Fannie Mae

# Fannie Mae 2021
# 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:

Following are the 2021 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)* |
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| ☒ Deploy a model deed restriction to support implementation of best practices and standards in the market, including a marketing campaign designed to increase adoption. | In conjunction with Freddie Mac, Fannie Mae worked with Grounded Solutions Network (GSN) to develop a model deed restriction with a standardized legal structure and documents. The model documents were published on GSN's website for public access in September 2021.<br><br>https://groundedsolutions.org/tools-for-success/resource-library/2021-model-deed-restriction | N/A |
| ☒ Develop and launch outreach activities to promote, inform, and educate stakeholders on the model deed restriction. | Fannie Mae contracted GSN to launch a marketing initiative to spur adoption of the model deed restriction by shared-equity programs practitioners, and to promote, inform, and educate stakeholders on the model documents. The initial outreach activity occurred in December 2021 via direct mail outreach to GSN's member base of contacts who administer shared-equity homeownership programs. | N/A |

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| ☒ Develop or modify marketing materials to educate and promote new model documents. | | We did not complete updates to the Selling Guide to accommodate the model deed restriction during 2021. Therefore, marketing materials were not updated; Selling Guide updates need to be complete before Fannie Mae engages in promotion of the model deed documents. For these reasons, we shifted from creating marketing materials to engagement with providers.<br><br>Fannie Mae engaged a provider with a significant scale who is under contract to build four new, affordable units and is considering using a deed restriction to create and preserve affordability instead of their traditional subordinate lien financing product. |
| ☒ Identify and, if feasible, execute any policy or programmatic changes necessary to accommodate model deed restriction documents. | In December 2021, we identified policy impacts and changes needed to accommodate the model deed restriction documents. | N/A |
| ☒ Develop a certification framework for shared equity programs. | Fannie Mae contracted with a third party to develop and lay the groundwork for a shared-equity certification system that enables entities to self-certify program level compliance with Duty to Serve and Fannie Mae specific community land trust requirements. This shared-equity self-certification framework was finalized during the first quarter of 2021. | N/A |

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| ☒ Create parameters and structure to identify programs that comply with DTS shared equity program requirements. | As part of the self-certification framework, Fannie Mae worked with our vendor to create and finalize questions and parameters for an electronic application to determine program compliance with Duty to Serve and Fannie Mae community land trust (CLT) requirements. The parameters and self-certification structure were completed prior to the beta test launch of the platform in April 2021. | N/A |
| ☒ Conduct surveys of shared equity programs to collect program compliance information. | Fannie Mae launched the beta testing phase of our program compliance application in April 2021 with a select list of programs to test the self-certification process. Programs were surveyed via electronic application to gather information on program structures and parameters to assess program compliance with Duty to Serve requirements. | N/A |
| ☒ Create a communications plan to ensure eligibility data is captured, stored, and distributed timely to lenders. | Fannie Mae created a method for capturing and sharing program information with lenders, resulting in the publication of a list of certified programs via a Fannie Mae system. | N/A |
| ☒ Establish an engagement model to ensure lender feedback is gathered and the certification framework is evaluated for continuous improvement opportunities. | Fannie Mae shared the initial list of certified programs with a group of lenders during the second quarter of 2021. We worked throughout the year to confirm the usability and functionality of the certification report and compile suggestions on | N/A |

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| | potential improvements to deliver more valuable customers. | |

**SELF-ASSESSMENT RATING OF PROGRESS:**

☒ Target met
☐ Target exceeded
☐ Target partially completed
☐ No milestones achieved

**IMPACT:**

☒ 50 – Very Large 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 in laying the foundation for future impact in addressing underserved market needs?**

**Model Deed Restriction**

Deed-restricted homeownership is an effective approach to create and preserve affordability for very low-, low-, and moderate-income homebuyers. However, the shared-equity market is fragmented, serving different homebuyer income levels through different program structures scattered across the nation. Further, shared-equity loan products add complexity to the loan origination process and to loan servicing, causing lenders to add underwriting requirements and additional representations to meet investor requirements. As a result, lenders tend to avoid originating and selling shared-equity loans to Fannie Mae.

Standardization of shared-equity programs and reduction of additional lender requirements are critical factors to increasing the volume of shared-equity loans originated and sold to Fannie Mae.

The model deed restriction is a key component to reducing origination burdens for lenders and shared-equity program practitioners. Fannie Mae's legal and policy teams dedicated significant effort this year toward ensuring a model document that will meet the needs of programs, lenders, and investors. During the first half of the year, Fannie Mae staff, including representatives from legal, policy, and the Duty to Serve team, conducted extensive reviews of draft versions of the model deed restriction (MDR), subordinate mortgage document, and draft legal commentary to support the model documents. The Fannie Mae team met with Freddie Mac, GSN and its law firm to discuss our respective thoughts/feedback on these deliverables, flag areas where the proposed model documents would not meet Duty to Serve requirements and Fannie Mae policies and provided documented comprehensive feedback to GSN. Ultimately, GSN published the final version of the MDR in late Q3, laying the foundation to streamline shared-equity loan origination – a very important step forward.

We have identified the needed changes to our Selling Guide to accommodate the model deed restriction and a Selling Guide change is planned for 2022. However, the largest barrier to entry with the adoption of the model deed restriction is the resale provision noted within the model covenant, which conflicts with the existing regulation barring private transfer fees for government-sponsored enterprise (GSE) loans. Fannie Mae legal counsel has raised this issue with FHFA and is awaiting a response. This initiative continues the work Fannie Mae has undertaken to address many challenges in the shared-equity market, building on past years' research and outreach efforts, and creating the foundation for the next steps to encourage market adoption.

**Certification Platform**

Building on past Duty to Serve efforts, Fannie Mae has continued to promote standardization and simplification for shared-equity programs, prompting more lenders to participate. To support these efforts, Fannie Mae contracted with a third-party vendor to successfully develop, launch, and test a shared-equity program certification system (SEPCS) that allows shared-equity programs to self-certify compliance with Duty to Serve eligibility requirements. This certification system removes responsibility from lenders to independently assess programs' compliance with Duty to Serve requirements for any program listed on the report, thus streamlining the origination process.

During Q1, Fannie Mae staff and legal counsel worked with the vendor to finalize self-certification parameters, program application process and questions included in the application process to confirm program-level compliance with Duty to Serve eligibility. To ensure applicability and ease of use for practitioners, the vendor leveraged their knowledge and expertise of shared-equity programs and sought feedback from their membership base of shared-equity practitioners. Fannie Mae provided the vendor with a list of programs, which were invited to apply in the initial round of certification testing.

We published the list of "Duty to Serve Certified Shared Equity Programs" via the lender-facing technology platform, FM Connect, and put a process in place to update the list on a quarterly basis to provide lenders with recent certification information. The initial list of Duty to Serve Certified Shared Equity Programs included 12 certified programs and was made available to a select group of lenders in April 2021. More programs were invited to apply for certification in Q3, increasing the number to 24 certified programs.

We engaged lenders during Q2 and Q4 to solicit feedback on the certification list to inform future reporting enhancements and improve the content included in the report and began incorporating this feedback in October 2021. To increase the number of certified programs, Fannie Mae has worked with the vendor to develop marketing materials for outreach, and a public launch is scheduled to kick off in early 2022.

In response to lender feedback and to make the certification process more robust and efficient, Fannie Mae began testing the inclusion of our community land trust (CLT) underwriting requirements as an additional component of the Shared Equity Program Certification System (SEPCS) and rolled out a variance in October that affords representation and warrants relief to lenders who sell us shared-equity loans that use CLTs included in the SEPCS list. This further streamlines the origination and sale of shared-equity loans to Fannie Mae and incentivizes lenders by providing them safe harbor for ensuring that the CLT meets Selling Guide requirements.

As of early Q4, nine of 11 lenders have accessed the certification list on 45 different occasions, and 10 Duty to Serve-eligible loans have been delivered using the Special Feature Code created to identify lender utilization of a program on the certification report. Going forward, we will look to broaden lender access to the variance beyond the initial 11 lenders who currently have access to the certification list to help grow the company's shared-equity business.

The MDR and certification platform work together to address challenges in the origination of shared-equity loans and the subsequent sale of those loans to Fannie Mae. These efforts to standardize the shared-equity market and eliminate additional loan origination requirements provide a sound foundation for the growth of the shared-equity markets to help increase the supply of housing affordable to very low-, low-, and moderate-income homebuyers, as well as increase liquidity for shared-equity lending programs.

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

Fannie Mae's continued outreach and engagement with lenders have established that standardization of shared-equity programs and streamlining of loan origination for shared-equity programs is the most important change needed to facilitate more efficient financing for these loans. Shared-equity loans are a small portion of total loan origination volume, so lenders cannot responsibly invest large amounts of resources to learn how to originate and review these loans for compliance with Fannie Mae requirements.

We learned from shared-equity practitioners that standardization of programs and documents could help them grow the network of lenders. However, we also learned that shared-equity practitioners have limited resources, so adopting program changes or a new model document is challenging. That's why, as part of the awareness, promotion, and adoption campaign for the MDR that Fannie Mae launched in December of 2021, we have partnered with an industry-leading technical assistance provider to create a telephone helpdesk, online training, and in-depth business-to-business assistance. Furthermore, the campaign will include outreach and promotion of the MDR to consultants who advise and assist shared-equity practitioners to encourage them to work with their clients to adopt the model documents.

While we are confident that increased standardization will resolve many of the pain points that exist today for lenders, shared-equity volume is unlikely to grow without an expanded supply of shared-equity homes. We are supporting expanded supply through our distressed properties initiatives (for details, see "Distressed Objective 2), but any material increase in shared-equity units will likely be the result of increased subsidies (state, federal, foundation) to facilitate new units.

**3. If applicable, why was the Enterprise unable to achieve the Plan target?**

Fannie Mae has assessed the needed changes to our Selling Guide to accommodate the MDR and has begun the process to enact the needed changes. However, a change to our Selling Guide was not completed in 2021 and, as such, we did not create or modify any marketing materials associated with the MDR. As described previously, the COVID-19 pandemic caused significant resource constraints for our non-profit vendor partners and impacted the timeline to complete the design and publication of the MDR, and the associated changes needed in our Selling Guide as a result. We did partner with an industry leader to launch an awareness, promotion, and adoption campaign for the MDR in December of 2021, with the first outreach effort delivered to over 6,000 individuals who represent 350 shared-equity organizations.

Following the publication of the MDR in September, we engaged an affordable housing developer with significant scale in the Florida market who is considering using a deed restriction to preserve affordability for new-build houses on an upcoming project. This has afforded us the opportunity to understand the programmatic decisions made by practitioners when they are considering updating their legal documents and improve our future marketing and outreach endeavors. The lessons from this engagement will inform our marketing and outreach plan for 2022.

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**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:**

We made substantial progress in the first two quarters of 2021 on our efforts to increase standardization in the shared equity market. After exploring various ways to identify Duty to Serve (DTS) eligible shared equity loan deliveries in the first three years of our Underserved Markets Plan, we began laying the groundwork in the latter part of 2020 to create a shared equity program certification system. Rather than placing the burden on lenders to assess shared equity programs and determine their compliance with DTS and Fannie Mae requirements, this system leverages shared equity experts to perform an independent third-party review of shared equity program eligibility. In the first quarter of 2021, we worked with our vendor, Grounded Solutions Network (GSN), to finalize questions and parameters for the electronic application used by shared equity programs to seek certification. We also provided a list of programs for a pilot round of certification. While GSN began to evaluate the initial applicants for certification, we created the mechanism by which certification information could be communicated to lenders. In addition, we created the rules and functionality to enable the publication of the List of DTS Certified Shared Equity Programs in a lender facing Fannie Mae technology platform. In the early part of the second quarter, we shared with lenders an initial list of 12 certified programs.

We also added Fannie Mae community land trust (CLT) eligibility validations to the certification system. This addition removes the lender's responsibility to evaluate the eligibility of a community land trust program per DTS and Fannie Mae criteria. This effort has included efforts to further build-out the certification application to include Fannie Mae-specific questions for CLTs, and the development of a Selling Guide variance to provide lenders with safe harbor for program eligibility validation of programs on the List of DTS Certified Shared Equity Programs. An additional group of 10-15 programs will be invited to apply for certification in the third quarter of 2021, and the CLT eligibility validation components will be added to the system by year end.

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In addition to implementing the shared equity program certification, we also made significant progress in creating model documents for shared equity programs that utilize a deed restriction mechanism to preserve affordability. Building upon feedback and input provided by the GSEs in 2020, the vendor for this initiative provided the following deliverables in the first quarter of 2021:

1. A second draft of the Model Deed Restriction;
2. A first draft of a Second Mortgage Note;
3. A first draft of Legal Commentary to accompany the MDR Covenant; and
4. A memo outlining potential conflicts and recommended changes to the Fannie Mae Seller and Servicer guides to accommodate the MDR.

In the second quarter of 2021, we met individually with our government-sponsored enterprise (GSE) counterparts, and with the vendor and its partner to discuss our feedback on the most recent round of project deliverables. We also convened internally to review and discuss the Selling and Servicing Guide changes suggested by the vendor in the memo received in the first quarter. We have begun initial consideration of these recommendations and potential modifications for Fannie Mae's guides. This effort will accelerate in the second half of 2021 after receiving the final versions of the model deed restriction and accompanying documents.

Together, the certification system and the model deed restriction documents will help to standardize and simplify shared equity lending for our lenders. Further, they will contribute to the expansion of industry best practices to maximize the structure and effectiveness of shared equity programs.

Following are the 2021 Actions under this Objective as published in the December 14, 2018 Duty to Serve Plan:

☐ Establish an engagement model to ensure lender feedback is gathered and the certification framework is evaluated for continuous improvement opportunities.

☒ Create a communications plan to ensure eligibility data is captured, stored, and distributed timely to lenders.

☐ Conduct surveys of shared equity programs to collect program compliance information.

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☐ Create parameters and structure to identify programs that comply with DTS shared equity program requirements.

☐ Develop a certification framework for shared equity programs.

☐ Identify and, if feasible, execute any policy or programmatic changes necessary to accommodate model deed restriction documents.

☐ Develop or modify marketing materials to educate and promote new model documents.

☐ Develop and launch outreach activities to promote, inform, and educate stakeholders on the model deed restriction.

☐ Deploy a model deed restriction to support implementation of best practices and standards in the market, including a marketing campaign designed to increase adoption.

**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):**