Evaluation Criteria to outreach and eliminate the loan purchase action item. Replace the loan purchase action item with support for technical assistance provided to owners of RD properties, and mission-oriented organizations seeking to preserve the expiring affordability of units currently in the RD program. Additionally, change the 2020 Objective Evaluation Criteria to loan product.

Justification for Proposed Modification: In 2018 and 2019, Fannie Mae engaged with lenders in our network, affordable property owners and developers with a rural and RD focus and the Rural DTS Advisory Council, reviewed research from the Housing Assistance Council and attended conference sessions about the rural rental preservation crisis. This engagement and research surfaced that USDA RD's process for properties in the 515 program to retain RD subsidy, coupled with the organizational capacity of rural owners and mission-oriented entities to execute the process, creates a substantial need in the market for capacity building and technical assistance provided to these organizations, thereby allowing them to maintain rental assistance. Fannie Mae is embarking on a multi-year partnership with a non-profit with significant expertise in providing this type of technical assistance. This strategy's impact is comparable to that of financing because without technical assistance, many of these properties would simply be taken out of the program and may lose their affordability and rental assistance. In addition, we are financing a replicable, sustainable model that could be brought to scale with the right continued support and partnerships. Fannie



Mae is also adding research that we are supporting to advance strategies for preservation of affordable rural units. This addresses a significant hurdle in the market.

During 2018 and 2019, Fannie Mae engaged with USDA RD in earnest attempts to collaborate with RD and an affordable lender in our network on a partnership to finance RD properties at risk of exiting the 515 program. We have not yet been able to agree to a subordination structure that satisfied both organizations' goals and Fannie Mae's charter, despite good faith efforts and considerable outlay of resources. Additionally, negotiating programmatic features that align with both organizations' credit risk policies is challenging and requires significant resources and subject matter expertise across Fannie Mae. These efforts are taking longer than anticipated. While Fannie Mae remains strongly committed to reconciling both the appropriate subordination structure and the programmatic features with RD through 2019 and 2020, it is not realistic that a loan product enhancement would be approved in 2019.



C. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

1. **Objective #1: Work with the USDA and other stakeholders to adopt an approach resulting in increased *liquidity for* preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, Do What We Do Best).**

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • <u>Partner with a non-profit organization with deep experience and expertise with USDA RD subsidy programs to deliver a robust technical assistance program to mission-oriented organizations focused on acquiring properties at risk of exiting the Section 515 program. The program activities will include a convening of existing owners and nonprofits focused on preservation, with a goal to match aligned parties.</u> • <u>Support research focusing on taxation barriers that limit transfers of subsidized properties to non-profits, that can be used to inform tax policy and highlight the structural challenges to preserving affordable multifamily housing in rural areas.</u> • Continue to execute the Section 515 work-plan developed during 2018 by developing a product enhancement that will drive the preservation of properties at risk of exiting the USDA Section 515 program through refinancing and/or loan purchases. Obtain internal product development approval and FHFA approval as required. • Conduct outreach to the three DUS and special affordable lenders identified in 2018 that have experience with Section 515 properties to <u>market and train lenders on the product enhancement, and to</u> obtain feedback on the product enhancement. • Purchase at least six loans secured by Section 515 properties at risk of exiting the program. <ul style="list-style-type: none"> ○ Baseline: While Fannie Mae has refinanced a small number of Section 515 properties in the past, operationally they have not been formally identified and tracked by Fannie Mae and therefore, their numbers cannot be ascertained. Fannie Mae has determined that establishing a Baseline as a percentage of the total number of Section 515 properties with maturing or prepayment eligible loans is an acceptable initial estimate. As noted above, Fannie Mae has set an initial target of at least 10 percent of expiring Section 515 properties during the Plan (a total of 12 loans). However, a Baseline will be reviewed in conjunction with the product development process during 2018 and cannot be determined at this time. • Confirm loan purchase goals for 2020.
2020	<ul style="list-style-type: none"> • <u>Finalize execution of the Section 515 work-plan by obtaining internal product development approval and FHFA approval as required.</u> • <u>Conduct outreach to the three DUS and special affordable lenders identified in 2018 to market and train lenders on the product enhancement and to obtain feedback on the product enhancement.</u> • Purchase at least six loans secured by Section 515 properties at risk of exiting the program. • Through the feedback obtained during 2019 outreach, identify changes to the Section 515 product enhancement that will improve the product's effectiveness in the market. Obtain



	internal product development approval as required. <ul style="list-style-type: none">• Develop loan purchase goals for the 2021 – 2023 Duty to Serve Plan.
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Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase <u>Outreach</u>	Loan Purchase <u>Product</u>
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		



Fannie Mae
Affordable Housing Preservation
2019 – 2020

Activity: Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C.F.R. § 1282.34 (d) (7)).

Objective: Objective #2: Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

Proposed Modification: Change the methodology by which Fannie Mae establishes its baseline and loan purchase targets to accord with actual market activity. Rather than utilizing a count-based methodology to derive the baseline and loan target for distressed property loan purchases, Fannie Mae proposes modifying the baseline and loan purchase methodology from a specific loan count figure to one which is based upon a percentage of total distressed property supply.

Justification for Proposed Modification:

Since establishing baselines for DTS targets in 2017, Fannie Mae has relied on a data series sizing the national REO inventory provided by Moody's Analytics. The series splices together quarterly historical observations with Moody's forecast for future quarters. Each quarter, Moody's updates the series, replacing one previously forecasted value with a newly-observed actual REO count, and revising the forecast for future quarters.

Based on the relationship between national REO inventory levels and our funding of distressed property transactions during the baseline period, we set targets for counts of future distressed acquisitions as a function of Moody's forecast of future REO inventory. However, we have found the Moody's forecast to be unacceptably volatile, exposing Fannie Mae to the risk of missing DTS targets due to downward revisions in the Moody's forecast, with no mechanism to allow these revisions to flow through to our count-based targets. The original forecast from 2017Q3 and the most recent update from 2019Q1 largely agree through 2017Q2, but the 2019Q1 series reflects substantially lower realized and expected future REO volume from then onward. REO



inventories for 2019 in particular are now expected to be about half of what had been anticipated in 2017.

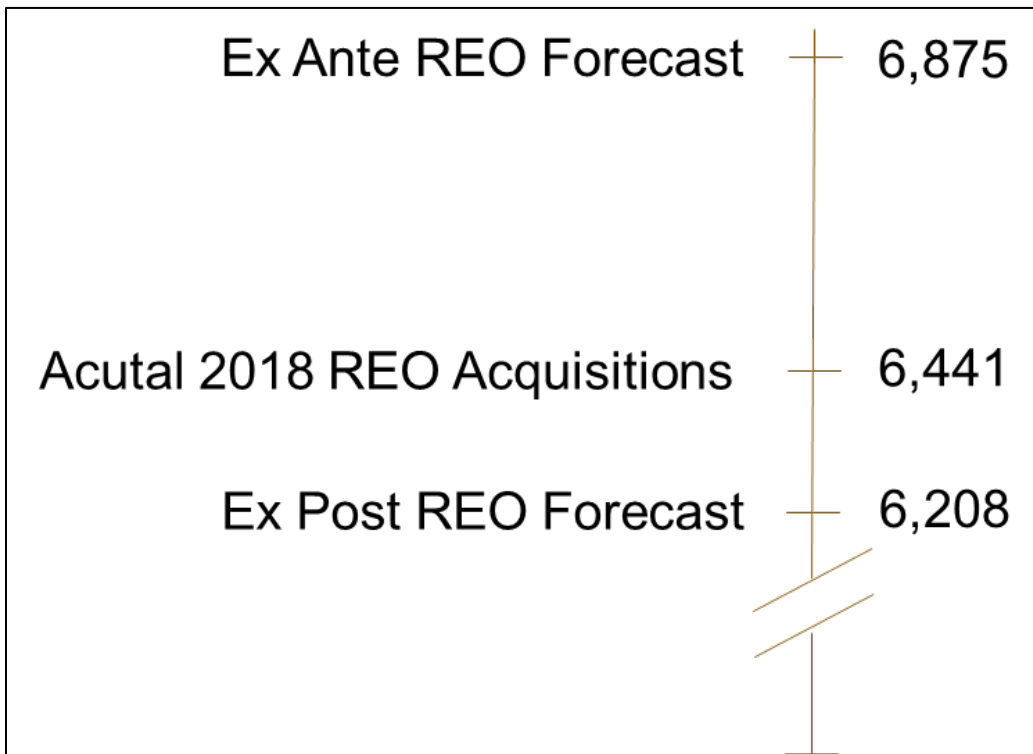
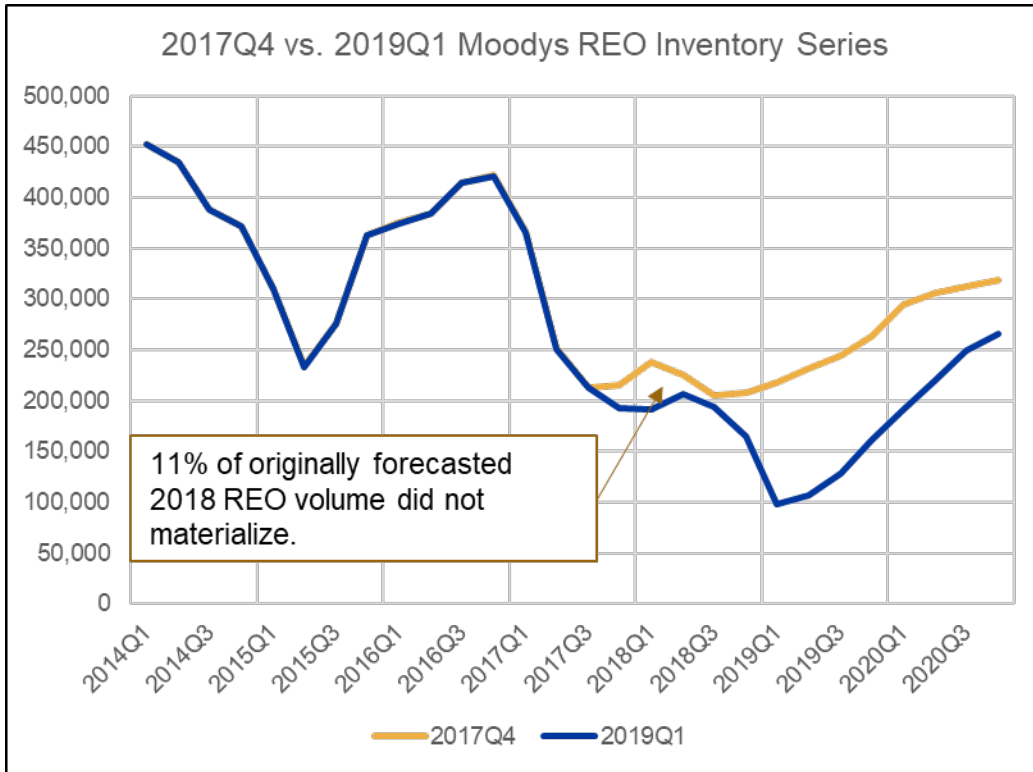
Even near-term REO inventory predictions are subject to large revisions. The grid below shows the average absolute value revision in the Moody's forecast, moving from an earlier version of the REO time series to a later one.¹ For example, the Moody's one-quarter-ahead forecasts average a 9% variation when compared with actual values that become available the following quarter (upper left cell). Forecasts of REO volume in two quarters get revised by an average of 16% in absolute value with the release of the next file update, as they become the one-quarter-ahead forecast.

		Initial Prediction					
		Volume in 1 Qtr	Volume in 2 Qtrs	Volume in 3 Qtrs	Volume in 4 Qtrs	Volume in 5 Qtrs	Volume in 6 Qtrs
Updated Prediction	Actual Volume	9%	13%	11%	5%	14%	26%
	Volume in 1 Qtr		16%	16%	16%	20%	33%
	Volume in 2 Qtrs			12%	12%	16%	22%
	Volume in 3 Qtrs				12%	13%	17%
	Volume in 4 Qtrs					9%	13%
	Volume in 5 Qtrs						8%

Most revisions have been downward since we've begun using the Moody's data. 74% of updates underlying the above table are downward revisions to the prior quarter's forecast value.

To assess the business impact of Moody's REO series updates, we used our DTS forecast logic to create two versions of the 2018 REO acquisitions target: one given the Moody's data available as of 2017Q4 (the "ex ante forecast"), and another given the Moody's data available as of 2019Q1 (the "ex post forecast"). Only the Moody's REO series input was changed.

¹ Based on Moodys forecasts delivered 2017Q3 through 2019Q1, using the latest available actual value, plus forecasts for the subsequent six quarters, from each file.





To better account for the divergence in forecasted and actual distressed property inventory, Fannie Mae will establish a baseline that represents the number of loans it purchases which are used to finance the acquisition of distressed properties as a percentage of the total number of distressed properties available in the market. Utilizing this baseline, we will establish share targets for 2019 and 2020 which reflect the relative percent increases already presented in the plan, as follows:

- For 2019, the goal will be set at 10%-15% over the calculated baseline, and
- For 2020, the goal will be 15%-20% over calculated Baseline.

As an example, the baseline for 2019 is 2.70% of the total supply of distressed properties, and the 2019 target would be 2.97%-3.11%. For 2020, it would be 3.11%-3.24%.



K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C.F.R. § 1282.34 (d) (7))

2. Objective #2: Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • Purchase between 9,325 and 9,750 loans originated for the purchase or rehabilitation of a distressed property;² representing <u>a share of the estimated total distressed property inventory. The target will be approximately a 10 to 15 percent increase over higher than the expected-revised Baseline for 2019, or 2.97% to 3.11%.</u> <ul style="list-style-type: none"> ○ <u>Baseline:</u> The 2019 revised Baseline is derived by performing a historical analysis of the percentage of total distressed inventory that was purchased by DTS-eligible owner-occupants using Fannie Mae financing. A review of inventory and loan purchase data for the years 2014 to 2018 (2014: 2.86%; 2015: 2.67%; 2016: 2.48%; 2017: 2.85%; 2018: 2.61%) is utilized to establish an average Fannie Mae market share, which then becomes the 2019 Baseline. This yields a 2019 Baseline of approximately 2.70% of national distressed property transactions.
2020	<ul style="list-style-type: none"> • Purchase between 11,365 and 11,860 loans originated for the purchase or rehabilitation of a distressed property;³ representing <u>a share of the estimated total distressed property inventory. The target will be approximately a 15 to 20 percent higher than increase over the expected-revised Baseline for 2020, or 3.11% to 3.24%.</u>

~~2-Of this range, we will target between 100 and 105 loans in high-needs rural regions.~~

~~3-Of this range, we will target between 115 and 120 loans in high-needs rural regions.~~



Fannie Mae
Affordable Housing Preservation
2019 – 2020

Activity: 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 liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans (Partner and Innovate, Do What We Do Best, Test and Learn).

Proposed Modification 1: Clarify language on second bullet item in 2019 to align with industry timeline: “Evaluate the Uniform Loan Delivery Dataset to determine which energy and water efficiency Improvements can be supported with existing ULDD fields.”

Proposed Modification 2: Clarify language on third bullet action item in 2019 to align with industry timeline: “To inform the redesign of the Uniform Appraisal Dataset and forms specified in the 2019 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions, work with the Uniform Data Committee to gain consensus for updating the appraisal form to include identified fields for property-level information about energy and water efficiency features.”

Proposed Modification 3: Clarify language in first bullet point action item in 2020 to align with industry timeline: “Based on the 2019 evaluation of the Uniform Loan Delivery Data dataset, implement support for selected energy and water efficiency Improvements in the current version of ULDD and inform the ULDD committee as appropriate.”

Proposed Modification 4: Clarify language in second bullet point action item in 2020 to align with industry timeline: “To inform the redesign of the Uniform Appraisal Dataset and forms specified in the 2019 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions, continue to work with the Uniform Data Committee on updating the appraisal form to include identified fields for property-level information about energy and water efficiency features.”



Justification for Proposed Modifications 1-4: Uniform Loan Delivery Data (ULDD) and the Uniform Appraisal Document (UAD) and forms are GSE-aligned documents. Revisions to the ULDD and UAD follow a multi-year cycle. The next version of the UAD specification based on the MISMO 3.x version is still a work in progress, timelines have not yet been communicated other than this is a multi-year initiative. As timelines develop, further communication regarding these timelines can be shared. We are requesting modifications to the Duty to Serve plan in light of these revision cycles.

Proposed Modification 5: Reduce the 2019 and 2020 loan purchase targets and change evaluation area in 2020 to Loan Product.

Justification for Proposed Modification 5: Year-to-date, Fannie Mae has confirmed the purchase of 106 mortgage loans that qualify for this DTS Objective as they financed at least one ENERGY STAR[®]-certified improvement. However, that is only 21% of the annual target. Several factors are contributing to the lower-than-expected loan purchase volumes:

- 1) Lenders' underwriting and loan delivery systems do not provide a means of easily identifying loans on homes that have installed ENERGY STAR-certified appliances or products. Fannie Mae has been working with lenders to review and identify loans that would meet requirements. However, this process of identifying program-qualifying loans is time-consuming and has slowed the volume Fannie Mae expected at this point in the year. To support this effort, Fannie Mae is implementing a special initiative with lenders which will be in effect October 1, 2019, however as this date is late in the year its ability to significantly contribute to the target is limited.
- 2) The new variance which we issued in Q2 2019 to our HomeStyle[®] Energy product is building momentum but has not yet produced the loan volume Fannie Mae anticipated since it launched in April.
- 3) A key program between Fannie Mae, a lender, and an energy technology company, which would increase the potential pool of eligible loans to purchase, has been delayed due to ongoing contract and programmatic negotiations between the lender and the technology company. Fannie Mae cannot speculate when the program terms will be finalized by the other parties and when the program will commence, however Fannie has executed on our portion of the needed variance.

In addition, in Fannie Mae's originally proposed Plan dated May 8, 2017, lower purchase goals in Year 2 (50 to 100) and Year 3 (100 to 200) were established based solely on projected Homestyle Energy volume, and no baseline was established given that Fannie Mae had not required the FHFA Criteria to be met and our acquisitions had



not been tracked for this purpose. Upon the request of FHFA to increase our targets, Fannie Mae conducted additional analysis and determined that HomeStyle Renovation deliveries may include eligible improvements for this target. This formed the foundation our new baseline and the targets for 2019 and 2020. The revised 2019 target was a tenfold increase from 2018. This year, however, we have faced delays in lender adoption of delivering HomeStyle Renovation loans for this target.

Given these factors, we believe a revision to the 2019 target is warranted at this time. Therefore, we propose changing the 2019 loan product goal from 500 to 550 to a new target of 150 to 200 loans. In addition, we will adjust the baseline to reflect the loan purchases made in 2018, which was 69 loans. While we will use the new baseline of 69 and the new targets for 2019 and 2020, we will also continue to drive lenders to adopt our initial approach of delivering HomeStyle Renovation loans to meet our targets. We recognize this could eventually result in a potential increase in loan deliveries beyond our new targets.

Additionally, some of the conditions impacting the 2019 loan product forecast, including the pipeline of eligible loans and the uncertainty of other programs to significantly contribute to the loan purchase volume, will continue to impact 2020 targets. Although we remain hopeful that certain programs will come on line in late 2019 and early 2020, we anticipate a more moderate increase over the revised 2019 loan product target compared to the original 2020 loan purchase forecast. Based on these conditions, we are requesting a revised 2020 loan purchase target range of 200 to 250 loans. This is a measurable increase from the revised 2019 loan product target and considers some of the constraints we are experiencing that are limiting the pool of eligible loans to purchase.



H. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3))

2. Objective #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 (Partner and Innovate, Do What We Do Best, Test and Learn).

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> ▪ Based on outcomes in 2018 and to further accelerate industry standardization efforts and liquidity for Improvements, the following will be undertaken: <ul style="list-style-type: none"> • Depending upon the outcome of the evaluation of loan product standards and guidelines, and if a plan is completed in 2018, update Fannie Mae's delivery data requirements to incorporate the identification of Improvements, or continue evaluation and development of standards and guidelines. • <u>Evaluate the Uniform Loan Delivery Dataset to determine which energy and water efficiency Improvements can be supported with existing ULDD fields.</u> • Work with the Uniform Data Committee to gain consensus for updating the appraisal form to include identified fields for property-level information about energy and water efficiency features. If feasible based on the outcome of joint Uniform Data Committee efforts, update Fannie Mae's appraisal policy to incorporate the updated appraisal. • <u>To inform the redesign of the Uniform Appraisal Dataset and forms specified in the 2019 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions, work with the Uniform Data Committee to gain consensus for updating the appraisal form to include identified fields for property-level information about energy and water efficiency features.</u> • Continue to work with the industry to drive efforts for standardization on the MLS. Assess progress and required actions to address challenges. • Launch the lender and realtor training program. • <u>Purchase between 150 and 200 500 and 550 mortgage loans that meet the FHFA Criteria.</u> <ul style="list-style-type: none"> ○ <u>Baseline: Fannie Mae was unable to establish a Baseline in 2018, and instead used a proxy Baseline based on estimations. After a year of purchases under this Objective, Fannie Mae is establishing a Baseline based on 2018 loan purchases, which is 69 loans.</u>
2020	<p>Based on outcomes in 2018 and 2019 and to further accelerate and sustain industry standardization efforts and liquidity for Improvements:</p> <ul style="list-style-type: none"> • If not fully established in 2019, update Fannie Mae's delivery data requirements to incorporate the identification of Improvements. • <u>Based on the 2019 evaluation of the Uniform Loan Delivery Data dataset, implement support for selected energy and water efficiency Improvements in the current version of ULDD and inform the ULDD committee as appropriate.</u> • Continue to work with the Uniform Data Committee on updating the appraisal form to include identified fields for property-level information about energy and water efficiency features, if the industry has not



Year	Actions
	<p>completed efforts in prior years. If feasible based on the outcome of joint Uniform Data Committee efforts, update Fannie Mae's appraisal policy to incorporate the updated appraisal if not completed in prior years.</p> <ul style="list-style-type: none"> To inform the redesign of the Uniform Appraisal Dataset and forms specified in the 2019 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions, continue to work with the Uniform Data Committee on updating the appraisal form to include identified fields for property-level information about energy and water efficiency features. Continue to lead industry meetings to evaluate the status of implementation of appraisal, MLS, and delivery data standards and identify additional changes. Assess progress and required actions to address challenges. Purchase between <u>200 and 250</u> 550 and 650 mortgage loans that meet the FHFA Criteria. This represents a 14 to 35 percent increase over the Baseline¹.

The ultimate opportunity available in this market is to finance increased numbers of Improvements meeting the FHFA Criteria for the target markets and having standards is a critical part of ensuring sources of capital will participate. Fannie Mae plays an active role within the industry to set standards in many areas, including collateral value, data, and property valuation. Based on this experience, coupled with the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to improve acquisition of this product.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Product	Loan Purchase Loan Product
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

¹ ~~Of this range, we will target 25 loans to be in high needs rural regions.~~



Fannie Mae
Affordable Housing Preservation
2019 – 2020

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

Objective 1: Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).

Proposed Modification: Change the 2019 and 2020 Shared Equity Objective Evaluation Criteria from loan purchase to loan product. Remove the loan purchase action items.

Objective 2: Increase liquidity for shared equity homeownership through outreach, research, and loan product solutions (Analyze, Partner and Innovate, Test and Learn).

Proposed Modification: Change the 2020 Shared Equity Objective Evaluation Criteria from loan purchase to loan product. Remove the loan purchase action items.

Justification for Proposed Objective 1 and Objective 2 Modifications: Based upon lessons learned during the first two years of execution of Fannie Mae's 2018-2020 Duty to Serve Plan, it has become clear that the greatest obstacles to providing liquidity to the shared equity market are associated with particular processes and policy challenges. As has been shared previously, identification of DTS-eligible shared equity loans is difficult – both for lenders and for Fannie Mae. For lenders, validation of shared equity program compliance is a departure from their standard origination and underwriting processes, and therefore, they are hesitant or unwilling to take on the burden and added risk associated with performing program evaluations and providing representations and warranties regarding DTS eligibility.

In addition to lender reluctance to ensure that shared equity programs and loans meet DTS requirements, Fannie Mae underwriting, and loan delivery systems do not provide a means of easily identifying the specific shared equity program associated with a loan delivered to us. This makes it difficult for us to track and validate shared equity loans delivered and forces us to devote substantial time and resources to manual identification and validation processes.



Moreover, particular areas of the Fannie Mae Selling Guide governing shared equity programs are considered to be unclear, or present outdated or cumbersome requirements for lenders. This lack of clarity and/or additional burden further exacerbate lender reluctance to participate in shared equity programs.

Rather than continuing to invest in resource intensive and manual processes to expand our share of what is today a very small market, we believe that addressing the policy and process challenges which inhibit growth and liquidity in this market will have more lasting and far-reaching impact. Put simply, the most promising path forward for the shared equity market is to develop the policy and process infrastructure necessary for lenders to consider these loans standard product options. Therefore, we propose changing the 2019 and 2020 shared equity loan purchase goal to a product development objective, composed of the following activities:

- Fannie Mae will identify and stand up a system for determining and communicating DTS-eligibility of shared equity programs to lenders. Such a system would eliminate the need for lenders to independently review and validate programs, decreasing the underwriting complexity associated with shared equity loans and reducing perceived rep and warrant risk.
- Equally as important, Fannie Mae will support the creation of a model deed restriction for shared equity programs. Nowhere in the shared equity market is standardization more needed than in programs which use a deed restriction to preserve affordability. Unlike community land trusts, there is currently no standard deed restriction instrument utilized by these programs. As a result, program criteria and stipulations vary widely from jurisdiction to jurisdiction. This variation impedes the ability of lenders to establish nationwide origination efforts for deed restricted mortgage programs. The creation and dissemination of a model deed restriction will contribute to increased liquidity for these programs by enabling more lenders to compete for this business. In turn, this sector will be able to shift from a niche geographically restricted market to a more competitive nationwide marketplace.
- Modifications to shared equity requirements in the Fannie Mae Selling Guide. In response to lender and stakeholder feedback, we will identify



and execute a number of changes to our Selling Guide to provide greater clarity and simplicity for lenders in the origination, delivery, and servicing of shared equity loans.



I. Regulatory Activity: Shared equity programs for affordable housing preservation (12 C.F.R. § 1282.34 (d) (4)).

1. Objective #1: Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> Explore options for determining DTS eligibility of shared equity programs, with the goal of providing clarity to lenders and program providers. Purchase between 350 and 400 shared equity loans, representing a 137 to 171 percent increase over the proxy Baseline. These loan purchases may include new program types which Fannie Mae was not able to identify in its proxy Baseline. Initiate work to create a model deed restriction for use by shared equity programs.
2020	<ul style="list-style-type: none"> Purchase between 500 and 600 shared equity loans, representing a 239 to 307 percent increase over the proxy Baseline. This includes the loan purchases referenced in Objective #2. These loan purchases may include new program types which Fannie Mae was not able to identify in its proxy Baseline. Fannie Mae will stand up a system for determining and communicating to lenders DTS-eligibility for shared equity programs. Publish a model deed restriction for use in Fannie Mae programs, marketing it to shared equity programs and encouraging adoption.

The ultimate opportunity available in this market is to finance increased numbers of shared equity loans for affordable housing preservation. Fannie Mae has significant experience purchasing various loans with deed-restrictions and under inclusionary housing programs. Based on this experience, coupled with the help of industry stakeholders, we believe this Objective is achievable within the time periods described. Underwriting standards and credit guidelines that are consistent with safety and soundness will be applied to acquisition of this product.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase Product	Loan Purchase Product
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

Objective #2: Increase liquidity for shared equity homeownership through outreach, research, and loan product solutions (Analyze, Partner and Innovate, Test and Learn).

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.



Year	Actions
2019	<p>Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests:</p> <ul style="list-style-type: none"> • If determined in 2018 the housing database will be created, assess the status of data collection, analyze preliminary available information, and evaluate accessibility and presentation of data to stakeholders. • Leverage market outreach, policy evaluation, and outcome of variance(s) executed in 2018 to contribute to loan product and policy development. Introduce one new product variance. If feasible, and depending on learnings, announce one policy update. • Evaluate progress and continue analysis of the case study begun in 2018, making appropriate adjustments to the approach, engaging additional stakeholders, and determining preliminary findings; publish results to the public. • Continue and expand industry outreach activities started in 2018 to maintain engagement and inform product activities by participating in two key conferences or seminars and speaking at one other event. Facilitate one roundtable, incorporating feedback from 2018 and including two new participants in order to improve engagements and outcomes. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing shared equity properties by incorporating learnings from outreach efforts into updated product materials and webinars or presentations. Target engagement with five additional lenders and five additional stakeholders (i.e., lenders and stakeholders not approached in 2018). The additional lenders and stakeholders will be selected based on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. In particular, we will target three lenders and one program provider who are new to shared equity programs. Ten additional relationships over the ones established in 2018 will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • <u>Based on lessons learned in 2018, identify process and policy changes necessary to remove obstacles to lender origination and delivery of shared equity loans.</u>
2020	<p>Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests:</p> <ul style="list-style-type: none"> • Purchase between 50 and 100 shared equity program loans, an approximate 10 to 15 percent of the total purchases in 2020 from Objective #1. These loans are included in the total shared equity loan purchases in Objective #1, where the Baseline has been described. • <u>Execute targeted policy changes to increase clarity and reduce obstacles for lenders in the origination of shared equity loans.</u> • If determined in 2018 the housing database will be created, assess its final compilation and presentation and/or enhancements; contribute to a working paper that will use the data to discuss findings and insights that will help communities, lenders, and the public to learn about the growth and dynamics of program characteristics, trends, and policy impact. • Continue and expand industry outreach activities started in 2018 and 2019 to maintain engagement and inform product activities by participating in two key conferences or seminars and speaking at one other event. Facilitate one roundtable, incorporating feedback from prior years and including two new participants in order to improve engagements and outcomes. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing shared equity properties by incorporating learnings from outreach efforts into updated product materials and webinars or presentations. Target engagement with five additional lenders and five additional stakeholders (i.e., lenders and stakeholders not approached in 2018 or 2019). The additional



Year	Actions
	lenders and stakeholders will be selected based on evaluation of 2018 and 2019 activities and responses as well as an assessment of geographical and other needs. In particular, we will target three lenders and one program provider who are new to shared equity programs. Ten additional relationships over the ones established in 2018 and 2019 will be a significant commitment of time and will provide learnings on how to expand engagement in following years.

Fannie Mae has significant experience in outreach, market engagement, data collection and analysis, consumer research, and product development. Accordingly, we believe this Objective is realistic and can be achieved within the time periods described. The ultimate opportunity available in this market is to work with lenders to increase liquidity in the shared equity market. Any variances that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Product Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		



Fannie Mae
Affordable Housing Preservation
2019 – 2020

Activity: Additional Activity: Residential Economic Diversity (12 C.F.R. § 1282.35 (d)(3) and 1282.36(c)(3)).

Objective 4: [*New Objective*]. Outreach and Stakeholder Engagement on the importance of Residential Economic Diversity in community-level, household and individual outcomes (Partner and Innovate).

Proposed Modification: Adding a new Objective to include increased emphasis on Residential Economic Diversity education and outreach.

Justification for Proposed Modification: Education and outreach activities are enhanced and consolidated into one Objective versus split between two, because the outreach efforts are largely the same across the activity.



M. Additional Activity: Residential Economic Diversity (12 C.F.R. § 1282.35 (d)(3) and 1282.36(c)(3)).

4. Objective #4: Outreach and Stakeholder Engagement on the importance of Residential Economic Diversity in community-level, household and individual outcomes (Partner and Innovate).

Meeting the Challenges

Preservation of affordable housing while promoting economic diversity in communities is a complicated undertaking. This challenge is made more difficult by the lack of standardized language and definitions used to discuss this problem. As Fannie Mae embarked on our RED efforts during the first year of the Duty to Serve plan and met with stakeholders from around the country, we discovered a wide information gap, including:

- While many practitioners and stakeholders are aware of inclusionary zoning and mixed-income programs, the term Residential Economic Diversity itself was not something familiar to many stakeholders.
- Internal to the Fannie Mae organization we also had a need for increased education and capacity building related to Residential Economic Diversity terms and concepts.

Given these knowledge gaps, Fannie Mae decided to combine and enhance stakeholder education and outreach efforts related to RED. Fannie Mae will:

- Develop written materials for internal and external use designed to train practitioners on the definitions, guidelines, and importance of Residential Economic Diversity, both in areas of high opportunity and areas of concentrated poverty.
- Promote these materials through our networks and through the networks of our partners and will develop online webinars as well as in-person presentations and trainings to further amplify the message.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • <u>Commence work on developing Case Studies of State and Local affordable housing projects focused on residential economic diversity, to ultimately be included in a public-facing white paper or report, including lessons learned in order to educate and inform stakeholders.</u> • <u>Develop RED educational materials for lenders, borrowers, State HFA and other State and Local stakeholders, and the general public.</u> • <u>Hold at least two webinars to disseminate RED educational information.</u>
2020	<ul style="list-style-type: none"> • <u>Finalize and publish white paper/s</u> • <u>Hold in-person panels or roundtable meetings with stakeholders, including State HFAs, developers/borrowers, and lenders to discuss and disseminate Fannie Mae's RED lessons learned.</u>

The opportunity available in this market is to increase the knowledge of RED through outreach and education. Fannie Mae plays an active role within the industry to set standards in many areas, including collateral value, data, and property



valuation. Based on this experience, coupled with the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Any product enhancements that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	<u>n/a</u>	<u>Outreach</u>	<u>Outreach</u>
Income Levels:	<u>Very Low-, Low-, and Moderate-Income Levels for all Years</u>		



Fannie Mae
Affordable Housing Preservation
2019 – 2020

Activity: Additional Activity: Residential Economic Diversity (12 C.F.R. § 1282.35 (d)(3) and 1282.36(c)(3)).

Objective 5: *[New Objective]*. Support Affordable Housing in High Opportunity Areas and Mixed-Income Housing in areas of concentrated poverty through technical assistance and capacity building for State and Local community development organizations (Partner and Innovate).

Proposed Modification: Adding a new Objective to reflect increased technical assistance and capacity building efforts with State and Local community development organizations.

Justification for Proposed Modification: We are proposing to add an additional Objective to capture the unique partnerships that Fannie Mae is developing with State and Local entities to further Residential Economic Diversity.



M. Additional Activity: Residential Economic Diversity (12 C.F.R. § 1282.35 (d)(3) and 1282.36(c)(3)).

5. Objective #5: Support Affordable Housing in High Opportunity Areas and Mixed-Income Housing in areas of concentrated poverty through technical assistance and capacity building for State and Local community development organizations (Partner and Innovate).

Meeting the Challenges

States and Localities hold much of the ability to preserve affordable housing as communities grow and change. Local jurisdictions understand varied and dynamic local conditions and social and economic factors more thoroughly than federal or national organizations. As we learned from our outreach in 2018, local jurisdictions from Baltimore to Seattle are testing and learning and putting into practice exciting and innovative programs designed to improve diversity and minimize concentrations of poverty. However, these States and localities often lack the financial resources and capacity to execute these programs at scale and/or evaluate the results with rigor. In other cases, local areas are building truly cutting edge, innovative programs, but lack the ability in drive to share those experiences with others.

To meet this challenge, Fannie Mae will:

- Partner with state and/or local entities to bolster capacity at a local level, share and lift up highlights and lessons learned, and in doing so gain a stronger understanding of the financial products and tools needed in State and Local areas for purposes of residential economic diversity.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • <u>Support RED housing development and preservation through at least one state and local partnership, including technical assistance and contract awards to affordable housing organizations seeking to improve residential economic diversity in housing at the State and local level.</u> • <u>Explore partnerships and sponsorships of organizations developing tools and resources designed to more easily enable financing of RED-eligible properties.</u> • <u>Publicize and disseminate the results of these partnerships.</u>
2020	<ul style="list-style-type: none"> • <u>Continue to support RED housing development and preservation through at least two state and local partnerships, including technical assistance and contract awards to affordable housing organizations seeking to improve residential economic diversity in housing at the State and local level.</u> • <u>Continue to partner with organizations developing tools and resources</u> • <u>Publicize and disseminate the results of these partnerships.</u>



Fannie Mae has significant experience in outreach, market engagement, data collection and analysis, consumer research, and product development. Accordingly, we believe this Objective is realistic and can be achieved within the time periods described. Any product enhancements that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns. The relevant market opportunity is to bolster RED capacity at a local level.

Criteria	2018	2019	2020
Evaluation Factor:	<u>n/a</u>	<u>Outreach</u>	<u>Outreach</u>
Income Levels:	<u>Very Low-, Low-, and Moderate-Income Levels for all Years</u>		



**Fannie Mae
Rural Housing
2019 – 2020**

Activity: Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c)(1)).

Objective 2: Increase affordable capital through industry outreach and developing solutions to increase single-family loan purchases in high-needs rural regions (Analyze, Partner and Innovate, Do What We Do Best).

Proposed Modification 1: Split the aforementioned Objective into an Objective addressing outreach and an Objective addressing product development. Add in a new action item for each Objective (i.e., outreach and loan product) in 2019.

- Outreach Objective: “Increase affordable capital through industry outreach in high-needs rural regions.”
- Loan Product Objective: “Develop solutions to increase single-family loan purchases in high-needs rural regions.”

Justification for Proposed Modification: Separating the outreach and loan product components into separate Objectives adds clarity to our work. The new proposed outreach action item stems from a highly successful 2018 marketing campaign that would be beneficial to continue in order to address a persistent lack of awareness about low down payment loan products available in high-needs rural regions.

The new proposed loan product development action item would address the need for greater high-quality housing supply in high-needs rural regions, which contains a higher than average portion of substandard housing (i.e., overcrowded and lacking in indoor plumbing and connection to public sewer systems).

Proposed Modification 2: Continue product development work in 2020 by adding new action items (in the new Loan Product Objective) and removing the 500 loan purchase goal referenced in Objective 2, which is a subset of the overall goal in Objective 1.



Justification for Proposed Modification 2: Our focus will be on making additional changes to our policies in 2020 to help support the rural market and the existing supply constraints.

Proposed Modification 3: Clarify language for the loan product action item in 2019: “Because of known barriers such as a lack of affordable supply and an aging housing stock in need of updates and renovation in high-needs rural regions, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products. We will revise policy or establish a test and learn approach issuing one negotiated variance to select lenders in high-needs rural regions.”

Justification for Proposed Modification 3: The language in its current state restricts Fannie Mae to one test and learn pilot. The proposed modification gives credit for additional policy changes that can affect a broader swath of rural lenders.

Proposed Modification 4: Clarify language in last action item around CDFI investment opportunities in 2019: “Engage CDFIs or other mission driven lenders to identify innovative homeownership or lending models and to identify capacity challenges that can be addressed through technical assistance.”

Justification for Proposed Modification 4: Fannie Mae is not permitted by FHFA to make equity investments in CDFIs and therefore extensive work to create an impactful alternative is needed for this activity.

Proposed Modification 5: Continue outreach efforts in 2020 by adding new action items in the newly separated Outreach Objective

Justification for Modification 5: Our focus will be to build new and nurture existing partnerships identifying the mutual business fit to serve high needs rural regions



A. Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c)(1)).

Note: Fannie Mae seeks extra credit for this Activity.

2. Objective #2: Increase affordable capital through industry outreach ~~and developing solutions to increase single-family loan purchases in high-needs rural regions (Analyze, Partner and Innovate, Do What We Do Best).~~

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • Develop and make available market research and/or rural housing data sets. Fannie Mae will define topics that (1) have meaningful impact on high-needs rural regions and (2) are chosen to work toward a solution to a problem. Some topics could include challenges of originating low balance loans or appraising properties in high-needs rural regions. This information will be made available to the public and industry stakeholders on Fannie Mae’s website, through the use of targeted email campaigns, and other highly visible mechanisms. This activity of market research promotes transparency, educates the public and housing industry stakeholders, and provides insights and solutions to potential challenges. • Because of known barriers such as a lack of affordable supply and an aging housing stock in need of updates and renovation in high-needs rural regions, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products and establish a test and learn approach issuing one negotiated variance to select lenders in high-needs rural regions. • Provide technical assistance such as resources to assist lenders serving high needs rural regions to become approved sellers. • Facilitate innovative partnerships between two lenders to increase availability of conventional mortgage financing in high needs rural regions. • Identify opportunities to educate the industry to widely accept the definition of “colonias” developed in 2018. • Continue to expand <u>the capacity of homebuyer readiness providers, including those who provide homebuyer education, housing counseling and/or financial counseling:</u> <ul style="list-style-type: none"> ○ Monitor the participants’ progress towards homeownership <u>Provide cumulative reporting on metrics of households served to achieve homeownership</u> of the two partnerships created in 2018. ○ <u>Create, E</u>nhance or expand two partnerships targeting certain high-needs rural regions creating one documented business plan to reach and engage households in need of housing assistance. ○ Increase homeownership opportunities by identifying and engaging two potential anchor institution partners in high-needs rural regions. ○ Support two partners <u>with developing</u> models to teach those living in high-needs rural regions and document best practices to reach and engage households needing financial <u>coaching or counseling, literacy.</u> ○ Enhance and expand one test and learn service learning <u>service-learning</u> program model and training curriculum. • <u>Work with the industry to promote access to appropriate types of products, resources, and financing that will help very low-, low-, and moderate-income families access appropriate financing and assistance, including third-party grants for renovations and energy and water efficiency improvements.</u>



Year	Actions
	<ul style="list-style-type: none"> • <u>Expand and enhance the high-needs rural marketing campaign developed in 2018 and document measurements of success.</u> — Engage CDFI or other mission-driven lenders, identifying potential innovative homeownership, lending, or investment opportunities that have the potential to meet FHFA approval and are consistent with Fannie Mae's Charter Act. • <u>Engage CDFIs or other mission driven lenders to identify innovative homeownership or lending models and to identify capacity challenges that can be addressed through technical assistance.</u>
2020	<ul style="list-style-type: none"> • <u>Analyze, assess, document, and publish results on success metrics of the work completed in 2019 with the one test and learn service-learning program model.</u> • <u>Support homebuyer readiness services or programs in high-needs rural regions.</u> • <u>Engage housing counselors in high-needs rural regions identifying capacity challenges that can be addressed through technical assistance.</u> • <u>Continue engaging CDFIs or other mission driven lenders identifying innovative homeownership or lending models; identify capacity challenges that can be addressed through technical assistance.</u> • <u>Establish a targeted marketing campaign(s) focused on raising awareness, or highlight an initiative in conjunction with other activities to support an increase in loan deliveries.</u>
2020	<ul style="list-style-type: none"> — Analyze, assess, document, and publish quantitative data on clients served against the target outcome of the work completed in 2019 with the one test and learn service-learning program model. • As a result of the outreach and product development activities outlines in 2018 and 2019, purchase between 500 and 550 single-family loans in high-needs rural regions, an approximate four percent of the total loan purchases in 2020 from Objective #1. These loans are included in the total loan purchases in Objective #1 where the Baseline has been described.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Product Outreach	Loan Purchase /aOutreach
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		



4. Objective #4: Develop solutions to increase single-family loan purchases in high-needs rural regions (Analyze, Do What We Do Best).

Meeting the Challenges

High-needs rural regions face substantial challenges that make it difficult to attract lenders, investors, and real estate developers. These challenges include:

- Economic obstacles such as declining populations, unemployment, high housing cost burdens, persistent poverty, and limited access to lenders providing affordable capital.
- Potential borrowers have lower incomes, affecting affordability, are more likely to be self-employed, increasing their risk of unstable and unreliable income, and are less likely to be a first time homebuyer, a criterion often required to receive down payment or matched savings dollars assistance.
- Existence of geographic market differentiation; rural loans should not be viewed as one homogenous group.
- Lack of quality housing stock; older homes may be in substandard condition and in need of rehabilitation, or could benefit from energy or water efficiency improvements.
- Appraising rural properties tends to be more challenging.
- Rural properties are more likely to be manufactured homes and have larger lot sizes.
- Rural properties have smaller loan balances, and note rates are marginally higher than those for urban loans.
- Housing demand is weak, and housing is not highly promoted and does not receive an adequate amount of attention given small, dispersed populations as compared to urban areas.
- Homeownership can be less expensive than renting in high-needs rural regions, however, poor credit history, financial barriers, and a lack of knowledge about homeownership limit opportunity.

To address these challenges, Fannie Mae will:

- Perform outreach and market research; use the information gathered to identify appropriate product enhancements that, when implemented, will increase borrower and property eligibility and simplify loan requirements, resulting in the provision of increased liquidity.
- Analyze and share the information gathered by publishing and distributing findings to the public. Providing transparency to the industry will encourage new capital sources to venture into or invest in mortgage lending. This activity will provide additional affordable capital to high-needs rural regions.
- Employ a test and learn approach to enhance a loan product or policy to reach more very low-, low-, and moderate-income families. Evaluate the success and develop affordable lending best practices.
- Strengthen the housing demand by building partnerships with anchor institutions, housing counseling organizations, and financial capability service providers. This collaboration will provide homebuyers with the necessary knowledge to overcome credit and budget barriers, thus improving financial stability and facilitating access to affordable rental housing and homeownership opportunities.
- Address the lack of housing supply by advocating for manufactured housing as an affordable option. Approximately 67 percent of all manufactured homes are located in rural communities. Across the nation manufactured housing makes up about 10.3 percent of occupied, single-family detached housing, however it is much more prevalent in high-needs rural regions. For example, manufactured housing makes up nearly 21 percent of the single-family detached housing in Middle Appalachia and approximately 17 percent in the Lower Mississippi Delta.



SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> Because of known barriers such as a lack of affordable supply and an aging housing stock in need of updates and renovation in high-needs rural regions, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products. We will revise policy or and establish a test and learn approach issuing one negotiated variance to select lenders in high-needs rural regions. Identify an innovative approach to address housing affordability, the inventory shortage or the replacement of substandard homes. This work could include but not limited to, development of an innovation, work to scale the opportunity, revise policy or produce at least one prototype home.
2020	<ul style="list-style-type: none"> Continue to address the lack of affordable housing supply and an aging housing stock in high-needs rural areas by reviewing and updating Fannie Mae policies. Create opportunity by exploring the potential for partnerships that could enhanced product offerings. Support an innovative model to increase the housing stability and economic mobility of low-income residents of rural communities.

The long term activities in this Objective are challenging. Activities supporting this Objective require a different paradigm designed to reach communities in a scalable way and, therefore, the work is difficult. Achieving these goals, while maintaining safety and soundness, requires substantial effort and use of Fannie Mae resources. Fannie Mae has significant experience evaluating, developing, and enhancing loan products and policy. Accordingly, Fannie Mae believes this Objective is reasonable and can be achieved within the time periods described. Product changes will be critical to increasing access to affordable capital and reducing limitations and requirements while opening access to Fannie Mae financing to those who otherwise do not meet eligibility requirements. Any variances, which create changes in credit parameters and product guidelines, will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae’s governance and approval processes, and will only be made consistent with safety and soundness concerns. The ultimate opportunity available in this market is to finance an increased number of single-family loans in high-needs rural regions.

Criteria	2018	2019	2020
Evaluation Factor:	N/A	Loan Product	Loan Product
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		



Fannie Mae Rural Housing 2019 – 2020

Activity: Housing for high-needs rural populations (12 C.F.R. § 1282.35 (c) (2)).

Objective 1: Rebrand and market Fannie Mae’s Native American Conventional Lending Initiative (NACLI) and purchase single-family loans (Analyze, Partner and Innovate, Do What We Do Best).

Proposed Modification 1: Split the aforementioned Objective into an Objective addressing outreach and an Objective addressing product development.

- Outreach Objective: “Rebrand and market Fannie Mae’s Native American Conventional Lending Initiative (NACLI) via homebuyer counseling, lender outreach, and technical assistance to native CDFIs.”
- Loan Product Objective: “Purchase single-family NACLI and/or HUD Section 184 loans and produce loan products via supply variance and appraisals.”

Justification for Proposed Modification 1: Separating out the outreach and loan product components into separate Objectives adds clarity to our work. The outreach Objective modification derives from extensive interviews and meetings held with native CDFIs informing best practices for outreach. Additional actions have been added for to support outreach, which continues to be a critical component of our strategy to increase loan production.

The loan product Objective is a shift from the loan purchase focus of the original Objective to best address the supply challenges faced by Native populations. Additional actions have been added to support loan product development continues to be a critical component of our strategy to increase loan production.



Proposed Modification 2: Clarify language around the policy action item in 2019: “Use the information gathered in 2018, develop or enhance policy around appraisals on tribal trust lands; revise the existing variance and notify lenders as appropriate.”

Justification for Proposed Modification 2: Fannie Mae allows conventional financing for Native Americans on trust land via a variance; eligibility guidelines and policy updates are outlined within this variance and not published within the standard selling guide, thus requiring inclusion of this modification. The variance was instituted following an analysis of credit and collateral policy as well as substantial research around the ‘cost approach’ method completed this year and documented within the variance. The Lenders with the variance were notified.

Proposed Modification 3: Modify language around Native American credit and/or collateral policy action item in 2019 to read as follows: “...conduct research about the availability of affordable housing inventory on Native American lands.”

Justification for Proposed Modification 3: Fannie Mae has developed relationships with multiple tribes; however, the supply shortage and the tribe’s inability to access construction capital has caused Fannie Mae to expand its focus to understanding the supply shortage on Native American lands. HUD 2017 research indicates the need for 68,000 housing units needed to meet housing needs in Indian Country.

Proposed Modification 4: Reduce loan purchase target in 2020 from purchasing between 125 and 200 NACL and/or HUD Section 184 loans to 10 NACL and/or HUD Section 184 loans on tribal trust lands.

Justification for Proposed Modification 4: The timeline Fannie Mae originally constructed to reach a threshold of 125-200 hinged upon greater lender participation and a broader availability of homes for purchase than has materialized to date. The adjusted target, if achieved, will represent significant progress since Fannie Mae re-entered this market and set the groundwork for significant future impact working with tribal trust lands, where the need is greatest.

As Fannie Mae re-enters this space, more time is needed to build relationships with lenders, tribal leadership and to support the development of affordable supply before a sizeable increase in loan deliveries can be expected.



Proposed Modification 5: Update language around MOU action item to provide clarity and read as follows...” Facilitate a training to educate tribes and appraisers on the challenges of appraisals on tribal trust land; if feasible, develop a partnership to pilot a solution.”

Justification for Modification 5: The modified language is a clarification. The MOU is a legal binding document and cannot be enhanced; nor does the MOU address appraisal issues. As a result of our appraiser and lender engagement around appraisals, leading to a successful policy change in 2018 allowing appraisal alternatives, Fannie Mae believes bringing tribes and appraisers together for a training and discussion could be more impactful towards developing solutions. We believe this, in large part, due to the flexibility afforded with such engagement, flexibility not found in the MOU.



B. Housing for high-needs rural populations (12 C.F.R. § 1282.35 (c) (2)).

Note: Fannie Mae seeks extra credit for this Activity.

1. **Objective #1: Rebrand and market Fannie Mae's Native American Conventional Lending Initiative (NACLI) ~~and purchase single-family loans (Analyze, Partner and Innovate, Do What We Do Best).~~**

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • Purchase between 15 and 40 NACLI and/or HUD Section 184 purchase money or refinance loans.¹ <ul style="list-style-type: none"> ○ Baseline: The Baseline is the current three-year average of the number of loans purchased by Fannie Mae, which is four loans (2016, 1; 2017, 7; 2018, 4). Fannie Mae acknowledges 2017 is higher than the most current three-year average, however, 2017 purchases consisted of targeted refinances and does not accurately represent the market. • Expand lender outreach to an additional two lenders geographically located near Native American land (i.e., lenders not approached in 2018). • Use the information gathered in 2018 to develop or enhance policy around appraisals on tribal trust lands and share best practices. • Because of known barriers such as lack of affordable supply for high-needs populations, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products such as construction loans or HomeStyle® Renovation and establish a test and learn approach issuing one negotiated variance to select lenders working with high needs populations. • Explore opportunities to bring a culturally specific homebuyer or financial literacy curriculum to an online platform. • Provide technical assistance or identify other opportunities for lenders, Native CDFI or tribe to enhance homeownership opportunities or access affordable capital and liquidity on tribal trust lands. • <u>Explore the opportunity of a Native CDFI becoming a Fannie Mae seller.</u> • <u>Support post-purchase housing counseling for Native borrowers.</u> • <u>Interview at least 10 lenders and/or tribal stakeholders about the challenges and opportunities associated with mortgage lending on tribal trust land and document findings.</u>
2020	<ul style="list-style-type: none"> • <u>Facilitate a training to educate tribes and appraisers on the challenges of appraisals on tribal trust land; if feasible, develop a partnership to pilot a solution.</u> • Publish one piece of guidance related to credit or collateral policy regarding tribal trust land. • <u>Expand lender outreach to an additional two lenders geographically located near Native American land (i.e., lenders not approached in 2018 or 2019).</u>

¹ In Fannie Mae's proposed Plan dated 5/8/17, significantly higher loan purchase goals for Year 2 (75–125) and Year 3 (200–275) and baseline numbers (31) were proposed. This was a result of our original analysis being completed manually without the application of the "rural" filter and the "< 100% AMI" filter which limit the number of historical loan purchases identified. In addition, the analysis uncovered a number of loans delivered with a transposed identifier code, erroneously increasing the NACLI Baseline. These errors were corrected to establish the correct figures presented in this Plan.



Year	Actions
	<ul style="list-style-type: none"> • Continue to provide technical assistance to a <u>Continue to provide technical assistance to a or identify other opportunities for lenders, Native CDFI or tribe to enhance homeownership opportunities or access affordable capital and liquidity on tribal trust lands.</u> <p>Purchase between 125 and 200 NACLI and/or HUD Section 184 purchase money or refinance loans. Enhance NACLI and the MOU with the tribe to incorporate lessons learned as a result of appraiser and lender engagement. Publish one piece of guidance related to credit or collateral policy regarding tribal trust land. Expand lender outreach to an additional two lenders geographically located near Native American land (i.e., lenders not approached in 2018 or 2019).</p>

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Product <u>Outreach</u>	Loan Purchase <u>Outreach</u>
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

4. Objective #4: Purchase single-family NACLI and/or HUD Section 184 loans and produce loan products via supply variance and appraisals. (Do What We Do Best).

Meeting the Challenges

Native American tribes are one of the most underserved, impoverished minority populations in the country. The Native American Indian Housing Council (NAIHC) estimates that the homeownership rate in Indian country is about 33 percent, substantially below the national average, and Native Americans are four times more likely than the average American family to live in substandard housing. Potential homebuyers wanting to purchase homes on Native American land are faced with substantial challenges making it difficult to attract investors and lending products. These challenges include:

- Each tribe has a unique structure of governance, culture, history, and identity.
- There are legal complexities involving Native American land (e.g., federally restricted trust land and allotted lands).
- Housing located on reservations can be in substandard condition; overcrowding is common due to a high level of unemployment, persistent poverty, and lack of affordable rental housing.
- The mortgage lending process on Native American land is confusing and can be overwhelming, compounded by a general lack of understanding of the home purchase and ownership process.
- Conventional lending is nearly non-existent, leaving Native American tribes to rely on government lending programs to finance home purchases and refinance transactions.
- In order to determine effective ways to finance housing on tribal lands, a better understanding is required of Native American culture, history, and identity as it relates to home ownership.

To address these challenges, Fannie Mae will:



Meeting the Challenges

- Partner with tribal leadership and Tribally Designated Housing Entities (TDHE) to establish a Memoranda of Understanding (MOU) adopting the necessary procedures to participate in Fannie Mae's NACL I loan program, resulting in the provision of increased liquidity.
- Increase lending opportunities on Native American lands by fostering collaboration between tribes and Fannie Mae approved lenders.
- Collect and analyze mortgage data and loan performance; this information will be made available on Fannie Mae's website, through the use of targeted email campaigns and other highly visible mechanisms to bring clarity to the market. Providing factual information addressing misconceptions about Native American lending, which will help provide additional liquidity to the market. Promoting Fannie Mae's presence in this market and ultimately providing critical information will support and encourage capital sources to venture into lending and investing in this market where they may not have done so previously.
- Employ a test and learn approach to enhance a loan product or policy to reach more very low-, low- and moderate-income families. Evaluate the success and aim to develop affordable lending best practices.
- Strengthen homeownership knowledge of tribal members by building partnerships with anchor institutions, housing counseling organizations, and financial capability service providers. This collaboration will provide potential homebuyers with assistance to overcome credit and budget barriers, thus improving financial stability for increasing access to affordable rental housing and homeownership opportunities.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<ul style="list-style-type: none"> • <u>Purchase between 15 and 40 NACL I and/or HUD Section 184 purchase money or refinance loans.²</u> <ul style="list-style-type: none"> ◦ <u>Baseline: The Baseline is the current three-year average of the number of loans purchased by Fannie Mae, which is four loans (2016, 1; 2017, 7; 2018, 4). Fannie Mae acknowledges 2017 is higher than the most current three-year average, however, 2017 purchases consisted of targeted refinances and does not accurately represent the market.</u> • <u>Using the information gathered in 2018, develop or enhance policy around appraisals on tribal trust lands, revise the existing variance and notify lenders as appropriate.</u> • <u>Because of known barriers such as lack of affordable supply for high-needs populations, Fannie Mae will cConduct and document research about the availability of affordable housing inventory on Native American lands.</u>
2020	<ul style="list-style-type: none"> • <u>Purchase at least 10 between 25 and 50 NACL I and/or HUD Section 184 purchase money or refinance loans on tribal trust land. It should be noted 2020 target of 10 NACL I is lower than the 2019 target because we have shifted our focus to only include loans delivered on tribal trust lands for This target</u>

² In Fannie Mae's proposed Plan dated 5/8/17, significantly higher loan purchase goals for Year 2 (75–125) and Year 3 (200–275) and baseline numbers (31) were proposed. This was a result of our original analysis being completed manually without the application of the "rural" filter and the "< 100% AMI" filter which limit the number of historical loan purchases identified. In addition, the analysis uncovered a number of loans delivered with a transposed identifier code, erroneously increasing the NACL I Baseline. These errors were corrected to establish the correct figures presented in this Plan.



Year	Actions
	<p><u>represents a 7084 percent increase over our baseline; however it should be noted baseline . Because we are solely focused on tribal r and a 40 percent increase over the 2018 target.lands.</u></p> <ul style="list-style-type: none"> <u>• Publish one piece of guidance or an enhancement within the variance as it relates to credit or collateral policy regarding tribal trust land.</u> <p><u>and identifying opportunities to enhance the Native American lending variance guidance's .</u></p>

Fannie Mae has a long history of demonstrated commitment to finding ways to create affordable housing opportunities for Native American families living on tribal trust lands since as early as 1994 and launched our first rendition of NACLI in 1999. Yet today, NACLI is an existing refinance-only product, and an underutilized product in the Fannie Mae Selling Guide and we purchase very few HUD 184 loans. In order to better support mortgage lending among Native Americans, we are committed to providing more liquidity for government-backed loans and to reviving the NACLI product.

Fannie Mae will establish legal agreements, MOUs, with tribes in order to allow for conventional financing. The MOU is a critical piece to the NACLI product and requires updating before new loan acquisitions can be made. Under a MOU, the tribe agrees to maintain certain legal standards supporting mortgage lending—primarily laws permitting land leasing, pledging of leaseholds, mortgage foreclosures, and evictions. Without a legal framework of this type, Fannie Mae cannot safely and soundly purchase mortgages on Native American lands. The MOU also sets forth Fannie Mae's offer to purchase loans secured by Native American lands and to respect tribal sovereignty through the acknowledgment of tribal court jurisdiction. The legal structure is similar with the HUD Section 184. Based on these significant factors along with our prior knowledge of working with Native American tribes, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Achieving these goals, while maintaining safety and soundness, requires substantial effort and use of Fannie Mae resources. The ultimate opportunity available in this market is to finance more conventional Native American mortgages. To this end, Fannie Mae will conduct loan product work and loan purchases in a safe and sound manner. Activities supporting this Objective require a different paradigm designed to reach disparate communities in a scalable way and, therefore, the work is difficult.

Criteria	2018	2019	2020
<u>Evaluation Factor:</u>	<u>N/A</u>	<u>Loan Product</u>	<u>Loan Producturchase</u>
<u>Income Levels:</u>	<u>Very Low-, Low-, and Moderate-Income Levels for all Years</u>		



Fannie Mae
Rural Housing Market
2019 – 2020

Activity: Regulatory Activity: Housing for high-needs rural populations (12 C.F.R. § 1282.35 (c) (2)).

Objective 3: Create and implement work-plans and purchase loans secured by multifamily housing for Native Americans and agricultural workers (Analyze, Do What We Do Best).

Proposed Modification: Update Objective title. Remove the loan product enhancement and loan purchase actions from the 2019 and 2020 Actions, respectively. Replace them with support for technical assistance provided to developers of agricultural worker properties and Native American properties on Indian land. Change the Objective's Evaluation Areas to Outreach in 2019 and 2020.

Justification for Proposed Modification:

In 2018 and 2019, Fannie Mae met with industry stakeholders with expertise and deep experience in multifamily development for Native American communities and agricultural workers, including members of the Rural DTS Advisory Council and their staff, as well as Native and agricultural worker housing advocates, developers, and several tribal housing entities. We also reviewed research conducted by the Housing Assistance Council and Enterprise. Our outreach revealed that, in addition to the lack of financing available for the development of rental housing for agricultural workers and Native communities, the cumbersome and complex process for developing such housing, coupled with the organizational capacity of affordable developers and mission-oriented entities to execute the process, creates a substantial need in the market for capacity building and technical assistance provided to these organizations. This Action addresses a significant hurdle in the market.

Fannie Mae is embarking on a multi-year partnership with three non-profits with significant expertise in providing this type of technical assistance, using a model that could potentially be replicated across the country by multiple providers. This strategy's impact is comparable to that of financing because without technical assistance, many of these properties are not even able to apply for tax credits and USDA RD funding. In



addition, we are financing a replicable, sustainable model that could be brought to scale with the right continued support and partnerships.

Additionally, our outreach taught us that most multifamily rental properties under this Objective are more in need of equity financing than debt financing. The debt financing required is often relatively small and provided by government sources.



B. Regulatory Activity: Housing for high-needs rural populations (12 C.F.R. § 1282.35 (c) (2)).

Note: Fannie Mae seeks extra credit for this Activity.

3. **Objective #3: Create and implement work-plans and advance strategies that support development of affordable purchase loans secured by multifamily housing for Native Americans and agricultural workers (Analyze, Do What We Do Best).**

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2019	<p>Based on the work completed in 2018:</p> <ul style="list-style-type: none">Process at least one product enhancement identified in the work-plan through the internal product enhancement and development approval process that will facilitate the provision of liquidity to housing for Native Americans and agricultural workers, and implement the product enhancement(s).Partner with a non-profit organization with deep experience and expertise with developing affordable rental housing for agricultural workers to deliver a robust technical assistance program to affordable developers who focus on agricultural worker housing. The assistance will provide training and consultation on the comprehensive process for multifamily financing and development, including the use of the USDA 514/516 Farmworker Housing Programs and Low-Income Housing Tax Credits.Partner with two non-profit organizations with deep experience and expertise with developing affordable rental housing for Native American communities to deliver a robust technical assistance program to tribes, tribal housing departments, and Tribally Designated Housing Entities. The assistance will provide training and consultation on the comprehensive process for multifamily financing and development, including the use of the HUD funding programs and Low-Income Housing Tax Credits.Implement the two identified key actions from the work-plan that will enhance Fannie Mae's role and ability to serve the affordable housing needs of both Native Americans and agricultural workers.Revise and document updated work-plans including considering proposing additional product enhancements or key actions and confirming loan purchase Baselines and goals for 2020.Facilitate one rural housing roundtable with cross-functional industry representation to continue to discuss, analyze, and solve the challenges facing high-needs rural populations.Conduct one annual meeting of the Advisory Council to continue to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan.Participate in two key conferences as a means to continue to network with key industry stakeholders and to communicate the "Duty to Serve" message.



2020	<p>Based on the work completed in 2018 and 2019:</p> <ul style="list-style-type: none"> ● <u>Partner with a non-profit organization with deep experience and expertise with developing affordable rental housing for agricultural workers to deliver a robust technical assistance program to affordable developers who focus on agricultural worker housing. The assistance will provide training and consultation on the comprehensive process for multifamily financing and development, including the use of the USDA 514/516 Farmworker Housing Programs and Low-Income Housing Tax Credits.</u> ● <u>Partner with two non-profit organizations with deep experience and expertise with developing affordable rental housing for Native American communities to deliver a robust technical assistance program to tribes, tribal housing departments, and Tribally Designated Housing Entities. The assistance will provide training and consultation on the comprehensive process for multifamily financing and development, including the use of the HUD funding programs and Low-Income Housing Tax Credits.</u> ● Implement additional key actions and/or product enhancements that were potentially identified as part of the updated work-plans. ● Revise and document updated work-plans including considering proposing additional product enhancements or key actions. ● Purchase one loan for multifamily housing serving Native American populations and three loans for multifamily housing serving agricultural worker populations. <ul style="list-style-type: none"> ● Baseline: Over the last three years, Fannie Mae has not purchased any multifamily loans on rental housing for Native Americans or agricultural workers. Until such time as Fannie Mae completes the outreach and research described for this Objective, it cannot reasonably determine a more accurate Baseline than zero. ● Facilitate one rural housing roundtable with cross-functional industry representation to continue to discuss, analyze, and solve the challenges facing high-needs rural populations. ● Conduct one annual meeting of the Advisory Council to continue to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. ● Participate in two key conferences as a means to continue to network with key industry stakeholders and to communicate the “Duty to Serve” message. ● Conduct a survey of key stakeholders to assess the impact of each of Fannie Mae’s work-plans for these high-needs rural populations. ● Identify and document at least four key lessons learned from the work completed under each of the work-plans and use those findings, as well as the survey results, in the planning process for the 2021 – 2023 Duty to Serve Plan – in Q4.
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Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product Outreach	Loan Product Outreach
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		



**Fannie Mae
Rural Housing
2020**

Activity: Regulatory Activity: Financing by small financial institutions of rural housing (12 C.F.R. § 1282.35(c) (3)).

Objective 2: Purchase single-family rural loans through bulk transactions from small financial institutions (Analyze, Innovate and Do What We Do Best).

Proposed Modification 1: Eliminate loan target in 2020 and replace with a test & learn action item.

Justification for Modification 2: Experience during 2018 and the first half of 2019 indicates that, demand among SFIs for bulk transactions varies significantly, possibly due to market conditions, business models and resources. In 2020, Fannie Mae will take a more targeted approach to SFI bulk transactions, focusing efforts and resources toward the areas of the market where such transactions may have the most impact.



C. Regulatory Activity: Financing by small financial institutions of rural housing (12 C.F.R. § 1282.35(c) (3)).

2. Objective #2: Purchase single-family rural loans through bulk transactions from small financial institutions (Analyze, Innovate and Do What We Do Best).

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

2020	<p>Subject to internal approval, Fannie Mae will:</p> <ul style="list-style-type: none"> • Purchase between an additional 700 and 800 single-family rural loans through bulk transactions. • <u>If analysis of portfolios indicates a viable opportunity with seller servicers or non-seller servicers, conduct 2-4 test and learn transactions and document learnings.</u> • <u>Pursue partnerships with CDFIs, CUSOs, HFAs and credit unions for the test and learn transactions.</u> • Continue to expand lender outreach to an additional 10 small financial institution lenders (i.e., lenders not approached in 2018 or 2019).
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Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase <u>Outreach</u>
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

**Freddie Mac RFI Modifications
Justification and Redline Documents**

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2019

ACTIVITY:

Activity 4 – USDA Section 515: Statutory Activity

OBJECTIVE:

Objective A: Develop a new offering to preserve properties with USDA Section 515 debt

PROPOSED MODIFICATION:

Removal of year-2 (2019) actions.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to develop a loan offering that would provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2019 were contingent upon the 2018 actions. Therefore, we are seeking to remove 2019 actions under this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

OBJECTIVE A: DEVELOP A NEW OFFERING TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	1- and 2	VLI and LI	Not applicable

Freddie Mac has developed a strategy that would address the maturing mortgage crisis by increasing product flexibility and partnering with the USDA to create a sustainable, effective loan product offering. Initially, Freddie Mac will perform a comprehensive review of our current product offerings to determine how we can best leverage our existing products with the market challenges faced by the rural rental housing market. Additionally, we will collaborate with borrowers and our seller/servicers to help design additional features that can be added to support this loan offering. Based on the results of our review and feedback from our collaboration, we intend to make improvements consistent with prudent underwriting standards to ensure safety and soundness. We also intend to leverage our market-leading risk distribution methods that allow us to attract private capital to support these properties, offer competitive terms and flexibility to our borrowers, and transfer risk away from taxpayers. This capability is fundamental to providing persistent liquidity and stability to the market.

While somewhat premature, we expect that these enhancements will cumulatively have a significant impact on the borrowers of rural rental housing by providing a source of stable, efficient, long term private capital which will enable very low-, low-, and moderate-income tenants to remain in their homes without additional rent burden. We expect that, if successful, these improvements will result in increased purchase volume and additional liquidity to this market. Over the two-year period, Freddie Mac plans to build a strong offering foundation by publishing an initial term sheet and completing a pilot transaction to determine market acceptance and long term feasibility of the product offering. We also plan on providing training to our Multifamily seller/servicers to ensure that they are equipped with the information needed to accurately promote and support the offering.

Baseline

While we have originated TEL transactions, we lack the legal infrastructure, agreements with USDA, and stakeholder partnerships to provide a USDA 515 preservation debt offering immediately. We last purchased a loan on a Section 515 property in 2010, so our baseline of recent experience is zero transactions. This is to be expected because the clear majority of transactions involving USDA's Section 515 properties use other USDA programs, such as Section 538 or the Multifamily Housing Preservation and Revitalization Demonstration Program (MPR).^{xi}

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
<p>Limited financing sources</p> <ul style="list-style-type: none"> ▪ Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs. <p>Property features</p> <ul style="list-style-type: none"> ▪ 515 properties, given their small size, cannot benefit from the same economies of scale as more typical multifamily urban or suburban properties due to the number of units. Across the 515 portfolio, the average property size in rural markets is 29 units per our analysis of 515 properties from data.gov. 	<p>Year 1 – 2018</p> <p>Evaluate the barriers limiting private capital in conjunction with USDA's Section 515 program to identify product parameters and legal document requirements.</p> <p>1) Engage with the following participants to assess and identify areas of opportunity for our product. These participants include: 3 issuers from states with a high concentration of 515 properties, two borrowers from council for affordable and rural housings top 20 borrowers list, two rural advocacy organizations, and two Freddie Mac seller/servicers.</p>

- Smaller rural properties are also distant from major employers and access to other resources that provide occupancy stability to a rental property.

Number of stakeholders

- Through our research, we have learned that each transaction has multiple stakeholders each with their own requirements that impact the loan parameters some of which are conflicting making it difficult to ensure ease of execution for each transaction.

Reliance on USDA 515 debt

- USDA 515 debt ensures that the property maintains rental assistance. Therefore, it is important that any additional financing be compatible with USDA 515 debt.

Reliance on rental assistance

- Many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low and low income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available.

Product awareness

- Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. Likely, the Freddie Mac loan product will have a different loan and legal structure than the current financing option to this market.
- Freddie Mac sellers may not be motivated to market and originate this business due to its initial small scale, limited inventory, and amount of time it takes to originate a loan. From our current outreach, we have heard that it can take from two to five years to complete a rural rental housing transaction.

- 2) Evaluate and assess alternative loan structures to determine offering parameters, as evidenced by the following term sheet.
- 3) Evaluate and assess appropriate underwriting parameters to mitigate risk of rental assistance termination. These underwriting parameters will be captured in our internal credit policy and summarized in the product term sheet. Results of this analysis will be included in our term sheet.
- 4) Publish official product term sheet on our website that defines the product and its purpose to enable borrowers and sellers to understand the new loan product. The term sheet will contain at least the following elements:
 - a. Product overview and loan purpose
 - b. Sponsor and property eligibility requirement
 - c. Loan-to-Value limits
 - d. Debt coverage limits
 - e. Allowable lengths of loan term
 - f. Allowable lengths of amortization
- 5) Initiate one sample transaction to test market acceptance on the new loan and legal structure introduced to the market. Given the time it takes to complete a transaction, we will not likely make a loan purchase until Year 2.
- 6) Provide one to three training sessions via webinar or in person for Freddie Mac sellers to provide loan offering details, benefits to the borrower, and origination procedures to ensure that sellers have the knowledge to market the product effectively. To address the sellers' concerns, information will be provided to the sellers regarding incentives and origination efficiencies to motivate them to originate transactions with USDA 515 debt.
- 7) Negotiate and implement subordination agreement with USDA to ensure USDA 515 debt will stay on the property with the senior Freddie Mac debt. The finalized agreement will be shared with FHFA on an informational basis.

~~Year 2—2019~~

~~Provide two additional training sessions as needed to ensure Freddie Mac Sellers are well informed about the Freddie Mac loan offering and can accurately articulate its benefits to their borrowers.~~

- ~~1) Complete pilot transaction and initiate two additional pilot transactions for purchase in 2020. Pilot will be deemed successful if either we purchase the loan, or we receive sufficient information to inform a report of lessons learned.~~
- ~~2) Draft a summary report of lessons learned based on the pilot transaction for use in product refinements. Summary will be shared with FHFA on an informational basis.~~

	Update the product sheet and terms based on feedback from stakeholders and the summary report.
Resource Challenges	Freddie Mac Action
<ul style="list-style-type: none"> Multiple resources from various teams within Freddie Mac will be essential to ensure success of the actions outlined above. 	<p>Year 1 – 2018</p> <p>1) Implement an internal working group to ensure that all resources are allocated appropriately and alignment is maintained throughout the creation of the new loan product.</p> <p>Year 2 – 2019</p> <p>Debrief with Freddie Mac, the borrower, and seller on the pilot transaction to determine positive and negative aspects of the origination process and product structure.</p>

Market Impacts

While there are many challenges to developing a product to preserve properties with USDA Section 515 debt, the benefit to the market is great. In the near term, we will lay a strong product foundation and refine it through a pilot transaction. In the long term, we, along with the USDA, will be able provide long-term liquidity and stabilize the 515 preservation market while preserving the rental assistance (subject to continued federal support for these programs). By designing this offering to leverage our market-leading risk distribution methods, we will be able to attract private capital to support 515 properties and the tenants who live in them. In so doing, we will transfer risk away from taxpayers and promote safety and soundness.

The benefit of this offering is clear: through this work, we will enable tenants of very low and even extremely low incomes^{xii}, many of whom are senior citizens, to be able to continue to live in safe and decent housing that is affordable to them in their communities. Not only does this benefit the tenants themselves, but it also promotes stable communities across the country.

FREDDIE MAC

AFFORDABLE HOUSING PRESERVATION

2019

ACTIVITY:

Activity 4 – USDA Section 515: Statutory Activity

OBJECTIVE:

Objective B: Make purchases to preserve properties with USDA Section 515 debt

PROPOSED MODIFICATION:

Removal of entire objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2019 were contingent upon the 2018 actions. Therefore, we are seeking to remove 2019 actions under this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

OBJECTIVE B: MAKE PURCHASES TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	3	VLI and LI	Not applicable

Purchases of properties with USDA 515 debt are an integral part of our strategy of providing liquidity in support of the 515 program and the rural multifamily housing market. After establishing and piloting a loan product for properties with four percent tax credits and USDA 515 debt, Freddie Mac will focus on the purchase of loans on these properties. This will provide relief from the maturing mortgage crises and preserve affordability for rural properties. Maintaining long term affordability is key to providing rural areas with a stable source of housing. As a result of our outreach, we have determined that properties with USDA 515 debt are usually originated in portfolios of multiple properties and that it could take as long as three years to originate one portfolio with USDA 515 debt. While approximately 75 percent of USDA 515 properties fall within rural defined areas, there are a substantial amount of properties with 515 debt that exist across the country. To mitigate the risks involved with the maturing mortgage crisis, we will also support financing of properties outside of rural areas.

Given the many challenges of providing financing for 515 properties, purchasing loans and promoting these purchases and their replicability through press releases or news stories on our website will be fundamental to growing this market over time.

Baseline

We have not made any purchases of loans on properties with section 515 debt since 2010, therefore our three-year average baseline is 0.

Target

Prior to the creation of this third-party financing offering, there is no precedent to accurately determine the market for this product. Also, these transactions are highly complex and slow to develop. Therefore, in Year 3 (2020), we plan to purchase two portfolios of loans on properties with USDA 515 debt. This target is dependent upon us initiating these transactions in Year 2 (2019), as these transactions often take two years to complete. If our loan product requires adjustments, we will likely adjust this target based on market feedback on our product offering.

As we gain experience in the Section 515 market and more borrowers accept our product, we will have a greater scope and be able to better predict where these purchases will take place. Any purchases in the early years will be precedent setting and will be used to attract developer interest in the products we offer.

Challenges

There are several challenges involved in purchasing properties with USDA section 515 debt. These challenges include both external market conditions as well as necessary internal underwriting and infrastructure changes.

First, there are the limited financing sources for these properties. Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs. Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. The Freddie Mac loan product likely will have a different loan and legal structure than the current financing option to this market.

Second, many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low and low income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available. Because the section 521 rental assistance is only available if 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.

Third, unlike most markets, where one could expect awareness and transactions to be initiated and closed in the same year, this is far less likely to be the case for properties with USDA 515 debt. These transactions are highly complex with multiple parties, multiple properties, and sometimes challenging market conditions. Even once initiated, a transaction can fall through due to many factors, such as disruptions in the LIHTC equity market, rising interest rates, or change in local market conditions.

Market Impacts

The immediate benefit of these transactions will be to rehabilitate and preserve safe, decent, and affordable rental homes for tenants who are at risk of becoming homeless if these properties exit the 515 program. This cannot be understated in the near term or in the long term. Indeed, these initial loan purchases lay the foundation for more third-party financing and enable long term, stable liquidity, which is fundamental to providing long-term residence to thousands and thousands of people and families.

These transactions will also be precedent setting. Through these transactions we will demonstrate to rural developers that there is a new and replicable source of innovative financing for 515 properties that will enable the recapitalization and rehabilitation of these properties. Upon completion, we will issue press releases and/or publish news stories on our website that summarize the transactions and promote their replicability, which will lead to a growth in purchases in future years.

In so doing, we will introduce new standards and efficiencies into the market. We will also look to attract private capital and promote safety and soundness by leveraging our capital markets infrastructure and risk distribution capabilities.

We recognize that these innovations will likely take some time to catch on, as each transaction in the early years will likely be slow to develop, and new opportunities will likewise be slow to follow. However, with each transaction, we will preserve more affordable rental homes and build more momentum and market adoption so that by the time 515 properties start to mature at scale around 2028 at 16,000 units per year, the market will have a well-functioning and well-tested execution in place to preserve a meaningful share of rental homes for tenants in need.

FREDDIE MAC

RURAL HOUSING

2020

ACTIVITY:

Activity 1 – High-needs rural regions: Regulatory Activity

OBJECTIVE:

Objective I: Purchase loans to preserve properties with USDA Section 515 debt in high-needs rural regions

PROPOSED MODIFICATION:

Removal of entire 2020 objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2020 were contingent upon the 2018 actions. Therefore, we are seeking to remove this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

OBJECTIVE I: PURCHASE LOANS TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT IN HIGH-NEEDS RURAL REGIONS

Evaluation Area	Year	Incomes Targeted	Extra-Credit
Loan Purchase	3	VLI, LI	Yes

USDA's Section 515 program is vital for the preservation of highly affordable rural multifamily housing. It provides rental assistance to ensure that tenants pay no more than 30 percent of their income toward rent. According to an analysis by the Housing Assistance Council (HAC), the USDA has financed approximately 28,000 multifamily properties with over 533,000 units through the Section 515 program.^v As of early 2016, there were approximately 13,830 properties with 416,000 units still in the program. HAC has determined that the following number of units will exit the 515 program by 2040 based on their loan maturity dates.^{vi}

Years	2017-2027	2028-2032	2033-2040
Annual Unit Loss	1,800 units	16,000 units	22,600 units
Cumulative Units Lost Per Period	18,000 units	64,000 units	158,200 units
Cumulative Units Lost	18,000 units	82,000 units	240,200 units

When these units exit the program, affordable housing is lost in rural areas because owners will no longer be able to access the rental assistance that enables them to preserve rents at affordable levels to residents making very low incomes for their area while maintaining the property. This is often referred to as the "maturing mortgage crisis." We have repeatedly heard from advocacy groups that USDA's annual budget is not sufficient to preserve this number of properties at the rate at which they would exit the program. Therefore, the introduction of private capital is necessary to recapitalize and preserve these properties to maintain this important housing stock for rural communities.

Despite the small market size, purchases of loans on properties with USDA 515 debt are an integral part of our strategy of providing liquidity in support of the 515 program and the high-needs rural multifamily housing market. We will leverage our loan product offering for properties with 4 percent tax credits and USDA 515 debt to purchase loans on properties that are in the rural housing regions. In addition to the loan offering, we will also leverage the research being done to better serve the regions through the creation of our loan offering. Maintaining long-term affordability is key to providing the rural regions with a stable source of housing. As a result of our initial outreach, we have determined that loans on properties with USDA 515 debt are usually originated in portfolios of multiple properties and it could take as long as three years to originate one portfolio with USDA 515 debt.

Understanding that this process can take multiple years, we plan on using the lessons learned from our first USDA 515 preservation transaction, and hope to initiate one more transaction, initiated in Year 2 and funded in Year 3, to further prove to the market that the loan offering is efficient and repeatable. This new transaction will include properties that are in one or more high-needs rural regions.

Baseline

We last purchased a loan on a Section 515 property in 2010, so our baseline of recent experience is zero transactions. This is to be expected because the vast majority of transactions involving USDA's Section 515 properties use other USDA programs, such as Section 538 or the preservation and rehabilitation (MPR) program.

Target

Prior to the creation of this third-party financing offering, there is no precedent to accurately determine the market for this product. Also, these transactions are highly complex and slow to develop. Therefore, during Year 3 we plan to execute one multi-property portfolio with USDA 515 debt that will contain properties located in at least one of the high-needs rural regions, but will not be limited to these areas.

We believe one such transaction is an appropriate initial target given (1) the limited number of units in high-needs rural regions generally; (2) the even smaller number of properties that are likely to mature, be ready for recapitalization, or experience a transfer of ownership during this time period, which limits the likelihood of a transaction occurring at all; and (3) the multi-year lead time for any transaction. This combination leads to high unpredictability and limits our ability to deliberately target properties in any particular geographic locations.

As we gain experience in the Section 515 market and more borrowers accept our product, we will have a greater scope and be able to better predict where these purchases will take place. Any purchases in the early years will be precedent setting and will be used to attract developer interest in the products we offer.

Market Challenges

There are several challenges to making loan purchases to preserve properties with USDA Section 515 Debt in rural regions:

First, there are limited financing sources. Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs.

Second, many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low- and low-income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available. Because the USDA 521 rental assistance is only available if 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.

Third, there is a very small market for 515 properties in high-needs rural regions. Per our analysis of USDA data from data.gov, within the total 515 portfolio, approximately 19 percent are located in high-needs locations: 5 percent in Middle Appalachia, 8 percent in the Lower Mississippi Delta, and 6 percent in persistent-poverty counties not located in other high-needs rural regions. We found that, on average, these properties were built in 1988 or 1989, which means that, with up to a 50-year USDA 515 loan, they are not likely due to mature until well into the future. Therefore, in the near term, the market for these properties is likely to be even smaller and limited to prepayments, recapitalizations, and transfers of ownership.

Fourth, unlike most markets, where one could expect transactions to be initiated and closed in the same year, this is far less likely to be the case for properties with USDA 515 debt. These transactions are highly complex with multiple parties, multiple properties, and sometimes challenging market conditions. Even once initiated, a transaction can fall through due to many factors, such as disruptions in the LIHTC equity market, rising interest rates, or change in local market conditions.

Market Impacts

The immediate benefit of these transactions will be to rehabilitate and preserve safe, decent, and affordable rental homes for tenants who are at risk of becoming homeless if these properties exit the 515 program. This cannot be understated in the near term or in the long term. Indeed, these initial loan purchases lay the foundation for more third-party financing and enable long-term, stable liquidity, which is fundamental to providing long-term residence to many thousands of households. Upon completion, we will issue a press release and/or publish a news story on our website that summarizes the transaction and promotes its replicability, which will lead to a growth in purchases in future years.

Through these transactions, we will demonstrate to rural developers that there is a new and replicable source of innovative financing for 515 properties that will enable the recapitalization and rehabilitation of these properties. In so doing, we will introduce new standards and efficiencies into the market. We will also look to attract private capital and promote safety and soundness by leveraging our capital markets infrastructure and risk distribution capabilities.

We recognize that these innovations will likely take some time to catch on, especially in the very small high-needs rural market, as each transaction in the early years will likely be slow to develop and new opportunities will likewise be slow to follow. However, with each transaction, we will preserve more affordable rental homes and build more momentum and market adoption so that, by the time 515 properties start to mature at scale, the market has a well-functioning and well-tested execution in place to preserve a meaningful share of rental homes for tenants in need.

FREDDIE MAC

RURAL HOUSING

2019 - 2020

ACTIVITY:

Activity 3 – Financing by Small Financial Institutions of Rural Housing: Regulatory Activity

OBJECTIVE:

Objective A: Increase loan purchases from small financial institutions serving rural regions

PROPOSED MODIFICATION:

Freddie Mac proposes to revise our Single-Family loan purchase baseline and targets for small financial institutions serving rural regions for 2019-2020.

JUSTIFICATION FOR PROPOSED MODIFICATION:

In our Plan, we stated that we would enhance our reporting capabilities to reflect all lenders and their activity that meet the small financial institution definition. In 2018, we invested in enhancements to our reporting infrastructure to effectively identify small originators in rural areas. This allowed us to reflect purchase activity from institutions, including community development financial institutions and federally insured banks and credit unions, that are selling loans to us via a Freddie Mac-approved seller/servicer (aggregator) as well as those delivering to us directly.

At the end of 2018, FHFA provided to the Enterprises a new data file identifying small financial institutions it viewed as Duty to Serve qualifying. FHFA provided this file to promote consistency between the Enterprises and clearly identify the market. We were instructed to use that data file going forward in 2019. Analyzing the eligible population of institutions identified in FHFA's data file, we note that, of the original 9,147 eligible lenders we identified in 2016, 1,030 lenders have either (a) increased in asset size or (b) experienced a merger and/or acquisition and no longer report financial data. FHFA has also indicated that these institutions are no longer eligible for credit, which is inconsistent with previous guidance. An additional 67 institutions became eligible small financial institutions in the ensuing time period. We have revised our baselines to reflect volume from institutions identified by FHFA's new file.

Our revised loan purchase targets from rural small financial institutions remain challenging and reflect the impact of FHFA's new file as well as the difficulties of purchasing loans as the number of eligible small financial institutions continues to shrink.

When we analyzed the impact of implementing the new loan file, we found that the 1,030 lenders that are no longer eligible were providing us with a large number of qualifying purchase volume. We compared the 2019 purchase volume year-to-date using the prior data file to the purchase volume using FHFA's new data file. We see a 23 percent drop in qualifying purchase loans. The precipitous decline in volume based solely on events (such as an institution's asset size increasing or a merger or acquisition) beyond Freddie Mac's control reflects the significant challenge with setting three-year targets where we will be assessed against shifting criteria. The loan purchases from the 67 new eligible Seller/Servicers and the loans that we counted from aggregators is insufficient to make up for this drop.

Our 2019-2020 targets were set using FHFA's data file as provided for 2019 of eligible small financial

institutions and assuming a 4 percent decrease in eligible lenders year-over-year as it is expected that loan purchases will continue to decline as fewer eligible lenders will continue to exist. This is a conservative reduction; trends from recent years suggest that the decrease could be closer to 10 percent.

Our purchase volume targets remain ambitious and we remain committed to bringing liquidity to this market.

Activity 3 – Financing by Small Financial Institutions of Rural Housing: Regulatory Activity

A small financial institution is defined for Duty to Serve purposes as one with less than \$304 million in assets. During the FHFA listening sessions and our public outreach, we heard that, in many rural areas, these institutions are the only source of financial services. They are well-positioned to understand the needs and know the stakeholders in their communities.

Freddie Mac is committed to partnering with small financial institutions to leverage their market knowledge, experience and stakeholder network and to maximize the secondary market impact in the rural housing market.

During the Plan Term, Freddie Mac intends to increase purchase volume of loans on rural housing made by small financial institutions.

OBJECTIVE A: INCREASE LOAN PURCHASES FROM SMALL FINANCIAL INSTITUTIONS SERVING RURAL REGIONS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	1, 2 and 3	VLI, LI, MI	Not Applicable

Freddie Mac intends to increase purchases of rural housing loans made by small financial institutions with assets of less than \$304 million to generate liquidity and expand the distribution of capital. We plan to engage more deeply with small financial institutions that are already approved Freddie Mac seller/servicers to increase the purchase of both new and seasoned rural housing loans. We also intend to expand our outreach and support to increase the number of small financial institutions that can be approved as direct Freddie Mac seller/servicers or that sell to us through an aggregator. We believe that our incremental and strategic approach will increase our purchase share.

Baseline

The table below reflects Freddie Mac's actual purchase volume of mortgages in rural areas from community development financial institutions, and federally insured depositories, and federal insured banks and credit unions depositories only (banks and credit unions) that we could identify as having an asset size of less than \$304 million. ~~In the future, we will enhance our reporting capabilities in this segment to reflect all lenders that meet the small financial institution definition. The overall loan count represents Freddie Mac's market volume of loans from small financial institutions in rural areas excluding the high-needs rural regions without a limiter for the Duty to Serve qualifying income segment of very low-, low- and moderate-income volume.~~ The income-qualifying loan count represents only the population of loans that meet the Duty to Serve qualifying-income segment of very low-, low- and moderate-income volume. ~~It should be noted that the historical loan volume previously represented in Freddie Mac's initial draft Plan did not distinguish the loan population by qualifying income, but instead included all conventional loans on owner-occupied properties from small financial institutions that are in rural regions.~~

The baseline for this objective is an average of the loans Freddie Mac purchased from small financial institutions that meet income-qualifying criteria for Duty to Serve in the last three years (~~2016-2014~~ through ~~2018-2016~~), which is 4,3403,894 loans. The numbers represent purchase-money originations and refinances for owner-occupied properties of very low-, low-, and moderate-income borrowers.^{vii}

Freddie Mac Loan Purchase Volume – Small Financial Institutions ^{viii}			
Year	<u>2014-2016</u>	<u>2015-2017</u>	<u>2016-2018</u>
Overall Loan Count	6,474	9,655	10,951

Income-Qualifying Loan Count (A three-year average of this loan count was used to establish the baseline)	2,899 <u>4,872</u>	4,250 <u>4,269</u>	4,533 <u>3,880</u>
Baseline	3,894 <u>4,340</u>		

Target

Freddie Mac's purchase share of mortgages in rural areas from small financial institutions has been ~~decreasing~~ increasing since 2016. ~~The loan purchase volume in 2016 was largely due to high refinance volume, 2014 and was boosted by refinance volumes in prior years. Although we anticipate a decline in refinance volume over time, w~~ We will aim to gradually increase the volume of our purchase mortgages used for home purchases to increase the overall volume of loans in rural regions over the Plan cycle. We intend to use a variety of tactics with small financial institutions, including leveraging various execution options for loan purchase including purchasing loans via our bulk execution path where feasible, conducting outreach, offering technical training and providing toolkits that enable these lenders to lend confidently to very low-, low-, and moderate-income homebuyers.

Freddie Mac will commit to achieving the following loan purchases in rural regions for very low-, low-, and moderate-income borrowers in the following years:

Purchase Targets – Small Financial Institutions		
Year 1 – 2018	Year 2 – 2019	Year 3 – 2020
4,550 – 4,700 loans	3,700 <u>4,700</u> – 3,900 <u>4,900</u> loans	3,600 <u>5,000</u> – 3,900 <u>6,000</u> loans

Market Opportunity and Impact

This objective will provide liquidity of more than ~~\$460~~ 420 million per year to small financial institutions that serve high-needs rural regions. Freddie Mac believes that deliberately increasing our engagement with small financial institutions to provide liquidity will notably improve access to credit in rural markets because we have heard that these lenders are limited in resources, available products and outreach capacity.

Freddie Mac's increased market share will benefit these markets by improving the availability of affordable financing, including Freddie Mac's Home Possible and Home Possible Advantage mortgages. We anticipate this objective will be very challenging due to the varied operational systems used by small financial institutions; different missions and levels of financing; distinct financial products offered; and the large number of geographic areas served. Furthermore, Freddie Mac ~~'s forecast for~~ anticipates that approximately 4% of the eligible lender population will stop reporting financial data due to continuous mergers and acquisitions in this segment. 2018 relative to 2016 includes higher interest rates, continued reduction in refinance share, higher consumer prices and a 25% decrease in single-family origination volume, all of which contribute to making it a challenge to meet the targets reflected above. Developing relationships with small financial institutions not currently doing business with Freddie Mac will require a significant investment in resources to support and sustain the level of purchase growth targeted in the Plan cycle. Additionally, as we add new lenders to our customer base, it will take time before we realize loan purchases while lenders navigate through the onboarding process.

Freddie Mac believes our commitment to outreach and support for seller/servicers with experience and good track record in rural areas will expand this market in a safe and sound manner.

FREDDIE MAC

RURAL HOUSING

2019

ACTIVITY:

Activity 4 – Small multifamily rental properties in rural areas: regulatory activity

OBJECTIVE:

Objective A: Develop a new offering to preserve properties with USDA Section 515 debt

PROPOSED MODIFICATION:

Removal of year-2 (2019) activities.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to develop a loan offering that would provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2019 were contingent upon the 2018 actions. Therefore, we are seeking to remove 2019 actions under this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

OBJECTIVE A: DEVELOP A NEW OFFERING TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	1 - and - 2	VLI, LI	Not applicable

USDA's Section 515 program is vital for the preservation of highly affordable rural multifamily housing. It provides rental assistance to ensure that tenants pay no more than 30 percent of their income toward rent. According to an analysis by the Housing Assistance Council (HAC), the USDA has financed approximately 28,000 multifamily properties with over 533,000 units through the Section 515 program.^{ix} As of early 2016, there were approximately 13,830 properties with 416,000 units still in the program. HAC has determined that the following number of units will exit the 515 program by 2040 based on their loan maturity dates:^x

Years	2017-2027	2028-2032	2033-2040
Annual Unit Loss	1,800 units	16,000 units	22,600 units
Cumulative Units Lost Per Period	18,000 units	64,000 units	158,200 units
Cumulative Units Lost	18,000 units	82,000 units	240,200 units

Per our analysis of the 515 portfolio on data.gov, we estimate that 75 percent of these units are in rural areas. And among rural 515 properties, 94 percent have between five and 50 units.

When these units exit the program, affordable housing is lost in rural areas because owners will no longer be able to access the rental assistance that enables them to preserve rents at affordable levels to residents making very low incomes for their area while maintaining the property. This is often referred to as the “maturing mortgage crisis.” We have repeatedly heard from advocacy groups that USDA’s annual budget is not sufficient to preserve this number of properties at the rate at which they would exit the program. Therefore, the introduction of private capital is necessary to recapitalize and preserve these properties to maintain this important housing stock for rural communities.

In response, Freddie Mac has developed a strategy that would address the maturing mortgage crisis by increasing product flexibility and partnering with the USDA to create a sustainable, effective loan product offering. Initially, Freddie Mac will perform a comprehensive review of our current product offerings to determine how we can best leverage our existing products with the market challenges faced by the rural rental housing market. Additionally, we will collaborate with borrowers and our seller/servicers to help design additional features that can be added to support this loan offering. Based on the results of our review and feedback from our collaboration, we intend to make improvements consistent with prudent underwriting standards to ensure safety and soundness. We also intend to leverage our market-leading risk-distribution methods that allow us to attract private capital to support these properties, offer competitive terms and flexibility to our borrowers, and transfer risk away from taxpayers. This capability is fundamental to providing persistent liquidity and stability to the market.

While somewhat premature, we expect that these enhancements will cumulatively have a significant impact on the borrowers of rural rental housing by providing a source of stable, efficient, long term private capital which will enable very low-, low-, and moderate-income tenants to remain in their homes without additional rent burden. We expect that, if successful, these improvements will result in increased purchase volume and additional liquidity to this market. Over the two-year period, Freddie Mac plans to build a strong offering foundation by publishing an initial term sheet and completing a pilot transaction to determine market acceptance and long term feasibility of the product offering. We also plan on providing training to our seller/servicers to ensure that they are equipped with the information needed to accurately promote and support the offering.

Baseline

While we have originated Tax-Exempt Loan transactions, we lack the legal infrastructure, agreements with USDA, and stakeholder partnerships to leverage this execution for a successful loan offering for portfolios with USDA 515 debt. We last purchased a loan on a Section 515 property in 2010, so our baseline of recent experience is zero transactions. This is to be expected because the vast majority of transactions involving USDA’s Section 515 properties use other USDA programs, such as Section 538 or the preservation and rehabilitation (MPR) program.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
<p>Limited financing sources</p> <ul style="list-style-type: none"> ▪ Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs. <p>Property features</p> <ul style="list-style-type: none"> ▪ 515 properties, given their small size, cannot benefit from the same economies of scale as more typical multifamily urban or suburban properties due to the number of units. Across the 515 portfolio, the average property size in rural markets is 29 units, per our analysis of 515 properties from data.gov. ▪ Smaller rural properties are also distant from major employers and access to other resources that provide occupancy stability to a rental property. <p>Number of stakeholders</p> <ul style="list-style-type: none"> ▪ Through our research, we have learned that each transaction has multiple stakeholders, each with its own requirements that impact the loan parameters and some of which are conflicting, making it difficult to ensure ease of execution for each transaction. <p>Reliance on USDA 515 debt</p> <ul style="list-style-type: none"> ▪ USDA 515 debt ensures that the property maintains rental assistance. Therefore, it is important that any additional financing be compatible with USDA 515 debt. <p>Reliance on rental assistance</p> <ul style="list-style-type: none"> ▪ Many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low- and low-income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available. <p>Product awareness</p> <ul style="list-style-type: none"> ▪ Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. Likely, the Freddie Mac loan product will have a different loan and legal structure than the current financing option to this market. 	<p>Year 1 – 2018</p> <ol style="list-style-type: none"> 1) Evaluate the barriers limiting private capital in conjunction with USDA's Section 515 program to identify product parameters and legal document requirements. 2) Engage with the following participants to assess and identify areas of opportunity for our product: three issuers from states with a high concentration of 515 properties, two borrowers from the Council for Affordable and Rural Housings top 20 borrowers list, two rural advocacy organizations, and two Freddie Mac Seller/Serviceers. 3) Evaluate and assess alternative loan structures to determine offering parameters, as evidenced by the following term sheet. 4) Evaluate and assess appropriate underwriting parameters to mitigate risk of rental assistance termination. These underwriting parameters will be captured in our internal credit policy and summarized in the product term sheet. Results of this analysis will be included in our term sheet. 5) Publish an official product sheet on our website that defines the product and its purpose to enable borrowers and sellers to understand the new loan product. The term sheet will contain at least the following elements: <ol style="list-style-type: none"> a. Product overview and loan purpose b. Sponsor and property eligibility requirement c. Loan-to-Value Limits d. Debt coverage Limits e. Allowable lengths of loan term f. Allowable lengths of amortization 6) Initiate one sample transaction to test market acceptance of the new loan and legal structure introduced to the market. Given the time it takes to complete a transaction, we will not likely make a loan purchase until Year 2. 7) Provide one to three training sessions via webinar or in person for Freddie Mac sellers to provide loan offering details, benefits to the borrower, and origination procedures to ensure that sellers have the knowledge to market the product effectively. To address the sellers' concerns, information will be provided to the sellers regarding incentives and origination efficiencies to motivate them to originate transactions with USDA 515 debt.

<ul style="list-style-type: none"> Freddie Mac sellers may not be motivated to market and originate this business due to its initial small scale, limited inventory, and amount of time it takes to originate a loan. From our current outreach, we have heard that it can take from two to five years to complete a rural rental housing transaction. 	<p>8) Negotiate and implement subordination agreement with USDA to ensure USDA 515 debt will stay on the property with the senior Freddie Mac debt. The finalized agreement will be shared with FHFA on an informational basis.</p> <p>Year 2 – 2019</p> <p>1) Provide two additional training sessions as needed to ensure Freddie Mac sellers are well informed about the Freddie Mac loan offering and can accurately articulate its benefits to their borrowers.</p> <p>2) Complete a pilot transaction and initiate two additional pilot transactions for purchase in 2020. The pilot will be deemed successful if either we purchase the loan, or we receive sufficient information to inform a report of lessons learned.</p> <p>3) Draft a summary report of lessons learned based on the pilot transaction for use in product refinements. The summary will be shared with FHFA on an informational basis.</p> <p>4)1) Update the product sheet and terms based on feedback from stakeholders and the summary report.</p>
<p>Resource Challenge</p>	<p>Freddie Mac Action</p>
<ul style="list-style-type: none"> Multiple resources from various teams within Freddie Mac will be essential to ensure success of the actions outlined above. 	<p>Year 1 – 2018</p> <p>1) Implement an internal working group to ensure that all resources are allocated appropriately and alignment is maintained throughout the creation of the new loan product.</p> <p>2) Year 2 - 2019</p> <p>1) Debrief with Freddie Mac, the borrower, and the seller on the sample transaction to determine positive and negative aspects of the origination process and product structure.</p>

Market Impacts

While the challenges are many, the benefit to the market is great, both in the near term, as we lay a strong product foundation and refine it through a pilot transaction, and in the long term, as we, along with the USDA, are able to provide long-term liquidity and stabilize the 515 preservation market while preserving the rental assistance (subject to continued federal support for these programs). By designing this offering to leverage our market-leading risk-distribution methods, we will be able to attract private capital to support five-to-50-unit 515 properties in rural markets and the tenants who live in them. In so doing, we will transfer risk away from taxpayers and promote safety and soundness.

Ultimately, though, the benefit of this offering is clear: Through this work, we will enable tenants of very-low and even extremely-low income, many of whom are senior citizens, to be able to continue to live in safe and decent housing that is affordable to them in their communities. Not only does this benefit the tenants themselves, but it also promotes stable communities across rural America.

FREDDIE MAC

RURAL HOUSING

2020

ACTIVITY:

Activity 4 – Small multifamily rental properties in rural areas: regulatory activity

OBJECTIVE:

Objective B: Make purchases to preserve properties with USDA Section 515 debt

PROPOSED MODIFICATION:

Removal of entire 2020 objective.

JUSTIFICATION FOR PROPOSED MODIFICATION:

The purpose of this objective is to provide consistent liquidity via the capital markets to support the preservation of USDA 515 properties. Freddie Mac's ability to do this successfully depends upon two factors: (1) the continuance of USDA Section 521 Rental Assistance that allows properties to be affordable to tenants in any market; and (2) the subordination and deferral of USDA Section 515 debt per a subordination agreement that provides Freddie Mac and subsequent capital markets investors with protections typical for first lien lenders. Without such protection Freddie Mac and capital markets investors would have to take on an undue level of risk that would render participation infeasible.

We worked with the USDA closely for more than two years to develop loan parameters and attempt to negotiate a subordination agreement that would (1) preserve the existing 515 debt and associated section 521 rental assistance necessary to ensure affordability, (2) retain typical market standard protections that are necessary for first lien lenders and capital markets investors to participate.

Unfortunately, despite diligent work and partnership from both parties, we were unable to reach a subordination agreement, as USDA informed us that they have certain requirements that do not allow them to provide first-lien lenders market-standard protections. As a result, FHFA determined the Year 1 actions under this objective to be infeasible in 2018. The actions planned for this objective in 2020 were contingent upon the 2018 actions. Therefore, we are seeking to remove this objective from the plan.

While Freddie Mac and the USDA are unable to partner in providing first-lien debt to section 515 properties, we look forward to helping to recapitalize 515 properties through our LIHTC investments. In 2018, for example, we invested LIHTC equity in a 14 property USDA 515 preservation portfolio in Texas.

OBJECTIVE B: MAKE PURCHASES TO PRESERVE PROPERTIES WITH USDA SECTION 515 DEBT

Evaluation Area	Year		Incomes Targeted	Extra Credit
Loan Purchase	3		VLI, LI	Not applicable

Purchases of loans on properties with USDA 515 debt are an integral part of our strategy of providing liquidity in support of five-to-50-unit properties in rural areas. Indeed, per analysis of the 515 portfolio on data.gov, 93 percent of the 515 properties in rural areas are between five and 50 units.

After establishing and piloting a loan product for properties with 4 percent tax credits and USDA 515 debt, Freddie Mac will focus on the purchase of loans on these properties. This will provide relief from the maturing mortgage crises and preserve affordability for rural properties. Maintaining long term affordability is key to providing rural areas with a stable source of housing. As a result of our outreach, we have determined that properties with USDA 515 debt are usually originated in portfolios of multiple properties and it could take as long as three years to originate one portfolio with USDA 515 debt.

Given the many challenges of providing financing for 515 properties, purchasing loans and promoting those purchases and their replicability through press releases or deal stories will be fundamental to growing this market over time.

Baseline

We have not made any purchases of loans on properties with Section 515 debt in several years; therefore, we do not have a representative baseline.

Target

In Year 3 (2020), we plan to purchase two portfolios of loans on properties with USDA 515 debt that include properties with five to 50 units in rural areas. This target is dependent upon us initiating these transactions in Year 2 (2019). If our loan product requires adjustments, we will likely adjust this target based on market feedback on our product offering.

Challenges

There are several challenges involved in purchasing loans on properties with USDA Section 515 debt. These challenges are present both externally in market conditions and internally through necessary underwriting and infrastructure changes.

First, there are the limited financing sources for these properties. Apart from USDA's Section 538 Guaranteed Rural Rental Housing Program, there are very few outside debt sources being used in conjunction with USDA's Section 515 program. This is due to the tightly integrated USDA requirements between USDA programs. Borrowers are accustomed to working specifically with USDA lenders to originate rural rental housing loans. Likely, the Freddie Mac loan product will have a different loan and legal structure than the current financing option to this market.

Second, many USDA 515 properties rely on the rental assistance provided by the Section 521 program. Without this rental assistance, very low and low-income renters would be overburdened and unable to fulfill rent obligations. The USDA 521 program is different from long-term HAP contracts, which Freddie Mac has a history of doing. The USDA 521 program provides borrowers with a one-year contract to cover rent payments on behalf of tenants in a designated number or percentage of the units. The one-year contract is only renewed as many times as funds are made available. Because the Section 521 rental assistance is only available if 515 debt is still on the property, it is important that any additional financing be compatible with USDA 515 debt.

Third, unlike most markets, where one could expect awareness and transactions to be initiated and closed in the same year, this is far less likely to be the case for properties with USDA 515 debt. These transactions are highly complex with multiple parties, multiple properties, and sometimes challenging market conditions. Even once initiated, a transaction can fall through due to many factors, such as disruptions in the LIHTC equity market, rising interest rates, or change in local market conditions.

Market Impacts

The immediate benefit of these transactions will be to rehabilitate and preserve safe, decent, and affordable rental homes for tenants who are at risk of becoming homeless if these properties exit the 515 program. This cannot be understated in the near term or in the long term. Indeed, these initial loan purchases lay the foundation for more third-party financing and enable long-term, stable liquidity, which is fundamental to providing long-term residence to thousands and thousands of people and families.

These transactions will also be precedent setting. Through these transactions we will demonstrate to rural developers that there is a new and replicable source of innovative financing for 515 properties that will enable the recapitalization and rehabilitation of these properties. Upon completion, we will issue press releases and/or publish news stories on our website that summarize the transactions and promote their replicability, which will lay a foundation for growth in purchases in future years.

In so doing, we will introduce new standards and efficiencies into the market. We will also look to attract private capital and promote safety and soundness by leveraging our capital markets infrastructure and risk-distribution capabilities.

We recognize that these innovations will likely take some time to catch on, as each transaction in the early years will likely be slow to develop, and new opportunities will likewise be slow to follow. However, with each transaction, we will preserve more affordable rental homes and build more momentum and market adoption so that by the time 515 properties start to mature at scale around 2028, the market has a well-functioning and well-tested execution in place to preserve a meaningful share of rental homes for tenants in need.