

2022 Rural Housing Outreach

REGULATORY ACTIVITY:

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

OBJECTIVE:

5. Explore feasibility of equity investment to create access to affordable capital.

INFEASIBILITY:

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

SUMMARY OF RESULTS:

| <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> |
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| <input checked="" type="checkbox"/> Explore feasibility of investing in one or more CDFIs to provide improved access to affordable mortgage lending to consumers in high-needs rural regions. | The implementation steps that follow, collectively, constitute completion of this target. | N/A |
| <input checked="" type="checkbox"/> Conduct industry research and engage CDFIs to acquire information. | Fannie Mae engaged with and presented to dozens of CDFIs regarding a potential equity investment but held targeted one-on-one discussions with five CDFI partners serving High Needs Rural Regions (HNRRs) to gather feedback on lending challenges, availability of capital, and where funds can be most effectively deployed to expand access to affordable mortgage lending for their customers. | N/A |
| <input checked="" type="checkbox"/> Perform quantitative and qualitative analysis to inform investment structure and the maximum total investment amount. | Fannie Mae obtained guidance from internal stakeholders to establish preliminary structural requirements (rate of return, key legal conditions, etc.). During engagement, Fannie Mae consulted CDFI partners on market terms for equity capital investments, desired investment amounts, and features (flexibility, EQ2 structure, etc.). | N/A |
| <input checked="" type="checkbox"/> Establish business justification by defining investment objective and determining scope requirements. | Fannie Mae identified potential investment objectives in discussion with each CDFI partner and held preliminary discussions with internal operational | N/A |



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| Examine organizational structure to determine roles and responsibilities. | stakeholders to determine the division of responsibilities. | |
| <input checked="" type="checkbox"/> Pursue legal, regulatory, and other essential guidance from necessary stakeholders. | Fannie Mae pursued and continues to facilitate legal and regulatory conversations regarding charter compliance of an equity investment and other potential hurdles. Preliminary feedback on a potential investment was obtained from internal stakeholders across five enterprise departments (Legal, Finance, Accounting, Operations, and Enterprise Risk Management). | N/A |
| <input checked="" type="checkbox"/> If approved and consistent with our charter, develop an implementation strategy and deploy the investment in years 2 and 3. | | 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?

CDFIs serve a critical role in the economic stability within communities by providing access to affordable financing and other supportive services for individuals who remain underbanked by the mainstream financial system. As reported by Opportunity Finance Network (OFN), member CDFI clients in 2020 were typically low-income or historically disinvested (84%) and were more likely to be people of color (60%). In rural areas that have historically been excluded from capital investment, CDFIs are particularly vital given operations in and accessibility to the community. As a result, they have insight into regionally specific barriers to homeownership that their clients face, and actions that could be taken to promote equitable access. Through its relationships with CDFIs, Fannie Mae identified an opportunity to provide long-term support for these efforts in rural markets through long-term capital investment. Research conducted by the team indicated that appropriately structured capital can empower these organizations, who are experts in the needs of their communities, to serve high-needs rural populations most directly and strategically.

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

To evaluate investment feasibility, Fannie Mae gathered feedback on a potential investment at multiple conferences and events with CDFIs present and conducted market outreach directly with a number of partners from its network, including five CDFIs that operate in HNRRs. These conversations revealed an acute need for low-cost, flexible capital to preserve the affordability in the products offered. Feedback from CDFIs described a robust capital market, with funders including Community Reinvestment Act (CRA)-motivated depositories and government programs (ECIP), and price sensitivity to the required rate of return.

In addition to managing cost, many CDFIs also have operations outside of a defined Duty to Serve (DTS) market that fall within its mission, making the flexibility of capital utilization highly desirable. Some CDFIs may be reluctant to accept funds if they are exclusively tied to the support of a DTS market.

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

Not Applicable