



Fannie Mae 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:

2. Purchase single-family rural loans through bulk transactions from small financial institutions (Analyze, Innovate and Do What We Do Best).

SUMMARY OF RESULTS:

Small financial institutions (SFIs) in rural areas often originate and maintain mortgage loans in portfolio. As a result, throughout 2018 Fannie Mae sought opportunities to engage lenders and purchase rural loans in bulk. Selling loans to us in bulk can be beneficial to these institutions because it can improve liquidity and capital position or fund strategic business opportunities. In tandem with these engagement efforts, we took a closer look at our operational process and system capabilities to identify a way to improve the process.

By year-end, we were able to confirm that some SFIs developed their own hybrid mortgage product and held the loans in their portfolio. Portfolio lending limited their capital and thus hindered their ability to make further loans in their communities. These SFIs were forced to offer balloon payments, shorter terms, and adjustable rates to preserve liquidity. Our engagement efforts also uncovered that SFIs would benefit from education and training opportunities. Key impediments also emerged, which included limited knowledge of how to execute a bulk transaction, a partial understanding of secondary market qualifications, and a lack of access to Fannie Mae's technology.

As part of our engagement strategy, we took meaningful steps to better understand the dynamics of SFIs and the nuances associated with rural lending. We focused our engagement on understanding the knowledge of SFIs around bulk deals, challenges to executing successful transactions, key characteristics or credit profiles of their portfolio loans, and reasons lenders opted to keep them out of the secondary market. We've collaborated with a partner to provide small financial institutions with a turnkey solution to better manage their residential mortgage portfolio held on their balance sheet.

Understanding the complexity of these transactions, Fannie Mae identified key strategic partners with the expertise to identify, solicit, and provide technical assistance for SFIs navigating the bulk transaction process.

Lastly, beginning in spring 2018, Fannie Mae established an internal working group to address these matters. The primary function of this group was to monitor the flow of bulk deal transactions for ways to create efficiencies and to document best practices.

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

- Engage five single-family small financial institution lenders on the benefits of bulk transactions. When possible, identify and analyze the loan level details of their portfolios and associated lending terms.
- Assess Fannie Mae's operational and system capabilities including a servicing assessment (if an identified lender from the above bullet is deemed a non-seller or their portfolio doesn't meet the eligibility criteria).
- If necessary and deemed appropriate, pursue internal approval to purchase rural single-family loans that may be considered illiquid assets and may remain on Fannie Mae's balance sheet for the life of the loans and not be eligible for securitization.



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?
Fannie Mae's significant engagement work and market presence were impactful in addressing the ability to purchase loans in bulk from SFIs. We also laid the foundation to continue to solve for some of the challenges identified in 2018 and will continue to expand our technical assistance. The data obtained proved to be impactful because we learned mortgage portfolios are often small, and ineligible secondary market criteria severely decreases the eligible loan pool. Low pull-through rates do not make bulk deals cost efficient.
In 2018, we were able to successfully complete bulk deals with SFIs; however, volumes were small and not all loans met the Duty to Serve eligibility. In these instances, lenders were able to leverage reinvestment of capital. Direct engagement also helped inform product and policy development and will contribute to future efforts as we continue to evaluate opportunities and initiatives to address market needs.
Our effort to analyze our internal operational and system capabilities was also impactful. By monitoring a total of 24 transactions, Fannie Mae's working group learned that no transactions were alike, which creates an inconsistent assessment of cycle time. It was also uncovered that more than half of the time spent guiding customers through the stages of a bulk deal involved significant time lapses. Improved internal team collaboration and an established process will assist the customer through the process in a more streamlined manner.
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.

With improved internal team collaboration and an establishing a cohesive process, Fannie Mae will be able to assist the customer in a more streamlined manner. We will continue to work with our vendor partner, but it is imperative that we identify potential customers early in the year, providing the extra time needed to successfully execute.\



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

Yes, one market factor that adversely impacts the actions under this Objective is servicing, which can be both time-consuming and costly. SFIs are entrenched within their communities and often have built strong relationships with their borrowers. Mortgage loan servicing is crucial to the borrower, the small financial institution, and the community, and is something that will need continued efforts to address in 2019 and beyond.

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

The Actions for this Objective will contribute to future loan purchases. In 2019, given the important exploratory work we conducted in 2018, Fannie Mae plans to, as possible, execute bulk purchases of 600 loans from SFIs. Bulk transactions remain a successful mean of solving for mortgage liquidity for SFIs in rural areas. With improved internal team collaboration and establishment of a cohesive process to help guide the customer, we anticipate that we have the necessary tools in place to meet loan purchases in 2019 and beyond. We will continue to work with third-party vendors to identify potential customers early in the year, providing the time needed to successfully execute.



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

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SUMMARY OF RESULTS:

Fannie Mae is actively engaging with small financial institution lenders to identify and analyze the loan level details of their mortgage lending portfolios. It is our goal to purchase these loans in bulk, thus providing liquidity and capital to these entities.

We are currently in discussions with two small financial institutions to assess potential impacts to our internal systems of such bulk purchases.

Following are the 2018 Actions under this Objective:

- Engage five single-family small financial institution lenders to identify and analyze the loan level details of their portfolios and associated lending terms to identify opportunities to purchase loans in bulk – by Q3 end.
- Assess Fannie Mae's operational and system capabilities including a servicing assessment (if necessary) to handle bulk transaction deliveries.
- Pursue internal approval to purchase rural single-family loans that may be considered illiquid assets and may remain on Fannie Mae's balance sheet for the life of the loans and not be eligible for securitization – by Q4 end.

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):