



Fannie Mae 2019
Rural Housing
Loan Purchase

ACTIVITY:

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

OBJECTIVE:

1. Fannie Mae will increase purchases of single-family loans in rural areas from small financial institutions (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"/> Purchase between 7,300 and 7,500 loans in rural areas from small financial institutions which are also a certified community development financial institution, insured depository institution, or federally insured credit union, as defined under the Regulation, representing an approximate three to five percent increase over Baseline.	We purchased 9,431 loans, representing a 32.8 percent increase over the baseline of 7,104 loans.	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



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- 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?

We exceeded our loan purchase goal for Small Financial Institutions (SFIs) in rural areas by funding 9,431 mortgages (\$1.156B). This volume represents a 32.8 percent increase over the baseline (7,104 units) and an 8.9 percent increase from 2018 (8,662 units).

In response to research and outreach, we extended an incentive to 19 SFIs in rural areas, assisting approximately 592 families with closing costs. This incentive was offered after lender partners expressed concern that the most significant barrier to homeownership for many low- and moderate-income families is the down payment associated with getting a mortgage loan. Lowering closing costs allows borrowers to put more of their funds toward down payment.

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

Individual SFIs in rural areas generate low volume, being limited by their regional rural footprint. Only one SFI originated more than 100 of the 9,431 Duty to Serve eligible loans delivered to us. It took significant outreach to SFIs and engagement with aggregators to reach this target. To continue growing our SFI business in 2020, we will need to step up engagement efforts, recruit additional SFI partners, and continue to look for viable opportunities to address homeownership challenges.

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

N/A



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ACTIVITY:

C. 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).

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 type="checkbox"/> Subject to internal and FHFA approval and availability in the market Fannie Mae will:		
<input type="checkbox"/> Purchase between 600 and 700 single-family rural loans through bulk transactions.	We purchased 202 single-family rural loans through bulk transactions in 2019.	We fell short of meeting our goal of purchasing 600 single-family rural loans through bulk transactions by 398.
<input checked="" type="checkbox"/> Continue to expand lender outreach to an additional 10 small financial institution lenders (i.e., lenders not approached in 2018).	We engaged approximately forty lenders to acquaint them with bulk transaction offerings and to expand our network of partners among small financial institutions (SFIs).	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



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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:

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

We acquired 202 Small Financial Institution (SFI) loans from 22 originators through our bulk channel. Partnerships with two investment firms helped us acquire 149 of the 202 loans. We communicated the value we place on these loans to 40 specific SFI lenders and the broader industry.

Strategic Partnerships:

We identified two investment firms with the expertise needed to identify, solicit, and provide technical guidance for SFIs. Through one of these partnerships, we were able to complete our largest transaction of 149 loans, with a rural credit union in Indiana. Despite having deep contacts and expertise in rural banking, the other partner was unable to deliver any portfolios.

Engaging SFI Lenders:

We exceeded the target of ten lender engagements and had direct engagement with 40 SFI lenders serving rural areas. These lenders were primarily Fannie Mae Sellers/Serviceers. We emphasized our willingness to work with SFI lenders to complete bulk transactions and the value these loans have for Fannie Mae. We also reached SFIs through industry partners via webinars for a banking trade association and a mortgage insurer. This outreach created awareness in the market, laying a foundation for future transactions.

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

SFI lenders, with a direct relationship to Fannie Mae, prefer to sell loans on a flow basis – mainly due to the operational complexity of the bulk channel. Additionally, in a low-rate environment with increased volume, SFI lenders have less capacity to engage in a bulk transaction. Few SFI lenders with whom we spoke cited liquidity as a concern because they have ongoing access to the secondary market.

We confirmed that the servicing relationship is important for SFI lenders. The ability to retain servicing allows SFIs to maintain a consistent income stream, invest in their communities, build relationships, and cross-sell other services and products, such as deposits and equity loans. Future opportunities include potential partnerships that allow an SFI to sell a portfolio while retaining servicing, as they can through flow deliveries.



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Community Development Financial Institutions or SFI lenders who do not have access to the secondary market, which routinely hold mortgages on portfolio, may benefit the most from bulk channel. However, operational challenges and portfolios of loans that may not meet conventional standards may prevent these lenders from participating in this channel. In 2020, we will focus on the segment of the market with the greatest need of liquidity to address pain points where possible and complete transactions.

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

Loan purchase targets were not met for this Objective mainly due to SFI lenders preferring to sell loans on a flow basis vs. bulk. Additionally, many SFI lenders do not have the capacity to engage in bulk transactions.



**Fannie Mae
Rural Housing
First Quarter Report: January 1 - March 31, 2019
Loan Purchase**

ACTIVITY:

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

OBJECTIVE:

1. Fannie Mae will increase purchases of single-family loans in rural areas from small financial institutions (Do What We Do Best).

SUMMARY OF RESULTS:

We have purchased 1,640 single family loans in rural areas from small financial institutions, placing us at risk of reaching our loan purchase goal of 7,300* loans this year.

We are currently conducting a root cause analysis to help identify potential issues that may be adversely affecting loan acquisitions. We hope to have additional information to share during our next quarterly meeting.

Following are the 2019 Actions under this Objective:

- Purchase between 23,800 and 24,300 single-family loans in rural areas from small financial institutions, representing an approximate eight to 10 percent increase over the Baseline.

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):

*We recently submitted a proposed plan modification to exclude mortgage bankers from our loan purchase goal and baseline, based on guidance received from FHFA. This number is subject to FHFA review and non-objection.



**Fannie Mae
Rural Housing
Second Quarter Report: January 1 - June 30, 2019
Loan Purchase**

ACTIVITY:

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

OBJECTIVE:

1. Fannie Mae will increase purchases of single-family loans in rural areas from small financial institutions (Do What We Do Best).

SUMMARY OF RESULTS:

Through June 30, 2019, we have acquired 3,741 loans and are off track for this objective. Although loan purchase volume has been lower than expected during the first half of the year, we remain optimistic in meeting this goal by year end.

Outreach, education and collaboration with our Small Financial Institution (SFI) lender partners in rural areas is ongoing. We continue to nurture relationships and serve as a value-adding partner for small financial institutions. We have provided technical assistance around marketing by offering resources and materials to these partners to support their efforts to increase loan production. We have expanded lender outreach to approximately an additional 14 SFIs and two aggregators of SFIs. The expectation is that these lenders with their targeted market campaigns have potential to deliver an approximate additional 1,000 rural loans.

Following are the 2019 Actions under this Objective:

- Purchase between 7,300 and 7,500 loans in rural areas from small financial institutions which are also a certified community development financial institution, insured depository institution, or federally insured credit union, as defined under the Regulation, representing an approximate three to five percent increase over Baseline.

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):



Fannie Mae Rural Housing First Quarter Report: January 1 - March 31, 2019 Loan Purchase

ACTIVITY:

C. 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).

SUMMARY OF RESULTS:

Through the end of Q1, we have purchased 149 rural loans through bulk delivery, placing us at risk of reaching our loan purchase goal of 600 loans this year.

Although flagged as at risk, bulk transaction activity typically increases during the second half of the year. Our Community Lending, Customer Delivery and Capital Markets teams are all working to promote and educate the industry on the benefits of bulk transactions and working to identify potential SFI lenders with potential to deliver rural loans through bulk transactions.

Following are the 2019 Actions under this Objective:

- Subject to internal and FHFA approval and availability in the market Fannie Mae will:
 - Purchase between 600 and 700 single-family rural loans through bulk transactions.
 - Continue to expand lender outreach to an additional 10 small financial institution lenders (i.e., lenders not approached in 2018).

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):



Fannie Mae Rural Housing Second Quarter Report: January 1 - June 30, 2019 Loan Purchase

ACTIVITY:

C. 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).

SUMMARY OF RESULTS:

Through June 30, 2019, we have acquired 155 loans and are off track for this objective. Loan purchase volume has been lower than expected during the first half of the year. Given the length of time to process a bulk transaction, we need to identify these loans no later than October's end but remain cautiously optimistic in meeting this goal by year end.

We originally believed the bulk channel could serve as an opportunity to replenish liquidity, but executing successful transactions has been difficult. We are working towards taking a more comprehensive approach to understanding the benefits and impact around bulk deals and have established an internal working group to solve some of the identified challenges.

Continued engagement efforts uncovered that SFIs would benefit from education and training opportunities. Other key impediments also emerged, including a knowledge gap around executing a bulk transaction, a limited understanding of secondary market qualifications, and a lack of access to our technology. An engagement strategy is underway for the second half of the year.

Following are the 2019 Actions under this Objective:

- Subject to internal and FHFA approval and availability in the market Fannie Mae will:
 - Purchase between 600 and 700 single-family rural loans through bulk transactions.
 - Continue to expand lender outreach to an additional 10 small financial institution lenders (i.e., lenders not approached in 2018).

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):



Fannie Mae Rural Housing Third Quarter Report: January 1 - September 30, 2019 Loan Purchase

ACTIVITY:

C. 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).

SUMMARY OF RESULTS:

Through September 30, 2019, we have acquired 156 loans through the bulk channel and remain off track for this Objective. In an effort to close the gap, we've established a targeted email campaign raising awareness of bulk transactions. During the third quarter we spoke to about 40 small financial institutions to assess whether there were opportunities for a bulk purchase. We've also increased discussions with aggregators and State Housing Finance Agencies. Through these engagement efforts we've uncovered additional opportunities, but any new transactions generated are likely to be small, and therefore we do not anticipate meeting the SFI bulk target this year. In 2020, we would like to take a more targeted approach focusing efforts and resources toward the areas of the market where such transactions may have the most impact.

Following are the 2019 Actions under this Objective:

- Subject to internal and FHFA approval and availability in the market Fannie Mae will:
 - Purchase between 600 and 700 single-family rural loans through bulk transactions.
 - Continue to expand lender outreach to an additional 10 small financial institution lenders (i.e., lenders not approached in 2018).

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):