



## Fannie Mae Affordable Housing Preservation Loan Product

### ACTIVITY:

F. Regulatory Activity: Financing of small multifamily rental properties (12 C.F.R. § 1282.34 (d) (1)).

### OBJECTIVE:

1. Adopt an effective approach to purchase small multifamily loans from financial entities with \$10 billion or less in assets and purchase loans (Test and Learn, Partner and Innovate, Do What We Do Best).

### SUMMARY OF RESULTS:

Fannie Mae approved and published changes to small loan pricing structures, which allow lenders to obtain more favorable pricing terms on Small Mortgage Loans, and for First Lien Mortgage Loans secured by a Property with 5-50 units (Small Property Loan). Small Mortgage Loans and Small Property Loans are collectively referred to as Small Loans. Enhancements to our Small Mortgage Loan platform have significant impact on Small Property Loans as well, because the majority of our Small Mortgage Loans are also Small Property Loans. The purpose of these changes was to provide additional liquidity to the Small Loan marketplace, and to improve the ease of execution for Lenders. We communicated these changes to all lenders in 2018, and our customer account teams provided targeted training to Small Loan lenders. To expand lender delegation and increase availability for Small Mortgage Loans, we are revising our Multifamily Selling and Servicing Guide (Guide) definition for Small Mortgage Loan underwriting and asset management. A Small Mortgage Loan will be any mortgage loan which has an original loan amount less than or equal to \$6 million.

In 2018, we performed a deep dive evaluation of our Small Loan business, including both our Small Property Loan focus, and our Small Mortgage Loan focus. We analyzed the historical loan performance, loan product features, borrower performance, lender performance and credit metrics. We also reviewed business forecasts in light of economic trends and predictions in the upcoming years, and how our product features and pricing stack up in the competitive landscape. The goal of this process was to identify existing gaps and determine which remedies were appropriate to fill such gaps. As a result, we identified that the guideline change, and product enhancement above would facilitate an increase in the number of Small loan purchases from small financial institutions (SFIs).

The holistic evaluation process included extensive outreach to our Small Loan lender partners. Our customer account teams have built close relationships with these lenders. We discussed with them the market challenges to doing more deals involving Small Property Loans and asked them to help us identify effective ways that we could broaden the market. We received excellent feedback from lenders, some of which impacted the changes discussed above. While our lenders do not heavily rely on correspondent networks, Fannie Mae did advise lenders interested in this business model on best practices and potential partners with whom they could work to build or enhance their correspondent network.

Finally, we engaged several SFIs outside our network that actively finance Small Property Loans. We are in the preliminary due diligence process with two such lenders as of the end of 2018, as we are exploring broadening our Small Loan lender network in 2019 to fill gaps identified during the Small Loan business analysis.

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

Engage stakeholders in discussions to gain knowledge and understanding of the challenges facing this market to determine an effective approach to broadening the market and increasing Fannie Mae purchases of small multifamily loans from institutions with \$10 billion or less in assets (Institutions =<\$10B) including:

Identify 10 Institutions =<\$10B that actively finance small multifamily loans for possible future engagement. As part of this process, Fannie Mae will examine our current offerings and market reach to confirm any existing gaps and determine whether there are non-Fannie Mae lenders that could help to fill such gaps. In addition, Fannie Mae will assess our current portfolio of small loans originated by Institutions =<\$10B to determine characteristics such as geography, LTVR and DSCR, performance, etc.



Work with three DUS lenders to consider and build or enhance correspondent networks with Institutions =<\$10B.

Based on the analysis completed above, implement a guideline change and approve a product enhancement that could increase the number of small loan purchases from small financial institutions.

Based on work completed in 2018, confirm the Baseline and loan purchase goals for 2019.

### **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?

The changes Fannie Mae made to our Small Loan platform in 2018 are directly intended to increase the number of Fannie Mae's Small Property Loan purchases from SFIs. The pricing change offers more preferential pricing to lenders for delivering high quality Small Property Loans to Fannie Mae that meet the requirements of our Guide. The change is meant to make Fannie Mae's Small Property Loan product more attractive in a competitive market. The definition change expands the pool of loans that Fannie Mae considers eligible for its Small Property Loan products. Again, this change is meant to increase Fannie Mae's Small Property Loan purchases from SFIs. These changes represent substantial progress in addressing an underserved market need. Fannie Mae conducted an analysis of expected volume increases as a result of these changes. The prospective analysis demonstrated that these product adjustments will have a significant impact in the Small Property Loan market.

Fannie Mae committed additional resources to building relationships with our Small Property Loan lenders in 2018, as we recognize the important role that Small Loans play in supporting the housing needs of underserved markets, especially in rural areas. We are dedicated to improving our understanding of how Small Property Loans are financed and seeking creative solutions to allow affordable properties to be eligible for secondary market financing (for example, through correspondent networks). The holistic Small Loan platform evaluation was conducted on an end to end basis, requiring input and resources from a diverse group of cross-functional Fannie Mae teams.

Lastly, Actions taken in 2018 are laying the groundwork for an even greater impact, as we began discussions with two SFIs (currently not in our lender network) interested in delivering Small Property Loans to Fannie Mae



beginning in 2019. Fannie Mae is also in the process of adding several conventional lenders to our Small Property Loan platform, to further expand our footprint and market share.

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.

The future Actions detailed in the Plan under this Objective commit Fannie Mae to purchases of Small Property Loans, in an amount greater than preceding years. The Small Property Loan pricing incentive and Small Mortgage Loan definition expansion directly and significantly contribute to Fannie Mae's likelihood of achieving these future Actions. We expect lenders to drive more business to Fannie Mae due to these meaningful changes to our Small Loan program.

In addition, our engagement with our Small Property Loan lenders network (and potential additional lenders), and guidance we provided to lenders regarding correspondent networks, are all foundational steps Fannie Mae took in 2018 to align our business to continue to close more affordable Small Property Loan transactions with SFIs in future years.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.  
N/A
4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

The guideline change and product enhancement Fannie Mae made to our Small Property Loan platform in 2018 are directly intended to increase the number of Fannie Mae's Small Property Loan purchases from SFIs. The pricing change offers more preferential pricing to lenders for delivering high quality Small Property Loans to Fannie Mae that meet the requirements of our Guide. The change is meant to make Fannie Mae's Small Property Loan product more attractive in a competitive market. The definition change expands the pool of loans that Fannie Mae considers eligible for its Small Property Loan products. Fannie Mae conducted an analysis of expected volume increases as a result of these changes. The prospective analysis demonstrated that these product adjustments will have a significant impact in the Small Property Loan market.



## **Fannie Mae Affordable Housing Preservation Second Quarter Report: January 1 - June 30, 2018 Loan Product**

### **ACTIVITY:**

F. Regulatory Activity: Financing of small multifamily rental properties (12 C.F.R. § 1282.34 (d) (1)).

### **OBJECTIVE:**

1. Adopt an effective approach to purchase small multifamily loans from financial entities with \$10 billion or less in assets and purchase loans (Test and Learn, Partner and Innovate, Do What We Do Best).

### **SUMMARY OF RESULTS:**

Fannie Mae conducted extensive outreach and research to understand the challenges facing the small multifamily rental property lending market. We engaged with stakeholders to identify potential gaps in both our product offering and geographic coverage.

These conversations helped inform our decision to expand our small loan definition as well as create pricing incentives for these loan types. We are working with our small loan DUS® partners to incorporate these enhancements and have begun the process of engaging with two small lending institutions to assess the feasibility of developing correspondent networks which will broaden our network and geographical coverage.

Following are the 2018 Actions under this Objective:

- Engage stakeholders in discussions to gain knowledge and understanding of the challenges facing this market to determine an effective approach to broadening the market and increasing Fannie Mae purchases of small multifamily loans from institutions with \$10 billion or less in assets (Institutions  $\leq$ \$10B) including:
  - Identify 10 Institutions  $\leq$ \$10B that actively finance small multifamily loans for possible future engagement. As part of this process, Fannie Mae will examine our current offerings and market reach to confirm any existing gaps and determine whether there are non-Fannie Mae lenders that could help to fill such gaps. In addition, Fannie Mae will assess our current portfolio of small loans originated by Institutions  $\leq$ \$10B to determine characteristics such as geography, LTVR and DSCR, performance, etc.
  - Work with three DUS lenders to consider and build or enhance correspondent networks with Institutions  $\leq$ \$10B.
- Based on the analysis completed above, design and implement a pilot program focused on increasing purchases of small multifamily loans from Institutions  $\sim$ \$10B to test and learn about the perceived gaps (e.g. product, geography, affordability) and risks as well as the potential for standardization and securitization.
  - Identify lenders to participate in the pilot program. The pilot lenders will be chosen on characteristics such as experience and success in the small loan market, relationships with smaller loan originators, financial condition, and geographical coverage.
  - Based on work completed in 2018, confirm the Baseline and loan purchase goals for 2019.

### **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):**