

2023 Rural Housing Loan Purchase

ACTIVITY:

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

OBJECTIVE:

2. Acquire single-family purchase money mortgage (PMM) loans in high-needs rural regions.

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>
<input checked="" type="checkbox"/> Purchase 5,400 single-family mortgage loans in high-needs rural regions.	Fannie Mae purchased 6,470 loans secured by properties in high-needs rural regions (HNRRs), surpassing our approved modified target.	

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?

Despite persistent market challenges, including affordability pressures and an elevated interest rate environment, we purchased 6,470 purchase money mortgage (PMM) single-family loans in HNRRs, surpassing the 2023 modified target of 5,400 loans, in 2023.

Loan purchases declined 25% year-over-year, which is slightly smaller than the year-over-year reduction in conventional single-family PMM volume. In 2023, Fannie Mae’s overall Single-Family purchase loan volume dropped 30% year-over-year.

Approximately 67% of the HNRR Duty to Serve loans were made to low- or very low-income homebuyers. Additionally, 22% of the loans had loan balances of less than \$100,000, and 49% had loan balances of less than \$150,000, which were both similar to the



respective shares in 2022. Finally, 56% of the loans were made to first-time homebuyers, which was a similar rate as in recent years.

Though HNRR loan purchase volume performed in line with the broader single-family market despite market-specific headwinds, the resulting loan purchases ultimately served a diverse group of borrowers. Our efforts under this objective in 2023 had significant impact for homebuyers in HNRRs.

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

Lender engagement related to this Objective is captured and described in greater detail under the summary for HNRR Objective 4, which is dedicated to outreach to a variety of participants in these geographic markets. The insights from that work supported and informed actions under this Objective and are summarized at a high level here.

In 2023, we continued to observe a decline in acquisitions of overall single-family conventional PMM loans stemming from reduced market opportunity. Drivers of this reduction include elevated interest rates and the associated “lock-in” effect for existing homeowners, historically high home prices, and limited available housing supply.

In addition to the general market pressures experienced by homebuyers across the country, buyers in HNRRs also faced a host of other challenges specific to rural areas. Communities continue to experience affordable supply challenges as a downstream effect of real estate booms in rural small towns, agricultural areas, and retirement communities during the pandemic. Increased prices have exacerbated the need for homeownership tools such as down payment assistance in rural areas.

Further, the quality of rural housing stock has created additional obstacles for homebuyers to navigate, as these areas may struggle to attract new housing development. As aging properties deteriorate without significant investment in rehabilitation, the supply of move-in-ready homes decreases. The net effect of this decrease is felt by low-income borrowers, in particular, who are less likely to have funds accessible for repairs. Further, demand from investors has reduced incentive for home sellers to provide concessions or make home repairs before listing properties for sale, especially in rural markets that have become resort and retirement destinations. Manufactured housing continues to make up a key portion of the affordable housing supply. However, financing challenges persist due to titling, underwriting limitations, or units that do not meet HUD code.

Among lenders, our outreach revealed several trends in 2023 that contributed to reduced loan purchase opportunities. These included increased competition in underwriting and pricing from other secondary market participants, depositories holding loans on portfolio to obtain Community Reinvestment Act (CRA) credit or for other reasons, and ongoing challenges with rural appraisals.

We will continue to stay informed of these challenges and respond to them as we are able. It should be noted that PMM activity in HNRRs proportionate with overall activity in 2023 is indicative of the resiliency of rural homebuyers when considering the additional roadblocks faced, as well as our steadfast commitment to serving these regions.

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

N/A



Rural Housing First Quarter Report: January 1 - March 31, 2023 Loan Purchase

ACTIVITY:

A. Housing in high-needs rural regions

OBJECTIVE:

2. Acquire single-family purchase money mortgage (PMM) loans in high-needs rural regions.

SUMMARY OF PROGRESS:

Under this Objective, Fannie Mae has a loan purchase target of 8,000 PMM loans and a baseline of 6,526 PMM loans. As of March 31, 2023, Fannie Mae has purchased 1,253 loans eligible for this loan purchase target, representing 15.7 percent progress towards meeting the target and 19.2 percent progress towards meeting the baseline. At this rate, the chance of meeting the target is unlikely, according to internal forecast models. However, the same forecast, which accounts for seasonality and other economic conditions, projects a modest chance of meeting the baseline.

SELF-ASSESSMENT RATING OF PROGRESS:

- On track 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):

Loan purchases under this objective, as well as single-family loan purchases generally, are hampered by challenging economic conditions. The interest rate on a 30-year fixed rate mortgage has more than doubled in the past year from 3 percent to above 6 percent making it increasingly difficult for low- and moderate-income households to afford to purchase a home. Housing supply continues to constrain purchases. The Census Bureau reports that 1,553,300 housing units were started in 2022, 3 percent below the 2021 figure of 1,601,000. Census also reports that privately-owned housing starts in February 2023 are 18.4 percent below the February 2022 level. As a result of increased mortgage rates and limited supply



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existing home sales in 2022 were down 17.8 percent from 2021, as reported by the National Association of Realtors (NAR). And these year-over-year drops have persisted in January and February of 2022, according to NAR.

Furthermore, specific to the HNRR market, several observations shared in the 2022 year-end narrative summaries still hold. For example, for rural markets that have become resort and retirement destinations, houses that are available for sale are often higher-priced homes. More affordable manufactured housing is available for sale in many of these markets, but they carry distinct challenges and limitations. For lenders, homebuyers with low savings and limited funds left over for reserves after down payment and closing costs lead to more scarce lending opportunities.



Rural Housing Second Quarter Report: April 1 - June 30, 2023 Loan Purchase

ACTIVITY:

A. Housing in high-needs rural regions (HNRR)

OBJECTIVE:

2. Acquire single-family purchase money mortgage (PMM) loans in high-needs rural regions.

SUMMARY OF PROGRESS:

The baseline for this Objective is 6,526 loans and the target is 7,900 loans. As of June 30, 2023, Fannie Mae has purchased 3,194 loans. Based on projections that account for expected market conditions over the remainder of the year, we anticipate purchasing more loans than the baseline but fewer loans than the target by the end of 2023.

SELF-ASSESSMENT RATING OF PROGRESS:

- Off track 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):

In the first six months of 2023 we purchased 3,194 loans, as compared to 5,029 loans purchased in the first six months of 2022. This is a 36 percent year-over-year decline that is reflective of a dramatic shift in both the high-needs rural housing market and in the broader macroeconomy.

For context, when comparing Fannie Mae's overall Single-Family loan purchases over a comparable time period, PMM loan purchases declined by 39 percent. In other words, based on the broader market trends, one might expect a slightly larger year-over-year reduction in HNRR volume than we saw in the first half of 2023. Specific drivers for this decline include affordability pressures affecting the broader housing market, such as higher interest rates and the associated "lock-in" effect for existing homeowners, historically high home prices, and limited available housing supply. Additional factors specific to this underserved market, as



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identified by our targeted market research, include competitive pressures in underwriting and pricing from other secondary market participants and CRA-incented depositories, and ongoing challenges with rural appraisals.



Rural Housing Third Quarter Report: July 1 - September 30, 2023 Loan Purchase

ACTIVITY:

A. Housing in high-needs rural regions

OBJECTIVE:

2. Acquire single-family purchase money mortgage (PMM) loans in high-needs rural regions.

SUMMARY OF PROGRESS:

Through September 30, 2023, Fannie Mae has purchased 4,926 purchase money mortgage loans under this Objective. Assuming Q4 loan purchases are proportional to this year-to-date total, Fannie Mae would purchase a projected 6,561 loans. This total would fall short of the target of 7,900 loans but narrowly surpass the baseline of 6,526 loans.

SELF-ASSESSMENT RATING OF PROGRESS:

- On track 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):

Year-to-date loan purchases under this objective are 33 percent lower than they were in 2022. This is roughly the same size drop when comparing Fannie Mae's overall single-family conventional PMM volumes from the first three quarters of 2023 to the first three quarters of 2022, which also dropped 33 percent year-over-year.

Drivers for this general reduction in loan purchase opportunities include high interest rates and the associated “lock-in” effect for existing homeowners, historically high home prices, and limited available housing supply.

Additionally, there are several factors specific to this underserved market, as identified by our targeted lender outreach, including: 1) competitive pressures in underwriting and pricing from other secondary market participants; 2) Community Reinvestment Act (CRA) incented



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depositories holding loans on portfolio to obtain CRA credit; 3) correspondent lenders that are depositories holding loans on portfolio; and 4) ongoing challenges with rural appraisals.