Fannie Mae
Affordable Housing Preservation
Outreach

ACTIVITY:

K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C. F.R. § 1282.34 (d) (7)).

OBJECTIVE:

1. Increase affordable capital through industry outreach and developing loan financing solutions (Analyze, Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

Fannie Mae successfully executed an outreach strategy focused on 1) increasing awareness of resources and financing and 2) breaking down barriers to capital for homeowners and nonprofits.

We developed a robust marketing campaign to increase awareness of our mortgage lending solutions that support this market, highlighting HomeStyle® Renovation (HSR). We developed training and presentation materials and enhanced our websites with new materials for reference, download, and distribution. We engaged lenders, realtor associations and agents, nonprofits, and other organizations who sell or buy distressed properties and guide homeowners in financing. We held a conference for over 300 of our vendors supporting the distressed property market, including agents and repair contractors, and were able to showcase our mortgage options and resources. We extended outreach to listing agents and loan officers by co-hosting four in-person training sessions and highlighting mortgage solutions in our listing agent newsletter. A training video was distributed to over 1,300 public entities and nonprofits that were purchasers of our Real Estate Owned (REO) properties.

We facilitated a roundtable with nonprofit developers, lenders and community stakeholders to improve our understanding of challenges and opportunities in the market. We leveraged the feedback from this session and various partner meetings throughout the year to make policy changes and pilot new concepts to expand the opportunity for purchase and rehabilitation of distressed properties.

We introduced the Housing Finance Agency (HFA) HomePath® program, partnering with state Housing Finance Agencies (HFAs) to provide low- to moderate-income (LMI) borrowers closing cost assistance toward purchase of Fannie Mae distressed property when using our conventional loan product.

We updated the HSR product policy to expand its use for rehabilitating distressed properties, including increased limit on eligible renovation funds, increased loan-to-value ratios to 97 percent and inclusion of manufactured housing.

We ramped up efforts to repair Fannie Mae REO properties before sale, investing more dollars, and using higher quality and more energy efficient products.

We launched a limited urban revitalization pilot program that provides an exception to our Community Seconds standard of 105 percent Combined Loan o Value (CLTV) up to 125 percent for the cities of Cleveland, Baltimore and Detroit and their nonprofit partners. This increase will work to address the appraisal gap - the difference between appraised value and financial investment - to renovate the distressed housing unit.

While we determined direct investment and bulk portfolio loan purchase were not feasible this year, we were still able to provide the liquidity directly to nonprofit developers. We launched a pilot program that will allow them to use our HSR product directly to purchase and rehabilitate properties for LMI families.

Following are the 2018 Actions under this Objective as published in the December 14, 2018 Duty to Serve Plan:

☒ Demonstrate industry leadership by:

> ☒ Participating in two key conferences or seminars as a means to develop and maintain engagement and build strategic partnerships with key industry stakeholders such as non-profit developers, housing counselors,

community groups, CDFI, and renovation contractors; stay abreast of best practices and successful strategies; inform product activities; and communicate the "Duty to Serve" message.

☒ Facilitating one housing roundtable with cross-functional industry representation, as noted above, to discuss, analyze, and solve for the challenges facing financing distressed properties and to solicit input as Fannie Mae implements the activities outlined in the Plan.

☒ Establish a business-to-business marketing and outreach campaign that includes the availability of educational materials and lender webinars or presentations about financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products for the purpose of helping the market to understand availability, terms and conditions, and opportunities so that borrowers and lenders will be able and willing to use and originate them. Target engagement with 15 lenders and five other stakeholders including REO agents, HFA and realtor associations. Fannie Mae has chosen to target the five largest lenders of our mortgage loan deliveries in 2016 as well as 10 other lenders who represent geographical diversity. Fannie Mae will also work with two HFA, two large non-profit organizations who reach potential homeowners, REO vendor agents, and the nation's largest association of realtors. Twenty relationships will be a significant commitment of time and will provide learnings on how to expand engagement in following years.

☒ Establish a consumer outreach program plan to increase awareness and access to financing that includes education and resources about home purchase and renovation, an update to HomePath®, and a catalog of organizations and programs throughout the United States that provide assistance to consumers with purchase or rehabilitation of distressed properties. Target engagement with 10 organizations that represent a cross-section of size, geography, and type of assistance. Ten such relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.

☒ Evaluate opportunities to establish partnerships with State and other programs that can combine subsidies and assistance, together with Fannie Mae mortgage loan products, for the purpose of purchase or rehabilitation of distressed properties. Target engagement with five such organizations. Fannie Mae has relationships already with programs that provide subsidies to homeowners, but not for the specific purpose of purchase or rehabilitation.

☒ Increase awareness among public entities and non-profits that purchase Fannie Mae-owned distressed properties for the purpose of serving the target markets; develop a targeted list identifying past and potential purchasers and develop and execute a training and outreach plan.

☒ Evaluate opportunities to (1) purchase bulk mortgage loan purchases from and (2) make investments in institutions or ventures, subject to compliance with Fannie Mae's Charter Act and receipt of FHFA approval, that support the financing of the purchase or rehabilitation of distressed properties. Target engagement with five non-profit, tribal, and/or government-related organizations, and three CDFI. Fannie Mae has previously purchased mortgages in bulk and has relationships with organizations that would use investment dollars towards enhancing their ability to purchase and rehabilitate distressed properties for the target market. Engaging a total of eight organizations representing different sizes and geographic diversity, will provide us sufficient input for the evaluation exercise.

☒ Review credit and/or collateral policy identifying opportunities to simplify and overcome challenges with Fannie Mae's mortgage loan products, such as HomeStyle Renovation, for the purpose of increasing mortgage loan purchases. Specific barriers and challenges that will be reviewed include LTV limits, non-individual borrower underwriting, and small balance loans. Fannie Mae will:

☒ Establish a test and learn approach issuing one negotiated variance to select lender(s). Fannie Mae will determine test objectives and proposed terms based on stakeholder input, conduct related economic and operational impact analyses and issue one lender variance.

☒ One or more participating lenders will be chosen based on level of interest, capacity, potential volume of loan delivery, and market focus.

☒ The variance outcome will be evaluated in 2019 and success will be based on actual volume of loan delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented.

☒ If feasible and depending on review, learnings, and analysis, publish one policy update.

☒ Enhance efforts and investment in creating opportunities to increase interest in distressed properties by potential owner occupant purchasers who have a preference for distressed properties that have been fully rehabilitated and look for opportunities to reduce the burden of ongoing housing costs. Actions will include enhancing processes to maximize the percentage of repaired properties sold to owner occupant purchasers; partnering with home improvement providers to utilize products and materials that are energy efficient and/or of high quality; and increasing efforts to educate real estate agents, lenders, and purchasers on opportunities to leverage Fannie Mae mortgage products on distressed properties.

SELF-ASSESSMENT RATING OF PROGRESS:

☒ Objective met
☐ Objective exceeded
☐ Objective partially completed: 75-99% (substantial amount)
☐ Objective partially completed: 50-74% (limited amount)
☐ Objective partially completed: 25-49% (minimal amount)
☐ Objective partially completed: 0-24% (less than a minimal amount)

PARTIAL CREDIT JUSTIFICATION:

N/A

IMPACT:

☐ 50-Substantial 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 laying the foundation for future impact in addressing underserved market needs?

   The activities accomplished directly addressed market challenges and laid a foundation for future impact. This year we focused on addressing limited awareness, investor advantage, and financing for nonprofits. Our robust outreach and engagement, and relationships built and strengthened, also provided important input to our product development, policy and other efforts in 2018 and beyond.

   Materials developed, along with direct engagement, added clarity for lenders and real estate agents about how we support this market and how homebuyers can use Fannie Mae financing to purchase and rehabilitate distressed properties; our four targeted sessions alone reached over 400 agents. We found many who sell or dispose of distressed properties were not aware we have such mortgage options. Outreach and product efforts helped bring more lenders to use our HSR product. In 2018, 18 of our lenders who financed distressed properties for LMI borrowers began using it, compared to 13 new lenders in 2017 when overall volume was higher.

   Investors buying with cash often have the advantage in purchasing and rehabilitating distressed properties and we initiated changes directed at serving owner-occupants and mission-driven developers. The updates to HSR increased flexibilities for lenders and borrowers and further aligned with HomeReady® so that more LMI owner-occupants can access affordable financing. The new HFA HomePath program provides closing cost assistance to increase purchase ability.

Fannie Mae's REO repair strategy also directly impacted access to distressed properties. We increased our investment in property repair by about $8,000 per property. Since July 2018 we installed more than 650 smart thermostats in our REO properties and anticipate at least doubling that in 2019, helping nearly 2,000 new homeowners immediately save on monthly housing costs, which further helps to preserve affordable housing. We also installed new, energy efficient HVAC systems in 1,573 homes, improving energy efficiency and air quality within the home.

We began solving for nonprofit financing needs to help increase their ability to get LMI families in to rehabilitated distressed properties. The pilot we developed lays the foundation for lenders to offer conventional mortgage terms to these organizations and will provide learnings on how to meet nonprofit financing needs. The high CLTV pilot also lays foundation for future impact as it not only allows organizations to fully rehabilitate housing units and reinvest sale proceeds into future projects, but also provides liquidity to enable HomeReady-eligible borrowers to purchase newly-rehabilitated homes, increasing affordable options. This liquidity and the activities it will support are intended to not only add housing supply units to these markets, but also potentially increase home values and overall economic activity in targeted neighborhoods.

2. (Optional): How do actions under this objective support future actions detailed in the Plan for the underserved market? If there have been any changes in the planned next steps or timeline for work under or related to this objective, describe the changes and provide a brief explanation.

   Outreach efforts provided important input towards improving our understanding of the challenges and opportunities for purchasing, rehabilitating and financing properties that will allow us to evaluate future product and policy updates, test concepts, and refine the tactics within our initiatives. Assessing the learnings and making appropriate adjustments and expansions from our test-and-learn initiatives is a key upcoming focus as we have launched two pilots that should be impactful. Our Duty to Serve Plan (our Plan), also calls for us to begin to analyze trends such as appraisals for distressed properties and valuation data from the high CLTV pilot should provide findings to support that analysis.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.

   Identified in our Plan as a challenge, decreasing supply and shifting downward forecasts continue to adversely impact our efforts in this underserved market. While we have made an important impact on many, significant traction will be difficult as some lenders hesitate to increase their own efforts to serve potential homeowners because of less opportunity and are less willing to respond to our outreach. We also have fewer REO properties to repair and offer as affordable housing units. Finally, there is a shrinking source of subsidy dollars for nonprofit developers to buy and rehabilitate distressed properties.

4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

   We expect an increased use of our mortgage financing products (relative to the market), which should lead to future loan purchases, as a result of our 2018 accomplishments, including increasing awareness among lenders, real estate agents, nonprofits and others who work with potential homebuyers who may purchase or rehabilitate a distressed property. The pilots introduced in 2018 provided opportunities to reach additional borrowers and properties in this market, and should also increase future loan purchases.

Fannie Mae
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Second Quarter Report: January 1 - June 30, 2018
Outreach

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OBJECTIVE:

1. Increase affordable capital through industry outreach and developing loan financing solutions (Analyze, Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

Fannie Mae has taken active leadership roles in industry outreach.

- In May we facilitated a roundtable with nonprofit developers, lenders, and community stakeholders where the discussion focused on the challenges and opportunities in financing distressed properties.
- In June Fannie Mae held a conference for over 300 of our vendors who support the distressed property market. This event, which Fannie Mae has not held in the past 10 years, included opportunities for real estate agents and others to learn about our financing options, such as HomeReady® and HomeStyle® Renovation, which borrowers can use to purchase and rehabilitate distressed properties.
- We also attended and engaged various participants at a major conference hosted by the Center for Community Progress which focused on transforming vacant properties into assets for communities.

We developed and began to execute an outreach and training plan to reach public entities and nonprofits which purchase Fannie Mae-owned distressed properties for the purpose of serving the target markets. A training video was created and the link distributed to over 1,300 past purchasers. The resources highlighted include how to acquire distressed assets through various channels as well as an overview of our dedicated REO Sales team and other contacts who work with these transactions.

After evaluating feedback from our customers as well as industry stakeholders, we made policy changes to the HomeStyle Renovation mortgage product, which include added flexibilities and the removal of certain requirements to increase its use for the rehabilitation of distressed properties. Changes allow for increased financing limits, the increase of allowable loan-to-value ratios to align with HomeReady, and the inclusion of manufactured housing.

We evaluated opportunities for bulk mortgage loan purchases from non-profits which purchase a small portfolio of REO to renovate and sell. To increase access to capital for nonprofits who need financing for the purchase and renovation of distressed properties that will serve the target market, we are developing a variance to allow mortgage financing in the name of the organization rather than the individual who leads the non-profit.

We are actively executing a distressed property business-to-business marketing campaign through meetings and presentations to lenders and other stakeholders to help them better understand availability, terms and conditions, and opportunities offered by Fannie Mae financing.

Following are the 2018 Actions under this Objective:

- ☐ Demonstrate industry leadership by:
  - ☒ Participating in two key conferences or seminars as a means to develop and maintain engagement and build strategic partnerships with key industry stakeholders such as non-profit developers, housing counselors,

community groups, CDFI, and renovation contractors; stay abreast of best practices and successful strategies; inform product activities; and communicate the "Duty to Serve" message – by Q3 end.

- [x] Facilitating one housing roundtable with cross-functional industry representation, as noted above, to discuss, analyze, and solve for the challenges facing financing distressed properties and to solicit input as Fannie Mae implements the activities outlined in the Plan – by Q3 end.

- [ ] Establish a business-to-business marketing and outreach campaign that includes the availability of educational materials and lender webinars about financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products for the purpose of helping the market to understand availability, terms and conditions, and opportunities so that borrowers and lenders will be able and willing to use and originate them. Target engagement with 15 lenders and five other stakeholders including HFA and realtor associations – by Q4 end. Fannie Mae has chosen to target the five largest lenders of our mortgage loan deliveries in 2016 as well as 10 other lenders who represent geographical diversity. Fannie Mae will also work with the HFA in two of the top five most populated States, two of the largest non-profit organizations who counsel homeowners, and the nation's largest association of realtors. Twenty relationships will be a significant commitment of time and will provide learnings on how to expand engagement in following years.

- [ ] Establish a consumer outreach program to increase awareness and access to financing that includes education and resources about home purchase and renovation, an update to HomePath®, and a catalog of organizations and programs throughout the United States that provide assistance to consumers with purchase or rehabilitation of distressed properties. Target engagement with 10 organizations that represent a cross-section of size, geography, and type of assistance – by Q4 end. Ten such relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.

- [ ] Evaluate opportunities to establish partnerships with State and other programs that can combine subsidies and assistance, together with Fannie Mae mortgage loan products, for the purpose of purchase or rehabilitation of distressed properties. Target engagement with five such organizations – by Q4 end. Fannie Mae has relationships already with programs that provide subsidies to homeowners, but not for the specific purpose of purchase or rehabilitation.

- [x] Increase awareness among public entities and non-profits that purchase Fannie Mae-owned distressed properties for the purpose of serving the target markets; develop a targeted list identifying past and potential purchasers and develop and execute a training and outreach plan – by Q2 end.

- [ ] Evaluate opportunities to (1) purchase bulk mortgage loan purchases from and (2) make investments in institutions or ventures, subject to compliance with Fannie Mae's Charter Act and receipt of FHFA approval, that support the financing of the purchase or rehabilitation of distressed properties. Target engagement with five non-profit, tribal, and/or government-related organizations, and three CDFI – by Q3 end. Fannie Mae has previously purchased mortgages in bulk and has relationships with organizations that would use investment dollars towards enhancing their ability to purchase and rehabilitate distressed properties for the target market. Engaging a total of eight organizations representing different sizes and geographic diversity, will provide us sufficient input for the evaluation exercise.

- [ ] Review credit and/or collateral policy identifying opportunities to simplify and overcome challenges with Fannie Mae's mortgage loan products, such as HomeStyle Renovation, for the purpose of increasing mortgage loan purchases. Specific barriers and challenges that will be reviewed include LTV limits, non-individual borrower underwriting, and small balance loans. Fannie Mae will:
  - [ ] Establish a test and learn approach issuing one negotiated variance to select lender(s). Fannie Mae will determine test objectives and proposed terms – by Q2 end – based on stakeholder input, conduct related economic and operational impact analyses – by Q3 end - and issue one lender variance – by Q4 end.
    - [ ] One or more participating lenders will be chosen based on level of interest, capacity, potential volume of loan delivery, and market focus.
    - [ ] The variance outcome will be evaluated in 2019 and success will be based on actual volume of loan delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented.

- [x] If feasible and depending on review, learnings, and analysis, publish one policy update by Q4 end.

- [ ] Enhance the relationship with a national home improvement company and test a renovation partnership program for the purpose of improving homeowners' access to products and services for rehabilitating distressed properties – by Q2 end.

SELF-ASSESSMENT RATING OF PROGRESS:

- [x] 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):