



Federal Housing Finance Agency

Duty to Serve

FHFA presents Snapshots from Fannie Mae's & Freddie Mac's Duty to Serve Underserved Markets Plans for State & Local Single-Family Housing



Effective January 1, 2018

Snapshots from Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans: State and Local Single-Family Housing

Compiled by the Federal Housing Finance Agency

FHFA has compiled Snapshots from [Fannie Mae's](#) and [Freddie Mac's](#) Duty to Serve Underserved Markets Plans addressing activities that support state and local single-family housing. To access the Duty to Serve Underserved Markets Plans in their entirety, please visit FHFA's Duty to Serve website.

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DISCLAIMER

Implementation of the activities and objectives in Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans may be subject to change based on factors including FHFA review for compliance with the Charter Acts, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.



Fannie Mae

FHFA's Compilation of Snapshots
from Fannie Mae's Duty to Serve
Plan: State and Local Single-Family
Housing



I. Regulatory Activity: Shared equity programs for affordable housing preservation (12 C.F.R. § 1282.34 (d) (4)).

1. **Objective #1: Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).**

Meeting the Challenges	
<ul style="list-style-type: none"> One of the biggest challenges in the market for shared equity programs for affordable housing preservation is the lack of liquidity in the marketplace. <p>To address these challenges, Fannie Mae will:</p>	<ul style="list-style-type: none"> Purchase a total additional 1,100 to 1,300 loans over three years for the purpose of financing shared equity homeownership, which equals an estimated additional \$158 million to \$194 million of liquidity over the Baseline.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	<ul style="list-style-type: none"> Purchase between 250 and 300 shared equity loans, representing a 20 to 44 percent increase over the Baseline. <ul style="list-style-type: none"> Baseline: Fannie Mae’s current guidelines do not require, nor do we identify or track, an affordability term of at least 30 years after recordation, or a preemptive option to purchase or limit proceeds at resale as required for shared equity loans qualifying for Duty to Serve credit. In order to determine a Baseline, we used an assumption based on industry research, that 75 percent of our shared equity loans met such criteria. We started with the total number of shared equity loans purchased in 2016, which was 277, when purchase volumes reached a high over the last three years. (2014: 172; 2015: 185; 2016: 277). Applying our assumption, we estimate a Baseline of 208.
2019	<ul style="list-style-type: none"> Purchase between 350 and 400 shared equity loans, representing a 68 to 92 percent increase over the Baseline.
2020	<ul style="list-style-type: none"> Purchase between 500 and 600 shared equity loans, representing a 140 to 188 percent increase over the Baseline. This includes the loan purchases referenced in Objective #2.

The ultimate opportunity available in this market is to finance increased numbers of shared equity loans for affordable housing preservation. Fannie Mae has significant experience purchasing various loans with deed-restrictions and under inclusionary housing programs. Based on this experience, coupled with the help of industry stakeholders, we believe this Objective is achievable within the time periods described. Underwriting standards and credit guidelines that are consistent with safety and soundness will be applied to acquisition of this product.



Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. Objective #2: Increase liquidity for shared equity homeownership through outreach, research, and loan product solutions (Analyze, Partner and Innovate, Test and Learn).

Meeting the Challenges

The shared equity market faces a number of challenges, including:

- Complexity and fragmentation. It serves various household income ranges, differs across geographic markets, and represents a variety of program types.
- Unknown size. The various programs are unique and no standard definition exists on what should be included in the “shared equity market.” With data gathered by multiple agencies, often in survey form, there is a lack of a unified, loan level data source. There is also a lack of guidance on what should be identified as a shared equity mortgage loan in the Uniform Loan Delivery Data (ULDD) set.
- Lack of support. Shared equity mortgage loan products are generally not well promoted or supported in the larger mortgage finance industry as they add complexities to the loan origination process and to servicing. These complexities and challenges include additional underwriting requirements and steps and representations for the lender and servicer versus other loan types, leading to fears of non-compliance with investor requirements. As a result, lenders avoid originating and selling shared equity mortgages to Fannie Mae.³³

To address these challenges, Fannie Mae will:

- Develop and execute a robust research and analysis strategy in order to fill knowledge gaps and help expand liquidity by:
 - Conducting research and data analysis to understand the market size, challenges, and opportunities for preserving the long-term affordability of shared equity property types, as well as related financing issues.
 - Distributing findings to bring clarity to the marketplace, which encourages capital sources to venture into lending and investing in these market segments where they may not have done so previously.
- Develop and execute a comprehensive outreach strategy to educate and seek input from the industry. In addition to engaging with program providers, housing counselors, other non-profits, government organizations, industry leaders and subject matter experts, engage lenders (1) to educate them further about our existing eligibility guidelines and products and help them in meeting loan delivery requirements and (2) to seek key input to identify potential opportunities to simplify requirements, increase eligibility, and increase delivery of shared equity mortgage loans.
- Identify potential policy updates in order to increase borrower and property eligibility, simplify loan requirements, and ultimately increase liquidity by leveraging information gathered through outreach, market research, and employing a test and learn approach to assess feasibility.

³³ Fannie Mae considers shared equity mortgage loans as those secured by properties in CLTs or inclusionary zoning programs, or those that have resale restrictions to preserve affordable housing stock in communities over the long term. Descriptions and guidelines may be found in Fannie Mae’s *Selling Guide* Chapter B5-5, Community Seconds, CLTs, DU Refi Plus and Refi Plus, and Loans with Resale Restrictions.



SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	<ul style="list-style-type: none"> • Work with a leading industry organization to consider the advisability of creating a new housing database that may contribute to calculating the true size and scope of the shared equity market. • Analyze Fannie Mae’s current portfolio of shared equity loans for the purpose of understanding performance and characteristics by geography, program type, and financing in order to provide insights to the industry and inform outreach and product development efforts; publish results for the public – by Q3 end. • Demonstrate industry leadership by: <ul style="list-style-type: none"> ○ Participating in one key conference as a means to develop and maintain relationships with program providers, housing counselors, other non-profits, government organizations, industry leaders, and subject matter experts, all of whom can help us to better understand market issues and opportunities; stay abreast of best practices and successful strategies; inform product activities; and communicate the “Duty to Serve” message – by Q4 end. ○ Facilitating a roundtable with industry stakeholders (e.g., lenders, servicers, program providers, non-profits, and government organizations), industry leaders, and subject matter experts to meet – by Q3 end – for the purpose of discussing, analyzing, and solving for the challenges facing shared equity, identifying loan product enhancements, and policy updates and providing input as Fannie Mae implements the activities outlined in the Plan. • Establish methodologies – by Q4 end – for tracking shared equity loans that meet FHFA’s criteria of 30-year affordability, preemptive options to purchase and limit of proceeds at resale, in order to report accurately loan product deliveries and to refine Baselines for subsequent years. Engage the five Fannie Mae lenders who deliver the most shared equity loans to Fannie Mae in order to understand how they review and capture these features. • Review credit and/or collateral policy, evaluating opportunities to update shared equity lending parameters for the purpose of: <ul style="list-style-type: none"> ○ Identifying variances that will help us test the feasibility of changes. Introduce one product variance – by Q4 end – that will enable Fannie Mae to partner with lenders to test and learn one or more market, economic, or operational impacts for the purpose of increasing mortgage loan purchases. One or more participating lenders will be chosen based on level of interest, capacity potential, volume of loan delivery to Fannie Mae, and market focus. Fannie Mae will also work with a program provider to identify opportunities and ensure the terms and conditions of the variance will meet the needs of the homeowners. The variance outcome will be evaluated in 2019 and success will be based on actual volume delivery relative to projected delivery as well as positive lender feedback on the changes implemented. ○ Identifying opportunities to provide lenders and program providers with further guidance on program organizational standards and best practices. ○ Adding clarity to Fannie Mae’s <i>Selling Guide</i> by making identified updates, if feasible, and depending on research, learnings, and analysis – by Q4 end. • Establish a business-to-business outreach campaign that includes the availability of educational materials and lender webinars about Fannie Mae products for financing shared equity programs for the purpose of helping the market to understand availability, terms and conditions, and opportunities for such loans so that lenders will be able and willing to use and originate them. Target engagement with 10 lenders (representing our five largest lenders of shared equity mortgage deliveries in 2016 as well as five other lenders who represent geographical diversity), two HFA (representing two of the top five States



Year	Actions
	<p>with the most programs), five shared equity program providers (representing two different program types and that are geographically diverse), and one national industry organization – by Q4 end. Eighteen relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.</p> <ul style="list-style-type: none"> • Create a case study framework for a particular shared equity homeownership program such as a CLT or an inclusionary zoning program that will look in-depth at a community for the purpose of helping the industry understand how different parties (e.g., program administrator, government, lenders) work together so that a to-be-announced eligible mortgage can be created to finance homeowners; begin case study research – by Q4 end.
<p>2019</p>	<p>Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests:</p> <ul style="list-style-type: none"> • Leverage market outreach, policy evaluation, and outcome of variance(s) executed in 2018 to introduce one new product variance – by Q3 end. If feasible, and depending on learnings, announce one policy update – by Q4 end. • Evaluate progress and continue analysis of the case study begun in 2018, making appropriate adjustments to the approach, engaging additional stakeholders, and determining preliminary findings; publish results to the public – by Q4 end. • Continue and expand industry outreach activities started in 2018 to maintain engagement and inform product activities by participating in two key conferences or seminars and speaking at one other event – by Q4 end. Facilitate one roundtable, incorporating feedback from 2018 and including two new participants in order to improve engagements and outcomes – by Q3 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing shared equity properties by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with five additional lenders and five additional stakeholders (i.e., lenders and stakeholders not approached in 2018) – by Q4 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. In particular, we will target three lenders and one program provider who are new to shared equity programs. Ten additional relationships over the ones established in 2018 will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.
<p>2020</p>	<p>Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests:</p> <ul style="list-style-type: none"> • Purchase between 50 and 100 shared equity program loans, an approximate 10 to 15 percent of the total purchases in 2020 from Objective #1. These loans are included in the total shared equity loan purchases in Objective #1, where the Baseline has been described. • Continue and expand industry outreach activities started in 2018 and 2019 to maintain engagement and inform product activities by participating in two key conferences or seminars and speaking at one other event. Facilitate one roundtable, incorporating feedback from prior years and including two new participants in order to improve engagements and outcomes – by Q4 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing shared equity properties by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with five additional lenders and five additional stakeholders (i.e., lenders and stakeholders not approached in 2018 or 2019) – by Q4 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 and 2019 activities and responses as well as an assessment of geographical and other needs. In particular, we will target three



Year	Actions
	lenders and one program provider who are new to shared equity programs. Ten additional relationships over the ones established in 2018 and 2019 will be a significant commitment of time and will provide learnings on how to expand engagement in following years.

Fannie Mae has significant experience in outreach, market engagement, data collection and analysis, consumer research, and product development. Accordingly, we believe this Objective is realistic and can be achieved within the time periods described. The ultimate opportunity available in this market is to work with lenders to increase liquidity in the shared equity market. Any variances that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		



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

1. Objective #1: Increase affordable capital through industry outreach and developing loan financing solutions (Analyze, Partner and Innovate, Do What We Do Best).

Meeting the Challenges

Financing the purchase or rehabilitation of distressed properties as homes for very low-, low-, and moderate-income families faces a number of challenges, including:

- Decreasing supply. Market recovery means the supply of these properties is declining.
- Investor advantage. Private investors are able and willing to pay higher prices for distressed properties, which eliminates opportunities for homeowners and non-profits to purchase or rehabilitate them.
- Small balances. Mortgage loans are often for small amounts due to the low value of the properties, which discourages lenders from originating them.
- Appraisals. Appropriate comparison data is not available to support home appraisals.
- Limited homeowner awareness and capabilities. Potential homeowners lack information about how to purchase a distressed home and lack experience and resources to renovate properties, which are often in need of significant repairs.
- Complexity. Renovation mortgages are complex and lenders are often reluctant to originate them due to policies on draw authorizations, LTV limits, property types (e.g., only 1- or 2-units) and loan proceeds limits allowed for the renovation, as well as other operational complexities related to approving and overseeing the contractor and project.
- Non-individual underwriting difficulty. Mortgage loan products are designed for individual borrowers and not easily suited for non-profits needing long-term capital for strategies such as financing or maintaining rental portfolios. There is a lack of underwriting standards for non-individuals and limitations on the number of properties that can be financed by an organization.

To address these challenges, Fannie Mae will:

- Leverage the strong framework we have developed through our Neighborhood Stabilization Initiative efforts and use the information gathered through outreach and market research to identify appropriate financing solutions and product enhancements that, when implemented, will increase awareness of individual and non-profit borrower eligibility and clarify loan requirements, resulting in the provision of increased liquidity to the market.
- Employ a test and learn approach to enhance Fannie Mae loan products for both individuals and non-profits that will best serve the needs of very low-, low-, and moderate-income families, thus bringing greater liquidity to the market for these populations.
- Increase awareness and access to resources to help potential homeowners with the purchase or rehabilitation of distressed properties.
- Establish strategic relationships with vendors and work with housing counselors, community groups, CDFI, customers, and others in the industry to increase awareness and to promote access to resources and capital financing, including third-party grants.



SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	<ul style="list-style-type: none"> • Demonstrate industry leadership by: <ul style="list-style-type: none"> ○ Participating in two key conferences or seminars as a means to develop and maintain engagement and build strategic partnerships with key industry stakeholders such as non-profit developers, housing counselors, community groups, CDFI, and renovation contractors; stay abreast of best practices and successful strategies; inform product activities; and communicate the “Duty to Serve” message – by Q3 end. ○ Facilitating one housing roundtable with cross-functional industry representation, as noted above, to discuss, analyze, and solve for the challenges facing financing distressed properties and to solicit input as Fannie Mae implements the activities outlined in the Plan – by Q3 end. • Establish a business-to-business marketing and outreach campaign that includes the availability of educational materials and lender webinars about financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products for the purpose of helping the market to understand availability, terms and conditions, and opportunities so that borrowers and lenders will be able and willing to use and originate them. Target engagement with 15 lenders and five other stakeholders including HFA and realtor associations – by Q4 end. Fannie Mae has chosen to target the five largest lenders of our mortgage loan deliveries in 2016 as well as 10 other lenders who represent geographical diversity. Fannie Mae will also work with the HFA in two of the top five most populated States, two of the largest non-profit organizations who counsel homeowners, and the nation’s largest association of realtors. Twenty relationships will be a significant commitment of time and will provide learnings on how to expand engagement in following years. • Establish a consumer outreach program to increase awareness and access to financing that includes education and resources about home purchase and renovation, an update to HomePath[®],³⁴ and a catalog of organizations and programs throughout the United States that provide assistance to consumers with purchase or rehabilitation of distressed properties. Target engagement with 10 organizations that represent a cross-section of size, geography, and type of assistance – by Q4 end. Ten

³⁴ HomePath is Fannie Mae’s online platform for selling our REO inventory. See www.HomePath.com



Year	Actions
	<p>such relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.</p> <ul style="list-style-type: none"> • Evaluate opportunities to establish partnerships with State and other programs that can combine subsidies and assistance, together with Fannie Mae mortgage loan products, for the purpose of purchase or rehabilitation of distressed properties. Target engagement with five such organizations – by Q4 end. Fannie Mae has relationships already with programs that provide subsidies to homeowners, but not for the specific purpose of purchase or rehabilitation. • Increase awareness among public entities and non-profits that purchase Fannie Mae-owned distressed properties for the purpose of serving the target markets; develop a targeted list identifying past and potential purchasers and develop and execute a training and outreach plan – by Q2 end. • Evaluate opportunities to (1) purchase bulk mortgage loan purchases from and (2) make investments in institutions or ventures, subject to compliance with Fannie Mae’s Charter Act and receipt of FHFA approval, that support the financing of the purchase or rehabilitation of distressed properties. Target engagement with five non-profit, tribal, and/or government-related organizations, and three CDFI – by Q3 end. Fannie Mae has previously purchased mortgages in bulk and has relationships with organizations that would use investment dollars towards enhancing their ability to purchase and rehabilitate distressed properties for the target market. Engaging a total of eight organizations representing different sizes and geographic diversity, will provide us sufficient input for the evaluation exercise. • Review credit and/or collateral policy identifying opportunities to simplify and overcome challenges with Fannie Mae’s mortgage loan products, such as HomeStyle Renovation, for the purpose of increasing mortgage loan purchases. Specific barriers and challenges that will be reviewed include LTV limits, non-individual borrower underwriting, and small balance loans. Fannie Mae will: <ul style="list-style-type: none"> ○ Establish a test and learn approach issuing one negotiated variance to select lender(s). Fannie Mae will determine test objectives and proposed terms – by Q2 end – based on stakeholder input, conduct related economic and operational impact analyses – by Q3 end - and issue one lender variance – by Q4 end. <ul style="list-style-type: none"> ▪ One or more participating lenders will be chosen based on level of interest, capacity, potential volume of loan delivery, and market focus. ▪ The variance outcome will be evaluated in 2019 and success will be based on actual volume of loan delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented. ○ If feasible and depending on review, learnings, and analysis, publish one policy update by Q4 end. • Enhance the relationship with a national home improvement company and test a renovation partnership program for the purpose of improving homeowners’ access to products and services for rehabilitating distressed properties – by Q2 end.
<p>2019</p>	<p>Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests:</p> <ul style="list-style-type: none"> • Evaluate the home improvement vendor partnership tested in 2018 and make a decision – by Q2 end – to continue or not. If the determination is to continue, develop, and execute a plan to maintain the program. • Analyze trends such as appraisals for distressed properties in order to evaluate the impact on product and policy and, based on learnings and if feasible, make updates – by Q4 end. • Continue industry leadership by participating in two key conferences or seminars and speaking at one other event for purposes of informing the industry of research findings, product enhancements and/or



Year	Actions
	<p>market insights. Facilitate one housing roundtable, incorporating feedback from 2018 and including new participants in order to improve engagements and outcomes – by Q4 end.</p> <ul style="list-style-type: none"> • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with an additional five lenders and three other stakeholders (i.e., lenders and stakeholders not approached in 2018) – by Q4 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. Fannie Mae will work with the non-profit organizations engaged in 2018 to determine additional organizations with whom we should target. Eight additional relationships will be meaningful and will provide learnings on how to expand engagement in following years. • Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Target engagement with an additional five organizations (i.e., organizations not approached in 2018) that provide assistance to consumers with purchase or rehabilitation of distressed properties – by Q4 end. Two of such organizations will be community organizations for the purpose of bringing resources directly to community venues/events serving potential homeowners. These additional five relationships will provide substantial learnings on how to expand engagement in following years. • Based on the outcomes of the 2018 evaluation of opportunities to establish partnerships with State and other programs that can combine subsidies and assistance together with Fannie Mae’s HomeStyle Renovation product, create a negotiated variance with select lender(s) and program(s) as a test and learn approach. Fannie Mae will determine variance objectives and proposed terms – by Q1 end – based on stakeholder input, conduct related economic and operational impact analyses – by Q2 end – and issue one lender variance – by Q3 end. <ul style="list-style-type: none"> ○ Participating lenders will be chosen (after conducting lender outreach as noted above) based on level of interest, capacity, potential loan delivery volume, and market focus. ○ The variance outcome will be evaluated in 2020 and success will be based on actual volume delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented. • Evaluate the outcomes of variance(s) executed in 2018 and introduce one new negotiated variance with terms for one additional change to Fannie Mae loan product parameters, or review credit and/or collateral policy identifying opportunities to enhance product parameters – by Q4 end. One variance will focus on opportunities in high-needs rural areas. If feasible and depending on research, learnings, and analysis publish one policy update – by Q4 end.
2020	<p>Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests:</p> <ul style="list-style-type: none"> • Expand industry leadership by participating in two key conferences or seminars and speaking at two other events for purposes of informing the industry of research findings, product enhancements, and/or market insights. Facilitate one housing roundtable, incorporating feedback from 2019 and including new participants, in order to improve engagements and outcomes – by Q4 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with an additional five lenders (i.e., lenders not approached in 2018 or 2019) – by Q4



Year	Actions
	<p>end. The additional lenders will be selected based on evaluation of 2019 activities and responses as well as an assessment of geographical and other needs.</p> <ul style="list-style-type: none"> Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Target engagement with an additional five organizations (i.e., organizations not approached in 2018 or 2019) that provide assistance to consumers with purchase or rehabilitation of distressed properties – by Q4 end. The focus of 2020 consumer outreach will be on helping homeowners to incorporate energy and water efficiency into their new homes and will leverage the results of Fannie Mae’s activities within the related Regulatory Activity in our Plan. Two organizations selected will have experience in working with homeowners on this topic. An additional five relationships will provide learnings on how to expand engagement in following years. Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Evaluate the outcomes of variance(s) executed in 2019 and introduce one new negotiated variance with terms for one additional change to Fannie Mae loan product parameters, or review credit and/or collateral policy identifying opportunities to enhance product parameters – by Q4 end. One variance will focus on energy or water efficiency upgrade opportunities. If feasible and depending on research, learnings, and analysis, publish credit and/or collateral policy updates – by Q4 end.

Fannie Mae has significant experience in outreach, market engagement, and product development. Accordingly, we believe this Objective is realistic and can be achieved within the time periods described. The ultimate opportunity available in this market is to finance an increased number of distressed property purchases and rehabilitations by individuals and non-profits. We also will look for focused opportunities in the high-needs rural regions as the need there for financing the purchase or rehabilitation of distressed properties and preserving affordable housing is important. Any variances that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae’s governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Product
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

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

Meeting the Challenges
<p>One of the biggest challenges in the market for the purchase or rehabilitation of distressed properties as homes for very low-, low-, and moderate-income families is a lack of liquidity for individuals, non-profits, and other mission-oriented entities. To address these challenges, Fannie Mae will:</p> <ul style="list-style-type: none"> Purchase an additional 21,875 to 23,550 loans over the Baseline over three years that were originated for the purpose of purchasing or rehabilitating distressed properties, which equals an estimated additional \$3.1 billion to \$3.3 billion of liquidity. This is an ambitious outcome given that Fannie Mae forecasts an overall decrease in distressed properties as the housing market recovers and fewer homes are in the distressed inventory.



SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	<ul style="list-style-type: none"> • Purchase between 11,000 and 11,540 loans³⁵ originated for the purchase or rehabilitation of a distressed property,³⁶ representing approximately a five to 10 percent increase over the expected Baseline for 2018 as noted below. <ul style="list-style-type: none"> ○ Baseline³⁷: Because the purchase volume for these loans has steadily decreased over the last three years (2014: 20,606; 2015: 17,776; 2016: 14,002) and is expected to continue to do so, a three-year average is not an appropriate Baseline and, therefore, 2016 is being used as a representative number of purchases³⁸. For these purposes, Fannie Mae has included mortgage loans that finance the purchase of REO and short sales, as third party sales are not usually financed with a mortgage. <p>Because of market recovery and a resulting expected decrease in distressed property inventory, Fannie Mae analyzed third party forecast data in relation to our historical purchases to establish Baselines for each year of the Plan.</p> <p>We obtained quarter-by-quarter national REO inventory reported by Moody's that represented actual inventory to-date and forecast inventory through 2020. This data shows there will be a 29.1 percent decline in national inventory from 2016 to 2018, a 13.1 percent decline from 2018 to 2019, and a 24.8 percent increase from 2019 to 2020.</p> <p>We analyzed that on average given 2011 loans that Fannie Mae financed for the purchase of REO properties was three percent of the national REO inventory³⁹. We then used the projected national REO inventory for 2018, 2019, and 2020 to apply a three percent purchase rate to determine what we would expect to purchase in each year, absent the work under the Plan.</p> <p>In addition, to determine Baselines for the financing of short sales, we modeled these as a percentage share of the incoming flow of loans into the national REO inventory. The inflow into REO inventory, as opposed to the REO stock, better aligns over time with the flow of loans through the default process, which is the source of our short sale acquisitions. We analyzed the relationship between our own REO inflows, dispositions, and stock historically to infer a time series of national REO inflows. Then, analyzing our short sale acquisitions as a share of inferred national REO inflows since 2011 we determined that, historically, Fannie Mae financing for the purchase of short sale properties was on average one percent of the national REO inflow in a given year. We then used projected national REO inflows for 2018, 2019, and 2020 to apply a one percent purchase rate to determine what we would expect to purchase in each year, absent the work under the Plan.</p> <p>For purposes of establishing Baselines for the high-needs rural regions, we looked at Fannie Mae's 2016 Baseline for loan purchases for all distressed properties—the addition of REO and short sales—and the forecasted volumes to assess the relative changes. The following table shows our</p>

35 In Fannie Mae's proposed Plan dated 5/8/17, significantly lower purchase goals in Year 1 (150 and 200), Year 2 (200 and 250), and Year 3 (250 and 300) were proposed and a small Baseline was established. Fannie Mae focused that draft Plan exclusively on financing rehabilitation, and not purchases alone. Also, at that time we could identify only mortgage loans that financed properties from Fannie Mae's REO inventory and relied only on our internal forecasts. Subsequently, we obtained additional internal and external market data that allowed us to increase our loan purchase goals.

36 Of this range, we will target between 100 and 105 loans on properties in high-needs rural regions.

37 Since Fannie Mae submitted our draft Underserved Markets Plan, we have obtained additional national market data as well as purchase volume data that allowed us to more accurately size this market and the Baselines.

38 Fannie Mae determined that in 2016, 155 mortgage loans on properties in high-needs rural regions were for the purchase of a REO or short sale.

39 The average number of REO inventory was 466,101 and Fannie Mae purchased an average of 13,959.



Year	Actions																		
	<p>analysis of projected loan purchases absent any initiatives under the Plan in order to determine yearly Baselines.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">Baseline</th> </tr> <tr> <th style="text-align: center;">Year</th> <th style="text-align: center;">Total</th> <th style="text-align: center;">High-Needs Rural</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2016</td> <td style="text-align: center;">14,002</td> <td style="text-align: center;">155</td> </tr> <tr> <td style="text-align: center;">2018</td> <td style="text-align: center;">10,490</td> <td style="text-align: center;">96</td> </tr> <tr> <td style="text-align: center;">2019</td> <td style="text-align: center;">9,939</td> <td style="text-align: center;">86</td> </tr> <tr> <td style="text-align: center;">2020</td> <td style="text-align: center;">12,156</td> <td style="text-align: center;">106</td> </tr> </tbody> </table>		Baseline		Year	Total	High-Needs Rural	2016	14,002	155	2018	10,490	96	2019	9,939	86	2020	12,156	106
	Baseline																		
Year	Total	High-Needs Rural																	
2016	14,002	155																	
2018	10,490	96																	
2019	9,939	86																	
2020	12,156	106																	
2019	<ul style="list-style-type: none"> Purchase between 10,900 and 11,430 loans originated for the purchase or rehabilitation of a distressed property,⁴⁰ representing approximately a 10 to 15 percent increase over the expected Baseline for 2019. 																		
2020	<ul style="list-style-type: none"> Purchase between 13,975 and 14,585 loans originated for the purchase or rehabilitation of a distressed property,⁴¹ representing approximately a 15 to 20 percent increase over the expected Baseline for 2020. 																		

Increasing the purchase volume of loans originated for the purchase or rehabilitation of distressed properties provides direct liquidity to the market. Fannie Mae has a significant presence in the distressed property market and has the systems, operations, and resource tools needed to facilitate efficient loan delivery in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to improve acquisition of mortgages for this purpose. Based on Fannie Mae's experience purchasing loans that finance distressed properties and the available resources, Fannie Mae has determined that this Objective is realistic and maybe achieved within the time periods described.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

⁴⁰ Of this range, we will target between 95 and 100 loans in high-needs rural regions.

⁴¹ Of this range, we will target between 120 and 125 loans in high-needs rural regions.



Freddie Mac

We make home possible[®]

FHFA's Compilation of Snapshots
from Freddie Mac's Duty to Serve
Plan: State and Local Single-Family
Housing

Activity 8 – Support for Shared Equity Programs for Affordable Housing Preservation: Regulatory Activity

Although shared equity programs have achieved limited scale thus far, our research confirms that they can be an effective means for providing income-eligible families with sustainable homeownership opportunities, enabling them to build wealth through the ownership cycle and ensuring that home prices remain affordable to subsequent buyers over the long term.

Freddie Mac covers some aspects of shared equity programs in its Seller/Servicers Guide but does not provide explicit guidance about underwriting the shared equity programs described in the Duty to Serve rule. Therefore, we are starting our product development efforts under this activity from the ground up. The general flexibilities we offer related to shared equity programs:

- We allow mortgages secured by properties with resale restrictions that terminate at foreclosure and those that survive foreclosure.
- Freddie Mac does not approve individual shared equity programs. Freddie Mac does, however, allow mortgages originated under such programs if all other Seller/Servicers Guide requirements are met. (Note: we acknowledge that our existing requirements conflict with or do not explicitly cover shared equity transactions as described in the Duty to Serve rule).

To help the shared equity market scale up, Freddie Mac intends to purchase loans originated under Duty to Serve eligible shared equity programs. However, in order to do so, Freddie Mac must first build both capabilities and infrastructure to facilitate purchases and enable a steady market growth trajectory. We plan to develop product enhancements and underwriting flexibilities that can drive operationally feasible standardization between all types of shared equity programs that are eligible for Duty to Serve credit. Additionally, we plan to intensify our lender education efforts.

It should also be noted that retained subsidies are what make these programs work and, therefore, the success of shared equity programs depends on significant upfront funding before they can eventually become self-sustaining through subsequent resales. Therefore, Freddie Mac's support in this market may be limited by the number of active programs, their housing stock and the amount of funding these programs have access to.

Nevertheless, in a concerted effort to increase liquidity in this market and expand the distribution of capital, Freddie Mac intends to fulfill the following objectives over the next three years:

- Develop product flexibilities and guidelines that facilitate new mortgage originations under shared equity programs,
- Purchase loans originated under shared equity programs to inform product design,
- Support standardization of data collection at the transaction level, and
- Promote market awareness of shared equity programs.

OBJECTIVE A: DEVELOP PRODUCT FLEXIBILITIES AND GUIDELINES THAT FACILITATE NEW MORTGAGE ORIGINATIONS UNDER SHARED EQUITY PROGRAMS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	1, 2 and 3	VLI and LI	Not applicable

Our Seller/Services Guide does not explicitly address many of the shared equity structures found in today’s marketplace. Therefore, during the first year, Freddie Mac will focus on updating guidelines, terminology, and underwriting requirements—where appropriate—in alignment with current market practices. The emphasis during Year 1 is to develop product flexibilities that support the market as is (non-standardized) by adapting some of our guidelines to existing market practices and reorganizing some of the contents of our Guide to help lenders and program administrators find our requirements more easily. Although Seller/Services Guide updates are usually the broadest vehicle to introduce product flexibilities, we may start with pilots prior to issuing Seller/Services Guide updates since many of the new underwriting guidelines we will introduce need to support non-standardized programs and may require further fine-tuning as the market adopts them. Pilots provide us with the greatest flexibility to tailor guidelines to specific programs. They also give us the ability to adjust them as we go and provide us with loan data that we plan to use for further product development.

During Year 1, Freddie Mac will also partner with a leading shared equity trade organization to produce a white paper that will provide a recommended framework with clear distinctions on how shared appreciation structures have been or may be applied to preserve affordability over time. In the prior version of Freddie Mac’s Plan, we included an objective to invest in the research and development of a shared appreciation loan fund that was designed to provide homeownership opportunities with lasting affordability to low- and moderate-income homeowners. Partially funded by Freddie Mac, the work to assess the feasibility of such fund started in 2016 and has been ongoing through 2017. During the third quarter of 2017, Freddie Mac was informed about the decision to stop the pursuit of the fund because the latest results of the feasibility study proved the concept, as designed, to be unfeasible in current market conditions. Therefore, Freddie Mac removed it as an objective in this revised Plan but believes the market can benefit from the lessons learned. The paper is intended to provide information to the market that can be used in program and product design based on the results of the research and feasibility assessment performed.

In Year 2, Freddie Mac intends to introduce more comprehensive and standardized product flexibilities that incorporate what we learn from pilots conducted in Year 1 and the analysis of loan pools we would purchase under Objective B. The emphasis during Year 2 is to support standardization and to build on the flexibilities designed in Year 1. For example, we intend to develop uniform legal instruments for the financing of properties under Community Land Trusts and design more explicit guidelines about collateral valuation of properties purchased under shared equity programs. In carrying out this objective, Freddie Mac’s goal is to find the right balance between standardization and underwriting flexibility so program stewards have sufficient leeway to tailor programs based on their individual market needs while the loans originated—in aggregate—represent an operationally effective business opportunity for lenders; paving the way for the market to scale. Any guidelines or product flexibilities will be designed consistent with safety and soundness standards.

In addition, through public comments submitted to FHFA, market participants encouraged Freddie Mac to consider incentives to boost lender participation. We agree and believe that without incentives, the low production volumes in this market and the incremental operational burden for lenders to originate loans under eligible programs will continue to discourage lender participation. Freddie Mac acknowledges that niche programs and products are more expensive to implement than standardized ones and often present economically unfeasible value propositions for lenders.

Freddie Mac recognizes that product development along with our efforts to purchase loans, although important and impactful, may not be enough to improve the distribution of capital in this market. Lender participation is vital for shared equity programs to scale. Therefore, to increase lender participation Freddie Mac intends to identify

appropriate incentives to encourage adoption of the product flexibilities and underwriting guidelines we plan to design.

While we work on product design and development, Freddie Mac will concurrently work with lenders, Housing Finance Agencies, Community Development Financial Institutions and program stewards to design and test appropriate incentives. Our primary goal will be to design incentives that expand secondary market activity, reduce administrative burdens or increase the economic business opportunity for lenders and other mortgage financing providers.

In Year 3, Freddie Mac intends to focus on automation of many of the guidelines introduced in years 1 and 2. Not all the guidelines and product flexibilities we introduce will be automated. Instead, Freddie Mac plans to automate those underwriting flexibilities which would facilitate easier and faster adoption of our product flexibilities by lenders.

Baseline

Freddie Mac purchases mortgages secured by properties with resale restrictions, other than age-based restrictions, that terminate at foreclosure and that survive foreclosure when the following requirements are met:

- The mortgage must be either a purchase transaction mortgage or a “no cash-out” refinance mortgage.
- The mortgage must be secured by a one-unit primary residence (not a manufactured home).
- Eligible property types are attached or detached dwelling units located on an individual lot or in a condominium project or planned unit development (PUD).
- The mortgage meets all other Seller/Servicers Guide requirements.

Additionally, for all mortgages secured by properties subject to income-based resale restrictions we only require two comparable sales, instead of three, with similar resale restrictions. Seller/Servicers Guide Sections 4201.17 and 6302.37 and Guide Exhibit 34 contain all other applicable requirements. We also have servicer guidelines in the Seller/Servicers Guide specific to Mortgaged Premises with income-based resale restrictions for when a servicer evaluates a borrower for a short sale or bids at a foreclosure sale that ensure resale restrictions are preserved through these loss mitigation activities.

Lastly, we allow secondary financing providers or another entity to share in the appreciation of the mortgage premises when the secondary financing meets Freddie Mac’s Affordable Seconds requirements. The specific requirements are described in Guide Section 4204.1.

Challenges, Actions and Market Impacts

Underwriting Challenge	Freddie Mac Action
<p>Limited or uncertain underwriting policies</p> <ul style="list-style-type: none"> ▪ Freddie Mac does not explicitly provide guidelines to underwrite loans under shared equity programs. ▪ Freddie Mac allows loans with deed restrictions. However, this guideline when coupled with other traditional underwriting requirements does not enable many of the nuances of shared equity structures. ▪ Traditional collateral evaluation methods do not 	<p>Year 1 – 2018</p> <ol style="list-style-type: none"> 1) Publish updated underwriting flexibilities in the Seller/Servicers Guide that reduce barriers to originating loans under Duty to Serve-eligible shared equity programs and address shared equity programs by type including guidance on which requirements apply to each program type. 2) Reorganize and consolidate applicable and updated shared equity requirements into one section of the Seller/Servicers Guide. This will

account for sale or resale price formulas used in shared equity programs.

- Without explicit guidance, lenders have concerns related to representations and warranties or repurchase risk.

Shared equity programs are not standard

- Shared equity programs are structured differently and based on individual market needs. Therefore, it is challenging to design “one-size fits all” guidelines.

Manual underwriting

- Given the lack of standardization, limited production volumes, and nuances of shared equity transactions, underwriting is generally done manually. This presents a resource burden for lenders and additional operational risk. Thus, many have opted out of participating in this market.

Lack of market data and information

- Given the lack of standardized data collection mechanisms, data and information to systematically assess risks vs. potential product flexibilities is limited.

Lack of understanding of structures and legal mechanisms

- Shared equity transactions are not widely understood by lenders. Given the non-traditional structure of shared equity loans and the deed covenants in place, many lenders have shied away from originating these loans.

Low production and high costs

- The limited sales and resales data we have reviewed point to relatively small production numbers on a yearly basis.
- Low production increases overall transactional costs for lenders. As such, many do not participate in the market.

Limited secondary market activity

- Investor demand to purchase shared equity loans is inadequate so many lenders end up keeping these loans in portfolio which often limits their participation unless they get balance sheet relief.
- Loans held in portfolio are likely to amount to small pools and therefore are not attractive to investors looking to purchase seasoned loans which generally look for more sizable pools to

make the requirements easier to follow.

- 3) Commission and promote the publication of a white paper that will achieve the following:
 - a. Provide thought leadership to the field on shared equity homeownership structures,
 - b. Provide considerations to address when utilizing subsidy recapture strategies through shared appreciation loans,
 - c. Identify factors that must be addressed in mortgage products to finance shared equity homes,
 - d. Describe market conditions where shared appreciation loan funds are viable.
- 4) Initiate at least one pilot program with at least five lenders to test concept product features and underwriting guidelines where more data and/or performance information is needed prior to including them in the Seller/Servicers Guide. Specifically, we plan to test features that facilitate underwriting of loans under deed-restricted programs where secondary financing, using a subsidy vehicle, is currently outside of existing underwriting guidelines. We also plan to test lender acceptance and operational execution of uniform legal documents to support the origination of loans made under eligible community land trust programs. The pilot program will be deployed in partnership with shared equity programs serving geographic areas where home prices are least affordable and/or where lender participation has been limited. We will identify programs to partner with in consultation with industry trades and organizations.
- 5) Develop lender incentives to complement the pilot programs described above. The incentives will be designed to encourage loan originations. Some examples include providing tools that minimize operational burdens, or including economic incentives at the transactional level when appropriate and within safety and soundness standards.

Year 2 - 2019

- 1) Provide FHFA with a comprehensive operational execution and market acceptance assessment of underwriting requirements, product capabilities and uniform legal documents introduced via pilots in Year 1.
- 2) Issue new Seller/Servicers Guide underwriting requirements and collateral valuation

<p>offset transactional costs.</p>	<p>guidelines, for loans made under Duty-to-Serve eligible deed-restricted programs. These guidelines will build upon our existing requirements the requirements developed and piloted in Year 1, the operational execution and market acceptance assessment described above and the results of our analysis of loans purchased under Objective B. While Freddie Mac will focus on supporting programs as they are currently designed in Year 1, during Year 2, Freddie Mac will also focus on advising a variety of programs on how to restructure their programs so they better align with the new product features and underwriting guidelines we plan to introduce. This effort will help program standardization which, in turn, should help encourage lender adoption.</p> <p>3) Design uniform legal documents and make them available to lenders in the Seller/Service's Guide. These will be focused on supporting the origination of loans under Duty-to-Serve eligible community land trust programs and developed based on the results of the pilot conducted in Year 1.</p> <p>Year 3 – 2020</p> <p>1) Provide a report to FHFA that provides a comprehensive assessment of the impact of automating product flexibilities to determine which ones would facilitate more adoption of Freddie Mac's products and reduce operational burdens for lenders more efficiently.</p> <p>2) Implement and announce automation of the chosen product flexibilities via the Seller/Service's Guide.</p> <p>3) Continue working with program administrations by providing technical expertise about secondary guidelines to promote standardization of this market in a way that lender adoption incrementally continues.</p>
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Market Impact

Introducing underwriting requirements based on how shared equity programs are currently designed (non-standardized) in Year 1 will allow Freddie Mac to enter the market without disrupting the existing progress and market activity. Our research shows that shared equity programs are gaining popularity, albeit slowly. Based on our experience, we understand that introducing drastic changes in Year 1, such as attempting to standardize programs, may compromise market activity because program administrators would have to adapt to how lenders would be reviewing their programs under new underwriting requirements while revising their program parameters. Given the scarce resources and limited funding of these programs, this level of effort may not be feasible. However, we believe that pursuing this objective as described in Year 1,

will provide lenders with more confidence and guidance to originate loans, which, coupled with lender incentives, should spur lender participation without disrupting the existing momentum in the market. Additionally, originating loans to Freddie Mac's product guidelines will offer lenders flexibility to sell those loans to Freddie Mac and, therefore, the market should start benefiting from the increased access to liquidity. Our research shows that lenders that are currently participating in this market may be holding loans in portfolio due to the mismatch between our existing product requirements and program structures.

The white paper on shared appreciation loan fund structures we have commissioned will be based on the work done in 2016 and the first half of 2017 which is the only initiative to-date that explored whether shared appreciation loans may be designed with public and private capital to provide homeownership with lasting affordability. Freddie Mac understands that the emerging space of shared appreciation lacks a framework to scale and that the lessons learned from the prior work described above will present valuable information on how shared appreciation has been or may be applied prospectively to preserve affordability over time. The white paper will provide a recommended framework that can be used by Freddie Mac, state and local agencies focused on affordable housing preservation, affordable housing advocates, lenders and experts within housing finance. The paper will also help prevent the market from unnecessarily "reinventing the wheel" when exploring shared equity funding mechanisms and provide useful information that can be built upon to advance shared appreciation loans for affordable housing and its preservation.

Through the design of appropriate incentives, Freddie Mac also hopes to offset some of the barriers lenders are currently faced with. Given the lack of standardization in the market and because of its limited size, we foresee a significant level of effort to find the right incentives, within safety and soundness standards, to improve lender adoption as described in this objective. Nevertheless, we deem this objective to be a key catalyst for market growth. Appropriate incentives coupled with our product development and purchase efforts are likely to jumpstart activity under this market and set it up for incremental growth. The market feedback on incentives is that without them the market will continue to be underserved by lenders or other mortgage finance providers. Therefore, Freddie Mac believes that, although challenging to pursue, this objective represents a meaningful impact in addressing this market's needs.

Our efforts will be substantially greater in Year 2 than in Year 1 since we will not only be designing comprehensive underwriting requirements but we will be working with program stewards and lenders to help standardize this market. This means that while we work with lenders to adopt our underwriting standards, we will also be working with program administrators to help influence changes to their program structures that are in alignment with our new product features. We expect that this level of coordination to standardize the market will help reduce lenders' operational costs, provide more origination confidence and may help alleviate lender repurchase concerns. Therefore, we also expect that lenders would incrementally increase their appetite to originate loans under eligible programs that leverage our underwriting flexibilities and increase deliveries to Freddie Mac. This would result in more liquidity for the market than in Year 1 and it would help inform our future loan purchase goals.

By Year 3, we expect to further minimize lenders' operational burdens by automating certain product flexibilities and requirements designed in years 1 and 2. Automation of underwriting flexibilities, given its anticipated system impacts, development costs and system integration needs, is always an arduous undertaking. As such, we intend to approach this effort strategically. Automation will be focused on facilitating adoption by lenders and reducing their operational costs while providing them with more confidence to originate loans. Overall, during the first three years of the Plan, we expect to see gradual adoption of our flexibilities, increased lender interest, incremental loan purchases, and reasonable market growth. We expect all these objectives to lay the foundation to design loan purchase metrics in subsequent years of the Plan.

OBJECTIVE B: INFORM LOAN PRODUCT DESIGN THROUGH LOAN PURCHASES

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	1	VLI and LI	Not applicable

During the public comment period on Freddie Mac’s proposed Plan, market participants encouraged Freddie Mac to set loan purchase targets under this activity. Freddie Mac takes market feedback seriously and, as such, we took another look at designing a loan purchase goal for the first three years of the Plan. However, we were challenged with a lack of available market sales data to design an appropriate loan purchase baseline and historically-based loan purchase projections that would accurately reflect the size of the market versus Freddie Mac’s probable market share. Nevertheless, Freddie Mac acknowledges the importance and urgency of providing liquidity into the market through loan purchases. Therefore, to inform our product design efforts, we intend to look for opportunities to purchase loans originated under shared equity programs, through specific and targeted portfolio loan purchases, so we can perform data and loan analysis on these loans. We plan to analyze the loans we purchase to identify product characteristics that have worked well and to obtain loan level data that can be used for our product development activities under Objective A.

By doing so we will be providing liquidity to lenders and financing institutions that are already supporting the market and may be holding shared equity loans in portfolio. This will allow them to originate more loans with valuable information that Freddie Mac can use to analyze and design product flexibilities to be introduced in Year 2.

Baseline

Freddie Mac has not specifically targeted shared equity loan purchases under bulk portfolio transactions to date. While we have experience purchasing seasoned loans through bulk portfolio transactions, we have not bought shared equity loan portfolios. This is a new activity for Freddie Mac.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
<p>Lack of market data and information</p> <ul style="list-style-type: none"> Given the lack of uniform data collection mechanisms and information to systematically assess the overall size of the market, it is challenging to estimate yearly loan production numbers without speculation. Information about which financial institutions are holding or have originated loans under shared equity programs is not readily available. <p>Limited production</p> <ul style="list-style-type: none"> Given this market’s relatively small scale, Freddie Mac anticipates loan pools held in portfolio to be relatively small. Therefore, these loan pools will present pricing challenges for Freddie Mac. 	<p>Year 1 – 2018</p> <p>While we test product features and underwriting flexibilities in Year 1 under Objective A, Freddie Mac will take the following actions:</p> <ol style="list-style-type: none"> Leverage loan purchases to inform product design: <ol style="list-style-type: none"> Survey the market in partnership with program stewards, inclusionary housing programs, Freddie Mac lenders, housing finance agencies, community development financial institutions and/or other financing organization to identify seasoned loan pools that Freddie Mac could purchase on a negotiated basis. Perform analysis on loans we purchase at

<ul style="list-style-type: none"> ▪ Low production increases overall transactional costs for lenders. As such, many do not participate in the market. <p>Limited secondary market activity</p> <ul style="list-style-type: none"> ▪ Investor demand to purchase shared equity loans is inadequate so many lenders end up keeping these loans in portfolio which often limits their participation unless they get balance sheet relief. ▪ Loans held in portfolio are likely to amount to small pools and therefore are not attractive to investors who generally look for more sizable pools to offset transactional costs. <p>No standardized products</p> <ul style="list-style-type: none"> ▪ Products in support of this market vary across geographic locations and/or from lender to lender. ▪ Existing loans originated under eligible programs are most likely underwritten outside of GSE guidelines. ▪ Supporting non-standardized programs requires more lender resources which coupled with low production volumes make the cost benefit of lender participation a non-viable economic business opportunity. 	<p>the transaction and loan level to be used in the product development activities described under Objective A. Findings will be submitted to FHFA.</p> <p>2) Bid on loan pools identified through our market survey. If unsuccessful, Freddie Mac will provide a report to FHFA which will include lessons learned from this targeted activity.</p>
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Market Impact

Although it will be challenging to source loans under this objective without a fully developed product, if successful, Freddie Mac expects to provide gradual liquidity to lenders that are already active in this market. We anticipate our seasoned loans purchase activity will spur partial market growth while providing Freddie Mac with access to data on loans and programs to help us further develop policy guardrails and product features. Additionally, through our ongoing outreach efforts to source bulk portfolio loans, we intend to work with lenders and program stewards to facilitate adoption of the new and revised underwriting flexibilities we intend to issue under Objective A.

We expect purchases of portfolio loans may spurt small but incremental loan origination activity as those counterparties we purchase seasoned loans from may have balance sheet relief. Additionally, as we discuss potential portfolio loan sales, we plan to obtain information that we plan to use in the design of our product offerings during the Plan Cycle. With the data and information we collect through our market outreach to carry out this objective, Freddie Mac intends to perform analysis to define loan purchase metrics in subsequent Plan periods or, if appropriate, in revisions of this Plan during the first three-year Plan period.

Given the lack of market information, sourcing loans and loan pools under this objective will require significant effort on Freddie Mac's part. We are relatively new to this market and have not systematically engaged in loan purchases of this loan type in the past. Therefore, we will need to build relationships with program stewards and lenders who can provide volume. Many of the organizations who are likely to be active in this market may not have an existing business relationship with Freddie Mac or may not have the expertise and resources to effectuate loan pool sales. Therefore, the extent of our efforts may also include dedicated resources to work with lenders on these transactions and to provide transactional assistance. During the entire Plan Cycle, our efforts to roll out a comprehensive product offering, supported by automated underwriting, will require a significant amount of resources including Freddie Mac's Single

Family teams responsible for affordable lending, Seller/Servicers relationships, non-profit relationships, credit decisions, modeling, pricing and product development. If this objective proves to be successful in Year 1, Freddie Mac is prepared to continue this activity in year two while we design product features and underwriting flexibilities under all other objectives. However, if this activity does not yield any bulk portfolio purchases or if it only yields a small number of loans that does not provide liquidity to the market nor information to Freddie Mac, Freddie Mac will not continue this objective beyond Year 1 and will focus our resources on all other objectives under this activity.

OBJECTIVE C: SUPPORT STANDARDIZATION OF DATA COLLECTION AT THE TRANSACTION LEVEL

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	1 and 2	VLI and LI	Not applicable

Freddie Mac understands that the lack of uniformity across shared equity programs has kept the market fragmented. While all shared equity programs are designed with the same objective to maintain affordability—they frequently have unique characteristics and employ a variety of data collection methods and operational processes. This presents a challenge for investors and lenders when trying to evaluate the market because aggregate data and market trends cannot be produced. Additionally, the lack of uniformity across programs makes assessing each program for Duty to Serve eligibility challenging and labor intensive.

Therefore, during the first and second years of the Plan, Freddie Mac plans to partner with a leading shared equity trade organization and various shared equity programs to support the expansion, development and adoption of a web-based application already in use by many shared equity programs. This web-based application will be developed to provide system capabilities to help lenders and Freddie Mac evaluate program and transaction eligibility and allow lenders to access Freddie Mac’s future shared equity product flexibilities and guidelines. Shared equity programs who adopt this web-based application will also be able to more easily keep inventory of affordable housing units over time, monitor the units to ensure affordability is preserved over resales, and support the homeowners to promote successful homeownership. Additionally, the application would help programs track borrowers’ income levels and monitor refinance activities or lines of credit over time. Freddie Mac intends to use all the data captured through this system to inform its product design efforts under Objective A and over time.

Baseline

This is a new activity for Freddie Mac.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
<p>Slow shared equity application adoption</p> <ul style="list-style-type: none"> ▪ Although the application we plan to support is the most widely adopted application, adoption has been slow. The majority of shared equity programs have yet to adopt it. <p>Laborious assessment of program eligibility</p> <ul style="list-style-type: none"> ▪ Currently there is no systematic way to evaluate program eligibility at the transaction level. Lenders would have to manually evaluate each program to originate loans under it. <p>Limited transaction-level data</p> <ul style="list-style-type: none"> ▪ Since programs are not uniform across the market, there is currently no aggregate dataset available to analyze market trends and mortgage or buyer information at the macro-market level. ▪ There is also no widely-adopted standardized method to collect transaction-level data. <p>No systematic approach to documenting program features</p> <ul style="list-style-type: none"> ▪ Each program has a unique way to document its program characteristics and features. As a result, no aggregate dataset that compiles an inventory of all programs and documents exists. <p>Lack of standardization</p> <ul style="list-style-type: none"> ▪ Shared equity programs are not standard across the market. ▪ Supporting non-standardized programs requires more lender resources, which, coupled with low production volumes, make the cost benefit of lender participation a non-viable economic business opportunity. 	<p>Year 1 – 2018</p> <ol style="list-style-type: none"> 1) Partner with a leading shared equity trade organization and targeted shared equity programs to develop system capabilities to: a) document program features that would provide lenders and Freddie Mac with confidence that programs meet the definition of shared equity as set forth in the Duty to Serve regulation, and b) document that individual homebuyers and transactions meet eligibility criteria. 2) Test newly developed system capabilities through a pilot with at least 10 shared equity program administrators and provide adoption incentives to off-set system integration and adoption costs. The pilot will focus on testing operational execution and market acceptance of using a third-party system to track program eligibility and activity. It will also test lender capabilities to leverage system outputs to assess program eligibility with Duty-to-Serve requirements. We will look to align this pilot's targeted geographic markets with the pilots developed under Objective A. However, we may also conduct this pilot in additional markets. <p>Year 2 – 2019</p> <ol style="list-style-type: none"> 1) Prepare a report to be submitted to FHFA summarizing aggregate data and trends for shared equity programs, including mortgage and buyer financial information based on existing closing disclosure data submitted to the web-based application by participating organizations. 2) Use the report to inform the design of comprehensive product features described under Objective A, and 3) Expand the number of program participants, from 10 to 15, under the pilot under this objective started in Year 1.

Market Impact

Carrying out this objective is a meaningful attempt to standardize the market and lay the foundation for future market growth, increased lender participation and increased adoption of the web-based application. For Freddie Mac, the execution of this objective will provide essential information and data to inform our product development efforts. It will also allow us to systematically and effectively verify that programs meet the Duty to Serve requirements. For lenders, it will remove barriers related to the manual or laborious assessment of program features or eligibility when originating loans under shared equity programs. And, it will provide incentives for lenders to adopt the application knowing that both they and Freddie Mac would rely on it to understand and document program eligibility at the transaction level.

The application we plan to build upon for this objective is already in use by approximately 70 shared equity program administrators. However, its adoption has been limited given the operational costs of system integration and limited program funding. Freddie Mac's engagement and endorsement of this application will impact the market by spurring adoption of this application which will systematically improve standardization of data collection for product design and future market growth. Additionally, the application as currently designed provides a utility to shared equity program administrators only. Under this objective, Freddie Mac plans to partner with a leading shared equity trade organization to build system capabilities so the utility of the system also serves lenders by providing lenders with assurance that programs meet Duty to Serve requirements, which will be a purchase-eligibility requirement under the product features and underwriting flexibilities we plan to design under Objective A.

Freddie Mac's level of effort under this activity during Year 1 is expected to be moderate because the focus during the first year will be on designing product flexibilities under Objective A. In Year 2, Freddie Mac's level of effort is likely to be moderately high because we will be concurrently working on this objective in alignment with multiple deadlines to coordinate efforts under all the objectives highlighted in this Plan including the use of the web-based application described herein. Freddie Mac views the implementation of this objective as a key element to bring all our other objectives together.

OBJECTIVE D: PROMOTE MARKET AWARENESS OF SHARED EQUITY PROGRAMS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	1 and 2	VLI and LI	Not applicable

During our outreach and discussions with shared equity program sponsors, we continually heard that shared equity structures are not widely understood by lenders or other market participants. Freddie Mac conducted outreach to lenders who have shown strong interest in this market and confirmed their limited awareness. Those who were familiar with these programs said they had shied away from originating these loans because they did not understand the different kinds of non-traditional structures and resale restrictions in place.

To encourage lender participation, Freddie Mac intends to incrementally increase market awareness of shared equity programs year over year during the Plan Period starting in Year 1. Our education campaigns will also focus on increasing the awareness of the underwriting flexibilities we plan to design during years 1 and 2 as part of Objective A under this activity. We plan to carry out this objective by leveraging our existing marketing, communications, lender education and market outreach capabilities. To better measure awareness levels, understand specific areas of education we should focus on, and track progress of our outreach campaigns, Freddie Mac plans to survey the market, including lenders and other mortgage financing providers, during the first year of the Plan Term and immediately after lender trainings.

This is a new activity for us. Freddie Mac also understands that program stewards have limited information regarding how lenders view their programs and about secondary market practices. We believe that increasing the program stewards' level of awareness on these topics could inform their program design efforts and enable better alignment between programs and lending practices. Therefore, under this objective, we also intend to conduct outreach and education campaigns for shared equity program stewards to improve their awareness of conventional mortgage underwriting, including Freddie Mac's product flexibilities to be developed under Objective A, lender or mortgage provider challenges and secondary market practices.

Baseline

Freddie Mac has not actively promoted market awareness of shared equity programs.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
<p>Limited awareness</p> <ul style="list-style-type: none"> ▪ On average, lenders are not familiar with how shared equity programs are structured and therefore they cannot assess the risks of loans originated under these programs. ▪ Program stewards have limited understanding of conventional underwriting and secondary market practices. Therefore, often, programs are not designed in alignment with how they would be evaluated by lenders. <p>Imprecise perceptions of risk</p> <ul style="list-style-type: none"> ▪ Because shared equity programs predominantly cater to very low-, low- and moderate-income borrowers, lenders perceive the loans originated under these programs to have inherently higher risk profiles than they may actually have. 	<p>Year 1 – 2018</p> <ol style="list-style-type: none"> 1. Survey at least 50 market participants, including lenders and other mortgage finance providers, to understand specific areas they are interested in learning about to get comfortable with assessing risks of loans originated under shared equity programs. <p>Year 2 – 2019</p> <ol style="list-style-type: none"> 1. Use the information gathered to develop a comprehensive lender education plan inclusive of available Freddie Mac product features and design the best approach to increase program stewards' awareness about how lenders evaluate shared equity programs. The education curriculum will be provided and accessed through Freddie Mac's Learning Center on Freddie Mac's website. 2. Initiate education campaigns to create awareness of the availability of a shared equity curriculum, in concurrence with the marketing of any product flexibilities developed under Objective A.

Market Impact

Freddie Mac conducts lender education campaigns today and finds them to be a key element for lender adoption of products and guidelines. We also understand that market participants have conducted education sessions and training for lenders in the past and that those efforts proved to be minimally impactful. However, we deem our effort different than what we understand has been done to date. First, our campaigns will be much more tailored than typical lender education campaigns by basing them on our market survey and including content on what the market cares the most about and has the least information on. Second, lender education sessions generally focus on educating lenders on process, guidelines and/or product flexibilities. As we develop our strategy to carry out this objective, Freddie Mac plans to focus on designing curriculums or tactics that not only provide the information that typical lender education campaigns entail, but also offer Freddie Mac's view of risk for these loans and what we are comfortable purchasing. We will also provide information to lenders on how and why Freddie Mac is comfortable with certain shared equity structures and the rationale, from a risk perspective, on why we chose to provide certain product flexibilities over others. Lastly, Freddie Mac plans to track progress of this objective on an on-going basis and adjust our strategy accordingly.

We believe our comprehensive approach to carry out this objective represents a meaningful impact in addressing the lack of awareness and inaccurate risk perceptions described above. Given the non-standard education campaign we plan to design, we expect our level of effort to carry out this objective will be highest in Year 1. As we continue with this objective in years 2 and 3, we expect our level of effort to normalize but the impact to the market to incrementally increase.



DISCLAIMER

Implementation of the activities and objectives in Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans may be subject to change based on factors including FHFA review for compliance with the Charter Acts, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.

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