Fannie Mae

Fannie Mae
Affordable Housing Preservation
Loan Product

ACTIVITY:

I. Regulatory Activity: Shared equity programs for affordable housing preservation (12 C.F.R. § 1282.34 (d) (4)).

OBJECTIVE:

1. Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).

SUMMARY OF RESULTS:

Our current shared equity offerings include loans supporting community land trusts (CLTs) and inclusionary housing programs, which we identify as the combination of deed restrictions with Community Seconds®. As we do not have guidelines or operational processes, nor do lenders, to identify and track loans that meet shared equity criteria set forth in the Rule (the Criteria), we focused loan product development efforts on analyzing loan delivery data and establishing methodologies to inform future policies and procedures in order to report eligible loan purchases.

First, we assessed lenders' capacity to identify and report Criteria. During outreach engagements, we discussed with lenders representing a variety of size, geography, and program focus how they review and capture data about shared equity programs during loan underwriting and delivery. We learned they had no set process and we educated them of the types of documents and sections within where Criteria could be found.

We established a test-and-learn initiative with several lenders, based on loan delivery history, to help them identify Criteria and delivery procedures. Of 101 loans from these lenders they identified 72, or 71 percent, as meeting the Criteria and which we could count as Duty to Serve (DTS) - eligible purchases. The remainder were not eligible (e.g., a policy for homeowner counseling before refinancing was not identified) or inconclusive (e.g., lender could not confirm a CLT loan met eligibility). Of the overall 206 potential shared equity loans purchased in 2018, 105 were not part of this review. Three were in a program reviewed with confirmed characteristics, bringing to 75 the number of DTS-eligible loan purchases. The remaining loans were not verified.

We also explored how operations personnel or third parties could review relevant documents to identify and report Criteria. We performed an exploratory review of over 50 loans (not part of the lender initiative) by using property-level real estate information available through public online sources. These included both CLT and deed restricted properties. Based on loan documents and data reviewed we concluded 73 percent would meet the Criteria, consistent with the estimated 75 percent per our proxy Baseline methodology and with lender findings. We did not submit these loans for DTS credit because the analysis was exploratory and not performed with 100 percent confidence.

We also researched due diligence firms and electronic methodologies to review loan files and public records. We considered third-party certifications or self-reporting from programs upon which we and lenders could rely as being pre-reviewed to meet the Criteria. We requested the inclusion of questions about the Criteria in the survey that will build the inclusionary housing database. We also worked with The Florida Housing Coalition to review CLTs for DTS eligibility.

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

☒ Evaluate how to establish methodologies for tracking shared equity loans that meet FHFA’s criteria of 30-year affordability, preemptive options to purchase, and limit of proceeds at resale, in order to report accurately loan product deliveries and to refine Baselines for subsequent years. Engage five Fannie Mae lenders who deliver shared equity loans in order to understand how they review and capture these features.

☐ Purchase between 250 and 300 shared equity loans that meet the FHFA criteria for shared equity loan purchases. Fannie Mae established a proxy Baseline, described below, for loan purchases in 2019 and beyond because operational processes will not be in place during 2018 to be able to track loans that meet the FHFA criteria for shared equity. The targets set for 2018 are based on outreach efforts planned to test methodologies that will enable us to assess them.

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:

Although Fannie Mae was not able to purchase 250 qualifying loans, we made substantial progress and impact in evaluating how to identify and track FHFA's criteria of 30-year affordability, preemptive options to purchase, and limit of proceeds at resale, in order to report accurately future loan product deliveries. We engaged many lenders who deliver shared equity loans in order to understand how they review and capture these features, tested several methodologies, and worked with industry organizations on long-term solutions. As a result of Fannie Mae's efforts, the new inclusionary housing database being developed (described in our Outreach Objective) will include fields to identify each element of the criteria; the Florida Housing Coalition has established a review of community land trusts to include identification of the criteria; and the nation's largest organization serving shared equity programs and stakeholders has identified opportunities for model documents and practices that can ensure more shared equity loans will qualify for Duty to Serve credit.

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?

   Fannie Mae's Actions under this Objective reflected a significant effort above what was initially anticipated. and illustrated a successful accomplishment to make significant gains over a short period of time and take measures designed to assure continued growth in the future. Additional details are indicated below.

   We directly addressed a foundational challenge in shared equity financing, which is how to identify program features and loan products that meet the Criteria. Our efforts made an immediate impact by helping lenders, as well as ourselves and the industry, understand how to identify such information so they will be able to focus efforts on producing loans from programs that are sustainable for homeowners and preserve long-term affordability.

   We also laid a solid foundation for future impact as we need to report accurately loan product deliveries and develop a Baseline not driven by proxy estimations. Through our initiative working with lenders we learned what might be feasible to rely upon from lender review and what we might need to further outsource.

Work described in our Outreach Objective summary also contributed to laying an important foundation for establishing standards. The inclusionary housing database fields that we recommended to be included will show whether the program meets each element of the Criteria and should contribute to a methodology and way we can rely upon identifying eligible loan purchases. The Florida Housing Coalition's CLT program review helps us assess a proof of concept for a third-party review and how such an approach can work on a broader scale to help identify eligible loans.

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.

   The learnings from our research and tests in 2018 for identifying and tracking loans financing shared equity homeownership will inform how Fannie Mae approaches shared equity loan review in 2019. They showed required information is not widely and readily accessible and have led us to consider employing more than one approach as we continue to assess a long-term methodology. Although we initially developed our Plan with consideration to leveraging the Uniform Loan Delivery (ULD) dataset in the future, our learnings about lenders' limited ability to identify required elements for the Criteria means we may take another path. We may still evaluate the ULD as an option because any update would take several years from conception to implementation, providing time to switch course if necessary.

   With the expected delivery of the inclusionary housing database in 2020, we will work over the next two years on how our lenders and the industry can leverage its information to be able to identify programs where loans will meet the Criteria and count as eligible loan purchases.

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

   Several market factors adversely impacted our ability to increase loan purchases over the proxy Baseline including market share shifts and economics. Although we saw an increase in the number of lenders who began selling us shared equity loans in 2018, as described in our Outreach Objective summary, we also saw a significant volume drop from several large ones who previously were active. Because the shared equity market is very small, the impact of one or two lenders can make a significant adverse impact.

   The long-term ability for to increase future loan purchases is also impacted by other market conditions. The shared equity market is shaped and driven by local public sector and nonprofit stakeholders. Primary mortgage lenders have very limited ability to shape and influence the marketplace (in contrast to typical purchase, refinance and renovation products where lenders drive). Furthermore, lenders have minimal resources and expertise to evaluate programs to determine whether they meet criteria for delivery to secondary market. The proliferation of programs and inconsistencies between them are a barrier to participation. And many program requirements do not meet the required Criteria. Finally, as the economics of the mortgage industry increasingly rely on servicing revenue (versus originations), servicers may avoid products with atypical servicing requirements.

   Finally, another finding from lenders' review of CLTs is that one of the two Grounded Solutions Network model ground leases we permit to be used does not meet all elements in the Criteria. Fannie Mae is evaluating options for encouraging CLTs to transition toward the more recent model ground lease created by Grounded Solutions Network, which meets the Criteria.

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

   Being able to identify, track and report the elements required for a DTS-eligible loan will enable us to focus marketing and other loan acquisition activities on programs that support the Criteria, which should lead to increased loan purchases.

ACTIVITY:

I. Regulatory Activity: Shared equity programs for affordable housing preservation (12 C.F.R. § 1282.34 (d) (4)).

OBJECTIVE:

1. Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).

SUMMARY OF RESULTS:

Following are the 2018 Actions under this Objective:

☐ Purchase between 250 and 300 shared equity loans, representing a 20 to 44 percent 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
Affordable Housing Preservation
Second Quarter Report: January 1 - June 30, 2018
Loan Purchase

ACTIVITY:

I. Regulatory Activity: Shared equity programs for affordable housing preservation (12 C.F.R. § 1282.34 (d) (4)).

OBJECTIVE:

1. Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).

SUMMARY OF RESULTS:

We are continuing our progress towards increasing shared equity loan purchases. Through June 30, 2018, we have purchased 99 loans. However, because we have not yet established methodologies to track the criteria required by the Duty to Serve Rule, we do not know if all will be included in the final loan purchases.

To help limit the current projected shortfall of our loan purchase target of 250 we are in the process of developing and executing a robust outreach strategy and assessing ways to track required criteria.

Following are the 2018 Actions under this Objective:

- ☐ Purchase between 250 and 300 shared equity loans, representing a 20 to 44 percent 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):

We are currently off track on our loan purchase target of 250 shared equity loans. We are currently working on an outreach and pricing strategy which we hope will drive up loan volume.

Fannie Mae
Affordable Housing Preservation
Third Quarter Report: January 1 - September 30, 2018
Loan Purchase

ACTIVITY:

I. Regulatory Activity: Shared equity programs for affordable housing preservation (12 C.F.R. § 1282.34 (d) (4))

OBJECTIVE:

1. Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).

SUMMARY OF RESULTS:

We have purchased 117 shared equity loans, placing us off track to reach our purchase goal of 250 loans this year.

Currently, we do not have a method to track the criteria required by the Duty to Serve rule. Until a tracking method is established, the total number of shared equity loans noted above is tentative.

Following are the 2018 Actions under this Objective:

- ☐ Purchase between 250 and 300 shared equity loans, representing a 20 to 44 percent 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):