

## 2022 Rural Housing Loan Product

**REGULATORY ACTIVITY:**

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

**OBJECTIVE:**

3. Improve access to affordable financing for underserved homebuyers.

**INFEASIBILITY:**

Check here if the Enterprise is submitting an infeasibility request for the objective.

**SUMMARY OF RESULTS:**

Objective's components detailed in the Plan	Corresponding actions taken	Explanation of any deviations from the Plan (if applicable)
<input checked="" type="checkbox"/> Deploy an initiative that will improve access to affordable financing for underserved homebuyers.	The implementation steps that follow, collectively, constitute an initiative to improve access to affordable financing in HNRRs. The common theme of this initiative is to improve awareness of and access to down payment assistance (DPA) resources.	N/A
<input checked="" type="checkbox"/> Assess existing down payment assistance programs available in each of the high-needs rural regions	In conjunction with the development of a single-family DPA reporting tool, Fannie Mae also completed a targeted analysis of recent DPA utilization in the HNRRs. Together, this broader tool and targeted analysis will inform opportunities to promote or expand the use of DPA.	N/A
<input checked="" type="checkbox"/> Leverage research conducted in 2021 to update or clarify the <i>Selling Guide</i> in order to reduce complexity for lenders and improve their familiarity with Fannie Mae's current down payment assistance offerings	Fannie Mae implemented four separate <i>Selling Guide</i> updates to clarify eligible forms of DPA.	N/A
<input checked="" type="checkbox"/> Continue to collaborate with a diverse group of external stakeholders to promote standardization in down payment assistance programs and processes, such as through the development of potential model second lien documents	Fannie Mae is a key stakeholder in HFA Solutions Team (HFAST), an industry-wide working group organized by the National Council of State Housing Agencies (NCSHA) and the Mortgage Bankers Association (MBA), which completed a draft set of program parameters for a Common DPA offering	N/A



	for State HFAs with the goal to create greater efficiencies and standardization in the HFA business, particularly with DPA programs, so that more lenders can help borrowers take advantage of the available funds through these DPA programs.	
<input checked="" type="checkbox"/> Develop and implement an outreach strategy aimed at identifying and selecting an external partner(s) who is well positioned to expand access to down payment assistance in at least one or more of the high-needs rural regions.	With the support of an organization that specializes in DPA data, Fannie Mae launched a DPA search tool at <a href="http://www.knowyouroptions.com">www.knowyouroptions.com</a> , which can be accessed by prospective buyers in HNRRs.	N/A
<input checked="" type="checkbox"/> Define success measures and develop a performance monitoring system to track progress and identify future enhancement or expansion opportunities.	Fannie Mae developed tailored monthly reports to track HNRR usage of the DPA search tool and has outlined plans to monitor performance in 2023.	N/A
<input checked="" type="checkbox"/> Evaluate potential need for a special purpose credit program (SPCP) to improve access to mortgage credit among low- and moderate-income residents living in majority minority communities. Fannie Mae will identify lender partners, target markets and program parameters.	Fannie Mae conducted an analysis of the applicability of its existing SPCCP program parameters in HNRRs and successfully identified target markets and potential lender partners.	N/A

**SELF-ASSESSMENT RATING OF PROGRESS:**

- Target met
- Target exceeded
- Target partially completed
- No milestones achieved

**IMPACT:**

- 50 – Very Large Impact
- 40
- 30 – Meaningful Impact
- 20
- 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?

Fannie Mae updated its *Selling Guide* (SG) in March, May, August, and September 2022 to improve transparency on eligible forms of DPA related to Gifts, Grants, and Community Seconds policy. These changes provided an immediate impact to HNRRs. We learned through prior qualitative research that a down payment can be a barrier to homeownership for some low-to-moderate-income (LMI) consumers in the HNRRs, and these collective efforts to provide more transparency on DPA are intended to help overcome that obstacle.

- The March SG update clarifies eligibility requirements for Community Seconds (CS) transactions by eliminating a restrictive interest rate requirement that applied to CS loans with negative amortization, which furthers access to credit and is also aligned with other secondary market participants.
- The May SG update assists lenders in determining acceptable CS providers, aligning with other secondary market participants.
- The August SG update expands DPA eligibility to permit lender-funded grants and defines the conditions under which these grants are permissible, giving lenders the ability to provide DPA for HomeReady purchase money mortgages (PMMs) and limited cash-out refinance (LCOR) loans.
- The September SG update expands the list of acceptable gift donors, modernizing the policy to allow for non-familial donors and allowing for the electronic transfer of gift funds.

To overcome the barriers of upfront costs to purchasing a home, Fannie Mae has been working with its industry partners to make down payment assistance easier and more efficient for lenders and borrowers to use. Many different DPA programs across the country are offered by a variety of providers – housing finance agencies, municipal governments, non-profits, employers, and others. Each provider has its own set of requirements and processes, making it difficult for lenders to efficiently operationalize these programs, especially for those lenders working with DPA programs across different states. Lack of standardization also increases loan deficiencies.

We have been engaged in a partnership with Freddie Mac to standardize the subordinate second lien documents. We have drafted model legal documents for DPA programs, including the notes, security instruments, and document completion instructions. Since the majority of DPA programs are offered by HFAs, we’re conducting a phased rollout of these documents with HFAs first. In 2022, eight state HFAs (California, Idaho, Massachusetts, Tennessee, Virginia, Illinois, Colorado, and Washington) adopted and implemented the documents as part of the first phase of the program rollout. We began the second phase rollout with eight additional state HFAs (Alabama, Arkansas, Arizona, Connecticut, Iowa, New Mexico, South Dakota, and Texas), with implementation expected in 2023. After the first two phases, the goal is to promote adoption among state and local HFAs, making it easier for lenders to use one standard set of legal documents.

Building on the standardized subordinate lien documents work, the HFAST industry group has been tasked with developing a Common DPA program for the state HFAs that would utilize the standard set of second lien documents. In 2022, HFAST identified 10 critical program features and completed a draft set of DPA program parameters that will be finalized in the first half of 2023 with the plan of rolling out an initial version with a select group of HFAs. The lender value-add of standardization would be improved speed to market, loan manufacturing quality, and reduced loan deficiencies.

Additionally, through a partnership established with Down Payment Resource in 2022, Fannie Mae is now able to provide dynamic information on DPA options to consumers who visit [www.knowyouroptions.com](http://www.knowyouroptions.com). Specifically, a search tool called “Find Down Payment Assistance” can provide any prospective buyer geographically relevant DPA information. Fannie Mae and Down Payment Resource developed a reporting routine that will allow Fannie Mae to observe and track the potential utilization of this tool in HNRRs and compare it to nonrural markets. Ultimately, we will be able to explore the potential link between access to information about DPA and the eventual use of DPA in HNRRs.



To help increase DPA awareness and understanding, we also initiated the development of an interactive consumer eLearning course in late 2022, with a rollout targeted for 2023. The course will be a self-guided with six modules of DPA learning content and will be part of a larger homebuyer consumer curriculum located in our consumer learning portal.

Furthermore, Fannie Mae conducted a significant amount of internal analysis to guide its rural DPA strategy in future years. First, as part of a company-wide effort, we updated the way our reporting systems identify and describe DPA. As soon as this definition became available, we applied it to a large set of recent loans made in HNRRs to understand how and where DPA is being utilized in the current market environment. This analysis, which we will regularly revisit, will serve as the baseline for efforts to promote DPA in HNRRs, like the ones mentioned above. Finally, we worked with data from Desktop Underwriter on loan denials to understand what underwriting factors are limiting lending in HNRRs. Stemming from that analysis, we identified hypothetical product parameters, target markets, and lender partners for a potential SPCP aimed at one or more HNRR. Analysis of a potential SPCP will continue in 2023, but the work done in 2022 is critical for enabling future impact.

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

Through a targeted analysis of recent HNRR transactions, we have gained a more solid understanding of how DPA currently supports this segment of affordable lending. Specifically, there is some variation between the rate at which loans utilize DPA between HNRR geographies, with about 10% of loans in the Lower Mississippi Delta having some form of DPA and about 13% of loans in Persistent Poverty geographies having some form of DPA and other HNRRs falling in between. Initial analysis suggests that DPA use is already more common for loans that qualify for Duty to Serve under the definition of HNRR than for loans that do not.

In early 2023, once similar DPA reports are available for Fannie Mae's broader book of business, we will conduct and compare the statistics between HNRRs, rural areas apart from HNRRs, and nonrural areas to identify similarities and differences.

This data will form the baseline for understanding how DPA has historically supported rural lending and how future efforts to promote DPA options translate to lending. With baselines for each HNRR, we can explore the future impact of both companywide efforts, such as *Selling Guide* updates and industry coordination on standardization, as well as targeted rural efforts, such as a planned 2023 marketing campaign of the DPA search tool on [www.knowyouroptions.com](http://www.knowyouroptions.com).

When we explored a potential strategy for a rural special purpose credit program (SPCP) by analyzing loan denials by geography, we confirmed what we already knew: HNRRs are distinct from one another, denial reasons differ by region, and overcoming challenges may look different depending on the community. For example, when considering a potential SPCP with a DPA component, our analysis of recent loan denials identifies a handful of geographic clusters where more DPA would make a difference in the outcome and result in incremental Fannie Mae loan purchases. The analysis also rules out areas to focus on DPA because denials were largely driven by other reasons. These types of analyses will continue to inform the development of a potential SPCP.

Ultimately, understanding what efforts, if any, drive more lending to underserved borrowers in HNRRs will be important in our future efforts. Qualitative feedback has strongly suggested that more DPA will drive more lending in this underserved market. In 2022 we kicked off several projects that have the potential to expand DPA in HNRRs and gathered the baseline data necessary to track progress and impact in the future.

## **3. Optional: If applicable, why was the Enterprise unable to achieve the Plan target?**

Not Applicable



## Rural Housing Second Quarter Report: April 1 - June 30, 2022 Loan Product

### ACTIVITY:

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

### OBJECTIVE:

3. Improve access to affordable financing for underserved homebuyers.

### SUMMARY OF PROGRESS:

As of the end of Q2 2022, Fannie Mae is on track to meet or exceed all implementation steps under this Objective. Several steps are already complete, though in each such case, Fannie Mae will continue its efforts into the second half of the year.

Fannie Mae data analysts have begun to build a report that examines the amount and nature of down payment assistance (DPA), which will provide data to inform the analysis of DPA in high-needs rural regions. Fannie Mae has published multiple updates to the Selling Guide that pertain to DPA and has more planned in the second half of the year. Engagement with stakeholders committed to DPA programs and processes has been frequent and productive. While it has not been finalized in the first half of the year, Fannie Mae has identified an external partner well-positioned to expand awareness and usage of available DPA programs and has begun developing a monitoring plan to evaluate the success of this partnership. We have begun to explore opportunities for leveraging Special Purpose Credit Programs (SPCPs), generally, as a foundation for our analysis of SPCPs in rural areas, specifically.

### FOLLOWING ARE THE 2022 ACTIONS UNDER THIS OBJECTIVE:

- Deploy an initiative that will improve access to affordable financing for qualified homebuyers in high-needs rural regions.
  - Assess existing down payment assistance programs available in each of the high-needs rural regions.
  - Leverage research conducted in 2021 to update or clarify the Selling Guide in order to reduce complexity for lenders and improve their familiarity with Fannie Mae's current down payment assistance offerings.
  - Continue to collaborate with a diverse group of external stakeholders to promote standardization in down payment assistance programs and processes, such as through the development of potential model second lien documents.
  - Develop and implement an outreach strategy aimed at identifying and selecting an external partner(s) who is well positioned to expand access to down payment assistance in at least one or more of the high-needs rural regions.



- Define success measures and develop a performance monitoring system to track progress and identify future enhancement or expansion opportunities.
- Evaluate potential need for a special purpose credit program (SPCP) to improve access to mortgage credit among low- and moderate-income residents living in majority minority communities. Fannie Mae will identify lender partners, target markets and program parameters.

**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):**

Not applicable