Fannie Mae

2023
Rural Housing
Loan Purchase

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.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Purchase 2,200 single-family mortgage loans in rural areas from SFIs.	In 2023, Fannie Mae purchased 2,885 loans originated by small financial institutions (SFIs) that were secured by rural homes. This met 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?

In 2023, we purchased 2,885 purchase money mortgage single-family loans located in rural geographies and originated by SFIs. While this met the revised target (which was based on continued market challenges that began in late 2021), it represents a significant year-over-year decline of approximately 33%. The impact on this market was slightly more pronounced than other segments of Fannie Mae's Single-Family business. In 2023, Fannie Mae's single-family purchase money mortgage deliveries overall fell by 30% year-over-year. In addition to broader market headwinds for single-family purchase money mortgages, shifts in the competitive landscape for rural SFIs contributed to the downward pressure on loan acquisition volume under this objective.

About 74% of the 2,885 SFI loans were made to borrowers with incomes at or below 80% of the Area Median Income (AMI), similar to the 2022 percentage. Additionally, 26% of the loans had loan balances less than $100,000, and 59% had loan balances less than $150,000, which is in line with 2022 percentages. Notably, the rate of first-time homebuyers has steadily increased, from about 58% in 2020 to 60% in 2021, to 63% in 2022, and to 66% in 2023

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

In 2023, we continued to observe diverging levels of market opportunity between the portion of single-family purchase money mortgages originated by non-SFIs and the portion originated by SFIs. Opportunities to acquire loans from rural SFIs declined at a rate that was indicative of systemic market challenges, and targeted analysis completed in 2022 revealed the primary driver to be emerging trends in competition where SFIs were being crowded out of the market by non-SFIs. While loans were still being made to low- and moderate-income (LMI) borrowers in rural areas at the rate expected given economic conditions, the lender making the loans in each case is more likely to be a non-SFI than in recent years. This development was confirmed by both SFI originators and SFI aggregators during outreach.

Market considerations for rural SFIs include the price sensitivity of current homebuyers, as borrowing costs and housing costs have risen, leading to fewer loans made to customers on the basis of their existing relationship alone. Originators have expressed that access to tools such as down payment assistance funds could greatly improve the ability of SFIs to support creditworthy borrowers with limited savings. Technology also represents another competitive differentiator that SFIs are encountering in the market, with large, primarily digital lenders expanding into rural areas as non-SFI players.

We continue to monitor the rural SFI market closely and evaluate feedback from originators and aggregators on how SFIs can best be supported given the current challenging market conditions.

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

N/A

Fannie Mae

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

ACTIVITY:

C. Financing by Small Financial Institutions (SFIs) of rural housing

OBJECTIVE:

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

SUMMARY OF PROGRESS:

Under this Objective, Fannie Mae has a loan purchase target of 6,037 PMM loans and a baseline of 5,749 PMM loans. As of March 31, 2023, Fannie Mae has purchased 482 loans eligible for this loan purchase target, representing 8.0 percent progress towards meeting the target and 8.4 percent progress towards meeting the baseline. At this rate, the chances of meeting either the target or the baseline are unlikely.

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 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 SFI market, several observations shared in the 2022 year-end narrative summaries still hold. For example, we observed that the largest single driver of the recent drop in volume 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. Continued on actual narrative.

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

ACTIVITY:

C. Financing by Small Financial Institutions (SFIs) of rural housing

OBJECTIVE:

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

SUMMARY OF PROGRESS:

The baseline for this Objective is 5,749 loans and the target is 6,339 loans. As of June 30, 2023, Fannie Mae has purchased 1,098 loans. Based on projections that account for expected market condition over the remainder of the year, we anticipate purchasing fewer loans than the target or the baseline in 2023.

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):

In the first six months of 2023, we purchased 1,098 loans as compared to 2,387 loans purchased in the first six months of 2022. This is a 54 percent year-over-year decline, and it is reflective of a dramatic shift in both the rural SFI 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. The reduction in SFI loan purchases was even more severe than in the broader housing market. Specific factors driving SFI loan purchase volumes include those 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 identified by our targeted market research, include increased competition from larger depositories and non-depositories for SFI loans, SFI originators holding loans in portfolio, and competitive pricing from other secondary market participants.

Fannie Mae

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

ACTIVITY:

C. Financing by Small Financial Institutions (SFIs) of rural housing

OBJECTIVE:

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

SUMMARY OF PROGRESS:

Through September 30, 2023, Fannie Mae has purchased 2,234 PMM loans under this Objective. Assuming Q4 loan purchases are proportional to this year-to-date total, Fannie Mae would purchase a projected 2,981 loans. This total would fall short of the target of 6,339 loans as well as the baseline of 5,749 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 36 percent lower than they were in 2022. This is a slightly larger 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 dropped 33 percent year-over-year.

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

They also include several factors specific to this underserved market, as identified by our targeted lender outreach, including increased competition from larger depositories and non-depositories for SFI loans , SFI originators holding loans on portfolio, competitive pricing from other secondary market participants, and the emergence of a business model whereby customers of SFIs do not technically meet Duty to Serve eligibility because the loans are funded by larger non-SFI aggregators. Moreover, additional market research suggests that some SFIs seeking to originate loans in rural areas can be limited by technology that is less nimble than that of larger competitors. Finally, some SFIs have reported that, as borrowing costs and housing costs have risen, their customers have become more price sensitive, leading to fewer loans made to customers on the basis of their existing relationship.