Fannie Mae
Affordable Housing Preservation
Outreach

ACTIVITY:

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

OBJECTIVE:

2. Increase liquidity for shared equity homeownership through outreach, research, and loan product solutions (Analyze, Partner and Innovate, Test and Learn).

SUMMARY OF RESULTS:

Fannie Mae successfully executed a shared equity homeownership outreach strategy focused on 1) soliciting industry feedback to identify opportunities; 2) educating and supporting lenders and program providers; and 3) researching to increase transparency.

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 solicited industry feedback and demonstrated leadership by sponsoring and participating in key industry events such as Grounded Solutions Network's (GSN) and The Florida Housing Coalition's (FHC) annual conferences. These events provided an opportunity to hear from program providers, counselors, nonprofits/organizations, lenders, and experts. We also facilitated a roundtable focusing on capacity and financing opportunities for large city markets such as New York, where inclusionary housing, limited equity cooperatives (LEC), and community land trusts (CLTs) in a multi-unit environment are growing.

We developed customizable presentations and a dedicated shared equity webpage with fact sheets and resources to enable stakeholders to assist borrowers in accessing financing for permanently affordable housing. To further increase awareness, we held meetings, webinars and in-person seminars with our customers and shared equity programs across the country.

We sponsored several primary research-related initiatives to increase market transparency. We contracted with GSN to take an in-depth look at eight inclusionary housing programs across the country, engaging administrators as well as lenders, to determine the challenges they face in originating and selling shared equity loans to us. The analysis identified trends, cross-site differences and recommendations for us to evaluate for increasing access to mortgages and contributed to the framework for a larger case study that will continue into 2019. We also analyzed our portfolio of shared equity loans over the past five years and published results. We launched a three-year project with GSN to develop a national database of characteristics, trends and policy outcomes of inclusionary housing programs, providing input and guidance on survey design and data collection. An online mapping tool highlighting the power of its potential use was released in May and has since been widely accessed.

We used the research efforts and industry feedback to evaluate our current shared equity lending policies. We issued a Selling Guide update to permit lenders to originate mortgages on LECs and manufactured housing subject to shared equity terms. We worked with FHC to test third-party review of CLTs to minimize time and risk in underwriting. Six CLTs and several lenders are involved in this initiative.

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

☒ Work with a leading industry organization to consider the advisability of creating a new housing database that may contribute to calculating the true size and scope of the shared equity market and determine whether to create it. If determined it will be created, provide input and guidance on development and dissemination including assessing existing available data and identifying gaps, recommending additional information to be collected, reviewing survey design, and evaluating how it will be used by stakeholders to increase an understanding of characteristics, trends, and policy impact.

☒ Analyze Fannie Mae's current portfolio of shared equity loans for the purpose of understanding performance and characteristics by geography, program type, and financing in order to provide insights to the industry and inform outreach and product development efforts; publish results for the public.

☒ Demonstrate industry leadership by:

> ☒ Participating in two key conferences as a means to develop and maintain relationships with program providers, housing counselors, other non-profits, government organizations, industry leaders, and subject matter experts, all of whom can help us to better understand market issues and opportunities; stay abreast of best practices and successful strategies; inform product activities; and communicate the "Duty to Serve" message.
>
> ☒ Facilitating a roundtable with industry stakeholders (e.g., lenders, servicers, program providers, non-profits, and government organizations), industry leaders, and subject matter experts to meet for the purpose of discussing, analyzing, and solving for the challenges facing shared equity, identifying loan product enhancements, and policy updates and providing input as Fannie Mae implements the activities outlined in the Plan.

☒ Review credit and/or collateral policy, evaluating opportunities to update shared equity lending parameters for the purpose of:

> ☒ Identifying variances that will help us test the feasibility of changes. Introduce one product variance that will enable Fannie Mae to partner with lenders to test and learn one or more market, economic, or operational impacts for the purpose of increasing mortgage loan purchases. One or more participating lenders will be chosen based on level of interest, capacity potential, volume of loan delivery to Fannie Mae, and market focus. Fannie Mae will also work with a program provider to identify opportunities and ensure the terms and conditions of the variance will meet the needs of the homeowners. The variance outcome will be evaluated in 2019 and success will be based on actual volume delivery relative to projected delivery as well as positive lender feedback on the changes implemented.
>
> ☒ Identifying opportunities to provide lenders and program providers with further guidance on program organizational standards and best practices.
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> ☒ Identifying types of shared equity mortgage loans for which Fannie Mae has not previously provided policy guidance.
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> ☒ Adding clarity to Fannie Mae's Selling Guide by making identified updates, if feasible, and depending on research, learnings, and analysis.

☒ Establish a business-to-business outreach campaign that includes the availability of educational materials and lender webinars or presentations about Fannie Mae products for financing shared equity programs for the purpose of helping the market to understand availability, terms and conditions, and opportunities for such loans so that lenders will be able and willing to use and originate them. Target engagement with 10 lenders (representing our five largest lenders of shared equity mortgage deliveries in 2016 as well as five other lenders who represent geographical diversity), two HFA (representing two of the top five States with the most programs), five shared equity program providers (representing two different program types and that are geographically diverse), and one national industry organization. Eighteen relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.

☒ Study the shared equity market through primary research studies for the purpose of contributing to guidance, standards, product development, and market acceptance:

> ☒ Evaluate the obstacles and opportunities that Fannie Mae faces in increasing its share of mortgages among units produced through inclusionary housing programs by assessing at least five programs. Engage program

administrators to understand their policies and practices and lenders working with those programs to understand their related products, practices and preferences.

☒ Create a case study framework for a particular shared equity homeownership program such as a CLT or an inclusionary zoning program that will look in-depth at a community for the purpose of helping the industry understand how different parties (e.g., program administrator, government, lenders) work together so that a to-be-announced eligible mortgage can be created to finance homeowners; begin case study research.

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?

   Through direct stakeholder engagement, primary research, and policy and product efforts, we began to meaningfully address market needs and lay solid foundation for future impact. We focused on overcoming a lack of market support as shared equity mortgage products have not been well promoted or understood and additional underwriting and representations hamper adoption.

   Outreach efforts added clarity for lenders, who hesitate to originate and sell due to a lack of understanding of our shared equity offering. We listened, collaborated and built stronger relationships and trust with customers and the industry, which led to an increased number of lenders who originated shared equity mortgages. In 2018, 42 lenders sold us these loans (up from 29 in 2017), and 16 of these lenders were new to selling shared equity loans (up from 10 in 2017). Outreach also added clarity for program providers who do not always understand that their policies and procedures may impede liquidity if they do not meet GSE guidelines, making significant foundational impact as programs are formed or revised.

   The initiative with FHC helps lenders satisfy organizational underwriting and saves time and mitigates risk, promotes best practices, and expands options for CLTs to serve homeowners. The initiative should make it much easier for lenders to support shared equity programs in Florida in 2019.

   Our policy change to permit individual mortgages on LECs helps lenders support another affordable housing option in New York City and other similar markets with large numbers of co-ops. As they adopt this new policy, we expect the number of approved projects and loans purchased in these areas to increase. Allowing manufactured housing in shared equity models supports certain disaster response efforts looking to leverage CLTs and rebuild affordable housing units quickly in otherwise difficult areas like northern California.

Research, as well as publicly available data on prevalence and best practices, enable communities to adopt inclusionary housing policies or bolster existing policies to increase impact. The in-depth look of inclusionary housing programs allows us, as well as practitioners, to evaluate obstacles and opportunities in increasing our share of mortgages among units programs produce. This research contributed to product and policy development efforts in 2018 and will enable further guidance to increase lenders' confidence. GSN, who assisted in this effort, also made important discoveries that informed them about practices and will help them provide additional resources, recommend policy changes and improve capacity building assistance. The new housing database will contribute to calculating the shared equity market's true size and scope. The mapping tool and preliminary data, which when launched were widely promoted and reached over 530 inclusionary housing practitioners, have been immediately valuable and are helping increase understanding of inclusionary housing program characteristics, trends, and policy impact.

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.

   Our extensive outreach efforts with customers and shared equity market programs is providing significant input to our policy and product development efforts. We are identifying where clarifications need to be made as well as where changes can be made, particularly in organizational underwriting, that will increase flexibility without compromising safety and soundness.

   Both our test-and-learn initiative with CLTs and our research into inclusionary housing programs should give us insight into the opportunity to consider broader efforts to standardize program reviews and model documents on a national scale. We will continue to evaluate learnings and assess in the coming year how we might approach such efforts, after which time we would make any appropriate changes to our planned next steps.

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

   While we continue to succeed in actively engaging the industry and helping lenders understand our mortgage products and opportunities to provide liquidity for shared equity homeownership, many factors hamper the long-term ability for this outreach to increase future loan purchases. 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 Duty to Serve criteria. Finally, as the economics of the mortgage industry increasingly rely on servicing revenue (versus originations), servicers may avoid products with atypical servicing requirements.

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

   Breaking down barriers for lenders who had not previously considered certain shared equity mortgage loans eligible for sale to us is an important contribution to future loan purchases. The fundamentals of engagement and education through meeting with our customers has helped them to understand our guidelines and know with certainty that we will purchase their loans. The policy evaluation we are undertaking to make future Selling Guide updates also will increase eligibility and potential loans we can purchase. Supporting opportunities to reduce the time and risk in evaluating programs further increases willingness to originate and sell us loans.

   To support larger-scale opportunities, in this first year we focused outreach on some of the largest developing opportunities, such as working closely with local leaders, mortgage lenders and program administrators serving New York City, where one of the nation’s largest CLTs is forming.

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

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OBJECTIVE:

2. Increase liquidity for shared equity homeownership through outreach, research, and loan product solutions (Analyze, Partner and Innovate, Test and Learn).

SUMMARY OF RESULTS:

Fannie Mae worked with Grounded Solutions Network (GSN), the leading industry organization for shared equity programs, to assess the opportunity to develop a new inclusionary housing database to help gather and share data on the size and scope of the shared equity market.

Together we determined this database, which will include data on local governments with inclusionary housing programs and state legal frameworks for local inclusionary housing policies, would be valuable to the industry and Fannie Mae. We also contracted with GSN to create surveys, collect the data, and make results widely available. This is a three-year project but an online mapping tool was released in May, highlighting the power of its potential use.

We are planning to host a shared equity roundtable in Q3 2018 with a cross-section of program providers, lenders, and industry experts. We are taking leadership roles in two upcoming conferences and leveraging our time there to engage with stakeholders to continue our learnings about market issues and opportunities.

As part of our business-to-business outreach, Fannie Mae collaborated with a community land trust and GSN to host an in-person seminar for lenders to inform them about the basics of community land trusts and opportunities with this type of affordable housing.

Fannie Mae has been evaluating our policies that impact shared equity lending together with feedback from the industry and continues to work towards providing more guidance on shared equity best practices and program organizational standards. As part of this effort, we are undertaking a detailed review of various shared equity programs and related mortgage lending practices to further inform us as we consider updates to our Selling Guide.

We continue to research the best methodology to track shared equity loans to ensure they meet FHFA's criteria and are eligible for Duty to Serve credit.

Following are the 2018 Actions under this Objective:

- ☒ Work with a leading industry organization to consider the advisability of creating a new housing database that may contribute to calculating the true size and scope of the shared equity market.
- ☐ Analyze Fannie Mae's current portfolio of shared equity loans for the purpose of understanding performance and characteristics by geography, program type, and financing in order to provide insights to the industry and inform outreach and product development efforts; publish results for the public – by Q3 end.
- ☐ Demonstrate industry leadership by:
  - ☐ Participating in one key conference as a means to develop and maintain relationships with program providers, housing counselors, other non-profits, government organizations, industry leaders, and subject matter experts, all of whom can help us to better understand market issues and opportunities; stay abreast of best

practices and successful strategies; inform product activities; and communicate the "Duty to Serve" message – by Q4 end.

- ☐ Facilitating a roundtable with industry stakeholders (e.g., lenders, servicers, program providers, non-profits, and government organizations), industry leaders, and subject matter experts to meet – by Q3 end – for the purpose of discussing, analyzing, and solving for the challenges facing shared equity, identifying loan product enhancements, and policy updates and providing input as Fannie Mae implements the activities outlined in the Plan.

☐ Establish methodologies – by Q4 end – 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 the five Fannie Mae lenders who deliver the most shared equity loans to Fannie Mae in order to understand how they review and capture these features.

☐ Review credit and/or collateral policy, evaluating opportunities to update shared equity lending parameters for the purpose of:

- ☐ Identifying variances that will help us test the feasibility of changes. Introduce one product variance – by Q4 end – that will enable Fannie Mae to partner with lenders to test and learn one or more market, economic, or operational impacts for the purpose of increasing mortgage loan purchases. One or more participating lenders will be chosen based on level of interest, capacity potential, volume of loan delivery to Fannie Mae, and market focus. Fannie Mae will also work with a program provider to identify opportunities and ensure the terms and conditions of the variance will meet the needs of the homeowners. The variance outcome will be evaluated in 2019 and success will be based on actual volume delivery relative to projected delivery as well as positive lender feedback on the changes implemented.
- ☐ Identifying opportunities to provide lenders and program providers with further guidance on program organizational standards and best practices.
- ☐ Adding clarity to Fannie Mae's Selling Guide by making identified updates, if feasible, and depending on research, learnings, and analysis – by Q4 end.

☐ Establish a business-to-business outreach campaign that includes the availability of educational materials and lender webinars about Fannie Mae products for financing shared equity programs for the purpose of helping the market to understand availability, terms and conditions, and opportunities for such loans so that lenders will be able and willing to use and originate them. Target engagement with 10 lenders (representing our five largest lenders of shared equity mortgage deliveries in 2016 as well as five other lenders who represent geographical diversity), two HFA (representing two of the top five States with the most programs), five shared equity program providers (representing two different program types and that are geographically diverse), and one national industry organization – by Q4 end. Eighteen relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.

☐ Create a case study framework for a particular shared equity homeownership program such as a CLT or an inclusionary zoning program that will look in-depth at a community for the purpose of helping the industry understand how different parties (e.g., program administrator, government, lenders) work together so that a to-be-announced eligible mortgage can be created to finance homeowners; begin case study research – by Q4 end.

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):