

## 2022 Rural Housing Loan Purchase

**REGULATORY ACTIVITY:**

C. Financing by Small Financial Institutions (SFIs) of rural housing (12 C.F.R. § 1282.35(c) (3)).

**OBJECTIVE:**

1. Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

**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"/> Purchase 4,200 single-family mortgage loans in rural areas from SFIs.	In 2022, Fannie Mae purchased 4,321 loans originated by SFIs that were secured by rural homes. This met our approved modified target.	N/A
<input checked="" type="checkbox"/> Conduct research and outreach focused on understanding and responding to recent shifts within the SFI loan purchase market.	We conducted regular analyses of the SFI loan purchase business to understand how declines were different than or similar to broader mortgage market declines. To understand issues unique to SFI lending, we separately conducted targeted outreach to both SFI originators and SFI aggregators, including convening a virtual Roundtable event, gathering a robust list of potential tactics to increase lending in 2023.	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?**

In 2022, we purchased 4,321 purchase money mortgage single-family loans located in rural geographies and originated by small financial institutions (SFIs). While this met the revised target we set after the market for these loans changed rapidly in late 2021, it represents a significant year-over-year decline of about 26%. Compared with loan deliveries in other segments of Fannie Mae's single-family business, SFIs experienced a more severe decline. (In 2022, Fannie Mae's single-family purchase money mortgage deliveries overall fell 22.6% year-over-year.) Fannie Mae invested significant resources towards understanding the performance of rural SFIs. Our findings are described in more detail under Question 2, below.

Nearly 74% of the 4,321 SFI loans were made to borrowers with incomes at or below 80 percent of the Area Median Income (AMI), similar to the 2021 percentage. Additionally, 28% of the loans had loan balances less than \$100,000 and 60% had loan balances less than \$150,000, which is in line with 2021 percentages. Notably, the rate of first-time homebuyers has steadily increased, from about 58% in 2020 to 60% in 2021 to 63% in 2022.

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

As noted, the home purchase money mortgage market faced headwinds throughout 2022, but Fannie Mae recognized early in the year that something more severe was happening with SFIs. As a result, we launched a combination of targeted analyses and qualitative research.

Regarding quantitative analysis, we observed that the largest single driver of the drop was competition: SFIs were being crowded out for the market by non-SFIs. In other words, rural loans were still being made to low- and moderate-income (LMI) borrowers at about the rate you would expect given the current economic conditions, but the lender making the loans is more likely to be a non-SFI than in the recent past. Qualitative research supported this finding and shed light on others as well. We spoke to both SFI originators and SFI aggregators to understand the issues they were facing and look for potential solutions. Among other things, originators noted competition from large, often primarily digital lenders, and the need for more down payment assistance funds or other means of supporting creditworthy borrowers with limited savings. Aggregators noted that there were challenges to the acquisition of these loans due to the rising rate environment. Both originators and aggregators discussed common themes, including a lack of affordable housing supply and an influx of high-income borrowers entering these markets.

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

Not Applicable



**Fannie Mae  
Rural Housing  
First Quarter Report: January 1 - March 31, 2022  
Loan Purchase**

**ACTIVITY:**

C. Regulatory Activity: Financing by Small Financial Institutions (SFI) of rural housing (12 C.F.R. § 1282.35(c) (3)).

**OBJECTIVE:**

1. Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

**SUMMARY OF RESULTS:**

Through the first quarter of 2022, we have purchased 1,034 single family PMM loans in rural areas from small financial institutions, placing this goal at risk of reaching the committed loan purchase target of 6,073 loans this year. Due to seasonal trends in the Spring and Summer months and anticipated changes to area median incomes that will increase the eligibility of some loans, we expect the year-end total to surpass the prorated total of 4,136 but to remain well short of the baseline of 5,789.

We believe that SFI deliveries are suppressed by the same forces impacting the broader mortgage market, most notably rising interest rates and continuing housing supply challenges. However, we have conducted some quantitative analysis and found that, compared to the broader single-family business, recent declines in the rural SFI market are even more severe. Specifically, using the most recently available data at the time of the analysis, SFI PMM deliveries for December 2021 through February 2022 were 31% lower than the same period one year prior. For comparison, overall Fannie Mae SF PMM volumes declined only 7% over the same time frame.

To address this shortfall, we have conducted significant outreach to lenders delivering rural SFI loans, particularly those who have delivered large volumes in prior years that have shown significant declines in 2022. Overall, the lender feedback has not been actionable, as many have simply noted that originations for these loans have fallen significantly in recent months. Aggregators note that fewer SFIs are delivering conventional loans, in favor of keeping them on their balance sheet or selling to depositories with CRA obligations. We are currently following up with our primary deliverer of rural SFI loans to determine potential opportunities; however, both sides acknowledge that market conditions are not favorable for a significant increase.



**Fannie Mae  
Rural Housing  
First Quarter Report: January 1 - March 31, 2022  
Loan Purchase**

Following are the 2022 Actions under this Objective:

- Purchase 6,037 single-family mortgage loans in rural areas from SFIs, which represents a 5% increase over the baseline.

**SELF-ASSESSMENT RATING OF PROGRESS:**

- On-target to meet or exceed the target
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

**ADDITIONAL INFORMATION (IF APPLICABLE):**



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

### **ACTIVITY:**

C. Regulatory Activity: Financing by Small Financial Institutions (SFIs) of rural housing (12 C.F.R. § 1282.35 (c)(3)).

### **OBJECTIVE:**

1. Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

### **SUMMARY OF PROGRESS:**

Through the end of Q2 2022, Fannie Mae has purchased 2,386 single-family PMM loans in rural areas from Small Financial Institutions (SFIs), which puts us on track to fall short of the target by approximately 21% and baseline by approximately 17%.

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

Purchase 6,037 single-family mortgage loans in rural areas from SFIs, which represents a 5% 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):**

Fannie Mae first identified the shortfall in this market early in 2022 and began analyzing the potential drivers immediately. While single-family PMM loan purchases are lower than recent years' volumes across the entire business, we noted that SFI volumes were lagging more severely and began looking for opportunities to close that gap.

In early Q2, Fannie Mae initiated lender outreach with both originating SFIs and aggregators that have traditionally served as conduits between SFIs and Fannie Mae. Collectively, lenders noted that:

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- Overall volume has declined.
- Conventional homebuyers are struggling to win purchase deals
- More than in the past, some originators are keeping eligible loans on their books due to room on their balance sheets.
- Aggressive pricing from aggregators that do not ultimately deliver to Fannie Mae has become more competitive

We plan to research this further in the remainder of 2022, including convening a roundtable of SFIs to uncover solutions, among several other tactics.



## Rural Housing Third Quarter Report: July 1 - September 30, 2022 Loan Purchase

### ACTIVITY:

C. Regulatory Activity: Financing by Small Financial Institutions (SFIs) of rural housing (12 C.F.R. § 1282.35 (c)(3)).

### OBJECTIVE:

1. Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

### SUMMARY OF PROGRESS:

Through the third quarter of 2022, we have purchased 3,509 single family PMM loans in rural areas from small financial institutions, placing us at extreme risk of failing to meet our loan purchase goal of 6,073 loans this year.

In addition to the outreach and research described in the first quarter narrative, we have continued to gather information from SFIs on the potential drivers of this shortfall and potential remedies. As part of this research, we convened a September roundtable with over a dozen SFI representatives to discuss their perspectives. Currently, we are exploring ways to understand their feedback, including comments more deeply about scarce housing inventory in their communities, affordability pressures driven by higher interest rates, and increased competition from nonlocal lenders.

Following are the 2022 Actions under this Objective:

- Purchase 6,037 single-family mortgage loans in rural areas from SFIs, which represents a 5% 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



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**Rural Housing**

**Third Quarter Report: July 1 - September 30, 2022**

**Loan Purchase**

**ADDITIONAL INFORMATION (IF APPLICABLE):**