



## Fannie Mae Affordable Housing Preservation Loan Product

### ACTIVITY:

H. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3)).

### OBJECTIVE:

2. Increase liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans (Partner and Innovate, Do What We Do Best, Test and Learn).

### SUMMARY OF RESULTS:

Our 2018 loan product efforts focused on 1) establishing standards, guidelines and tracking to demonstrate the criteria set forth in the Duty to Serve (DTS) Rule for energy and water efficiency improvements (Improvements) are met and 2) working with the industry on standards needed to identify property-level Improvements data.

We researched a cross-section of energy and water saving calculation methodologies and lists used by government and utility programs as a means of assessing credible projections of savings. While local utility lists demonstrate credible savings and present homeowners with options to implement Improvements, our systems are not set up to monitor the ongoing quality of these programs. After evaluating local and national lists for simplification and nationwide adoption, we identified use of ENERGY STAR® and WaterSense for single master lists for energy and water products, respectively. These are updated regularly by the EPA and are applicable across the US.

We began to test approaches for identifying loans delivered to Fannie Mae that finance DTS - eligible Improvements and for how we can operationalize methodologies. We are evaluating the use of energy audits, certifications, or product lists to develop longer-term policy guidance for tracking and reporting DTS - eligible Improvements financed. We launched a limited initiative that leveraged certifications and product lists and were successful in purchasing DTS - eligible loans. We engaged with two municipalities who are early adopters of requiring home energy data disclosure in the MLS to further understand how to improve the use of an energy audit to facilitate financing improvements at time of home purchase.

Fannie Mae commenced its involvement in an industry-wide effort to redesign appraisal forms that will include capturing Improvements data. In preparation for this Uniform Appraisal Dataset (UAD) redesign effort, we met separately with the Real Estate Standards Organization and National Association of Realtors to lay groundwork about standardization and delivery data needed in the next UAD version. These Actions should ensure the FHFA Criteria will be disclosed so that homebuyers, realtors, appraisers, and lenders will have a uniform understanding of Improvements, which should facilitate a secondary market for loans with Improvements and enable us to increase liquidity. We began to outline a plan to help lenders and others once real estate forms are updated.

In 2018, Fannie Mae provided liquidity resulting in acquiring 69 mortgage loans meeting the FHFA Criteria.

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

Evaluate how to establish loan product standards, guidelines, and tracking to demonstrate that the FHFA Criteria have been met by engaging four administrators of major energy rating and certification programs, by researching 10 energy and water saving calculation methodologies and lists used by State, local, tribal, and utility programs, and by developing a plan to operationalize tracking methodologies, depending on the outcome of the evaluation. Identify a single master list to serve as a benchmark. Currently Fannie Mae has standards for two energy rating organizations and plans to engage the two largest single family certification programs in evaluating how to leverage credible projections. Fannie Mae has chosen to research 10 programs in order to represent a cross-section of the largest utility providers and geographic diversity.



Hold two meetings with interested parties (e.g., the National Realtors Association, Real Estate Standards Organization, the U.S. Department of Energy) to evaluate gaps in appraisal, multiple listing service (MLS), and investor delivery data that is needed by Fannie Mae and the industry in order to identify property-level information about energy and water efficiency features and assess the value impact. Evaluate opportunities to collaborate on a standardization effort and sign appropriate agreements if Fannie Mae determines we can do so after conducting due diligence.

Outline a plan for an education and training program for realtors and loan officers so that they and their customers will be able to understand the impact of Improvements on real estate forms.

Purchase between 50 and 100 mortgage loans that meet the FHFA Criteria. Fannie Mae established a proxy Baseline, described below, for 2019 and beyond because operational processes will not be in place during the full year of 2018 to be able to track loans that meet the FHFA Criteria. The targets set for 2018 are based on outreach efforts planned to test methodologies that will enable us to assess them. As such, the 2018 targets are below the proxy Baseline while Fannie Mae establishes tracking methods.

### **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?

Standards are critical because disparate entities need to exchange data and understand context in assessments, MLS, appraisals, mortgage finance, and related reporting. Through our active engagement with multiple industry parties we identified pain points in the real estate transaction life cycle where we can both support existing standards and accelerate their adoption, such as with certification programs, and other points where we will provide a leadership role or maintain a presence with participant groups developing standards. In particular, through our leadership in the UAD working group we began to address the key challenge of lack of standards and adoption of methodologies for communicating the presence and types of Improvements in residential properties. Much of this work is only beginning and Fannie Mae's involvement and leadership should accelerate definition and adoption.

Engagement and research meaningfully informed product development as our energy mortgage—HomeStyle® Energy (HSE)—does not align with the criteria set forth in the Rule. Through a specific initiative with four lenders we provided guidance and tested adoption of energy audits, certifications, and product lists and reporting of FHFA Criteria. The initiative included promoting and identifying Improvements in home renovation projects and half of loans delivered were part of renovations. This initiative launched late in the year and although we only purchased 69 loans, many other lenders with whom we met knew they could identify eligible loans and the work



highlighted the potential of our ability to increase significantly future loan purchases. This foundational work will continue in 2019 and we are evaluating its success and how we will create product and policy guidance to ensure all loans meeting the FHFA Criteria can be identified.

Through our ongoing collaboration with municipalities, and their stakeholders, who are early adopters in requiring disclosures on Improvements we are helping standardize and promote information that will increase accessibility for homebuyers to finance for homebuyers to make updates at time of purchase.

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.

Certain timelines under this Objective will shift in to 2019 and beyond as several industry efforts are in earlier stages than we originally anticipated. The actual education and training program for realtors and loan officers to understand the impact of Improvements on real estate forms can only be undertaken once actual appraisal and MLS standards and data are determined. We have begun discussions to consider how that training might be developed and deployed. We will also continue to evaluate if a formal collaboration other than the UAD would be in the best interests of Fannie Mae and the industry.

Our work to understand any required investor data related to Improvements will expand as we leverage relationships established and findings from our Capital Markets and Multifamily teams.

Our learnings from testing approaches for identifying loans delivered to Fannie Mae that finance DTS-eligible Improvements will continue to inform our product development efforts and will help us to operationalize methodologies and issue appropriate product and policy updates.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.  
Rising interest rates have significantly hampered the refinance market, decreasing demand for homeowners to use a mortgage product for financing Improvements.
4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

Our foundational work to test adoption of energy audits, certifications, and product lists and reporting of FHFA Criteria will continue in 2019; we are evaluating its success and how we will create product and policy guidance to ensure all loans meeting the FHFA Criteria can be identified at purchase.

Our deep understanding of the FHFA Criteria for improvements and our active participation with working groups and industry organizations are informing industry efforts to create standards so that valid and required information will be captured. This will lead to increased eligible loan purchases.



Fannie Mae

Affordable Housing Preservation

Loan Purchase

First Quarter: January 1 - March 31, 2018

## **ACTIVITY:**

H. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria (12 C.F.R. § 1282.34 (d)(3)).

## **OBJECTIVE:**

2. Increase liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans (Partner and Innovate, Do What We Do Best).

## **SUMMARY OF RESULTS:**

Following are the 2018 Actions under this Objective:

- Evaluate how to establish loan product standards, guidelines, and tracking to demonstrate that the FHFA Criteria have been met by engaging four administrators of major energy rating and certification programs, by researching 10 energy and water saving calculation methodologies and lists used by State, local, tribal, and utility programs, and by developing a plan to operationalize tracking methodologies. Identify a single master list to serve as a benchmark – by Q3 end. Currently Fannie Mae has standards for two energy rating organizations and plans to engage the two largest single family certification programs in evaluating how to leverage credible projections. Fannie Mae has chosen to research 10 programs in order to represent a cross-section of the largest utility providers and geographic diversity.
- Hold meetings – by Q4 end – with interested parties (e.g., the National Realtors Association, Real Estate Standards Organization, the U.S. Department of Energy) to evaluate gaps in appraisal, multiple listing service (MLS), and investor delivery data that is needed by Fannie Mae and the industry in order to identify property-level information about energy and water efficiency features and assess the value impact. Evaluate opportunities to establish a formal partnership with a standardization effort and sign appropriate agreements if Fannie Mae determines we can do so after conducting due diligence.
- Outline a plan for an education and training program for realtors and loan officers so that they and their customers will be able to understand the impact of Improvements on real estate forms.
- Purchase between 50 and 100 mortgage loans that meet the FHFA Criteria. Fannie Mae established a proxy Baseline, described below, for 2019 and beyond because operational processes will not be in place during the full year of 2018 to be able to track loans that meet the FHFA Criteria. The targets set for 2018 are based on outreach efforts planned to test methodologies that will enable us to assess them. As such, the 2018 targets are below the proxy Baseline while Fannie Mae establishes tracking methods.

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

### **ACTIVITY:**

H. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3)).

### **OBJECTIVE:**

2. Increase liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans (Partner and Innovate, Do What We Do Best).

### **SUMMARY OF RESULTS:**

Through June 30, 2018, we have purchased 11 HomeStyle<sup>®</sup> Energy loans but have not yet begun to count eligible energy financings with HomeStyle<sup>®</sup> Renovation mortgage loans.

To help limit the current projected shortfall of our 2018 loan purchase target of 50 we are in the process of developing and executing a robust outreach strategy and assessing ways to track required criteria.

Following are the 2018 Actions under this Objective:

- Evaluate how to establish loan product standards, guidelines, and tracking to demonstrate that the FHFA Criteria have been met by engaging four administrators of major energy rating and certification programs, by researching 10 energy and water saving calculation methodologies and lists used by State, local, tribal, and utility programs, and by developing a plan to operationalize tracking methodologies. Identify a single master list to serve as a benchmark – by Q3 end. Currently Fannie Mae has standards for two energy rating organizations and plans to engage the two largest single family certification programs in evaluating how to leverage credible projections. Fannie Mae has chosen to research 10 programs in order to represent a cross-section of the largest utility providers and geographic diversity.
- Hold meetings – by Q4 end – with interested parties (e.g., the National Realtors Association, Real Estate Standards Organization, the U.S. Department of Energy) to evaluate gaps in appraisal, multiple listing service (MLS), and investor delivery data that is needed by Fannie Mae and the industry in order to identify property-level information about energy and water efficiency features and assess the value impact. Evaluate opportunities to establish a formal partnership with a standardization effort and sign appropriate agreements if Fannie Mae determines we can do so after conducting due diligence.
- Outline a plan for an education and training program for realtors and loan officers so that they and their customers will be able to understand the impact of Improvements on real estate forms.
- Purchase between 50 and 100 mortgage loans that meet the FHFA Criteria. Fannie Mae established a proxy Baseline, described below, for 2019 and beyond because operational processes will not be in place during the full year of 2018 to be able to track loans that meet the FHFA Criteria. The targets set for 2018 are based on outreach efforts planned to test methodologies that will enable us to assess them. As such, the 2018 targets are below the proxy Baseline while Fannie Mae establishes tracking methods.

### **SELF-ASSESSMENT RATING OF PROGRESS:**

- On-target to meet or exceed the objective
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- Unlikely to achieve any milestones of the objective



**ADDITIONAL INFORMATION (IF APPLICABLE):**

We are currently off track on our loan purchase target of 50 HomeStyle Energy loans. We are currently working on an outreach and pricing strategy which we hope will drive up loan volume.



## **Fannie Mae Affordable Housing Preservation Third Quarter Report: January 1 - September 30, 2018 Loan Purchase**

### **ACTIVITY:**

H. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3))

### **OBJECTIVE:**

2. Increase liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans (Partner and Innovate, Do What We Do Best).

### **SUMMARY OF RESULTS:**

We have purchased 46 HomeStyle® Energy loans, placing us on track to reach our purchase goal of 50 loans this year.

Additionally, we have not begun to count eligible energy financing with HomeStyle® Renovation mortgage loans. Fannie Mae will conduct loan-level reviews to ensure they meet FHFA criteria. We will reach out to lenders for documentation to validate this total. Until this is complete, the purchase total noted above is tentative.

Following are the 2018 Actions under this Objective:

- Evaluate how to establish loan product standards, guidelines, and tracking to demonstrate that the FHFA Criteria have been met by engaging four administrators of major energy rating and certification programs, by researching 10 energy and water saving calculation methodologies and lists used by State, local, tribal, and utility programs, and by developing a plan to operationalize tracking methodologies. Identify a single master list to serve as a benchmark – by Q3 end. Currently Fannie Mae has standards for two energy rating organizations and plans to engage the two largest single family certification programs in evaluating how to leverage credible projections. Fannie Mae has chosen to research 10 programs in order to represent a cross-section of the largest utility providers and geographic diversity.
- Hold meetings – by Q4 end – with interested parties (e.g., the National Realtors Association, Real Estate Standards Organization, the U.S. Department of Energy) to evaluate gaps in appraisal, multiple listing service (MLS), and investor delivery data that is needed by Fannie Mae and the industry in order to identify property-level information about energy and water efficiency features and assess the value impact. Evaluate opportunities to establish a formal partnership with a standardization effort and sign appropriate agreements if Fannie Mae determines we can do so after conducting due diligence.
- Outline a plan for an education and training program for realtors and loan officers so that they and their customers will be able to understand the impact of Improvements on real estate forms.
- Purchase between 50 and 100 mortgage loans that meet the FHFA Criteria. Fannie Mae established a proxy Baseline, described below, for 2019 and beyond because operational processes will not be in place during the full year of 2018 to be able to track loans that meet the FHFA Criteria. The targets set for 2018 are based on outreach efforts planned to test methodologies that will enable us to assess them. As such, the 2018 targets are below the proxy Baseline while Fannie Mae establishes tracking methods.

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- 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):**