



Fannie Mae 2019  
Affordable Housing Preservation  
Loan Purchase

**ACTIVITY:**

K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C. F.R. § 1282.34 (d) (7)).

**OBJECTIVE:**

2. Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

**SUMMARY OF RESULTS:**

Following are the 2019 Actions under this Objective per the December 20, 2019 Duty to Serve Plan:

<i>Objective's components detailed in the Plan</i>	<i>Corresponding actions taken</i>	<i>Explanation of any deviations from the Plan (if applicable)</i>
<input type="checkbox"/> Purchase loans originated for the purchase or rehabilitation of a distressed property, representing a share of the estimated total distressed property inventory. The target will be approximately a 10 to 15 percent higher than the revised Baseline for 2019, or 2.97% to 3.11%.	<p>We purchased 5,724 loans used to acquire or rehabilitate distressed properties through November 2019. This represents a 2.35 percent share of the total number of distressed property sales (243,586) for the period January through November 2019. Because December data for the total number of distressed property sales were not available at the time of this writing, only an 11-month market share could be derived.</p> <ul style="list-style-type: none"> <li>• We offered incentives to targeted lenders for the delivery of mortgage loans made to income-eligible borrowers for the purchase or rehabilitation of distressed properties.</li> <li>• We identified alternative sources to more accurately size the distressed property sales market.</li> <li>• We worked to understand the accuracy of the method used to identify distressed property loan purchases.</li> </ul>	<p>Through November 2019, we purchased 5,724 loans used to finance the purchase or rehabilitation of distressed properties, resulting in a share of the total number of distressed property sales for that period of 2.35 percent. We purchased an additional 358 loans in the month of December 2019; however, as we are not able to ascertain the total number of distressed property sales through December, these loans have not been included in our reported total annual loan purchase count.</p>



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**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)
- No milestones achieved

**PARTIAL CREDIT JUSTIFICATION:**

N/A

**IMPACT:**

- 50 – Substantial Impact
- 40 – Between Meaningful and Substantial Impact
- 30 – Meaningful Impact
- 20 – Between Minimal and Meaningful Impact
- 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 in laying the foundation for future impact in addressing underserved market needs?**

Our loan products were an important financing source for low- and moderate-income (LMI) borrowers purchasing distressed properties. More than 67 percent of DTS-eligible homebuyers that made use of Fannie Mae financing to purchase or rehabilitate a distressed property in 2019 were first-time homebuyers, nearly triple the percentage of first-time homebuyers for all of our 2019 loan purchases. On average, DTS-eligible borrowers that used Fannie Mae financing to purchase or rehabilitate a distressed property earned approximately 67 percent of area median income (AMI).

We devoted substantial time and resources to developing processes and analytics for distressed property loan purchase activities. This allowed us to identify more robust measures for assessing the size of the distressed property market. In an initial attempt to determine the number of annual distressed property sales, we used a third-party forecast model that employed quarterly historical observations and forecasts for future quarters to estimate market activity. Forecasts derived from this model significantly overestimated future market size, making it difficult for us to assess market dynamics and evaluate our activity relative to the total number of distressed property transactions. As a result, we sought an alternative data source, ultimately finding third-party data that offers actual historical distressed sales activity on a monthly basis, enabling us to better understand market trends in relation to our own loan purchase activity.



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We also explored alternative methods for identifying loans used to finance the purchase or rehabilitation of distressed property. We currently utilize the Sale Type denoted by an appraiser in the Contract Section of the digital appraisal data submitted to the Uniform Collateral Data Portal® (UCDP®) to identify distressed property loans. However, appraisers often fail to select the correct Sale Type in that section, resulting in loans that were used to finance distressed properties not being accurately identified. We explored alternative avenues to identify distressed property loans, including the potential use of external data sources to match property addresses for purchased loans to addresses for which a foreclosure filing was made. We also evaluated the potential to use the Seller Name from property transactions to identify loans. An initial analysis of this approach using keywords such as “Bank” or “Fannie Mae” identified more than 1,200 additional distressed property loans that were not captured via the Sale Type methodology.

We developed new analytic and reporting resources for our REO properties. Realizing that the distressed property sales for which we have the most insight, data, and control are our own, we built tools that will help us determine the geographic distribution of REO assets that would likely be affordable to buyers with incomes of 100 percent or less of AMI. Additionally, we analyzed the type of buyers and financing for purchases of Fannie Mae REO properties. We can use these tools for future market analysis and targeting of distressed property activities.

### **2. What did the Enterprise learn from its work about the nature of underserved market needs and how to address them?**

The most important insight we gained from our work in this market was that lenders have very limited ability to determine whether a loan is financing a distressed property at the time a loan product and secondary market outlet are selected. Appraisal data is not submitted to the UCDP until late in the loan origination process, after loan options have already been presented to the borrower and a specific loan product selected. Moreover, lenders do not customarily review the Sale Type field of the appraisal data, and therefore, amending systems and processes to do so is a difficult endeavor. Together, these issues make it extremely challenging for lenders to develop proactive strategies to increase delivery of distressed property loans to us, even when desirable incentives are available for doing so.

Additionally, we learned that the Sale Type indicator field of the Contract section of the Uniform Appraisal Dataset is not an accurate means of capturing whether a transaction was a distressed property sale. Appraisers frequently mark sales as arm’s length rather than as real estate owned (REO) or short sales, resulting in undercounting of distressed property loans purchased by us. This issue has become more pronounced over time, as the percentage of loans missed by using the Sale Type indicator has nearly doubled since 2014.

Finally, we learned through our analysis of Fannie Mae REO property sales that most properties which are likely to be affordable for borrowers with Duty to Serve eligible incomes are purchased by cash buyers. We have sought to provide more information regarding the purchase of Fannie Mae REO properties to consumers, lenders, and real estate professionals to enable owner-occupant buyers to better compete with investors for REO properties. We are evaluating additional strategies to support owner-occupant purchases of Fannie Mae REO. However, these efforts face headwinds due to the decrease in Fannie Mae’s REO inventory in recent years. Fannie Mae’s REO sales as a percentage of total distressed property sales have declined substantially, dropping from 17.88 percent of total sales in 2014 to 8.29 percent in 2019.



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**3. (Optional): If applicable, why were all components of this objective not completed?**

We were unable to achieve our loan purchase objective for two reasons:

First, because lenders have difficulty identifying loans used to purchase a distressed property prior to loan delivery; it is virtually impossible for loan level delivery incentives to drive a greater number of distressed property loan purchases. Lenders are simply unable to tailor origination strategies to distressed property incentives. Second, incorrect delineations of Sale Types by appraisers yielded lower than actual loan counts using our approved appraisal-based mechanism for tracking distressed property loans.



**Fannie Mae  
Affordable Housing Preservation  
First Quarter Report: January 1 - March 31, 2019  
Loan Purchase**

**ACTIVITY:**

K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C. F.R. § 1282.34 (d) (7)).

**OBJECTIVE:**

2. Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

**SUMMARY OF RESULTS:**

Fannie Mae has purchased 1,577 single family REO/distressed property loans, placing us at risk of reaching our loan purchase goal of 9,325 loans this year.

Market trends continue to show a steadily decreasing inventory in distressed properties which adversely impacts our ability to meet our target. Specifically, changes in third-party forecast data, as it relates to short sales, warrant further review and analysis of our forecast model. To help combat these adverse trends, we will look at developing more frequent data and model monitoring reviews and look at developing a stronger marketing and outreach plan aimed at short sales.

Following are the 2019 Actions under this Objective:

- Purchase between 9,325 and 9,750 loans originated for the purchase or rehabilitation of a distressed property, representing approximately a 10 to 15 percent increase over the expected Baseline for 2019.

**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, 2019 Loan Purchase**

### **ACTIVITY:**

K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C. F.R. § 1282.34 (d) (7)).

### **OBJECTIVE:**

2. Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

### **SUMMARY OF RESULTS:**

We are currently off track for our purchase goal of 9,325 loans originated for the purchase or rehabilitation of distressed properties. Through June, we have purchased 3,433 DTS-eligible distressed property loans. The primary cause of this lower than expected loan purchase figure is the industry-wide reduction in distressed properties. In establishing our baseline for the financing of distressed property purchases, we utilized REO foreclosure forecasts from Moody's Analytics as the basis for quantifying anticipated market activity. However, the Moody's forecast has been consistently revised downward in subsequent quarters following establishment of the baseline, making clear the difficulty in establishing definitive forecasts of the pipeline of distressed properties. Consistent with the market trends identified by Moody's, we have also seen our supply of distressed properties decline repeatedly in recent years.

Considering the unexpected decrease in total supply of distressed properties, we have not been able to achieve the volume of distressed property loan purchases we had anticipated.

We are seeking via a variety of means to increase the volume of distressed loan purchases. We are developing more robust analytical tools for our REO portfolio that we intend to use for the development of new targeting and incentive strategies to increase the number of Fannie Mae REO properties acquired by DTS-eligible buyers. In addition, we hope to generate new loan purchases through the aforementioned Homestyle for nonprofits and high CLTV pilots. Furthermore, as also discussed above, we are endeavoring through marketing and outreach to educate lenders, real estate agents and consumers about the opportunities available for the purchase of REO properties. It remains to be seen if these efforts will be sufficient to overcome the impact of the reduced supply of REO available in the market.

Following are the 2019 Actions under this Objective:

- Purchase between 9,325 and 9,750 loans originated for the purchase or rehabilitation of a distressed property, representing approximately a 10 to 15 percent increase over the expected Baseline for 2019.

### **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**  
**Third Quarter Report: January 1 - September 30, 2019**  
**Loan Purchase**

**ACTIVITY:**

K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C. F.R. § 1282.34 (d) (7)).

**OBJECTIVE:**

2. Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).

**SUMMARY OF RESULTS:**

We continue to be off track for our purchase goal of 9,325 loans originated for the purchase or rehabilitation of distressed properties. Through September, we have purchased 4,977 DTS-eligible distressed property loans. As has been stated in prior reporting, the inventory of distressed properties remains lower than was anticipated in the forecasts Fannie Mae used to establish its baseline and targets for distressed property loan purchases. While this reality is positive for borrowers and communities in that it indicates fewer than expected mortgage defaults, it has made it increasingly difficult for Fannie Mae to purchase loans used to acquire distressed properties.

Further, as with the volume of distressed properties for the market at large, Fannie Mae continues to experience low REO inventory, making it difficult to leverage such assets for DTS purposes. Despite the fact that we have increased the repair rates for Fannie Mae's SF REO by more than 30%, and that on average nine out of every 10 properties that Fannie Mae repairs sells to an owner occupant, these results are not sufficient to compensate for the total reduction in Fannie Mae REO inventory.

Following are the 2019 Actions under this Objective:

- Purchase between 9,325 and 9,750 loans originated for the purchase or rehabilitation of a distressed property, representing approximately a 10 to 15 percent increase over the expected Baseline for 2019.

**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):**