



Fannie Mae 2020
Affordable Housing Preservation
Loan Purchase

ACTIVITY:

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

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

SUMMARY OF RESULTS:

Following are the 2020 Actions under this Objective per the January 1, 2021 Duty to Serve Plan:

<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 type="checkbox"/> Purchase loans originated for the purchase or rehabilitation of a distressed property, representing a share of the estimated total distressed property inventory. The target will be approximately a 15 to 20 percent higher than the revised Baseline for 2020, or 3.11% to 3.24%.	<p>•Fannie Mae purchased 4,708 loans used to acquire or rehabilitate distressed properties, and achieved a 2.39 percent share of the total number of distressed property sales for 2020.</p> <p>We offered incentives to targeted lenders to deliver mortgage loans made to income-eligible borrowers for the purchase or rehabilitation of distressed properties.</p> <p>We explored opportunities to increase the number of owner-occupant purchases of Fannie Mae real estate owned (REO) properties using Fannie Mae financing.</p>	<p>•We purchased 4,708 loans used to finance the purchase or rehabilitation of distressed properties, and our share of the total number of distressed property sales nationwide in 2020 was 2.39 percent. Our loan purchases fell short of the targeted 3.11 percent of distressed sales by 1,421 loans.</p>

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)
- No milestones achieved



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PARTIAL CREDIT JUSTIFICATION:

Fannie Mae purchased 4,708 loans used to finance the purchase or rehabilitation of distressed properties, and our share of the total number of distressed property sales nationwide in 2020 was 2.39% . Our loan purchases fell short of the targeted 3.11% of distressed sales by 1,421 loans.

IMPACT:

- 50 – Substantial Impact
- 40 – Between Meaningful and Substantial Impact
- 30 – Meaningful Impact
- 20 – Between Minimal and Meaningful Impact
- 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 the disruptions to the distressed property sales market issuing from the COVID-19 pandemic and foreclosure moratorium, Fannie Mae continued to provide liquidity for low- and moderate-income buyers of distressed properties. Of the 4,708 loan purchases of mortgages used by Duty to Serve (DTS) eligible borrowers to acquire or refinance a distressed property, 66 percent of loan purchases were for loans to first-time homebuyers. On average, borrowers for our DTS-eligible distressed property loan purchases earned approximately 66 percent of the area median income and 72 percent of DTS-eligible loans purchased were for borrowers earning 80 percent or less of area median income.

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

We continued to learn more about the difficulty lenders face in determining that a subject property is distressed so that they can factor this into the product options presented to borrowers. In a typical loan origination, a lender is not aware that a subject property is distressed until long after the borrower selects a loan product. Unless the borrower or their real estate agent notifies the lender at the start of the origination process that the property is distressed, the lender does not have enough property information to identify the property as distressed until a loan reaches processing, or in some cases, underwriting. We have explored several options to overcome this issue but have been unable to find suitable solutions.

We also learned that sales price incentives offered on the sale of Fannie Mae REO properties are not a practicable means of driving loan purchase activity. In light of previous years' findings demonstrating that repaired REO properties were particularly attractive to owner-occupant buyers, we considered offering pricing incentives to owner-occupant purchasers of Fannie Mae REO properties. We learned from our exploration of this idea that it would not be a feasible strategy. Due to the uncertainty of borrower loan product selection and income eligibility at the time of property sales price negotiations, achieving meaningful growth in the number of DTS eligible distressed property loan purchases would require a very significant and unacceptable reduction in property sales proceeds with no guarantee that desired DTS loan purchase volumes would be realized.



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Finally, and most importantly, our activity in this market has shown us that the primary challenge facing the distressed property market is not necessarily a lack of liquidity for owner-occupant borrowers, but that owner-occupants have difficulty competing with cash buyers for the purchase of these properties or are not in a position to take on the risk of purchasing a property that needs significant rehabilitation. Therefore, we have come to believe that we can likely add the most value by promoting the availability of our distressed property portfolio rather than primarily focusing on our mortgage finance products. As described in previous reports, repaired properties are significantly more likely to be purchased by owner-occupants rather than investors. As such, we're exploring further expansion of our repair initiative in 2021 to create more affordable inventory for owner-occupant buyers.

3. (Optional): If applicable, why were all components of this objective not completed?

Foreclosure moratoriums associated with the COVID-19 pandemic substantially reduced the number of REO properties available for sale throughout the market, including Fannie Mae REO properties. Our inventory of REO properties decreased by 53 percent from January to December of 2020. Additionally, as the year progressed, the remaining properties in Fannie Mae's inventory were largely those in the worst condition. Despite these challenges, Fannie Mae repaired close to 50 percent of all REO properties in 2020, a record high.

The reductions in REO volume reduced the overall supply of distressed properties for purchase and limited Fannie Mae's ability to leverage its own portfolio to experiment with new strategies to facilitate increased loan purchases by low- and moderate-income buyers. While the aforementioned pricing, incentive strategy was deemed infeasible, we considered other options to increase purchases of Fannie Mae REO DTS eligible buyers. The pandemic related limitations made such experimentation difficult, however.

Additionally, the pandemic also impacted prospective partners in our efforts to increase owner-occupant purchases of distressed properties. Organizations with which we had hoped to collaborate in 2020 were forced by the pandemic to turn their attention to other matters and/or to delay planned rollouts of proposed initiatives. These realities further impacted our ability to increase distressed property loan purchases



Fannie Mae
Affordable Housing Preservation
First Quarter Report: January 1 - March 31, 2020
Loan Purchase

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

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

SUMMARY OF RESULTS:

Through March 31, 2020, we purchased 1,167 loans used by DTS-eligible borrowers to finance distressed properties. To date, market data is only available for the months of January and February. Our distressed loan purchase count through the month of February was 750, representing 2.50% of the 29,966 total distressed sales for the period.

We continue to face difficulty in promoting increased purchases of loans used to finance the acquisition or rehabilitation of distressed properties. The primary obstacle continues to be the inability of originators to identify loans for distressed properties prior to loan selection. We are exploring alternative avenues to facilitate purchases of distressed, or formerly distressed, properties by DTS-eligible homebuyers from nonprofit entities. We believe that these avenues hold promise for targeted support to buyers and communities. However, the current disruption in the mortgage and property disposition markets pose additional risk and uncertainty as the overall impact to our efforts in the distressed property market is still unknown.

Following are the 2020 Actions under this Objective:

Purchase loans originated for the purchase or rehabilitation of a distressed property, representing a share of the estimated total distressed property inventory. The target will be approximately a 15 to 20 percent higher than the revised Baseline for 2020, or 3.11% to 3.24%.

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



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ADDITIONAL INFORMATION (IF APPLICABLE):



Fannie Mae
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Second Quarter Report: April 1 - June 30, 2020
Loan Purchase

ACTIVITY:

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

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

SUMMARY OF RESULTS:

Through June 30, 2020, we purchased 2,561 loans used by DTS-eligible borrowers to finance distressed properties. To date, market data is only available for the months of January through May. Our distressed loan purchase count through the month of May was 2,126, representing 2.89 percent of the 73,481 total distressed sales for the period.

As previously reported, the inability of originators to identify loans for distressed properties prior to loan selection prevents Fannie Mae from promoting our financing options to lenders for these properties. While we continue to pursue other avenues to facilitate owner-occupant purchases of Fannie Mae real estate owned (REO) properties, as described in our narrative for Objective 1 under this activity, those sales do not necessarily result in the use of Fannie Mae financing for those acquisitions.

Following are the 2020 Actions under this Objective:

Purchase loans originated for the purchase or rehabilitation of a distressed property, representing a share of the estimated total distressed property inventory. The target will be approximately a 15 to 20 percent higher than the revised Baseline for 2020, or 3.11% to 3.24%.

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
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Third Quarter Report: July 1 - September 30, 2020
Loan Purchase

ACTIVITY:

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

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

SUMMARY OF RESULTS:

Through September 30, 2020, we purchased 3,845 loans used by DTS-eligible borrowers to finance distressed properties. To date, market data is only available for the months of January through July of 2020. Our distressed loan purchase count through the month of July was 3,042, representing 2.66% of the 114,334 total distressed sales for the period.

As previously reported, the inability of originators to identify loans for distressed properties prior to loan selection prevents Fannie Mae from promoting our financing options to lenders for these properties. We continue to pursue other avenues to facilitate owner-occupant purchases of Fannie Mae real estate owned (REO) properties, but those sales do not necessarily utilize Fannie Mae financing. Further, the ongoing foreclosure moratorium has significantly impacted REO inventory. The number of distressed sales for the January to July time period in 2020 reflects a 33% reduction from the number of sales seen during the same time period in 2019.

Following are the 2020 Actions under this Objective:

Purchase loans originated for the purchase or rehabilitation of a distressed property, representing a share of the estimated total distressed property inventory. The target will be approximately a 15 to 20 percent higher than the revised Baseline for 2020, or 3.11% to 3.24%.

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



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Third Quarter Report: July 1 - September 30, 2020
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ADDITIONAL INFORMATION (IF APPLICABLE):