



Fannie Mae 2019
Rural Housing
Loan Purchase

ACTIVITY:

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

OBJECTIVE:

1. Fannie Mae will increase single-family loan purchases in high-needs rural regions (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"/> Purchase between 11,000 and 11,500 single-family loans in high-needs rural regions, representing a six to 11 percent increase over the Baseline.	We purchased 12,092 loans in high-needs rural regions, representing a 16.5 percent increase over the baseline of 10,377 loans.	N/A

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:



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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 volume represents a 16.5 percent increase over the baseline of 10,377 loans and a 4.2 percent increase from the 11,608 loans purchased in 2018.

In 2019, the Kentucky Housing Corporation increased deliveries by 52 percent. This increase was at least in part tied to our collaborative efforts, which included a marketing campaign in High Needs Rural Regions.

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

We learned how to better serve both the borrower and lender in the high-needs rural market.

Borrower:

The most clicked content of our borrower focused marketing campaign was “down payment as low as 3%” and the second most clicked message was “low-down-payment mortgages.” Future marketing efforts will focus on highlighting this messaging.

Lender:

Lenders experience operational challenges identifying high-needs rural geographical markets. To address this challenge, we expanded our AMI lookup tool to highlight these high-needs rural regions with correlating AMI information making it easier to identify an eligible area.

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

N/A



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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, rural tracts in persistent poverty counties, and the colonias (Analyze, Test and Learn, 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"/> Based on the work completed in 2018:		
<input checked="" type="checkbox"/> 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.	Fannie Mae approved and implemented a product enhancement and standardization element that raises the priority for high-needs rural regions among our lender partner network and provides enhanced consistency for identifying deals in the regions. Qualifying business is eligible for pricing incentives.	N/A
<input checked="" type="checkbox"/> Purchase 43 multifamily loans in high needs rural regions.	Fannie Mae purchased 47 DTS-eligible loans in the high-needs rural regions.	We exceeded this Action's target by four loans.
<input checked="" type="checkbox"/> 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, rural tracts in	Fannie Mae continued to make progress implementing the two identified key actions from the work plan, enhancing our ability to serve the target markets.	N/A



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persistent poverty counties, and the colonias.		
<input checked="" type="checkbox"/> Revise and document updated work-plans including considering proposing additional product enhancements or key actions.	Fannie Mae updated our work plan to reflect our strategy to drive impact in the high-needs rural regions.	N/A
<input checked="" type="checkbox"/> Facilitate one rural housing roundtable with cross-functional industry representation to continue to discuss, analyze, and solve the challenges facing high-needs rural regions.	Fannie Mae participated in a rural roundtable with the Persistent Poverty Working Group in September 2019, which included a bus tour of housing challenges and successes in Appalachia. We collaborated with partners to identify challenges, listen, and work together to develop solutions.	N/A
<input checked="" type="checkbox"/> 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.	Fannie Mae met with the Rural Housing Advisory Council in June 2019 and October 2019. We collaborated with partners to identify challenges, listen, and work together to develop solutions.	N/A
<input checked="" type="checkbox"/> Participate in two key conferences as a means to continue to network with key industry stakeholders and to communicate the "Duty to Serve" message.	Fannie Mae attended the 2019 MAFO National Farmworker Conference (colonia areas are a focus) and the 2019 Fahe Annual Meeting and Rural Initiatives Conference to share the duty to serve message.	N/A
<input checked="" type="checkbox"/> Confirm 2020 multifamily loan purchase goals.	Fannie Mae reviewed our current and expected deal pipeline and applied assumptions based on expected lender activity, market	N/A



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	trends, our product mix, and regulatory/conservator constraints, and confirmed our high-needs rural regions loan purchase goal for 2020.	
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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?

Fannie Mae implemented a product enhancement called the High-Needs Rural Regions Initiative, which lays the groundwork for continued focus and growth in these underserved markets through relationships with lenders and borrowers.

As a result of this product enhancement, all business in DUS Gateway® will be automatically flagged with the applicable rural and high-needs rural region designation based on property address, as well as with the applicable residential economic diversity designation. This added element to our deal pipeline system (which is used daily by all of our lenders) brings standardization to our mutual understanding and knowledge of high-needs rural regions. All DUS Gateway users (external and internal) have access to the eligibility flags to facilitate visibility and consistency in determining eligibility for the product enhancement. This standardization element and heightened presence supports insight into the location of opportunities for business in the high-needs rural



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regions, raises awareness throughout our lender community, and clearly messages Fannie Mae's strong interest in this business.

The High-Needs Rural Regions Initiative offers a meaningful pricing incentive on businesses that are in high-needs rural regions (as flagged in DUS Gateway) in an effort to encourage our lender partners to deliver loans in high-needs rural regions. A 5 basis point pricing adjustment has been set in response to our analysis of historical pricing of eligible deals and prudent expectations of investor demand. Pricing encourages lender loan deliveries more than any other factor in this market. Competitive pricing signals our continued interest in business in the high-needs rural regions, in service to our affordable housing mission. The pricing incentive is communicated clearly in multiple places within our deal management system.

Throughout 2019, Fannie Mae pursued transactions in the high-needs rural regions in order to continue being a reliable source for multifamily liquidity in all markets. As a result, we financed 47 loans in the high-needs rural regions with deep affordability, a result that exceeded the target, which itself was a 25 percent increase above our baseline. It takes exceptional effort and significant lender engagement to target and evaluate these deals, owing in part to the fact that less real estate data is available for rural markets. We expect that the High-Needs Rural Regions Initiative and other resources, such as the Rural Visualization Tool, will bolster Fannie Mae's ability to direct even more liquidity into these markets in 2020 and beyond.

During 2019, our substantial Low-Income Housing Tax Credit (LIHTC) equity investments in rural business included 21 projects in the high-needs rural regions. LIHTC is the most impactful funding source for multifamily housing in the high-needs rural regions and are very difficult to secure.

Lastly, during 2019, Fannie Mae partnered with the Housing Assistance Council (HAC) on a major research initiative that resulted in a system to clearly identify, define, and map Colonia Investment Areas, according to mortgage-industry acceptable standards — census tracts. HAC's concept and methodology is supported by deep qualitative and quantitative analysis and is based on an accumulation of colonias data from an exhaustive search and outreach process, including partnership with researchers, municipalities, and universities. The research was shared with industry stakeholders and peers throughout 2019 to gather feedback. The resulting database provides a holistic view of colonias in a way that is consumable by the GSEs and the mortgage industry.

The High-Needs Rural Regions Initiative is a substantial step toward making impact in the market today and in the future. Our strategy is focused on creating sustainable solutions to market challenges. Raising awareness in our lender network and growing visibility in the high-needs rural regions is crucial progress to that end. Evidence of our progress (to complement the product enhancement and standardization element) is our substantial increase in loan purchases in the high-needs rural regions in 2019.

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

Fannie Mae cannot create business in high-needs rural regions on our own. Lender partnership is crucial to driving Fannie Mae liquidity into the high-needs rural regions. Building awareness and visibility for lenders into the underserved rural markets helps to promote understanding. Active engagement with our lender partners and sharing our interest in the high-needs regions is a great way to address this challenge. Rural housing



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markets, especially high-needs rural regions, present unique challenges to the financing of multifamily deals. Fannie Mae is exploring tools and models to address these obstacles and plans to advance existing efforts aimed at driving additional Fannie Mae liquidity to underserved markets.

In general, LIHTC equity deals in the high-needs rural regions, and the high-needs rural populations can often be quite complicated. The deals and related counterparties require extra time to evaluate. Our tax credit investments in the high-needs rural regions are especially impactful, because these deals are much more dependent on equity than on debt, and in fact many projects are not able to support any conventional debt.

Deals in the high-needs regions tend to be smaller deals. It's important that we recognize this challenge and provide solutions to our lender network that are realistic and that align with our lender network's goals and business models. Lenders with expertise and appetite for small loans and/or loans in rural areas are the best source for this particular type of business. This was a consideration as we planned the communication and messaging of the product enhancement.

Relationships with deal sponsors matter in the high-needs rural regions. One sponsor, one broker, or one relationship can be the source for substantially impacting a market or a community.

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

N/A



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

ACTIVITY:

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

OBJECTIVE:

1. Fannie Mae will increase single-family loan purchases in high-needs rural regions (Do What We Do Best).

SUMMARY OF RESULTS:

We have purchased 2,213 single family loans in high-needs rural regions, placing us at risk of reaching our loan purchase goal of 11,000 loans this year.

We are currently conducting a root cause analysis to help identify potential issues that may be adversely affecting loan acquisitions. We hope to have additional information to share during our next quarterly meeting.

Following are the 2019 Actions under this Objective:

- Purchase between 11,000 and 11,500 single-family loans in high-needs rural regions, representing a six to 11 percent increase over the Baseline.

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 Purchase

ACTIVITY:

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

OBJECTIVE:

1. Fannie Mae will increase single-family loan purchases in high-needs rural regions (Do What We Do Best).

SUMMARY OF RESULTS:

Through June 30, 2019, we have acquired 5,290 loans and are off track for this objective. Although loan purchase volume has been lower than expected during the first half of the year, we remain optimistic in meeting this goal by year end.

As we work to close the gap, outreach, education and collaboration with our lender partners continues. Weekly discussions with multiple lenders, including those with aggregation channels, have led to a process that should increase loan production. Additional opportunities to increase loan production include the development of an internal tool to identify DU casefile early in the manufacturing process. We are also delivering a new observation message informing lenders of Duty to Serve eligible loans.

Following are the 2019 Actions under this Objective:

- Purchase between 11,000 and 11,500 single-family loans in high-needs rural regions, representing a six to 11 percent increase over the Baseline.

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):