Fannie Mae

# Fannie Mae 2020
# 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:
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 2020 Actions under this Objective per the January 1, 2021 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 2019 and to further increase knowledge through market outreach, research, analysis, and tests: | •N/A | •N/A |
| ☒ Execute targeted policy changes to increase clarity and reduce obstacles for lenders in the origination of shared equity loans. | •Fannie Mae executed changes to our Selling Guide to simplify the requirements for community land trusts (CLTs) in order for their properties to be eligible for Fannie Mae financing.<br>•We published a variance that enables certain manufactured homes subject to a CLT to be eligible for Fannie Mae financing without being in a condominium or planned unit development (PUD). | •N/A |
| ☒ 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 | •The inclusionary housing database and an accompanying mapping tool were completed, incorporating Fannie Mae's recommendations and feedback.<br>•A comprehensive analysis of the database project's findings was | •N/A |

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| 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. | published in a working paper titled "Inclusionary Housing in the United States: Prevalence, Practices, and Production in Local Jurisdictions as of 2019". An executive summary of the working paper was created to more concisely relate the project's findings to practitioners and stakeholders. | |
| ☒ 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. | •We participated in the Florida Housing Coalition Annual Conference, where we presented on CLTs.<br>•We participated in the National Association for County Community and Economic Development Legislative Conference, where we also presented on CLTs.<br>•We attended the National Association for County Community and Economic Development Annual Conference.<br>•We hosted a roundtable that included lenders, shared equity practitioners, and other industry stakeholders. | •N/A |
| ☒ 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 | •We created a flyer that explains the various types of shared equity programs for lenders to share with consumers.<br>•We created a new CLT lender training presentation.<br>•We continued to perform outreach to lenders and stakeholders, | •N/A |

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| stakeholders (i.e., lenders and stakeholders not approached in 2018 or 2019). The additional 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. | including five new lenders and five new stakeholders.<br><br>•We conducted outreach to shared equity programs regarding the Community First platform, introducing the idea of acquiring Fannie Mae REO properties as a means of adding new inventory to shared equity program portfolios. | |

## 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

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## 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?**

Selling Guide Change:

Previously, lenders were required to evaluate CLTs to ensure that they met specific eligibility criteria for their properties to be eligible for Fannie Mae mortgage financing. However, these criteria were subjective and lacked objective specificity by which lenders could definitively determine and warrant a program's compliance. In addition to posing potential risk to lenders, these subjective criteria did little to protect Fannie Mae from risks associated with CLT loans. Rather, Fannie Mae relies upon a host of other policies and documentation that protect its interests on CLT loans. These criteria also imposed additional eligibility standards that are not required for other types of shared equity loans.

Therefore, we executed a change to our Selling Guide that removed the unnecessary and subjective criteria for CLTs. While maintaining important guidelines such as the requirement that CLTs be a non-profit or public entity and employ approved ground leases and ground lease riders, this change simplifies the underwriting of CLT mortgages. It reduces representation and warranty risk for lenders. Moreover, it creates parity between different types of shared equity programs. In 2019, we tested this approach with a variance. and waived certain eligibility criteria for a new CLT in Houston that has resulted in liquidity for 21 affordable homes in 2020 and an expectation for hundreds more in the coming years. These guide changes are expected to expand the number of CLTs eligible for Fannie Mae financing and the number of lenders willing to originate a CLT loan, thereby providing homebuyers with more choices for lenders and products.

Variance for Manufactured Homes Subject to a Community Land Trust:

The Housing Land Trust of Sonoma County (HLT), an important CLT partner in northern California, approached us regarding a strategy it was pursuing to place MH Advantage®-eligible units on lots it had received from a local government. Seeking to quickly and cost-effectively produce more affordable units that could help address affordable housing needs in this wildfire impacted area, the HLT viewed MH Advantage as the best mechanism to rapidly create new housing. Because the lots are located in an existing neighborhood and will not have shared amenities, creating a condominium or PUD for these properties, as required by our Selling Guide for manufactured homes subject to CLTs, was not desirable. To address this issue, we created a variance to our Selling Guide requirements to permit this project to proceed without using a condominium or PUD structure. This project has brought together city, county, state, and national partners to make the concept a reality. The city provided the land for the new development, both the county and the state housing finance agency, CalHFA, provided funding for the project, and Fannie Mae led efforts to ensure that buyers would have access to Fannie Mae mortgage financing for the completed units. HLT has garnered support for this strategy from other localities as well. A larger development employing the same model is planned in another city in the county and has already received support from local officials.

Believing that other CLTs could use this strategy as a means of efficiently creating new shared equity supply in their communities, we contracted with the HLT for the development of informational and training materials that can be used to introduce other CLTs to this approach. These include a working paper that outlines the history of the project, a toolkit that can be used as a resource by CLTs seeking to implement the strategy, and curricula for two webinars to provide information and education on this concept to interested practitioners. We will make these tools available to stakeholders in 2021 and plan to hold at least two webinars for those interested in exploring this strategy's potential in their communities.

Inclusionary Housing Database:

The three-year project to develop a comprehensive nationwide inclusionary housing database and accompanying mapping tool was completed, and these tools, as well as an associated working paper, were made public this year. This effort has resulted in what is, to our knowledge, the only centralized nationwide database of inclusionary housing programs. The project found that the vast majority of programs target low-income households earning 51-80 percent of Area Median Income (AMI) and that the number of inclusionary housing programs continues to grow, with an average increase of 19 new programs per year. Based on survey responses through year-end 2019, there are currently 1,019 inclusionary housing programs located in 31 states and the District of Columbia which have created more than 31,000 for-sale units. These programs are an important source of new inventory for shared equity homeownership programs. The survey sought to determine how many programs appear to meet Duty to Serve (DTS) requirements, finding that a subset of just over 300 programs appear to meet the definition established by the DTS rule. This database, the mapping tool, and both a working paper and executive summary report of findings will be useful resources for local governments, researchers, and other stakeholders seeking to utilize inclusionary housing programs to both increase the supply of affordable housing as well as make housing more inclusive by creating mixed income communities. The website for the database and associated mapping tool has already received more than 6,000 views since inception and has been cited or linked to by numerous academic and industry stakeholders.

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

Our ongoing partnership with the Houston Community Land Trust continues to teach us a great deal about the unique challenges and opportunities faced by newly established CLTs. While loan volume and lender participation for the program have increased this year, the CLT has had to be innovative in its efforts to expand its property portfolio. Building off of the initial strategy it developed in the aftermath of Hurricane Harvey, the CLT has now worked with the city to acquire new funding sources that will be used to expand their inventory of properties while also targeting deeper levels of affordability. We have learned a great deal from the innovative approach of this CLT, as well as from our work to identify and equip lenders to serve the program's homebuyers.

In addition, we discovered that the current economic environment poses unique challenges for appraisers in valuing CLT properties. Fannie Mae uses a leasehold value approach to CLT appraisals wherein a leased fee value is subtracted from a property's market value to derive the leasehold value used as the appraised value for a Fannie Mae mortgage loan. The leased fee value requires the appraiser to use a market-derived capitalization rate based upon alternative low-risk investment rates, such as long-term bonds. In light of the extremely low rates for Treasury bonds at present, appraisers have found it difficult to derive an appropriate capitalization rate, and by extension, an acceptable leasehold value. We are utilizing these learnings to evaluate options to assist appraisers with further guidance and training for the valuation of CLT properties.

**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:**

We continue to build strong relationships with industry partners through our outreach and loan product solutions. For example, a CLT partner in northern California approached us in 2019 regarding a proposed strategy to place MH Advantage units on vacant lots it had recently acquired from a local government. Our Selling Guide currently requires that manufactured homes subject to a community land trust be located in a Fannie Mae-approved condo or PUD project in order to be eligible for Fannie Mae financing. This requirement was an obstacle to Fannie Mae financing eligibility for the proposed MH Advantage project. Therefore, in the first two quarters of 2020, we worked to develop a variance to our Selling Guide that would permit Fannie Mae financing on these properties. We are enthusiastic about this opportunity to support shared equity supply growth while simultaneously contributing to manufactured housing development.

Work also continues on the inclusionary housing database that was started in 2018. In the first half of 2020, analysis was initiated of the full data set created in 2018 and 2019 and further enhancements were made to data storage and access for the database. The project is on task and total completion of all deliverables, including a fully functional publicly available database and an accompanying working paper delineating key findings and insights from the project, is expected by year end.

Despite disruptions related to COVID-19, we have continued to successfully conduct outreach to lenders and stakeholders. By shifting to virtual formats, all conference and roundtable participation activities are on track. We are also developing important new business-to-business marketing tools. This includes a new shared equity collateral to acquaint lenders with the various types of shared equity loans and the ways in which they present affordable homeownership opportunities for borrowers. In addition, we have also revised and updated our CLT training curriculum for lenders to equip them with the most recent and relevant information necessary to offer Fannie Mae loans for these properties.

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Our efforts to build relationships with industry stakeholders and acquaint lenders with the shared equity market enable us to support innovative solutions such as the one being undertaken in northern California. These efforts, in combination with our work to simplify shared equity lending for lenders are positioning us well to play a leading role in increasing liquidity to the growing shared equity marketplace.

Following are the 2020 Actions under this Objective:

☐ Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests:

☒ Execute targeted policy changes to increase clarity and reduce obstacles for lenders in the origination of shared equity loans.

☐ 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 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.

**SELF-ASSESSMENT RATING OF PROGRESS:**

☒ On-target to meet or exceed the objective

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☐ Progress delayed and/or partial completion of the objective expected

☐ Unlikely to achieve any milestones of the objective

**ADDITIONAL INFORMATION (IF APPLICABLE):**