



Fannie Mae 2020
Rural Housing
Loan Product

ACTIVITY:

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

OBJECTIVE:

3. Gain an understanding of the challenges and opportunities for small financial institutions in rural areas through outreach (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 checked="" type="checkbox"/> Based upon the outreach and journey completed in 2018 and 2019, Fannie Mae will identify opportunities to customize, enhance, or simplify products and establish a test and learn approach issuing one negotiated variance to select lenders	<ul style="list-style-type: none"> •Fannie Mae approved and executed a variance with Federation of Appalachian Housing Enterprises, Inc. (Fahe), allowing Fahe to fund Community Seconds®; Fahe has delivered five out of 15 mortgage loans with lender funded assistance permitted under the variance. 	<ul style="list-style-type: none"> •N/A
<input checked="" type="checkbox"/> Continue to expand lender outreach to an additional 25 small financial institutions to educate them on Fannie Mae (i.e., lenders not approached in 2018). Examples include facilitation in a Fannie Mae training on products, programs, and technology or approval process.	<ul style="list-style-type: none"> •We provided support and resources to seven small financial institutions (SFIs) as they navigated the reactivation and approval process. •We engaged sixteen lenders to participate in an online servicing seminar about COVID-19 forbearance response. •We facilitated comprehensive interviews with nine lenders about their experiences servicing rural areas. 	<ul style="list-style-type: none"> •We hired an outside research firm to conduct the nine interviews with lenders. This structure allowed for a two-way discussion that raised awareness of Fannie Mae's products and services while providing an opportunity for us to better understand if we were meeting lender and rural community needs.



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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?

Product Development:

As a community development finance institution, Fahe can access and leverage low-cost capital. They can access this capital from the United States Treasury Department’s Community Development Finance Institution Fund and other funding sources to provide responsible, affordable lending to low-wealth communities across the country. Fahe provides second mortgage loans, down payment loans, closing cost assistance loans, and homeownership counseling and education with this capital. These funding is vital to the success of their mission and for sustainable homeownership. This is especially important for creditworthy low-income and minority families in underserved markets because they face significant barriers to sustainable homeownership, a major vehicle for building wealth and economic opportunity.

However, Fannie Mae does not permit lenders or other interested parties to fund Community Seconds mortgages, which limited the number of loans that Fahe could deliver. In June, we approved Fahe to utilize their dollars to fund Community Seconds via a variance. This variance has already expanded access to liquidity for Fahe. Five of the 15 loans Fahe delivered this year included lender-funded closing cost assistance, which would not have been eligible for delivery without the variance.

For depth of reach reach and increase impact, the variance was expanded to Fahe’s brokers and correspondents. This flexibility allows Fannie Mae to capitalize on Fahe’s unique business structure of partnering with like-minded mission-driven lenders with the potential to increase loan deliveries in 2021 and



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beyond. Fannie Mae's business model and Fannie Mae's mission to provide access to reliable, affordable mortgage financing in all markets at times make a good business fit for the two organizations. The projected loan volume in 2021 is approximately 100 loans with Community Second mortgages, with an average loan size of \$26,000.

Outreach and Research:

We surpassed our goal to engage 25 SFIs, conducting outreach to 31 SFIs this year. We engaged seven lenders through the reactivation approval process; sixteen lenders participated in an online servicing seminar for COVID-19 forbearance response. Nine lenders participated in comprehensive interviews about their experiences with SFI lending.

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

Interviews conducted with SFIs highlighted the potential to create a "mini-aggregator" model to reduce lenders' need to navigate a rigorous approval process. The interviews also emphasized the need for customized support and flexibility, as SFIs are not homogenous, and each is the product of its environment.

We learned that alternative strategies that reduce barriers to flow transactions could create a more customized experience for SFIs. Alternative strategies include:

- Through the support of technology enhancements that scale for different sized and resource constrained SFIs.
- Eased adoption and integration of our tech solutions to SFIs (e.g., using e-Mortgages); and
- We provided flexibilities to SFIs that accommodate their specific needs. These flexibilities might relate to collateral, appraisals in rural areas, or title and deed inconsistencies for familial properties.

We learned that while COVID-19 impacts increased forbearances, many SFIs were unfamiliar and inexperienced with handling forbearance. In response, Fannie Mae served as a resource for SFIs, by supporting the stand-up of their forbearance programs in 2020. We anticipate we will continue to provide forbearance guidance to SFIs in 2021 and plan to implement an engagement strategy focused on loss mitigation and servicing to further support SFIs in meeting the needs of rural borrowers impacted by COVID-19.

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

N/A



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

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OBJECTIVE:

3. Gain an understanding of the challenges and opportunities for small financial institutions in rural areas through outreach (Do What We Do Best).

SUMMARY OF RESULTS:

Fannie Mae is on target to meet this objective. In late 2019, we approved two certified Community Development Finance Institution (CDFI) to become direct sellers. With capital raised from a variety of sources, CDFIs provide second mortgage loans, down payment loans, closing cost assistance loans and homeownership counseling and education all crucial to the success of the mission and for sustainable homeownership. To complement their mission, Fannie Mae extended a variance expanding the ability to leverage down payment assistance programs. By enabling the lender to be the provider of first mortgages while providing down payment assistance creates the potential to increase homeownership in high-needs rural regions.

Fannie Mae has developed a strategy to expand lender engagement, seeking opportunities for potential future product development and loan purchase efforts. We have partnered with an outside research firm that will perform interviews with a minimum of twenty-five small financial intuitions soliciting feedback on a variety of topics including lending in rural communities, short and long strategic goals, as well any unique community needs. With the onset of COVID-19, there will be a component to better understand the impact on servicing rural loans i.e. delinquency rates and forbearance requests.

Following are the 2020 Actions under this Objective:

Based upon the outreach and journey completed in 2018 and 2019, Fannie Mae will identify opportunities to customize, enhance, or simplify products and establish a test and learn approach issuing one negotiated variance to select lenders

Continue to expand lender outreach to an additional 25 small financial institutions to educate them on Fannie Mae (i.e., lenders not approached in 2018). Examples include facilitation in a Fannie Mae training on products, programs, and technology or approval process.



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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):