Fannie Mae

Fannie Mae 2020
Rural Housing
Outreach

ACTIVITY:

C. Regulatory Activity: Financing by small financial institutions of rural housing (12 C.F.R. § 1282.35(c) (3)).

OBJECTIVE:

2. Purchase single-family rural loans through bulk transactions from small financial institutions (Analyze, Innovate and 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:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Subject to internal approval, Fannie Mae will:	•N/A	•N/A
☒ If analysis of portfolios indicates a viable opportunity with seller servicers or non-seller servicers, conduct one test and learn transactions, and document learnings.	•Fannie Mae partnered with Renaissance Community Loan Fund, a non-Fannie Mae approved community development financial institution (CDFI) to pursue a test and learn bulk transaction to replenish affordable capital and liquidity.	•N/A
☒ Pursue partnerships with CDFIs, CUSOs, HFAs and credit unions for the test and learn transactions.	•Fannie Mae engaged a diverse group of lender partners that included: four CDFIs; two regional banks; one housing finance agency (HFA); three national aggregators; and a handful of small financial institutions (SFIs) to purchase and service this portfolio.	•N/A
☒ Continue to expand lender outreach to an additional 10 small financial institution lenders (i.e., lenders not approached in 2018 or 2019).	•We sought and received approval to recognize Farm Credit Associations as SFIs. •We identified and engaged with a total of seven DTS-eligible Farm	•N/A

	Credit Associations to understand their lending footprint in rural areas. •We facilitated three comprehensive interviews with SFIs to understand their experiences with bulk transactions.	

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

PARTIAL CREDIT JUSTIFICATION:

•N/A

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?
Loan Deliveries:

In total, we acquired 103 rural loans, as shown below in the table, from SFIs via two aggregating lender partners through our bulk channel's normal course of business. One aggregator delivered 38 percent of that volume on behalf of one SFI. The other lender partner aggregated the remaining 62 percent of volume through a consortium of 16 rural SFIs.

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	SFI Bulk Income Breakouts			SFI Bulk Small Balance		SFI Bulk FTH	SFI Bulk Delivery Breakout	
	<= 100% AMI	**<= 80% AMI**	**<= 50% AMI**	**<$100K**	**>=$100K**	**First Time Homebuyer**	**Purchase**	**Refinance**
Loan Count (Total: 103)	44	46	13	64	39	33	57	25

Bulk Transaction:

In March 2020, we identified a 3.34-million-dollar portfolio held by a CDFI. The eligible risk population consisted of a 30-year fixed rate, 100 percent owner-occupied purchase conforming loans. In addition to meeting Duty to Serve (DTS) requirements, the portfolio consisted of about 77 percent affordable loans. Despite our aggressive efforts, we were unsuccessful in executing a test and learn bulk transaction in 2020. However this work laid the foundation for future impact for we were able to validate a population of loans that met Fannie Mae eligibility within a CDFI portfolio.

Based on lessons gathered in 2019, including the learning that the most acute bulk liquidity needs are among non-Fannie Mae approved sellers, in 2020, we partnered with a non-Fannie Mae approved CDFI in the Lower Mississippi Delta. We engaged a variety of lender partners to deliver and service the portfolio, including four CDFIs, two regional banks, one HFA, three national aggregators, along with a handful of other small financial institutions. COVID-19 caused many to decline the opportunity, citing capacity constraints related to increased loan origination pipelines or increased risk of potentially inheriting a distressed servicing portfolio. We offered technical assistance to alleviate capacity concerns, but there was significant reluctance about a rise in delinquency rates due to the pandemic.

Partnership Development:

In early April of 2020, we kicked off an analysis to better understand the Farm Credit Association's business model, volume, and activity within the DTS markets. Initial reviews suggested that their business model and mission overlap with these target markets, and there appeared potential to support rural initiatives outside of our current scope. The research methodology included the following:

•Analysis of the geographical footprint and asset size.

•Estimated volume potential for each rural farm credit association, utilizing online resources such as CoreLogic's Marketrac and NMLS Consumer Access resources.

•Opportunity identification, based on the geography of each Farm Credit Association's location, was developed by our Single-Family Analytics team.

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In June, we sought and received approval from FHFA to recognize Farm Credit Associations as small financial institutions.

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

We learned that large mortgage insurers were reluctant to accept "lender paid" mortgage insurance coverage for mortgage loans over 80 percent loan to value without a credit enhancement. This act was to reduce the risk in the current environment.

Farm Credit Associations:

As a result of our research, we identified and engaged with a total of seven DTS-eligible Farm Credit Associations. We learned these financial institutions supported rural communities with reliable, consistent credit and financial services. Still, overall single-family residential mortgage lending was not a strategic focus with those seven associations. Two out of the seven have originated small volumes for customers when the home is part of the larger farming homestead. However, the single-family mortgages that originated do not meet conventional credit eligibility for multiple reasons. These include the fact that the property is being used for 100 percent farming business, that multiple structures with significant value are present on one property lot, and a leasehold land status.

We learned that liquidity is not an issue for these organizations and that bulk transactions are not a meaningful opportunity for Fannie Mae. Given the unique agricultural focus, we decided that this partnership is not a mutual business fit for the two organizations.

3. (Optional): If applicable, why were all components of this objective not completed?
We could not fully execute the bulk transaction with Renaissance Community Loan Fund due to complications related to the COVID-19 pandemic. Specifically, potential partners noted that capacity constraints and increased risk of inheriting a distressed servicing portfolio were the primary drivers for their reluctance.

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Second Quarter Report: April 1 - June 30, 2020
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SUMMARY OF RESULTS:

We have secured approval to execute a small bulk transaction from a small financial institution located in the Lower Mississippi Delta with a mission of providing financing to low-to-moderate income families. The benefit for the lender is to acquire additional capital and liquidity for new loan growth. Not being an approved lender, the next phase of this transaction is to identify a potential partner to facilitate the acquisition of the bulk portfolio.

In an effort to pursue additional partnerships and opportunities meeting the Duty to Serve goals through incremental business growth, Fannie Mae sought and received approval to work with the Farm Credit Administration identifying approximately seven affiliate organizations as small financial institutions. Their business model aligns with multiple Duty to Serve markets and the ability for these organizations to leverage the secondary market could be a mutual business fit.

Following are the 2020 Actions under this Objective:

☐ Subject to internal approval, Fannie Mae will:

☐ If analysis of portfolios indicates a viable opportunity with seller servicers or non-seller servicers, conduct 2-4 test and learn transactions, and document learnings.

☐ Pursue partnerships with CDFIs, CUSOs, HFAs and credit unions for the test and learn transactions.

☐ Continue to expand lender outreach to an additional 10 small financial institution lenders (i.e., lenders not approached in 2018 or 2019).

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On-target to meet or exceed the objective

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☒ Progress delayed and/or partial completion of the objective expected

☐ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):