



Fannie Mae 2019
Affordable Housing Preservation
Loan Product

ACTIVITY:

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

OBJECTIVE:

1. Increase affordable capital through industry outreach and developing loan financing solutions (Analyze, Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

Following are the 2019 Actions under this Objective per the December 20, 2019 Duty to Serve Plan:

<i>Objective's components detailed in the Plan</i>	<i>Corresponding actions taken</i>	<i>Explanation of any deviations from the Plan (if applicable)</i>
<input checked="" type="checkbox"/> Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests:		
<input checked="" type="checkbox"/> Evaluate the repair strategy implemented in 2018 and make a decision to continue or not. If the determination is to continue, develop and execute a plan to make adjustments or improvements based on lessons learned.	We analyzed 2018 results and decided to continue and expand the initiative in 2019.	N/A
<input checked="" type="checkbox"/> Analyze trends such as appraisals for distressed properties in order to evaluate the impact on product and policy and, based on learnings and if feasible, make updates.	We analyzed appraisal and other trends. We evaluated valuations for repaired real estate owned (REO) properties vs. properties sold as-is as well as appraised values vs. sales prices. We also considered geographic distributions of REO properties affordable to buyers earning 100 percent or less of area median income (AMI) and data	N/A



Fannie Mae 2019
Affordable Housing Preservation
Loan Product

	related to financing and buyer types for REO sales.	
<input checked="" type="checkbox"/> Continue industry leadership by participating in two key conferences or seminars and speaking at one other event for purposes of informing the industry of research findings, product enhancements and/or market insights. Facilitate one housing roundtable, incorporating feedback from 2018 and including new participants in order to improve engagements and outcomes.	<p>We attended both the Reclaiming Vacant Properties conference and the Opportunity Finance Network annual conference, where we hosted booths and participated in conference sessions.</p> <ul style="list-style-type: none"> • We hosted a stakeholder roundtable at the Reclaiming Vacant Properties conference, which provided the opportunity for Fannie Mae to update partners on our products and strategies, and to get beneficial feedback to inform future product development. • We spoke at the Mass Mortgage Bankers Association Summit to provide information and updates regarding products and programs. 	N/A
<input checked="" type="checkbox"/> Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products by incorporating learnings from outreach efforts into updated product materials and webinars or presentations. Target engagement with an additional five lenders and three other stakeholders (i.e., lenders and stakeholders not approached in 2018). The additional lenders and stakeholders will be selected based	<p>We created a new Duty to Serve Distressed Assets Marketing Catalog for lenders and real estate professionals to assist them in helping eligible buyers purchase distressed properties.</p> <ul style="list-style-type: none"> • We updated the HomePath® website to make it easier for real estate professionals and nonprofit entities to find resources and information regarding Fannie Mae’s REO properties to facilitate more owner-occupant purchases of these properties. • We engaged with five new lenders and three new stakeholders to 	N/A



Fannie Mae 2019
Affordable Housing Preservation
Loan Product

<p>on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. Fannie Mae will work with the non-profit organizations engaged in 2018 to determine additional organizations with whom we should target. Eight additional relationships will be meaningful and will provide learnings on how to expand engagement in following years.</p>	<p>introduce them to our distressed property offerings, and to expand our network of partners in the space.</p>	
<p><input checked="" type="checkbox"/> Execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Target engagement with an additional five organizations (i.e., organizations not approached in 2018) that provide assistance to consumers with purchase or rehabilitation of distressed properties. Two of such organizations will be community organizations for the purpose of bringing resources directly to community venues/events serving potential homeowners. These additional five relationships will provide substantial learnings on how to expand engagement in following years.</p>	<p>We created a HomePath Buyer’s Guide to better prepare potential purchasers of REO properties to purchase these homes.</p> <ul style="list-style-type: none"> • We engaged with five new organizations that assist consumers with acquiring and/or rehabilitating distressed properties. 	<p>N/A</p>
<p><input checked="" type="checkbox"/> Based on the outcomes of the 2018 evaluation of opportunities to establish partnerships with State and other programs that can combine subsidies and assistance</p>	<p>We updated the variance for the High Combined Loan-to-Value (CLTV) Community Revitalization Initiative to remove the requirement that limited eligible first mortgages for the program to</p>	<p>N/A</p>



Fannie Mae 2019
Affordable Housing Preservation
Loan Product

<p>together with Fannie Mae's HomeStyle Renovation product, create a negotiated variance with select lender(s) and program(s) as a test and learn approach. Fannie Mae will determine variance objectives and proposed terms based on stakeholder input, conduct related economic and operational impact analyses and issue one lender variance.</p>	<p>HomeReady® loans, permitting all Fannie Mae purchase mortgage products to be used in conjunction with the program.</p> <ul style="list-style-type: none"> • We partnered with the City of Cleveland for financing of second mortgages required for this program. • We engaged the City of Baltimore to explore options for implementing the initiative in the city. • We engaged with the Detroit Land Bank Authority and local nonprofits engaged in acquisition and rehabilitation of distressed properties to introduce them to the program and explore opportunities for activity under the pilot. 	
<p><input checked="" type="checkbox"/> Participating lenders will be chosen (after conducting lender outreach as noted above) based on level of interest, capacity, potential loan delivery volume, and market focus.</p>	<p>We selected three lenders for the program in Cleveland, and additional potential lender partners were identified for Detroit and Baltimore.</p>	<p>N/A</p>
<p><input checked="" type="checkbox"/> The variance outcome will be evaluated in 2020 and success will be based on actual volume delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented.</p>	<p>Although there were not yet any loan deliveries from the program in 2019, the significant preliminary preparatory work and promise for future success led us to extend the expiration of the pilot to provide sufficient time for lenders and nonprofit organization to evaluate and implement the program.</p>	<p>N/A</p>



Fannie Mae 2019
Affordable Housing Preservation
Loan Product

<input checked="" type="checkbox"/> Evaluate the outcomes of variance(s) executed in 2018 and introduce one new negotiated variance with terms for one additional change to Fannie Mae loan product parameters, or review credit and/or collateral policy identifying opportunities to enhance product parameters. One variance will focus on opportunities in high-needs rural areas. If feasible and depending on research, learnings, and analysis publish one policy update.	<p>We updated the variance for the HomeStyle® Renovation for Nonprofit Borrowers program, which included the following changes:</p> <ul style="list-style-type: none"> • Easing the eligibility parameters for nonprofit entities. • Extending the variance to allow more time to implement and test the program. • We engaged with two rural nonprofit programs that have interest in participating in the program. • We engaged with two lenders that have a notable rural footprint, both of which are in the process of executing the variance for the program. 	<p>N/A</p>
--	---	------------

SELF-ASSESSMENT RATING OF PROGRESS:

- Objective met
- Objective exceeded
- Objective partially completed: 75-99% (substantial amount)
- Objective partially completed: 50-74% (limited amount)
- Objective partially completed: 25-49% (minimal amount)
- Objective partially completed: 0-24% (less than a minimal amount)
- No milestones achieved

PARTIAL CREDIT JUSTIFICATION:

N/A

IMPACT:

- 50 – Substantial Impact
- 40 – Between Meaningful and Substantial Impact
- 30 – Meaningful Impact
- 20 – Between Minimal and Meaningful Impact



Fannie Mae 2019 Affordable Housing Preservation Loan Product

- 10 – Minimal Impact
- 0 – No Impact

IMPACT EXPLANATION:

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

REO Repair Initiative:

We implemented a strategy in 2018 to increase the number of real estate owned (REO) properties repaired prior to sale. Based upon evaluations of this strategy, we made the decision to continue and expand its repair efforts in 2019, resulting in even greater impact for homebuyers. In 2019, Fannie Mae increased the repair rate for REO properties by more than 43 percent from the first to fourth quarters, ultimately repairing 36.5 percent of REO properties by year's end. Repaired properties totaled more than 3,800 single-family homes for the year, with the average investment in repairs per property totaling \$30,000. We focused particularly on energy and water efficiency when repairing these properties. Since 2018, we have installed 2,631 smart thermostats in REO properties. In 2019, we began installing low-flow shower heads and toilets in properties that support installation and initiated a test and learn initiative for the installation of solar panels in select HomePath properties in Arizona, California, and Nevada. On average, 90 percent of the properties that Fannie Mae repaired were sold to an owner-occupant purchaser. Our REO repair initiative has proven to be a successful way to facilitate the purchase of safe and affordable homes by owner-occupant purchasers. As owner-occupant buyers continue to face pressure from investor purchasers, the repair initiative is an important means of enabling them to compete for homes in markets where affordable inventory is in short supply.

Outreach:

In 2018, our marketing and outreach focused on equipping lenders and real estate professionals to assist buyers in purchasing distressed properties. In 2019, we shifted our focus to Fannie Mae REO properties specifically, providing new resources to better prepare homebuyers, and the lenders and real estate professionals assisting them, with the information needed to acquire Fannie Mae REO properties. Better understanding of the process for purchasing Fannie Mae REO properties will improve the ability of owner-occupant purchasers to evaluate and compete for these properties. The new marketing content created in 2019 will be an important component of our distressed property outreach in 2020.

Additionally, substantial outreach efforts were conducted in 2019 to educate lenders, local governments, nonprofit entities, and other stakeholders on the High CLTV Community Revitalization Initiative pilot program. In Cleveland, these efforts led to partnership with the city for financing of the second mortgages required for the program, as well as the selection of three lenders for the origination of first mortgages. Construction is underway for new properties in the first targeted neighborhood, and lenders have prepared marketing materials for potential buyers. Similar outreach in Detroit has resulted in the identification of at least one partner nonprofit real estate developer, and efforts are underway to procure financing for forgivable second mortgages. Initial loan deliveries for Detroit are expected in 2020. We also had several conversations with the city and other potential partners in Baltimore, and we are hopeful that additional progress will be made there in the coming year. Enabling developers to sell new or rehabilitated properties at prices commensurate with their construction



Fannie Mae 2019
Affordable Housing Preservation
Loan Product

or renovation costs provides incentives for developers to invest in distressed areas. The new comparable sales for these neighborhoods that result from such activity will help to reduce the appraisal gap for these areas, eventually making it possible for revitalization to occur without the need for subsidy.

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

The greatest lesson we have repeatedly learned is that distressed property markets differ substantially from jurisdiction to jurisdiction and require tailored approaches to make an impact. Strategies employed in a flourishing market must differ from those utilized in depressed markets where challenges, such as appraisal gaps and a lack of qualified homebuyers, exist. Developing and executing successful strategies to address distressed properties and neighborhoods is a complex undertaking requiring significant relationship building, resource identification, and collaboration. As a result, we sought to build strong collaborative relationships with local partners to leverage programs in ways that are responsive to the unique needs of specific communities.

We also learned that homebuyers struggle to compete with cash buyers for distressed properties in some geographies, making it even more important that homebuyers and the real estate and lending professionals that assist them are equipped with the information and resources they need to acquire these properties. In addition, we will evaluate additional policy changes to make it easier for owner occupants to purchase affordable Fannie Mae REO properties.

3. (Optional): If applicable, why were all components of this objective not completed?

N/A



Fannie Mae Affordable Housing Preservation Second Quarter Report: January 1 - June 30, 2019 Loan Product

ACTIVITY:

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

OBJECTIVE:

1. Increase affordable capital through industry outreach and developing loan financing solutions (Analyze, Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

We have been very active in product development and outreach in the distressed properties market. Evaluations of the repair strategy for REO properties initiated in 2018 indicated that this initiative has significant potential to facilitate owner-occupant purchases of Fannie Mae-owned REO. We will continue the program and are actively evaluating opportunities to expand its impact.

We are also working to develop more robust analytical tools for our REO portfolio. We hope with these tools to be able to identify trends that can contribute to the development of targeted incentives and strategies to increase the number of Fannie Mae REO purchased by low- and moderate-income homebuyers.

Additionally, we engaged in further product development to operationalize the two variances introduced in 2018 – one to permit nonprofit entities to be borrowers on Homestyle renovation loans, and two, the high combined loan-to-value (CLTV) pilot for targeted revitalization jurisdictions. Working with potential partners and stakeholders, we identified additional opportunities to make the Homestyle product offering more useful and beneficial for nonprofit borrowers. These included increasing the maximum loan-to-value ratio for loans under the variance and technical corrections to accord with the corporate structure of nonprofit organizations. Going forward, we will collaborate with the participating lenders and interested nonprofits to execute the first transactions under the variance, using learnings from those purchases to inform our efforts to make this product an important resource for nonprofits active in distressed property renovation.

For the high CLTV pilot, participating lenders and Community Second providers have been identified in one target city, and efforts are ongoing to identify partners in the remaining two cities. We plan to extend this pilot so that entities contemplating participation will feel more confident that they have the time necessary to acquire, rehab, and sell properties prior to the expiration of the pilot. We hope to purchase our first loans via this program before the end of 2019.

In addition to our product development efforts, we continue to conduct outreach and engagement initiatives with both consumers and industry partners. We updated the HomePath website to make it more usable and informative for consumers, real estate agents, and other interested parties, including providing quicker access to property listings and more product and homebuying information for borrowers. We will continue to leverage these and other tools to increase the awareness, interest, and knowledge of consumers and those assisting them in the homebuying process.

We also continue to participate in industry events, such as sponsoring the upcoming Reclaiming Vacant Properties conference and hosting a roundtable during the conference to gain industry insight and discuss ideas for further Fannie Mae engagement in the distressed properties market.

Following are the 2019 Actions under this Objective:

- Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests:



- Evaluate the repair strategy implemented in 2018 and make a decision to continue or not. If the determination is to continue, develop and execute a plan to make adjustments or improvements based on lessons learned.
- Analyze trends such as appraisals for distressed properties in order to evaluate the impact on product and policy and, based on learnings and if feasible, make updates.
- Continue industry leadership by participating in two key conferences or seminars and speaking at one other event for purposes of informing the industry of research findings, product enhancements and/or market insights. Facilitate one housing roundtable, incorporating feedback from 2018 and including 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 the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products by incorporating learnings from outreach efforts into updated product materials and webinars or presentations. Target engagement with an additional five lenders and three other 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. Fannie Mae will work with the non-profit organizations engaged in 2018 to determine additional organizations with whom we should target. Eight additional relationships will be meaningful and will provide learnings on how to expand engagement in following years.
- Execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Target engagement with an additional five organizations (i.e., organizations not approached in 2018) that provide assistance to consumers with purchase or rehabilitation of distressed properties. Two of such organizations will be community organizations for the purpose of bringing resources directly to community venues/events serving potential homeowners. These additional five relationships will provide substantial learnings on how to expand engagement in following years.
- Based on the outcomes of the 2018 evaluation of opportunities to establish partnerships with State and other programs that can combine subsidies and assistance together with Fannie Mae's HomeStyle Renovation product, create a negotiated variance with select lender(s) and program(s) as a test and learn approach. Fannie Mae will determine variance objectives and proposed terms based on stakeholder input, conduct related economic and operational impact analyses and issue one lender variance.
 - Participating lenders will be chosen (after conducting lender outreach as noted above) based on level of interest, capacity, potential loan delivery volume, and market focus.
 - The variance outcome will be evaluated in 2020 and success will be based on actual volume delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented.
- Evaluate the outcomes of variance(s) executed in 2018 and introduce one new negotiated variance with terms for one additional change to Fannie Mae loan product parameters, or review credit and/or collateral policy identifying opportunities to enhance product parameters. One variance will focus on opportunities in high-needs rural areas. If feasible and depending on research, learnings, and analysis publish one policy update.

SELF-ASSESSMENT RATING OF PROGRESS:

- On-target to meet or exceed the objective
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective



ADDITIONAL INFORMATION (IF APPLICABLE):