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2022 Manufactured Housing

Activity: Regulatory Activity: Manufactured housing communities owned by a governmental entity, non-profit organization, or residents (12 C.F.R. § 1282.33 (c) (3)).

Objective 1: Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

Proposed Modification: Combining sub-loan purchase targets into one over-arching loan purchase target

Justification for Proposed Modification: The language for this Objective creates distinctions between resident-owned communities and those owned by non-profits or government entities and assigns individual sub-loan purchase targets to these subsets. The Duty to Serve Rule makes no such distinction, thus conveying the same degree of priority to all of these ownership classes.

Given the relatively small size of the non-traditionally owned MHC market, removing our sub-targets by aggregating them into one overarching target will give Fannie Mae more flexibility to pursue all non-traditionally owned MHC transactions without first considering whether that transaction is accretive to a sub-goal for a specific ownership class. We note that this Proposed Modification does not reduce our overall commitment to this segment of the market, but merely simplifies the Plan language and allows for more flexibility in implementing the Plan with our lender customers.

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C. Regulatory Activity: Manufactured housing communities owned by a governmental entity, non-profit organization, or residents (12 C.F.R. § 1282.33 (c)(3)).

1. Objective: Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

~~Fannie Mae has established two separate loan purchase targets under this Objective.~~ Between 2022 – 2024, Fannie Mae will increase purchases of loans secured by MHC properties owned by non-traditional entities, including government entities, ~~or~~ non-profit organizations, or residents. ~~and will continue its resident-owned community (ROC) loan purchase pilot.~~ The rationale highlighted above, including the low representation of non-traditional ownership (2%) and highly fragmented market, demonstrate that it is difficult to achieve scale in this space as it currently stands. We will continue our outreach and education efforts to identify opportunities and support the market.

Baseline for Overall Objective — MHC owned by government entities, nonprofit organizations, or residents: The baseline of two properties represents the average number of properties financed between 2019 and 2021.

~~**Sub-Target Baseline — MHC owned by government entities or nonprofit organizations:** The baseline of two properties represents the average number of properties financed between 2019 and 2021.~~

Historical Loan Purchases of MHC Owned by Residents, Government Entities or Nonprofit Organizations	2019	2020	2021
Properties	0	3	1
Units	0	405	226

~~**Sub-Target Baseline — ROC loan purchase pilot:** Fannie Mae finalized the terms of the pilot program at the end of 2018, but we have not yet acquired any loans.~~

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase loans secured by ~~three~~ five MHC properties, comprising an estimated ~~473~~ 808 units which are owned by residents, government entities, or nonprofit organizations and representing a 150% increase from the baseline. • Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics • Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases. ~~Purchase loans secured by two MHC properties, comprising an estimated 150 units, owned by residents.~~	Loan Purchase

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Year	Target and Implementation Steps	Evaluation Area
2023	Purchase loans secured by ~~five~~ seven MHC properties, comprising an estimated ~~788~~ 1,131 units which are owned by residents, government entities, or ~~or~~ nonprofit organizations, and representing a 2~~1~~50% increase from the baseline. • Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics • Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases. ~~• Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases.~~ ~~Purchase loans secured by two MHC properties, comprising an estimated 150 units, owned by residents.~~	Loan Purchase
2024	Purchase loans secured by ~~five~~ seven MHC properties, comprising an estimated ~~788~~ 1,131 units which are owned by residents, government entities, or nonprofit organizations, and representing a ~~1~~250% increase from the baseline. • Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics • Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases. ~~• Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases.~~ ~~Purchase loans secured by two MHC properties, comprising an estimated 150 units, owned by residents.~~	Loan Purchase

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2022 Manufactured Housing

Activity: C. Regulatory Activity: Manufactured housing communities (MHCs) with certain pad lease protections (12 C.F.R. § 1282.33 (c) (4)).

Objective: Increase the number of loan purchases of MHCs with tenant site lease protections.

Proposed Modification: Revising baseline and targets based on overall market projections

Justification for Proposed Modification:

Our proposed baseline and targets maintain a significant level of commitment to extending the tenant site lease protections (TSLPs) to tenants while also being based on a close analysis of recent trends in the MHC market. The market for MHC sales has changed considerably as market participants have responded to constraints in the macroeconomic environment in 2022. After reporting $8 billion in MHC sales in 2021, Real Capital Analytics reported MHC sales totaling just $1.9 billion in the first half of 2022 – an estimated 42% lower than MHC sales during the first half of 2021 and on pace for the lowest annual sales activity since 2017. This market contraction has generated an extremely competitive environment in which other investors – those who may not require the implementation of tenant site lease protections – are vying for a limited pool of business and offering pricing and proceeds concessions to MHC borrowers.

This Modification derives a new baseline from MHC loan purchases delivered to Fannie Mae from March to August of 2022 – the first six months of deliveries under the new mandatory TSLP requirement. Loans delivered in January and February were largely brought under application in Q4 2021 and subject to the old product requirements which did not mandate TSLP implementation. As such, deriving a new baseline from loans purchased between March to August is reflective of both borrowers' receptiveness to the new TSLP requirements and the newly competitive market landscape in 2022.

At time of writing, CoStar reports just 18 new MHCs under construction representing 2,800 pad sites. For a sense of scale, there are an estimated 547,000 new apartments under construction which are estimated to be delivered by year end 2022. With the exception of

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2021, MHC sales volume in prior years was mostly flat, with virtually no growth rate from calendar years 2017-2019 according to Real Capital Analytics. This combination of little new supply being brought to market, combined with an historic rate environment in 2021 which both prompted refinances and likely pulled sales forward into 2021, suggests adopting a five percent annual growth rate in this Modification is a more realistic approach to year-over-year growth.

We note that a UPB-based Objective, modeled by retroactively applying 2022 MHC program parameters to our 2021 MHC attainment and then projecting targets from there, is one of the more aggressive ways that this goal could have been constructed. A goal based on unit count with incremental growth from 2021 to 2022 would have ostensibly been much easier to attain, given that the move from optional implementation of the TSLPs on 50% of sites to mandatory TSLP implementation on 100% of sites would enable a property financed in 2022 to count twice as many units towards the goal as the same property financed in 2021.

Finally, our commitment to ensuring the TSLPs are offered for every resident living in a Fannie Mae-financed community has led to many more tenants receiving these protections in 2022 than in prior years. Through Q2 2022, our financing has ensured tenant site lease protections will be extended to 22,628 tenants, which already exceeds the total number of residents receiving those protections in all of 2021 (21,076.) Given this, we believe this Modification is justifiable.

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C. Regulatory Activity: Manufactured housing communities (MHCs) with certain pad lease protections (12 C.F.R. § 1282.33 (c) (4)).

Residents of MHCs can either own or rent their homes, but they do not own the land on which their homes sit. The property where the manufactured home stands, known as the pad or site, is rented by the owner from the MHC. Tenant site lease protections preserve the affordability and stability of MHCs across the country and are an important means to safeguard tenants from predatory practices. Some states have laws that provide mandatory site lease protections for tenants, but some do not.

Fannie Mae worked with consumer advocates, industry leaders, and lenders to design and launch the first program to encourage manufactured housing community borrowers to voluntarily provide additional consumer protections for the residents of their communities. In 2019, Fannie Mae launched a product enhancement to incentivize MHC borrowers to voluntarily implement FHFA's regulatory criteria for tenant site lease protections (TSLPs). The program has proven to be successful — the industry has been engaged, and we have met our unit targets for the previous two years. Fannie Mae recognizes the importance of protecting MHC residents, and our goal is to standardize tenant site lease protections across the manufactured housing industry.

1. Objective: Increase the number of loan purchases of MHCs with tenant site lease protections.

Over the course of the first three-year Duty to Serve Plan, Fannie Mae conducted outreach and market research to develop a product enhancement, which launched in early 2019. In this next Plan cycle, Fannie Mae is committed to increasing the number of properties we finance that provide these additional consumer protections to their residents and further signaled this commitment by mandating tenant site lease protections on 100% of the tenant sites for each MHC loan purchased by Fannie Mae beginning in 2022.

While we remain committed to ensuring that our TSLP program supports and serves the needs of residents in the manufactured home communities we finance, we are cognizant of the fact that our 100% mandate may cause certain market participants to pursue other financing options, which have fewer consumer protections. Additionally, most of this business to date has come in through our Credit Facility channel, a channel which requires greater internal capacity and resources to manage. As we progress with the implementation of this Objective, we will monitor the execution mix to determine whether it aligns with our more standard flow business.

Baseline: As 2021 was the first year in which we saw relevant levels of adoption of the tenant site lease protection program, we initially sought to establish a baseline based on 2021 attainment. Our modified baseline ~~To~~ is reflective of ~~accounting for~~ market headwinds experienced in 2022 and initial market adoption of our mandatory TSLP product. ~~adoption of modeling in 2021, n In 2021,From~~To illustrate this, we adopt a baseline based on the average monthly Mission-adjusted UPB of MHC loans purchased between~~annualized~~ March to August 2022 – ~~the~~a timeframe representative of the first six months of loan deliveries under the mandatory TSLP requirement. When taking the monthly average of these six months and projecting it across the year, we arrive at a modified baseline of $1,850,000,000 in Mission-adjusted UPB.~~ in which , Fannie Mae purchased~~ MHC ~~loans with tenant site lease protections with an unpaid principal balance of an estimated $~~1.85~~2.090 billion after adjusting for the Mission percentage, which serves as our baseline. Moving into 2022, we are uncertain of volume projections for our TSLP purchases, as the 100% mandate adopted January 1st is predicted to drive certain borrowers toward other financing sources which may not require the same protections. As such, we have adopted a more conservative projection for loan purchase growth across the next three years of the DTS plan but will work with FHFA to responsibly adjust our targets should market conditions change.~~

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Year	Target and Implementation Steps	Evaluation Area
2022	Increase the purchase of MHC loans that include tenant site lease protections meeting the FHFA Mission criteria to $1,950,000,000~~2,236,000,000~~ delivery UPB, reflecting an approximate 5~~7~~% increase from the baseline.	Loan Purchase
2023	Increase the purchase of MHC loans that include tenant site lease protections meeting the FHFA Mission criteria to $2,050~~466~~,000,000 delivery UPB, reflecting an approximate 10~~8~~% increase from the baseline.	Loan Purchase
2024	Increase the purchase of MHC loans that include tenant site lease protections meeting the FHFA Mission criteria to $2,115~~675~~,000,000 delivery UPB, reflecting an approximate 15~~28~~% increase from the baseline.	Loan Purchase

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2022 Affordable Housing Preservation

Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program **(12 C.F.R. § 1282.34 (d) (6)).**

Objective # 1: Purchase loans for RAD properties.

Proposed Modification: Track and report RAD loan purchases based on unit count versus loan count.

Justification: The language in this objective tracks and reports to FHFA based on the number of RAD loans to ensure greater consistency across Affordable Housing Preservation Plan objectives. Since the start of this plan cycle, we have determined that counting the number of RAD loans would not be as meaningful as counting the number of rental assistance units that have been converted to RAD because of our financing. It is very common for single loan executions to contain multiple properties. By counting loans only, we are not capturing the true impact of this objective. Therefore, we feel that basing this objective on units rather than loans would be most meaningful.

To remain consistent, we propose that we model our baseline number on the average number of RAD units that have been financed over the past four (4) years (2018-2021). In addition, we have taken into consideration Fannie Mae's relatively small share in the RAD market.

Over the past 4 years, Fannie Mae has financed 7,923[1] RAD units of the total 68,034 units converted during this time period, which translates to approximately 12% of the total RAD units that were converted. Currently, there are an estimated 54,000 units waiting to convert to RAD. This translates to 13,500 units converting each year over a 4-year period. Applying the estimated 12% market share to this yearly amount results in a proposed baseline of 1,620 units per year.

With respect to the target, we took into account transactions that we considered to be outliers and were included in our baseline calculation. From 2018-2021, there were three (3) large outlier transactions, which accounted for 3,435 units, which equates to over 40% of our total RAD units, and we averaged 1,981 units during this period. In contrast, for 2022, we anticipate delivering just over 1,000 units. Aside from the outlier transactions during the 2018-2021 period, other factors have contributed to this lower number, including delays due to COVID, resource constraints on Public Housing Authorities (PHAs), and increases in interest rates and construction costs. Based on these collective factors, we have set our target at 1,000 units, with 10% increases on a year-over-year basis through 2024.

[1] Please note that the 7,923 RAD units reflects Section 8 units.

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A. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

Over the past few years, Fannie Mae has expended considerable effort developing product enhancements and stakeholder engagement with a continued goal of providing affordable financing for properties undergoing RAD conversions. Between 2018 and 2020, Fannie Mae purchased 33 loans secured by RAD properties. These deals are complicated — there are multiple counterparties involved and various approval processes and site inspections to complete — and they take a high degree of coordination. We have developed relationships with PHAs to better understand the needs and challenges of owners of public housing properties so that we can be a reliable source of financing as more deals enter into and move through the RAD pipeline.

As of 2020, seven years after the first RAD conversion, 140,000 affordable units have been improved and preserved through RAD.[2] HUD continues to support the conversion of properties from the PHA platform, so we expect there to be a large pipeline of PHAs and multifamily properties seeking third-party financing opportunities over the next few years. The deals that come through the pipeline will likely be challenging to execute due to the complex nature of RAD transactions. While difficult, those property conversions completed in the early years of RAD may have been more straightforward and financially viable than those that remain.

1. Objective: Purchase loans for RAD properties.

Fannie Mae will continue to purchase loans secured by RAD properties in 2022 – 2024. Third-party financing is essential to the preservation of these affordable units. Fannie Mae will meet the needs of this market by providing financing that is affordable, efficient, and scalable for RAD properties. Fannie Mae will continue outreach and capacity-building efforts, as well as explore product enhancements and partnerships that enable the scalability of RAD conversions, even for small- to medium-sized PHAs.

Baseline: The current baseline is a three-year average of 11 loans. ~~Prior to the current Plan cycle, Fannie Mae tracked and reported to FHFA based on the number of RAD properties. Beginning with this Plan, Fannie Mae will track and report on RAD loans to ensure greater consistency across Affordable Housing Preservation Plan objectives.~~ However, Fannie Mae has determined that counting the number of loans is not as appropriate a measurement as counting the number of units that have been converted to RAD as a result of Fannie Mae financing. It is very common for single loan executions to contain multiple properties. By counting loans only, we are not capturing the true impact of this objective. As such, basing this objective on units rather than loans would be most meaningful.

A four~~three~~-year average (2018-2021) is appropriate given the relatively small size of the program, which can cause large fluctuations in unit counts from year to year. Therefore, the baseline has been modified to be established on the average number of RAD units that have been financed over this four-year period. In addition, we have taken into consideration Fannie Mae's relatively small share in the RAD market. Over the past four years, Fannie Mae has financed 7,923[3] RAD units of the total 68,034 RAD units converted during this time period, which translates to approximately 12% of the total RAD units that were converted. Currently, there are an estimated 54,000 units waiting to convert to RAD. This translates to 13,500 units converting each year over a 4-year period. Applying the estimated 12% market share to this yearly amount results in a proposed baseline of 1,620 units per year.

[2] "$10 Billion Invested in RAD-Converted Public Housing," U.S. Department of Housing and Urban Development Rental Assistance Demonstration (RAD) Office of Recapitalization, 2020, hud.gov/sites/dfiles/Housing/documents/RAD_10B_Flyer_10-2020.pdf.

[3] Please note that the 7,923 RAD units reflects Section 8 units.

With respect to the target, Fannie Mae is taking into account transactions that are considered to be outliers and were included in our baseline calculation. From 2018-2021, there were three large outlier transactions that accounted for 3,435 units, which equates to over 40% of total RAD units, and an average of 1,981 units during this period. In contrast, for 2022, Fannie Mae realistically anticipates delivering just over 1,000 units. Aside from the outlier transactions during the 2018-2021 period, other factors have contributed to the lower target number, including delays due to COVID, resource constraints on PHAs, and increases in interest rates and construction costs. Based on these collective factors, the below-baseline target is 1,000 units for 2022, with 10% increases on a year-over-year basis through 2024.

~~Fannie Mae's goal reflects a meaningful increase in loan purchases over the baseline in the context of an overall shrinking market of eligible PHA conversion opportunities.~~

RAD Loan Purchases	2018	2019	2020	2021
~~Loans~~	~~14~~	~~5~~	~~14~~	
Rental units	2,214~~2,261~~	1,307	3,474~~3,391~~	961

Year	Target and Implementation Steps	Evaluation Area
2022	Finance 1,000 RAD units~~Purchase 12 loans for RAD properties, which represents a 9% increase over the baseline~~.	Loan Purchase
2023	Finance 1,100 RAD units, which represents a 10% increase over the baseline~~Purchase 13 loans for RAD properties, which represents an 18% increase over the baseline~~.	Loan Purchase
2024	Finance 1,210 RAD units, which represents a 21% increase over the baseline~~Purchase 14 loans for RAD properties, which represents a 27% increase over the baseline~~.	Loan Purchase

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2022 Rural Housing

Regulatory Activity: Regulatory Activity: Housing for high-needs rural populations (12 C.F.R. § 1282.35 (c) (2)).

Objective # 4: Explore feasibility of equity investment to create access to affordable capital.

Proposed Modification: For 2022, create a new objective dedicated to researching the opportunity for and structure of a Native CDFI (NCDFI) equity investment.

Justification: 2022 outreach to Native American Tribes, tribally affiliated housing entities, and related stakeholders led to numerous requests that Fannie Mae provide capital to Native CDFIs.

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4. Objective: Explore feasibility of equity investment to create access to affordable capital.

CDFIs support economic growth in the communities they serve, and Native CDFIs (NCDFIs) play an important role in providing access to Native American borrowers.

Capital plays an essential role in a NCDFI's scope, reach, and impact. NCDFIs are accustomed to borrowing low-cost funds, primarily from the government, foundations, and banks; though funds available from all three of these sources are unpredictable and may have limited flexibility. Fannie Mae is in a unique position to support the long-term sustainability and reach of these institutions that serve acutely underserved markets.

Baseline: Under the Duty to Serve 2018 – 2021 Plan, Fannie Mae made available the necessary resources and support to successfully guide two CDFIs through Fannie Mae's seller and servicer approval process. Furthermore, Fannie Mae is has been and remains actively in contact with multiple NCDFIs under Objectives 1 and 2 of this Regulatory Activity.

Year	Target and Implementation Steps	Evaluation Area
2022	Explore feasibility of investing in one or more NCDFIs to provide improved access to affordable mortgage lending to Native American consumers. • Conduct industry research and engage NCDFIs to acquire information. • Perform quantitative and qualitative analysis to inform investment structure and the maximum total investment amount. • Establish investment objective and determine scope requirements. Examine organizational structure to determine roles and responsibilities. • Pursue legal, regulatory, and other essential guidance from necessary stakeholders. • If approved and consistent with our charter, develop an implementation strategy and deploy the investment in years 2 and 3.	Outreach

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2022 Rural Housing

Regulatory Activity: Financing by Small Financial Institutions (SFIs) of rural housing (12 C.F.R. § 1282.35(c) (3)).

Objective # 1: Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

Proposed Modification: For 2022, reclassify this objective from loan purchase to outreach, in recognition of significant shifts in the market and to capture Fannie Mae's multifaceted outreach and research response.

Justification: Beginning in late 2021, SFI loan purchase volumes declined more severely than other loan types. Beginning in Q1, 2022, Fannie Mae initiated multiple research and outreach efforts to understand and address the drivers of this decline. Collectively, this response required thoughtful planning and a significant resource commitment, which should be captured under the Plan.

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C. Regulatory Activity: Financing by Small Financial Institutions (SFIs) of rural housing (12 C.F.R. § 1282.35(c) (3)).

1. Objective: Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

Rural communities have experienced a decline in the number of bank branches, exacerbating mortgage finance obstacles. Fannie Mae is positioned to help financial services providers in rural communities expand their reach. Increasing liquidity in the Rural Housing market can support expanded mortgage options for buyers in rural areas.

FOCUSING ON PMM PURCHASES

Unlike in the prior Plan cycle, we have excluded refinance loans from our loan purchase targets, focusing exclusively on PMM loans. Fannie Mae will continue to support refinance loans for LMI borrowers in this market. However, these loans will not be included in our three-year Plan because of the inherent volatility of the refinance business in a shifting interest rate environment, which may place more weight on market forces beyond our control.

IDENTIFYING A GROWTH TARGET

We believe that modest growth over the next three years is reasonable, even amid shifting market conditions. As with the baseline, we considered the circumstances within each market to select growth targets. With SFIs, year-over-year growth has fluctuated. In fact, 2019 PMM purchases were slightly lower than in 2018. Over a longer time period, annualized average growth has been about 12%. Because we do not expect this level of growth in perpetuity, and because we expect market conditions (like interest rates) to provide headwinds, we chose an annual growth rate of 5%. Therefore, by the third and final year of this Plan cycle, our target is 15.8% higher than the baseline.

Baseline: The baseline of 5,749 loans is the three-year average of the number of loans purchased by Fannie Mae from 2018 – 2020. Fannie Mae has set the below targets for 2022 – 2024. Similar to our approach when setting a baseline in the previous Duty to Serve Plan, we reference actual loan purchases from a recent period. We set an SFI baseline, according to 2018 – 2020, of 5,749 PMM loans.

Single-Family Loans in Rural Areas from SFIs	2018	2019	2020
Loans	5,385	5,265	6,595

Year	Target and Implementation Steps	Evaluation Area
2022	Purchase 6,037 single-family mortgage loans in rural areas from SFIs, which represents a 5% increase over the baseline. Conduct research and outreach focused on understanding and responding to shifts within the SFI loan purchase market. • Analyze recent historical trends and identify potential drivers of market shifts.	Outreach~~Loan Purchase~~

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- Interview a sample of SFI originators that have historically sold loans to Fannie Mae to understand current and future market conditions, including hosting a virtual roundtable.
- Interview a sample of SFI aggregators that have historically sold loans to Fannie Mae to understand current and future market conditions.
- Explore potential methods to increase SFI loan deliveries, including seeking opportunities to expand the number of SFIs delivering loans to Fannie Mae.

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