Fannie Mae 2019
Affordable Housing Preservation
Loan Product

ACTIVITY:

I. Regulatory 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).

SUMMARY OF RESULTS:

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

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Explore options for determining DTS eligibility of shared equity programs, with the goal of providing clarity to lenders and program providers.	We completed a pilot program in Florida for third party validation of community land trust (CLT) compliance with Fannie Mae's and Duty to Serve (DTS) requirements, evaluating its potential to reduce underwriting burdens for lenders. • We explored numerous avenues for identifying and validating Duty to Serve eligibility of shared equity programs in order to simplify underwriting requirements for lenders. • We facilitated the evaluation of more than 300 shared equity programs to assess Duty to Serve eligibility.	N/A
☒ Initiate work to create a model deed restriction for use by shared equity programs.	We executed a contract with a vendor for the creation of model deed restriction documents for shared equity programs that employ deed restrictions to preserve affordability in order to increase standardization across jurisdictions, address expressed lender operational and underwriting concerns, and	N/A

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	increase lender participation in these programs.	
☐ [Mod-Delete]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.		

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:

Per Housing Access: Not Applicable to Loan Purchase Objectives and will not be included in the Narrative Report to FHFA

IMPACT:

☐ 50 – Substantial Impact
☐ 40 – Between Meaningful and Substantial Impact
☒ 30 – Meaningful Impact
☐ 20 – Between Minimal and Meaningful Impact
☐ 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?

Lenders have consistently communicated to us that two of the primary barriers to participation in shared equity housing programs are 1) the increased underwriting burdens and perceived risk associated with shared equity mortgages, and 2) the lack of standardization across programs. Presently, in addition to completing their standard mortgage loan underwriting, lenders must also underwrite the shared equity program associated with a loan to ensure that its structure and parameters comply with Fannie Mae and Duty to Serve requirements. It is conservatively estimated that there are more than 600 shared equity programs nationwide, with new programs being created on a regular basis . Because program requirements can vary significantly, lenders must perform time-consuming and costly reviews of each shared equity program for which they would like to originate loans. These challenges are a serious deterrent to large-scale lender participation in shared equity programs, which impacts consumer options when looking to finance a shared equity property. Therefore, in 2019 we initiated efforts to begin addressing these issues to make shared equity lending a more viable and attractive prospect for lenders.

Program Eligibility Validation:

To address the difficulty of validating shared equity program eligibility, in 2019 we explored options to assess and confirm the compliance of shared equity programs with Fannie Mae and Duty to Serve eligibility requirements. The first of these efforts was the implementation of a pilot program in Florida under which a vendor evaluated the compliance of specified CLTs. Seven CLTs were evaluated and six were determined to conform to Fannie Mae and Duty to Serve requirements. The pilot demonstrated that third-party validation is a promising means of assessing shared equity program compliance. However, replicating this effort across hundreds of programs nationwide would require a very significant investment of time and resources.

We also explored a more limited approach to reviewing shared equity programs in which only their Duty to Serve eligibility was assessed, with lenders remaining liable for ensuring that programs meet our requirements. More than 300 shared equity programs were evaluated through this initiative, and 136 were determined to be aligned with Duty to Serve guidelines. This more limited review is less costly than that undertaken via the Florida pilot, but still reduces lender burden by making clear which loans comply with Duty to Serve guidelines.

Market Standardization:

To address the issue of standardization across shared equity programs, we contracted with a vendor for the creation of model documents for shared equity programs that employ a deed restriction model to preserve a unit’s affordability. Deed restriction programs are the most prevalent type of shared equity program in the country, with more than 400 known deed restricted homeownership programs offering more than 50,000 affordable units . However, program structures and policies vary substantially for these programs, and unlike CLTs there are currently no model documents to guide programs in conforming to broadly accepted standards.

The creation of model documents will contribute greatly to standardizing program design and legal documents. Aligning program requirements nationwide will enable lenders to develop uniform origination processes for these programs and prompt them to participate in a broader set of geographies, contributing to additional liquidity for programs and more choice for homebuyers. According to a 2017 study, more than a quarter of inclusionary housing programs in existence at the time had been established since 2010. In light of the fact that deed restriction mechanisms are the primary tool used to maintain affordability for homeownership units created by inclusionary housing zoning ordinances, the need for standardization among deed restriction programs will only increase as inclusionary housing policy solutions continue to gain popularity.

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Conclusion:

Our efforts to identify Duty to Serve eligible shared equity programs and to promote standardization among deed restricted shared equity programs will have significant long-term impact on the shared equity market. By addressing primary lender obstacles to participating in these markets, we are working to facilitate greater liquidity and consumer choice for shared equity programs. Our efforts to date have created a strong and necessary foundation for future policy and programmatic changes that will further simplify lending to shared equity homeowners and contribute to broader awareness and industry acceptance of the shared equity market.

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

We learned that reducing lender underwriting burdens and enabling standardization and automation are essential to increasing liquidity and consumer choice in the shared equity market. In general, few lenders are interested in establishing a business line for loans that offer increased burden and risk in exchange for lower loan amounts. Loans with higher origination costs and lower lender compensation levels present obvious challenges as lenders seek to manage their profitability. Simplification and standardization are essential to achieving the lender participation and scale necessary to provide greater liquidity and consumer choice for the shared equity market.

We also learned that identifying Duty to Serve eligible programs is difficult. There is no comprehensive listing of shared equity programs, making it challenging even to know which programs exist, let alone which are Duty to Serve eligible. Identifying and evaluating individual programs is time-intensive and establishing contact with staff members who are sufficiently well-versed in a program's requirements to confirm that it conforms to Duty to Serve requirements can also be burdensome. Programs such as our pilot program in Florida can contribute significantly to reducing burdens for lenders and promote program adoption of industry standards. However, implementation of an initiative to capture all shared equity programs would be very resource intensive. In short, determining program eligibility, while necessary and possible, is an arduous and costly undertaking. That said, we are committed to the shared equity market and have begun to test and evaluate mechanisms to collect, record, and disseminate Duty to Serve eligibility to lenders. We hope that this will address lenders' concerns regarding the perceived risks and burdens of shared equity programs and facilitate increased participation.

In addition to difficulties with program level validation, we also discovered that identifying shared equity programs at the loan level is a challenge as well. Currently, our systems are unable to capture the name of the shared equity program with which a particular loan is associated, making it difficult to connect individual loans to a specific program. As a result, we must perform manual validation processes to ensure that a loan is associated with a Duty to Serve eligible program. As we explore options for program level validation, we are also considering ways to automate loan level program identification to simplify Duty to Serve eligibility validation for individual loans.

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

N/A

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ACTIVITY:

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

OBJECTIVE:

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

SUMMARY OF RESULTS:

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

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests:		
☒ 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.	We created the Inclusionary Housing Database database which we considered in 2018, with the following milestones achieved: • We completed data collection. • We made incremental improvements to the mapping tool, and planned more comprehensive enhancements for 2020. • We enhanced data storage and made infrastructure updates to better facilitate ongoing data collection and refinement of the database and mapping tool. • Preliminary information and presentation of data were analyzed, and additional updates	N/A

	and refinements were identified for execution in 2020.	
☒ 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.	We created a variance to exempt qualified community land trusts (CLTs) from our Selling Guide requirement that states a CLT must have two years of experience in successfully managing affordable housing, enabling buyers to use our products for the purchase of homes in some newly established CLTs. • We worked with the New York City Department of Housing Preservation and Development to evaluate Duty to Serve and Fannie Mae eligibility for a program that finances the construction of new limited equity cooperative projects.	N/A
☒ 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.	We commissioned a case study of the City of San Francisco's Below Market Rate Homeownership program by the Terner Center for Housing Innovation at the University of California at Berkeley. • We documented specific findings and lessons learned. • We published the case study on our website. • We started planning for marketing and distribution efforts which will occur in early 2020.	N/A
☒ Continue and expand industry outreach activities started in 2018 to maintain engagement and	We attended the 50th Anniversary Celebration for New Communities, Inc., the nation's first CLT.	N/A

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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.	• We attended the Florida Housing Coalition annual conference, where we presented at a session on CLTs. • We attended the Northwest Community Land Trust Coalition Annual Membership Meeting. • We hosted a roundtable on CLTs in partnership with the Florida Housing Coalition.	
☒ 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.	We continued outreach to lenders and stakeholders, engaging five new lenders and five new shared equity programs. Based on feedback garnered from stakeholder outreach, we created two new marketing pieces to educate lenders and appraisers on underwriting and appraisal requirements for properties in a CLT: • One piece provides guidance for lenders regarding unique underwriting characteristics for CLT loans, as well as treatment of additional subsidies for the transaction. • The second piece provides detailed guidance on Fannie Mae's unique appraisal requirements for CLT properties.	N/A

☒ Based on lessons learned in 2018, identify process and policy changes necessary to remove obstacles to lender origination and delivery of shared equity loans.	We identified necessary policy and process changes and plan to address them in 2020. • We evaluated more than 300 CLT programs and determined that 136 conform to Duty to Serve guidelines. • We initiated efforts t0 create model documents for shared equity programs that employ deed restrictions to maintain affordability. • We identified targeted Selling Guide changes for implementation in 2020.	N/A

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
☐ 10 – Minimal Impact
☐ 0 – No Impact

IMPACT EXPLANATION:

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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?
Inclusionary Housing Database:

The Inclusionary Housing Database and Mapping Tool being created by Grounded Solutions Network is the only known centralized resource for identifying jurisdictions with inclusionary housing programs. It provides an important tool for practitioners, developers, researchers, and other interested parties to assess inclusionary housing requirements for a particular geography, as well as to garner comprehensive information on the state of inclusionary housing throughout the country. This information furthers efforts to assess and standardize programs, which are necessary for the continued growth of this vital source of new affordable housing supply. Since its creation, the tool has been viewed more than 7,500 times.

CLT Experience Waiver:

The variance, which exempts qualified CLTs from Fannie Mae's requirement that they have two years of experience in administering housing programs, enables newly established CLTs to immediately access Fannie Mae financing for homebuyers in their programs. The first program for which this variance was exercised was a newly established CLT in Houston. As part of its recovery strategy in the aftermath of Hurricane Harvey, the City of Houston and the Houston Land Bank partnered together to create a new CLT to facilitate the purchase of newly constructed homes by low- and moderate-income (LMI) homebuyers. We worked closely with the city and the land bank on this project, and identified lenders interested in providing financing for the CLT properties. To date, two lenders have executed the variance exempting the Houston CLT from the two-year experience requirement, and we have begun purchasing loans for properties in the CLT. The learnings from this work in Houston have equipped us to provide similar support and resources to other newly created CLTs, and we are now working with a number of entities that are exploring or implementing the CLT model – both in disaster affected areas and elsewhere.

Shared Equity Cooperatives:

Building upon the policy change made in 2018 to permit Fannie Mae financing for limited equity cooperatives (LECs), in 2019 we worked with the City of New York's Department of Housing Preservation and Development (HPD) to evaluate their Open Door program, which funds the new construction of cooperative and condominium buildings affordable to moderate- and middle- income households. Lenders had expressed concern to HPD that loans made to finance units created via the program may not be eligible for secondary market financing, which has limited lenders' willingness to participate in the program. We met consistently with HPD to discuss and evaluate the program, and determined that projects developed through the program could potentially be eligible for Fannie Mae financing after gaining approval through Fannie Mae's Project Eligibility Review System (PERS). In a city that has embraced the shared equity cooperative model and already has approximately 100,000 such units , this effort has the potential to open up a new opportunity for Fannie Mae to provide liquidity to the shared equity market.

Outreach and Research:

Our outreach and research activities have provided an avenue to increase lender awareness of Fannie Mae product offerings while gaining insight that will help us enhance and improve them in the future. For example, conversations with practitioners have led to innovative CLT strategies to use MH Advantage® units for infill redevelopment in disaster impacted areas. Outreach has also led to discussions with lenders regarding potential bulk purchases of shared equity loans. Finally, our outreach and research have been instrumental to identifying specific policy and programmatic changes which we will undertake in 2020 to address key challenges faced by lenders and program practitioners seeking to use Fannie Mae financing for shared equity programs. Our thought leadership and collaboration with industry participants is becoming an important component of the continued growth and development of this sector.

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

We learned that supporting new programs through provision of technical assistance and tailored policy actions is essential to their early success. Through our work with the Houston CLT, we were able to provide guidance on program design to ensure that CLT properties would be eligible for Fannie Mae's financing and conform to Duty to Serve requirements. Further, we were able to act as a necessary liaison between the CLT and interested lenders, educating both on our product offerings and procedures. Finally, our early entry into the development of this CLT gave us the time needed to execute the variance necessary to enable delivery of loans for CLT properties to Fannie Mae. This experience has created a template for Fannie Mae support of newly created CLTs and will enable us to be a strong partner to such entities going forward, further facilitating the continued growth of the CLT sector.

We also learned that the primary inhibitor for growth of shared equity programs is not inadequate liquidity for homebuyers, but a dearth of capital resources for the construction or acquisition of additional housing units for these programs. Although most lenders have only limited footprints in the shared equity space, driven by individual loan officers or branches in specified geographies, there appears to be at least minimally sufficient liquidity for homebuyers' purchase of shared equity units. However, demand for shared equity units substantially exceeds the available supply . While there is certainly more work to do to increase and scale lender participation in the shared equity market, the greatest obstacle facing the industry is adequate capital for construction or acquisition of new shared equity units. Despite significant evidence that shared equity programs are a vital source of long-term affordable housing for low- and moderate-income households, recent reductions in federal, state, and other financing sources have impacted the creation of new shared equity supply. It is imperative that new methods be identified to finance the expansion of shared equity programs if the sector is to achieve its full potential to provide long-term affordable housing.

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

N/A

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Second Quarter Report: January 1 - June 30, 2019
Loan Product

ACTIVITY:

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

OBJECTIVE:

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

SUMMARY OF RESULTS:

We continue to make strong progress in our efforts to increase liquidity for the shared equity market via outreach, research, and loan products. Additional work has been done to expand the inclusionary housing database which was started in 2018. A substantial amount of effort was devoted this year to enhancing data collection and storage infrastructure, and initial data collection is expected to be completed this year.

The pilot program whereby the Florida Housing Coalition (FHC) is evaluating Community Land Trusts (CLTs) for Duty to Serve (DTS) eligibility continues and is expected to be completed by the end of this year, with the timeline for loan deliveries extended an additional year to August 2020. One CLT review was conducted by FHC in Q2 and was determined to be both compliant with the Fannie Mae Selling Guide and the DTS rule, bringing the total to five approved CLTs. While CLT volume in Florida has historically been minimal, the emergence of larger regional CLTs and impending new construction should bolster the prospects for this pilot. Fannie Mae will conduct a survey and host a stakeholder roundtable in Q3 to assess the value of the pilot, and to document learnings that may inform potential future efforts to expand third-party program approvals to other jurisdictions.

We are also working on a contract with Grounded Solutions Network (GSN) to develop a model deed restricted covenant that accords with DTS requirements. This document will contribute to standardization of program requirements, reducing lender compliance burdens and potentially facilitating broader participation in deed restriction programs.

In Q2, we engaged the Terner Center for Housing Innovation at UC Berkeley to conduct an in-depth case study of one of the entities evaluated in the earlier study of shared equity programs by GSN, the City of San Francisco's Below Market Rate Homeownership Program. This case study will provide comprehensive information regarding the program from multiple perspectives and will help to identify best practices and opportunities to maximize utilization and participation in shared equity programs.

We continue to engage with industry stakeholders by participating in industry events and identifying training opportunities for lenders. In May of 2019, we participated in the Northwest Community Land Trust Coalition Annual Membership Meeting which was attended by more than 60 community land trust providers. We are scheduled to participate in the Florida Housing Coalition's Annual Conference in August. We will also host a stakeholder roundtable to gather learnings from the aforementioned third-party approval pilot, and to identify opportunities to further support CLTs in Florida. Finally, we are working to identify new market opportunities through the addition of new lender and program partnerships.

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:

☐ 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.

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):