



Fannie Mae Rural Housing Outreach

ACTIVITY:

C. Regulatory Activity: Financing by small financial institutions of rural housing (12 C.F.R. § 1282.35(c) (3)).

OBJECTIVE:

3. Gain an understanding of the challenges and opportunities for small financial institutions in rural areas through outreach (Do What We Do Best).

SUMMARY OF RESULTS:

In 2018, Fannie Mae's customer-facing teams worked together in identifying ways to increase loan production and create value for small financial institutions (SFIs) by understanding the pivotal role they play in serving rural areas. A major activity here involved executing an extensive research project that raised internal awareness about SFIs, and which identified opportunities to better serve rural areas.

Through constant strategic business engagement and relationship building, we were able to educate lenders on our work and set the foundation for partnerships to strengthen homeownership in rural areas. We worked to nurture relationships and served as a valuable partner for SFIs. In addition, during 2018 we hosted roundtables, established the Fannie Mae Rural Duty to Serve Advisory Council (Rural Advisory Council) and subcommittees, sponsored multiple events, and attended dozens of meetings across rural areas. Throughout this process we listened, learned, and maintained visibility with these lenders.

As Fannie Mae deepened engagement with SFIs, we focused on responsible ways to expand access to credit. Stakeholders identified affordability as a barrier to originating mortgages in rural communities – and thus we piloted an incentive program aimed at improving affordability.

Fannie Mae also took the initial steps toward creating a comprehensive strategy to support Community Development Financial Institutions (CDFIs) in their mission to provide access to credit in rural communities. We partnered with an independent vendor with secondary market experience to analyze the business model of multiple CDFIs, assessing the opportunity, risk and mutual business fit of working directly with these institutions.

To better support SFIs in rural areas, Fannie Mae completed a research project to further enhance our understanding of their business models and market needs. Nine in-depth interviews were held with a variety of SFIs across different geographical locations. The targeted financial institutions were identified based upon their location, business model, and relationship with Fannie Mae. An onsite visit provided additional context and a firsthand view of the market need, the lending environment, and the operational challenges of lending in these rural areas. The work provided insight around how to best support efforts to increase loan purchases from SFIs while providing rich contextual data for future Duty to Serve endeavors.

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

- Facilitate meetings with three small financial institutions and three CDFIs to discuss strategy on increasing loan production or to create an alternative business model allowing CDFIs access into the secondary market.
- Assist small financial institutions in meeting rural areas loan delivery requirements by engaging 25 small financial institutions to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.
- Perform a research "journey" targeting Small Financial Institutions in rural areas and publish learnings internally with the goal to increase loan deliveries and Fannie Mae penetration in rural areas.



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 engagement with SFIs proved to be impactful in a number of important ways. Through the work of our customer-facing teams and the creation of our Rural Advisory Council, we pulled together multiple small financial institutions and have been able to receive "boots on the ground" intelligence about the market in real time. As a result, Fannie Mae was able to launch an initiative with a select group of SFIs designed to address affordability challenges. We have been able to better understand the importance of community development finance institutions and identified two key financial organizations with potential to become direct Fannie Mae sellers.
In concert with Fannie Mae's Customer Experience Design team, we made a major investment in understanding the challenges faced by rural SFIs. Through phone calls, a site visit, and engagement with a diversity of lenders, our team produced comprehensive materials that chart not only the "journey" of institutions across different regions, but which also highlight common needs: improved access to financial literacy tools, a fix for the appraisal gap, and much more. By reporting out on these findings to key Fannie Mae stakeholders, we made an immediate impact by educating our workforce about these challenges. We also positioned ourselves for a much greater future impact, as these foundational learnings will guide product enhancements, policy changes, and other future actions we take.
SFIs often do not take full advantage of Fannie Mae's suite of technology solutions for lenders, and this could affect loan delivery to us. Using technology creates certainty and minimizes risk. Educating these small lenders may increase loan deliveries, thus, we have offered to make training opportunities available.
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 actions for this Objective provide support for future actions in many ways. Fannie Mae will continue to engage small financial institutions in a variety of ways. Our Rural Advisory Council will meet multiple times annually during the ensuing years. We will look to deepen our support for SFIs, particularly with CDFIs.
Additionally, building on our learnings from the SFIs research we conducted earlier in 2018, Fannie Mae convened an expert panel comprised of cross-functional internal stakeholders to generate, evaluate, and prioritize opportunities for us to support rural SFIs going forward. This working session produced a number of leading ideas, of which the team



prioritized its top 13 actionable opportunities. These opportunities include potential enhancements to our communications, marketing, pricing, delivery methods, and other levers available to Fannie Mae – each with the potential to facilitate positive change for SFIs and their ability to access greater liquidity. Through our actions, we are poised for even greater impact in 2019 and 2020.

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 Actions for this Objective will contribute to future loan purchases from SFIs in rural areas. Fannie Mae is now better informed about these institutions and has identified many potential opportunities to increase loan purchases. Our partnership with CDFIs will expand and deepen as we move forward. Given the importance of technology in increasing loan production, we will continue to educate SFIs about how to use technology while promoting its efficiency and certainty benefits. It is also our goal to extend the affordability initiative with participating SFI.