



Fannie Mae 2019
Rural Housing
Loan Product

ACTIVITY:

A. Regulatory Activity: Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c)(1)).

OBJECTIVE:

4. Develop solutions to increase single-family loan purchases in high-needs rural regions (Analyze, 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 checked="" type="checkbox"/> Because of known barriers such as a lack of affordable supply and an aging housing stock in need of updates and renovation in high-needs rural regions, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products. We will revise policy or establish a test and learn approach issuing one negotiated variance to select lenders in high-needs rural regions. | <p>We initiated a test and learn pilot to address supply shortage, allowing a select number of Habitat for Humanity affiliates to act as both the property seller and the provider of down payment assistance. This ability provides the opportunity for mission driven developers to contribute to the solution for affordable supply.</p> <ul style="list-style-type: none"> • We made construction to permanent financing available for manufactured homes (MH) to promote new, affordable housing supply (Previously, this product was only available for site-built homes). | N/A |
| <input checked="" type="checkbox"/> Identify an innovative approach to address housing affordability, the inventory shortage or the replacement of substandard homes. This work could include but is not limited to the development of an innovation, work to scale the opportunity, revise policy or produce at least one prototype home. | <p>We continued a three-year test and learn research plan launched in 2018 with Auburn University's Rural Studio to develop well-built sustainable homes at an affordable price point in rural regions. As part of this plan, Rural Studio executed eight Memoranda of Understanding with "Pilot Housing Fulfillment Partners," including one reputable</p> | N/A |



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| | nonprofit affordable developer in Appalachia, to test seven homes that will inform future designs to meet the long-term needs of rural households. | |
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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?

We laid a foundation for expanding future rural housing supply by 1) executing policy changes to support a future pipeline of affordable units; 2) contracting with Rural Studio to create affordable, high-performing housing designs in high-needs rural regions.

Building a Pipeline of Affordable Supply:

Habitat for Humanity International (HFHI) is a nonprofit organization with a network of approximately 1,250 affiliates serving low-income families across the United States. Considering the lack of new private investment in housing construction, especially in high-needs rural regions, HFHI plays a critical role in supporting the future pipeline of affordable supply in rural communities.



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We initiated one test and learn pilot, allowing a select number of HFHI's affiliates to act as both the property seller and the provider of down payment assistance. Prior to this pilot, HFHI homes were not eligible for Fannie Mae's financing because the down payment assistance provided to borrowers by HFHI exceeded our seller contribution limit of three percent.

As evidenced by this partnership, as well as by their creation of a "Community Lending Review Department", our lender partner has demonstrated its commitment to affordable lending in high needs rural regions. This infrastructure should encourage future deliveries. In addition, HFHI is creating a platform through which HFHI's affiliates could deliver loans to Fannie Mae. This could result in additional liquidity, increasing their ability to serve more low-income rural borrowers.

Construction-to-Permanent Financing for Manufactured Housing:

Throughout 2018 and early 2019, multiple lenders expressed concern regarding current Construction-to-Permanent (C-to-P) product options. Specifically, lenders were concerned that existing C-to-P options were only available for financing the construction of site-built homes, but not for the purchase and installation of a newly constructed manufactured home. We removed that restriction in August 2019, formally allowing C-to-P manufactured housing (C-to-P MH) loans.

The introduction of C-to-P MH loans allows borrowers to pay interest-only payments during the construction period. This addresses a key pain point in the newly-constructed MH homebuying process, which requires the borrower to begin paying full principal, interest, taxes and insurance (PITI) from the date of loan closing – before the borrower has a place to live. The C-to-P MH option allows lenders to utilize a more familiar loan product, which many lenders currently use for site-built homes, while extending more manageable housing payments for borrowers. As the C-to-P MH option was launched in August 2019, loan volumes in high needs rural regions were low but are expected to be significantly higher in 2020.

This policy change presents a unique opportunity for high-needs rural areas as manufactured housing accounts for 20 percent of all owner-occupied housing units in these housing markets. This compares to just six percent nationally.

Affordable, High-Performance Homes:

Rural Studio is addressing rural communities' growing need for affordable, disaster resilient, energy efficient homes that are also accessible to aging individuals. We commissioned Rural Studio to test different low-cost construction and design approaches to address these needs, assessing which designs may produce the greatest energy efficiency savings and positive health outcomes. In short, they are assessing which up-front investments will provide the most long-term benefit.

For example, in conjunction with Auburn Opelika Habitat For Humanity Alabama, Rural Studio completed two homes equipped to monitor energy at the individual circuit level and computationally modeled energy usage before the beginning of construction. One of the two homes is believed to be the first home in the country to achieve the Passive House and FORTIFIED Gold certifications for both energy efficiency and disaster resilience, respectively.



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Rural Studio is observing post-occupancy home performance to improve the designs offered to affordable housing providers. These findings will equip affordable developers with designs for affordable homes built to stay affordable over the long-term with lower energy and maintenance costs. Rural Studio is also testing a similar model designed for aging in place. It will leverage its findings to improve designs that meet the needs for new and replacement housing in rural communities.

Providing developers with affordable designs to build low-cost, energy-efficient, and accessible housing is an important step toward ensuring that such homes are built and available in high needs rural regions to meet growing demand. The Memoranda of Understanding Rural Studio has in place with eight non-profit housing providers allows them to test and improve efficiencies in these homes, laying the foundation for a future production pipeline.

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

The cost of a new site-built starter home is approximately \$250,000, and is considered unaffordable for many homebuyers in high-needs rural regions (area median income in persistent poverty counties is \$55,500). In order to support affordable housing in high needs rural markets, we need to expand our focus beyond traditional site-built homes. MH is one potential solution, as the national median price point for MH is approximately \$85,000, according to the 2018 Manufactured Housing Survey.

Yet, in a series of focus groups we conducted this year, this housing type was often met with resistance and stigma among residents in high needs rural areas, given their personal experiences. We regularly hear complaints from external stakeholders about the difficulties associated with MH titling and installation. We are focused on understanding the unique barriers and opportunities for MH in high-needs rural areas so we can offer financing tools tailored to the needs of these regions.

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

N/A



Fannie Mae Rural Housing Second Quarter Report: January 1 - June 30, 2019 Loan Product

ACTIVITY:

A. Regulatory Activity: Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c)(1)).

OBJECTIVE:

3. Create a work-plan and increase multifamily loan purchases in Middle Appalachia, the Lower Mississippi Delta, and the colonias (Analyze, Test and Learn, Do What We Do Best).

SUMMARY OF RESULTS:

Fannie Mae made significant strides in our goal to process at least one product enhancement and standardization element to support a secondary market for loans in the high-needs rural regions. Robust outreach with the DUS lender network and our Rural DTS Advisory Council, as well as loan analysis drove our continued product development efforts this quarter. We engaged with internal technology subject matter experts to identify a lender interface enhancement that will support standardization and consistency in how we and our lender partners identify and consider rural business.

Additionally, we will submit an innovation modification in 2019 that adds Fannie Mae's Rural Visualization Tool to the Underserved Markets Plan. The Tool is a web-based, interactive mapping and data analysis resource that presents key socioeconomic indicators of successful affordable housing outcomes in the high-needs regions. We developed the tool in 2018 and 2019 in partnership with a rural-focused technology consultant, and plan to pilot it to rural CDFIs in 2019. We believe the tool will support their market analysis and site selection capabilities.

Following are the 2019 Actions under this Objective:

Based on the work completed in 2018:

Process at least one product enhancement and one standardization element identified in the work-plan through the product enhancement and development approval procedure, and implement the product enhancement(s) and standardization element.

Implement the two identified key actions that will enhance Fannie Mae's role in and ability to serve the multifamily market in Middle Appalachia, the Lower Mississippi Delta, and the colonias.

Revise and document updated work-plans including considering proposing additional product enhancements or key actions.

Facilitate one rural housing roundtable with cross-functional industry representation to continue to discuss, analyze, and solve the challenges facing high-needs rural regions.

Conduct one annual meeting of the Advisory Council to continue to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan.

Participate in two key conferences as a means to continue to network with key industry stakeholders and to communicate the "Duty to Serve" message.

Confirm 2020 multifamily loan purchase goals.



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 Rural Housing Second Quarter Report: January 1 - June 30, 2019 Loan Product

ACTIVITY:

A. Regulatory Activity: Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c)(1)).

OBJECTIVE:

2. Increase affordable capital through industry outreach and developing solutions to increase single-family loan purchases in high-needs rural regions (Analyze, Partner and Innovate, Do What We Do Best)

SUMMARY OF RESULTS:

Fannie Mae drafted a paper analyzing the mortgage market for small balance loans in high-needs rural regions (HNRR), which we anticipate releasing in late summer. Findings include that the mortgage market is less concentrated in HNRR, meaning that loan originations are spread across many lenders; denial rates on small balance loans in HNRR are higher than for small balance loans originated in the overall market and that denial rates for all single-family purchases in HNRR declined between 2012 and 2017. Further, manufactured housing, USDA and small balance loans are the three biggest predictor characteristics of a loan having been originated in a HNRR.

In April, we expanded to consumers the high-needs rural marketing campaign we launched in 2018 for lenders and real estate agents. After two months of ads in market, we have gotten 8.5 million impressions, 37,500 clicks to our ads, and 12,200 visits to our campaign landing page. Most visitors to our landing page are clicking on "down payment as low as 3%," followed by "low down payment mortgages" - precisely the messages we want to educate borrowers on. We have also added borrower testimonials to our marketing materials so future borrowers can hear more about the process first-hand.

We continue to provide extensive resources and additional technical assistance finalizing a seller relationship with lenders in Appalachia and colonias. These institutions possess unique and innovative business models that will be impactful to the development of loan products to these underserved markets.

The work to create a beyond county-based definition of colonias has moved into its second phase, which is to educate the industry and gain wide acceptance of the revised definition. Fannie Mae, in partnership with the Housing Assistance Council, developed an outreach strategy to solicit feedback. To date, we have presented the information at the MAFO National Farmworker Conference, where approximately 25 organizations were represented at the session. Over the next two months, we have scheduled educational webinars and sent invitations to approximately 200 organizations in New Mexico, Arizona and Texas.

In rural America, high unemployment, underemployment and limited access to workforce development, financial literacy, and vocational training can undermine housing stability. Fannie Mae provided resources to partners standing up Financial Opportunity Centers to address these issues in Appalachia.

We are currently conducting market research, including a survey of borrowers in high-needs rural communities and interviews with builders and lenders to inform a test and learn approach on rural supply to be launched later this year.

Following are the 2019 Actions under this Objective:

- Develop and make available market research and/or rural housing data sets. Fannie Mae will define topics that (1) have meaningful impact on high-needs rural regions and (2) are chosen to work toward a solution to a problem. Some topics could include challenges of originating low balance loans or appraising properties in high-needs rural regions. This information will be made available to the public and industry stakeholders on Fannie Mae's website, through the use of targeted email campaigns, and other highly visible mechanisms. This activity of market research promotes transparency, educates the public and housing industry stakeholders, and provides insights and solutions to potential challenges.



- Because of known barriers such as a lack of affordable supply and an aging housing stock in need of updates and renovation in high-needs rural regions, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products and establish a test and learn approach issuing one negotiated variance to select lenders in high-needs rural regions.
- Provide technical assistance such as resources to assist lenders serving high needs rural regions to become approved sellers.
- Facilitate innovative partnerships between two lenders to increase availability of conventional mortgage financing in high needs rural regions.
- Identify opportunities to educate the industry to widely accept the definition of "colonias" developed in 2018.
- Continue to expand homebuyer education or financial counseling:
 - Monitor the participants' progress towards homeownership of the two partnerships created in 2018.
 - Enhance or expand two partnerships targeting certain high-needs rural regions creating one documented business plan to reach and engage households in need of housing assistance.
 - Increase homeownership opportunities by identifying and engaging two potential anchor institution partners in high-needs rural regions.
 - Support two partners developing models to teach those living in high-needs rural regions and document best practices to reach and engage households needing financial literacy.
 - Enhance and expand one test and learn service learning program model and training curriculum.
- Work with the industry to promote access to appropriate types of products, resources, and financing that will help very low-, low-, and moderate-income families access appropriate financing and assistance, including third-party grants for renovations and energy and water efficiency improvements.
- Engage CDFI or other mission driven lenders, identifying potential innovative homeownership, lending, or investment opportunities that have the potential to meet FHFA approval and are consistent with Fannie Mae's Charter Act.

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):