



## Fannie Mae Rural Housing Loan Product

### ACTIVITY:

D. Regulatory Activity: Small multifamily rental properties in rural areas (12 C.F.R. § 1282.35 (c) (4)).

### OBJECTIVE:

1. Identify market opportunities to purchase small multifamily loans in rural areas (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). 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. Additionally, based on our outreach and research efforts in 2018, the vast majority of rural properties with 5-50 units would fall into Fannie Mae's Small Mortgage Loan definition. These changes will provide additional liquidity to the Small Property Loan marketplace and improve the ease of execution for lenders. This is directly impactful to rural markets, as the majority of affordable rural deals are Small Property Loans.

To expand lender delegation and increase availability for small loan mortgages, we revised the Guide definition for Small Mortgage Loan underwriting and asset management. A "Small Mortgage Loan" is any mortgage loan which has an original loan amount less than or equal to \$6 million.

Fannie Mae performed a deep dive evaluation of our small loan business, including our Small Property Loans and our Small Mortgage Loans. We examined loan, borrower and lender performance, product features, geography, concentrations and credit metrics. We reviewed business and economic forecasts, 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 strategies were appropriate to fill them.

The evaluation included outreach to our small loan lender partners, and our Fannie Mae Rural Duty to Serve Advisory Council. We discussed market challenges, asked them to help us identify effective ways that Fannie Mae could broaden the market, and inquired about lenders' interest in pursuing more affordable rural business. The feedback will impact the product enhancements we are exploring in the high-needs rural regions and populations, and our Duty to Serve Plan Objectives relating to rural rental housing programs under Section 515 of the National Housing Act of 1949 (RD 515). Properties financed with the RD 515 loan product are likely to be a Small Property Loan or a Small Mortgage Loan (or both), so any product enhancement to finance RD 515 properties will benefit the small rural loan market as well.

Finally, we are in the preliminary due diligence process with two lenders that actively finance small multifamily loans, to fill gaps identified during the small loan business analysis. Both lenders have an interest in delivering rural deals and have considerable experience with USDA rural lending products. Because current DUS® lenders that do not do affordable rural business currently don't have the capacity to do so, a more impactful strategy is to bring on additional lenders which have a desire and capacity to fill the market gap.

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

Conduct outreach to six Fannie Mae DUS lenders that had previously indicated their interest in originating small multifamily loans in rural areas, to determine their level of interest.

In addition to reaching out to DUS lenders interested in making small multifamily loans in rural areas, conduct outreach to at least two other financial entities to determine if they have the capacity and the resources to become a Fannie Mae lender (or aggregator) with a special focus on rural areas (e.g., lenders with a rural focus that are not



currently Fannie Mae lenders, Federal Home Loan Banks, and/or similar financial organizations with a rural footprint, and national CDFI with a rural focus).

Conduct and document an internal review of Fannie Mae's RD 538 program to determine if it could be used efficiently to purchase small multifamily loans in rural areas.

In conjunction with the activities under the Affordable Housing Preservation Market section of this Plan, research potential USDA 515 refinance opportunities in rural areas.

Review and determine one to three changes to Fannie Mae's Small Loan guidelines that would be appropriate to facilitate the provision of liquidity to the market through purchases of the subject loans, taking into consideration notions of safety and soundness.

Position one existing Fannie Mae lender to start originating small rural loans in 2019 of the Plan.

In order to generate increased small multifamily rural loan purchases, educate the lenders that have expressed interest in small multifamily rural loans via Fannie Mae's outreach on any changes that have been made to the small loan product guidelines.

Utilize results from actions taken during 2018 to confirm the 2019 loan purchase goal.

### **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 guideline changes and product enhancement Fannie Mae made to our small loan platform in 2018 are directly intended to increase the number of Fannie Mae's small loan purchases, including those made in rural America. The pricing change offers more preferential pricing to lenders for delivering high quality loans on Small Property Loans that meet our credit standards and selling guide. The change is meant to make Fannie Mae's small loan product more attractive in a competitive market. The definition change expands the pool of loans that Fannie Mae considers eligible for its small loan products. Again, this change is meant to increase Fannie Mae's small loan purchases. These changes represent substantial progress in addressing rural market needs. 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 loan market.

Fannie Mae committed additional resources to building relationships with our small loan lenders in 2018, as we recognize the important role that small loans play in supporting the housing needs of underserved rural markets. We are dedicated to improving our understanding of how small rural multifamily properties are financed and seeking creative solutions to allow affordable properties to be eligible for secondary market financing. 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 small financial institutions (currently not in our lender network) interested in delivering small affordable loans to Fannie Mae beginning in 2019. Both lenders have an interest in delivering rural deals, and have considerable experience interacting with rural lending products such as USDA offerings. Because current DUS lenders that do not do affordable rural business currently don't have the capacity to do so, a more impactful strategy is to bring on additional lenders which have a desire and capacity to fill the market gap.

Our product development work around RD 515 will have a tremendous impact on future Actions under this Objective, because most small affordable rural deals require USDA financing to be economically viable.

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 multifamily rural loans, in an amount greater than preceding years. The small loan pricing incentive and small 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 this meaningful pricing incentive, and we expect that additional loans will qualify for treatment as small multifamily loans due to the expansion of the small loan definition.

In addition, the evaluation of our portfolio and relationship building steps we took with our small loan lenders interested in rural business (and potential additional lenders), are all foundational tactics Fannie Mae took in 2018 to align our business to continue to close more small loan transactions in rural areas in future years. Fannie Mae expects to grow the rural focus within our lender network, both through adding lenders who target rural properties, and through incentivizing our current lenders to pursue additional rural business.

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 changes and product enhancement Fannie Mae made to our small loan platform are directly intended to increase the number of Fannie Mae's small loan purchases, including those made in rural America. The pricing change offers preferential pricing to lenders for delivering loans on small multifamily properties to Fannie Mae that meet our credit and selling standards. The change is meant to make Fannie Mae's small loan product more attractive in a competitive market. The definition change expands the pool of loans that Fannie Mae considers eligible for its small loan products. This change is meant to increase Fannie Mae's small loan purchases. These changes represent substantial progress in addressing the rural market need. We 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 loan market.

In addition, the evaluation of our portfolio and relationship building steps we took with our small loan lenders interested in rural business (and potential additional lenders), are all foundational tactics Fannie Mae took in 2018 to align our business to continue to close more small loan transactions in rural areas in future years. Fannie Mae expects to grow the rural focus within our lender network, both through adding lenders who target rural properties, and through incentivizing our current lenders to pursue additional rural business.



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

### **ACTIVITY:**

D. Regulatory Activity: Small multifamily rental properties in rural areas (12 C.F.R. § 1282.35 (c) (4)).

### **OBJECTIVE:**

1. Identify market opportunities to purchase small multifamily loans in rural areas (Partner and Innovate, Do What We Do Best).

### **SUMMARY OF RESULTS:**

Fannie Mae researched potential USDA Section 515 refinance opportunities in rural areas through analysis of our book of business and information gathering through outreach with internal and external stakeholders. We looked at possible solutions for preservation of small multifamily rural Section 515 units and began analyzing our RD Section 538 platform for opportunities to finance small multifamily properties under that program.

We had conversations with our existing DUS® lenders as well as two other non-Fannie Mae lenders to discuss the expansion of the market for small multifamily loans in rural areas and have identified strong potential partners. Fannie Mae made several impactful changes to our guidelines, including expanding the definition of small loans and providing increased pricing incentives, which will expand our contribution to the liquidity of the small multifamily loan market.

Following are the 2018 Actions under this Objective:

- Conduct outreach to six Fannie Mae DUS lenders that had previously indicated their interest in originating small multifamily loans in rural areas, to determine their level of interest.
- In addition to reaching out to DUS lenders interested in making small multifamily loans in rural areas, conduct outreach to at least two other financial entities to determine if they have the capacity and the resources to become a Fannie Mae lender (or aggregator) with a special focus on rural areas (e.g., lenders with a rural focus that are not currently Fannie Mae lenders, Federal Home Loan Banks, and/or similar financial organizations with a rural footprint, and national CDFI with a rural focus).
- Conduct and document an internal review of Fannie Mae's RD 538 program to determine if it could be used efficiently to purchase small multifamily loans in rural areas.
- In conjunction with the activities under the Affordable Housing Preservation Market section of this Plan, research potential USDA 515 refinance opportunities in rural areas.
- Review and determine one to three changes to Fannie Mae's Small Loan guidelines that would be appropriate to facilitate the provision of liquidity to the market through purchases of the subject loans, taking into consideration notions of safety and soundness.
- Position one existing Fannie Mae lender to start originating small rural loans in 2019 of the Plan.
- In order to generate increased small multifamily rural loan purchases, educate the lenders that have expressed interest in small multifamily rural loans via Fannie Mae's outreach on any changes that have been made to the small loan product guidelines.
- Utilize results from actions taken during 2018 to confirm the 2019 loan purchase goal.

### **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):**