



Fannie Mae 2019
Rural Housing
Loan Purchase

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:

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, purchase 60 loans on small multifamily properties in rural areas, representing a 58 percent increase over the Baseline.	Fannie Mae purchased 82 DTS-eligible loans on small multifamily properties in rural areas.	We exceeded this Action's target considerably. Many of the loans are located in high-needs rural regions.
<input checked="" type="checkbox"/> Complete the on-boarding process for new lenders as needed.	Fannie Mae extended our small loan platform to one new lender and three additional existing lenders in 2019, working closely with these key partners to build their small loan capabilities and program. This is more impactful in the market than onboarding multiple, smaller new lenders.	N/A
<input checked="" type="checkbox"/> Confirm the 2020 small multifamily rural loan purchase goals.	Fannie Mae reviewed our current and expected deal pipeline and applied assumptions based on expected small loan lender activity, market trends, our product mix, and regulatory/conservator constraints and confirmed our small multifamily rural loan purchase goal for 2020.	N/A



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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?

Affordable units in rural communities are more prevalent in small multifamily properties (those with 5 – 50 units) than larger properties. Rural areas have higher homeownership rates than other parts of the country and greater population dispersion — as well as smaller populations in general.

Small multifamily properties in rural areas may obtain debt financing from local or regional lenders, smaller national lenders, the U.S. Department of Housing and Urban Development, and the United States Department of Agriculture Rural Development. Additional liquidity from larger national lenders would bring down pricing and could allow for more flexible loan terms for borrowers as well as quicker and easier executions. Small deal sizes, economic concentration risk, and inconsistent income growth are all challenges to attracting debt capital from larger national lenders, such as those in our lender network. However, Fannie Mae is committed to being in every market every day, and we operate a robust small loan platform in partnership with several lenders who have significant small loan expertise. Our small loan business targets deals that are \$6 million or less, and nearly all of the loan purchases under this Objective come through our small loan program.

Most of the business in this area is driven by a small handful of lenders, and the rest is spread across a larger group. In 2019, we took major steps to onboard three of our existing lenders and one new lender to our small loan platform. Any Delegated Underwriting and Servicing (DUS(R)) lender can deliver small loans to Fannie Mae; however, eight of the lenders have a dedicated small loan platform. These steps represent significant progress to facilitating acquisition of a greater volume of loan purchases on small multifamily properties. Fannie Mae has



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strict capital and performance requirements. Therefore, we determined that onboarding new lenders to drive qualifying business would be less efficient and less impactful than the approach we utilized. The onboarding process is cumbersome, and new lenders generally do not deliver large volumes of business during the first few years in our program. Leveraging the strength of the DUS program, our deep lender partnerships, and the vast reach of our lenders is a more formidable and impactful approach.

We engaged with eight lenders with an interest in small multifamily properties throughout the year to share our intent to do additional rural business and to learn more about challenges and opportunities in rural areas.

Our 80 loan purchases on small multifamily properties in rural areas is a 100 percent increase over the baseline and represents significant direct impact. In addition, 10 of those properties are in the high-needs rural regions. It takes exceptional effort to target and evaluate these deals, owing in part to the fact that less real estate data is available for rural markets. Our progress bringing additional lenders onto the small loan platform lays the groundwork for substantial impact in the future as we continue to nurture our lender partners' growth in small loans and in rural markets.

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

As indicated above, small loan sizes and high relative transaction costs continue to pose business challenges to lenders in our network. Communicating our interest in rural business to lenders is an effective way to encourage business. Building borrower relationships in rural areas is another meaningful way to develop a pipeline of business in markets with which lenders are comfortable. The national reach of many of our lender partners could also be a meaningful opportunity to reach rural markets at scale.

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

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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 acquired an estimated 18 loans secured by small multifamily properties in rural areas, representing approximately 610 total rental units. Two of the properties are in the Lower Mississippi Delta. We estimate that two of these properties meet residential economic diversity eligibility under high opportunity, as defined by the Duty to Serve Rule.

The first quarter of 2019 saw increased acquisitions of small multifamily properties. This is a direct result of the small loan pricing structures Fannie Mae approved in 2018, allowing 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. The purpose of these changes was to provide additional liquidity to the Small Loan marketplace, and to improve the ease of execution for Lenders. This was directly impactful to rural markets, as the majority of affordable rural deals are First Lien Mortgage Loans secured by a Property with 5-50 units. Increased production was also caused by Fannie Mae's revisions to the Guide definition for Small Mortgage Loan underwriting and asset management, in order to expand Lender delegation and increase availability for Small Mortgage Loans. A "Small Mortgage Loan" is any Mortgage Loan which has an original loan amount less than or equal to \$6 million. This was directly impactful to rural markets, as the majority of affordable rural deals are Small Mortgage Loans.

Fannie Mae is continuing the due diligence process with two lenders that actively finance small multifamily loans, to fill gaps identified during the small loan business analysis conducted in 2018. Both lenders have an interest in delivering rural deals and have considerable experience with USDA rural lending products. In addition, Fannie Mae is actively promoting our rural focus among our Affordable Lenders and our Small Loan Lenders, in an effort to identify opportunities of mutual interest between Fannie Mae and our partners.

Following are the 2019 Actions under this Objective:

- Based on the work completed in 2018, purchase 60 loans on small multifamily properties in rural areas, representing a 58 percent increase over the Baseline.
- Complete the on-boarding process for new lenders as needed.
- Confirm the 2020 small multifamily rural 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):