



Fannie Mae Rural Housing Outreach

ACTIVITY:

B. Regulatory Activity: Housing for high-needs rural populations (12 C.F.R. § 1282.35 (c) (2)).

OBJECTIVE:

2. Design an investment pilot program, partnering with a Native American CDFI or other mission driven lenders, to increase access to credit, capital, or financial counseling (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

Fannie Mae developed and submitted to the Federal Housing Finance Agency for consideration an ambitious, charter-compliant proposal for a Native American Community Development Financial Institution (CDFI) investment pilot program. While specific details of the proposal cannot be disclosed, the priorities centered on providing access to affordable mortgage capital and addressing the lack of affordable supply.

Native American communities often lack access to traditional financial institutions. Native American CDFIs help communities thrive and grow by increasing access to credit, capital, and financial services. The lack of basic financial services has implications for financial literacy and capacity building, and increases the difficulty of tribal members acquiring home mortgages. Through our proposal, if approved, Fannie Mae's capacity to support sustainable homeownership in Native American communities will be significantly improved.

The development process for this proposal was rigorous and drew heavily on experts from the CDFI sector, bank investment portfolio managers and internal legal counsel. Throughout 2018 and leading up to the proposal submission on September 30, 2018, Fannie Mae undertook extensive outreach, research and roundtable discussions.

To ensure our investment proposal would have significant impact in Native American communities, it was crucial to understand their greatest needs. To that end, Native American CDFIs shared the challenges they face in the mortgage space and their impact-focused recommendations for Fannie Mae. Bank investment portfolio managers shared the strengths and weaknesses of various investment structures. Lenders were forthcoming with their experiences investing in Native American CDFIs. Fannie Mae hosted a working session in the summer 2018 in which our executive-level management, the Duty to Serve Team, legal, and accounting stakeholders met with four CDFIs and their membership organization to refine a proposal that would help CDFIs expand their impact.

Through our discussions with external experts and practitioners, we identified two potential partners who would assist in building the pilot framework and deploying capital. We selected these partners based on their experience and capacity to serve all of Indian Country, their innovative ideas for solving the lack of affordable housing supply, and an in-depth review of their finances and performance.

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

- Engage three CDFI or other mission driven lenders, identifying one to five potential innovative homeownership, lending, or investment opportunities that have the potential to meet FHFA approval and are consistent with Fannie Mae's Charter Act.
- Perform outreach and research, data collection, and analysis in order to: (1) improve Fannie Mae's understanding of the needs, opportunities and factors that will drive improvements and outcomes for Native American tribes; (2) establish and identify methodologies to determine a level of investment that meets those needs; and (3) establish the investment underwriting criteria.
- Achieve internal approval and submit proposed pilot program to FHFA for review and approval.



Establish reporting mechanisms and performance measures.

The completion of outreach and research, data collection, and analysis, and all actions pertaining to the internal and FHFA approval process in 2018 will inform any or all future actions in 2019 and 2020, including Fannie Mae's internal product development process.

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?

According to the Housing Assistance Council, more than 70 percent of lending to Native American borrowers occurred farther than 25 miles away from American Indian lands. On reservation lands, lenders originated an annual average of just 919 loans to Native American borrowers between 2013 and 2015. That equates to an average of 1.9 loans per 1,000 Native American reservation residents, as compared to the nation's 22.3 loans per 1,000 U.S. residents. Loans made on reservations underrepresent the population at-large: while nine percent of Native American populations live on reservations, the number of loans made there only represents two percent of lending to Native American borrowers.

It is also important to note that while the federal government plays an important role in supporting affordable housing, the Department of Housing and Urban Development reports that more than 90 percent of the Section 184 loans (the Indian Home Loan Guarantee Program) and dollars loaned are originated off reservation land. Not only do Native American community residents increasingly prefer homeownership, but it can be a key aspect of personal or family asset building and of Native American community economic development overall.

The need for new options for affordable capital is strong, and this program will improve Fannie Mae's capacity to support sustainable homeownership and increase the homeownership rate on reservations. Because our priorities are focused on affordable mortgage capital and addressing the lack of affordable supply, we believe this program can be part of the solution for Native American communities.

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.

If approved, this pilot could allow Fannie Mae to expand capacity to support sustainable homeownership in other unserved markets such as high-needs rural regions. All CDFIs have a constant need for investments from various



sources to support their unique programs at affordable interest rates. At this time, there are no changes in the planned next steps or timeline for this work until we receive the necessary guidance and/or approval from the FHFA to initiate this activity.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.

Yes, there are market factors that adversely impact the actions under this Objective. Title to tribal lands is held by the United States government in trust for the benefit of the tribes. This legal status of land is complicated to understand deterring access to capital and investment. Tribal land falls under the tribal government jurisdiction. Mortgage ordinances or codes including a residential ground lease must be established. Without this infrastructure in place, conventional mortgage lending is not attainable on tribal lands. Rural and remote geographies of tribal lands make it difficult for tribal members to access mainstream financial institutions and financial services. Native American community development finance institutions possess the experience, knowledge and expertise to assist communities to thrive and grow by increasing access to credit, capital, and financial services.

4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

As indicated in Impact Explanation Question #1, Fannie Mae's success in addressing the need in Native American communities is expected to translate into an increase in homeownership rates on reservations. If approved, this pilot will allow Fannie Mae to provide capacity to support sustainable homeownership in Native American communities specifically on tribal trust land.



**Fannie Mae
Rural Housing
Second Quarter Report: January 1 - June 30, 2018
Outreach**

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SUMMARY OF RESULTS:

Fannie Mae is diligently working to finalize a proposal for a Native American homeownership investment opportunity. We've consulted with many experts on how best to deploy this investment (subject to internal/FHFA approval).

We held many informational sessions to gain a solid understanding of the need and are currently working with industry leaders to help facilitate an outreach strategy aimed at engaging Community Development Financial Institutions (CDFI).

Following are the 2018 Actions under this Objective:

- Engage three CDFI or other mission driven lenders, identifying one to five potential innovative homeownership, lending, or investment opportunities that have the potential to meet FHFA approval and are consistent with Fannie Mae's Charter Act – by Q3 end.
- Perform outreach and research, data collection, and analysis in order to: (1) improve Fannie Mae's understanding of the needs, opportunities and factors that will drive improvements and outcomes for Native American tribes; (2) establish and identify methodologies to determine a level of investment that meets those needs; and (3) establish the investment underwriting criteria – by Q3 end.
- Achieve internal approval and submit proposed pilot program to FHFA for review and approval – by Q3 end.
- Establish reporting mechanisms and performance measures – by Q4 end.
- The completion of outreach and research, data collection, and analysis, and all actions pertaining to the internal and FHFA approval process in 2018 will inform any or all future actions in 2019 and 2020, including Fannie Mae's internal product development process.

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):