



Duty to Serve

Proposed Evaluation Guidance

2018-2020 Plan Cycle

Guidance 2017-1

NOTE: This version of the Evaluation Guidance has been superseded and is no longer valid.

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NOTE: This version of the Evaluation Guidance has been superseded.

Overview

The Housing and Economic Recovery Act of 2008 (HERA) established a duty for Fannie Mae and Freddie Mac (collectively, the Enterprises) to serve three specified underserved markets — manufactured housing, affordable housing preservation, and rural housing — by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for mortgage financing for very low-, low-, and moderate-income families in those markets.

Under the Duty to Serve regulation that implements this statutory requirement,¹ each Enterprise must prepare an Underserved Markets Plan (Plan) describing the specific activities and objectives it will undertake to fulfill its Duty to Serve obligations in each underserved market over a three-year period. This proposed Evaluation Guidance (Guidance) describes the procedures the Enterprises must follow in preparing these Plans, and the proposed process by which FHFA will evaluate the Plans annually to produce a rating for each Enterprise’s implementation and impact on each underserved market. This Guidance also explains the opportunities the public has to provide input at different stages of the Plan development and the evaluation processes. The Guidance will be in effect for a three-year term corresponding with the Plans’ three-year terms, and FHFA may modify this Guidance as appropriate during this time period.

There are four major sequential steps involved in implementing the Duty to Serve regulation: (1) publication of the Guidance by FHFA; (2) preparation of Plans by the Enterprises; (3) implementation by the Enterprises of the activities and objectives described in their Plans; and (4) FHFA annual evaluation of the Enterprises’ performance under their Plans. An overview of each step is provided below:

1. **Publication of the Evaluation Guidance.** The first step in implementing the Duty to Serve regulation is publication of this proposed Guidance by FHFA for public input. FHFA invites feedback on all aspects of this proposed Guidance including, but not limited to, the specific questions posed in Chapter 3. After considering the public input, FHFA will publish a revised version of the Guidance, as appropriate, no later than when FHFA delivers comments to each Enterprise on its proposed Plan, currently scheduled for August 2017.
2. **Preparation of the Underserved Markets Plans.** The second step is the preparation of Plans by the Enterprises. Chapter 1 of this Guidance describes FHFA’s expectations for the content of the Plans. FHFA will publish the Enterprises’ proposed Plans on FHFA’s website for public input, with any confidential and proprietary information and data omitted. The public will have 60 days to provide input on the proposed Plans. After considering the public input, FHFA will provide its comments on the proposed Plans to the Enterprises and work

¹ 12 CFR Part 1282

with the Enterprises to ensure revisions are made as appropriate. FHFA will work with each Enterprise on iterations of its proposed Plan until FHFA is satisfied that all of its comments on each underserved market in the Plan have been addressed, at which point FHFA will provide a Non-Objection to the Plan for that underserved market.

Where an underserved market section in a Plan receives a Non-Objection from FHFA by December 1, 2017, that underserved market section of the Plan will go into effect on January 1, 2018.²

3. **Implementation of the Underserved Markets Plans.** Once an underserved market section in a Plan is in effect, each Enterprise will implement the activities and objectives described in its Plan to meet the needs of that underserved market. Each Enterprise must submit a quarterly report to FHFA within 60 days of the end of the first, second, and third quarters of the calendar year describing its progress in implementing the activities and objectives in its Plan. The first and third quarter reports must include information on the Enterprise's progress in meeting the loan purchase objectives in its Plan and may include additional information at the Enterprise's discretion. The second quarter report must include detailed year-to-date information on the Enterprise's progress toward meeting all of the activities and objectives in its Plan for each underserved market. Each Enterprise must submit an annual report to FHFA within 75 days of the end of the calendar year providing, at a minimum, information on all activities and objectives undertaken during the year, including the context necessary for FHFA to evaluate the Enterprise's achievements.

FHFA will make certain information from the quarterly and annual reports available to the public, omitting any confidential and proprietary information and data, at a reasonable time after the end of a Plan year.³ Additional information regarding these public releases of information from the Enterprises' Duty to Serve reports is described in 12 CFR § 1282.66(d).

4. **Annual Evaluation of Enterprises' Performance.** Upon receipt of each year's annual report from an Enterprise, FHFA will conduct an evaluation of the Enterprise's performance under its Plan following the requirements of the Duty to Serve regulation and the guidelines specified in Chapter 2 of this Guidance.

Based on this evaluation, FHFA will provide feedback to each Enterprise on its performance and issue one of the following ratings for each underserved market: Exceeds, High

² Where an underserved market section in a Plan does not receive a Non-Objection from FHFA by December 1, 2017, FHFA will determine the effective date for that underserved market section.

³ The only exception to this policy is that in the third year of a Plan, FHFA will make certain information from that year's second quarter report available to the public, omitting any confidential and proprietary information, at a reasonable time after receiving it within the calendar year. This will provide the public with information on the third Plan year as the Enterprises propose and revise their Plans for the next Plan cycle.

Overview

Satisfactory, Low Satisfactory, Minimally Passing, or Fails. The first four ratings demonstrate compliance with Duty to Serve requirements, listed in order from highest to lowest rating.

As this is the first Guidance and Plan cycle for the Duty to Serve program, FHFA may make adjustments in how it implements the evaluation and rating process during the Plan cycle.⁴



The balance of this Guidance covers the following topics:

- Chapter 1 provides guidance on the process for developing the three-year Plan.
- Chapter 2 describes the process by which FHFA will evaluate the Enterprises' achievements under their Plans each year.
- Chapter 3 provides a list of questions on this proposed Guidance on which FHFA specifically invites public input.

Chapter 1 Developing Underserved Markets Plans: Contents and Considerations

Overview

This Chapter describes the requirements applicable to the Enterprises' Plans, as well as guidance on how to develop effective Plans. It covers the following topics:

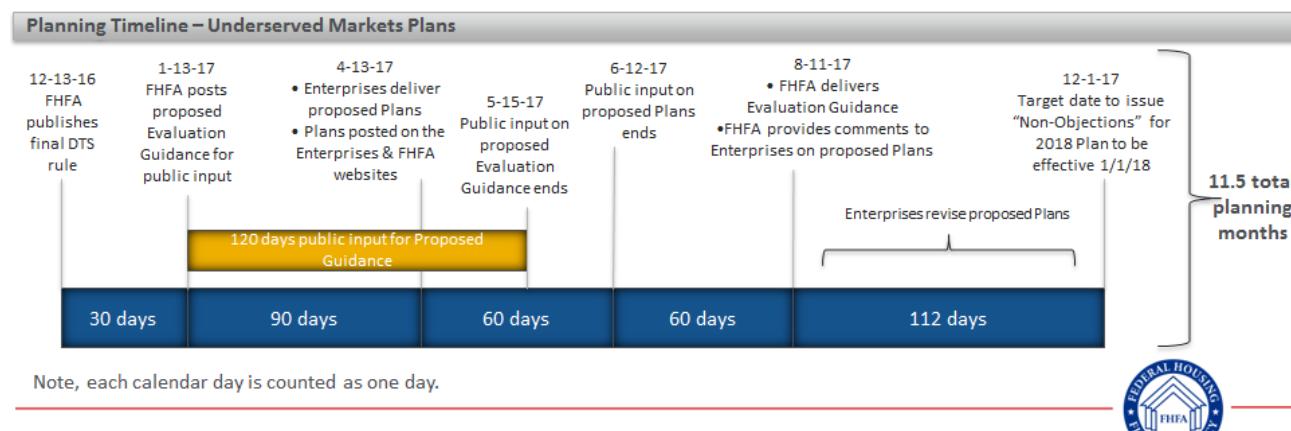
⁴ 12 CFR § 1282.36(c)(4)(ii)

- **Plan Structure** – This section describes the overall structure required for the Enterprises’ Plans. Each Plan must be divided into separate sections for each of the three underserved markets. Each of these sections must, in turn, include subsections covering: Strategic Priorities Statement, Statutory and Regulatory Activities Considered but Not Included, and Activities and Objectives. The Plans must also include a certification from a senior executive officer of the Enterprise who is responsible for submitting the Plan to FHFA.
- **Plan Contents** – This section provides more details on each of the required subsections, including the requirements applicable to objectives, which must be strategic, measurable, realistic, time-bound, and tied to an analysis of market opportunities (referred to as “SMART” criteria). This section also describes which activities qualify as contributing to residential economic diversity for purposes of awarding extra credit in the evaluation process.
- **Plan Process** – This section describes the opportunity for the Enterprises to modify their Plans each year. This section also describes how the Enterprises may protect confidential and proprietary information and data included in their Plans.
- **Additional Guidance for Plans** – This section describes best practices for preparing effective Plans. This section also describes areas in which additional research and development would be useful for meeting underserved market needs, which could be included in an Enterprise’s Plan.

Below are major milestones in the process for the Enterprises to develop their Plans and for FHFA to review the Plans:

- The Enterprises’ first proposed Plans are due to FHFA within 90 days after the date of FHFA’s posting of the proposed Guidance on FHFA’s website.
- FHFA will post each Enterprise’s proposed Plan on FHFA’s website, omitting any confidential and proprietary information and data, as soon as practical after receiving the proposed Plans.
- The public will have 60 days from the date FHFA posts the proposed Plans to provide input on the Plans.
- FHFA will provide feedback to the Enterprises on their proposed Plans within 60 days, or such additional time as may be necessary, from the end of the public input period on the Enterprises’ proposed Plans.

- FHFA will work with each Enterprise on iterations of its proposed Plan until FHFA is satisfied that all of its comments on each underserved market in the Plan have been addressed, at which point FHFA will provide a Non-Objection for that underserved market in the Plan.
- For the first Duty to Serve evaluation cycle, an underserved market section in a Plan will be effective starting January 1, 2018 if the underserved market section receives a Non-Objection by December 1, 2017.
- If an underserved market section in a Plan does not receive a Non-Objection by December 1, 2017, FHFA will determine the effective date of that underserved market section.
- Once FHFA has issued a Non-Objection to an underserved market section in a Plan, FHFA will post that underserved market section of the Plan on FHFA's website. FHFA will also require the Enterprise to post that section of its Plan on its website. Any confidential and proprietary information and data included in the Plan section will be omitted from the Plan section posted on the websites.



Plan Structure

Each Enterprise shall prepare a Plan that describes its planned actions over a three-year period to meet the needs of the three underserved markets: manufactured housing, affordable housing preservation, and rural housing. Each Enterprise's Plan should be divided into three sections, and each of these three sections should cover the three-year Plan period. FHFA will annually evaluate an Enterprise's actions under the activities and objectives for the applicable underserved market.

The following three subsections should be included in a Plan for each underserved market:

1. **Strategic Priorities Statement** – A brief summary of the Enterprise’s strategy and rationale for how the activities and objectives in its Plan will serve the underserved market.
2. **Statutory and Regulatory Activities Considered but Not Included** – A discussion of the Statutory and Regulatory Activities the Enterprise considered but will not undertake in the Plan for the underserved market.
3. **Activities and Objectives** – A description of the activities and objectives the Enterprise will undertake in this Plan cycle to meet the needs of the underserved market.

Each of these three subsections is described in more detail below in Plan Contents. In addition, in the final version of its Plan, each Enterprise must include a certification from a senior executive officer responsible for submitting the Plan to FHFA stating that, to the best of his/her knowledge and belief, the historical information provided in the Plan is true, correct, and complete.

Plan Contents

1. Strategic Priorities Statement

Each underserved market section in a Plan should begin with a strategic priorities statement that articulates the Enterprise’s approach for addressing the needs of the underserved market through the activities and objectives included in the Plan. The statement should provide a rationale for all major decisions by the Enterprise on how it intends to serve the underserved market. The statement should include a description of how any public input informed any of the Enterprise’s decisions for the underserved market.

2. Statutory and Regulatory Activities Considered but Not Included

While no single Statutory Activity or Regulatory Activity is mandatory, an Enterprise is required to consider a minimum number of Statutory or Regulatory Activities for each underserved market, as designated by FHFA in this Guidance.⁵ To “consider” an activity, an Enterprise must either choose to include the activity and related objectives in its Plan or explain the reasons why

⁵ For reference, a table of activities that have been identified as Statutory Activities or Regulatory Activities is provided in Appendix A.

it has chosen not to undertake the activity. The requirements for each underserved market under this Plan cycle are below:

- **Manufactured housing:** The Enterprises must consider and address in their Plans all four of the Regulatory Activities identified for this market.
- **Affordable housing preservation:** The Enterprises must consider and address in their Plans seven of the Statutory and Regulatory Activities identified for this market.⁶ FHFA selected this number to reduce the potential burden associated with considering all 16 of the Statutory and Regulatory Activities for the affordable housing preservation market. An Enterprise may consider and address more activities if it chooses.
- **Rural housing:** The Enterprises must consider and address in their Plans all four of the Regulatory Activities identified for this market.

For example, if an Enterprise decides to include seven Regulatory Activities under the affordable housing preservation market in its Plan, the Enterprise has satisfied the minimum number to consider for the market in its Plan. By contrast, if an Enterprise includes four Regulatory Activities, two Statutory Activities, and one Additional Activity under the affordable housing preservation market in its Plan, then the Enterprise would need to select at least one of the remaining Regulatory or Statutory Activities and explain why it is not pursuing that activity.

Explanations of why the Enterprises chose not to undertake certain activities will provide FHFA and the public insight about the market conditions, resource availability, or other factors that influenced the Enterprises' decisions on those activities. These explanations, along with input from the public on the proposed Plans, will contribute to a greater understanding of those activities and their potential impacts and limitations and may inform FHFA's Plan reviews in the future.

⁶ The following two statutorily-enumerated activities will not count toward the minimum number of activities that the Enterprises must consider in their Plans under the affordable housing preservation market: the HUD Section 811 program and McKinney-Vento Homeless Assistance programs. Because these programs are not structured to make use of Enterprise support, FHFA does not expect the Enterprises to address these two programs in their Plans.

3. Activities and Objectives

For each underserved market in a Plan, an Enterprise must fully describe the specific activities it will undertake and their related objectives. An Enterprise has broad discretion to select which specific Statutory and Regulatory Activities it wishes to undertake, and whether to include Additional Activities for a given underserved market. While an Enterprise must *consider* a specified minimum number of activities, as discussed above the Enterprise is not required to undertake a minimum number of activities or objectives. A Plan must include activities in each underserved market that serve all three Duty to Serve income categories in each year of the Plan. Any one activity may serve more than one of the income categories.

A. Activities

All activities that an Enterprise plans to undertake for Duty to Serve purposes must be described in its Plan, labeled by name and type (*i.e.*, Statutory Activity, Regulatory Activity, or Additional Activity), and have at least one accompanying objective. The Plan must include a description of how the Enterprise will implement its planned activities and achieve the related objectives.

For any Additional Activity included in a Plan, an Enterprise must explain how the Additional Activity will be targeted to meet the needs of a particular segment of the underserved market. In addition, an Enterprise must describe how the Additional Activity ensures that there are adequate levels of consumer protections or benefits to tenants or homeowners that are consistent with the requirements of the Statutory and Regulatory Activities in the Duty to Serve regulation.⁷

The Duty to Serve regulation provides that FHFA may, at its discretion, designate one Statutory Activity or Regulatory Activity in each underserved market that FHFA will significantly consider in determining whether to provide a Non-Objection to that underserved market in a proposed Plan. This provision allows FHFA to specifically encourage the Enterprises to consider certain activities that could require more time and effort to make an impact on the underserved market than other activities. For the first Plan cycle, FHFA has not made such a designation in this Guidance.

B. Objectives

Objectives are the specific action items for each activity that an Enterprise will carry out to accomplish the activity. Objectives are central to the evaluation and rating process described in Chapter 2. The Plan should include any additional information and analysis that explain how the Enterprise set its target for the objective, and the extent to which the objective will have an impact in addressing needs of the specific underserved market in light of the challenges, time commitment, and resources involved. This information will inform the concept score discussed in Chapter 2 of this Guidance. FHFA will provide the Enterprises with an opportunity to

⁷ Additional Activities that are very similar to a Statutory or Regulatory Activity will be subject to higher levels of scrutiny because the protections in the Statutory Activities were established by Congress, and the protections in the Regulatory Activities were subject to the public comment process for the Duty to Serve regulation.

describe their views about the concept score of objectives prior to FHFA’s determination of preliminary and final concept scores.

For an underserved market in a Plan to receive a Non-Objection, there must be at least one objective for each year of the three-year Plan cycle, in order to ensure that a minimum level of effort is expended by the Enterprise and to enable FHFA to annually evaluate the Enterprise’s performance on the objective. An Enterprise may use more than one objective in each Plan year to accomplish a single activity.

“SMART” Criteria

Objectives must be strategic, measurable, realistic, time-bound, and tied to an analysis of market opportunities. For each objective, an Enterprise should elaborate on how the objective will meet each of these “SMART” criteria, as described below.

- **Strategic.** Describe how the objective directly or indirectly maintains or increases liquidity for the underserved market. This description should explain how the objective is strategic in meeting the needs of the underserved market and describe to what extent achievement of the objective is likely to have an impact on meeting the needs of an underserved market.
- **Measurable.** Provide a measurable target for the objective that will enable FHFA to determine whether the Enterprise has achieved the objective.

Setting Objectives

FHFA will closely consider each objective and the contextual information the Enterprise submits about that objective in making its Non-Objection decision for the Plan and in evaluating the Enterprise’s performance under Step Two of the evaluation process.

For loan purchase and investment objectives, the Enterprises must provide both the measurable target for the objective and a measurable baseline representing recent performance by the Enterprise. This baseline will facilitate FHFA’s evaluation of these objectives. The Enterprise must identify this measurable baseline in its Plan and justify the methodology used to select it. Among other potentially acceptable methodologies for setting baselines for loan purchase and investment objectives, the Enterprises may use an average of three years of data on recent performance. To supplement both the measurable target and the measurable baseline, the Enterprises should provide information on their performance for actions similar to those required by the objectives over the three preceding years.

For outreach and loan product objectives, the Enterprises must describe in detail the

specific steps to be conducted under that objective. The Enterprises will be evaluated based on the extent to which they achieved these steps. The Enterprises are not required to identify a measurable baseline for these objectives.

- **Realistic.** Explain how the objective is calibrated so that the Enterprise has a reasonable chance of meeting the objective with appropriate effort within the designated time period in the Plan, including the basis for the Enterprise’s determination and any analysis of the issue undertaken by the Enterprise prior to setting the objective.
- **Time-bound.** Identify the Plan evaluation year or years in which the objective will be completed. An objective may cover actions within a single year (e.g., purchasing [X] loans in 2018) or actions over multiple years (e.g., conducting outreach on an existing loan product in 2018 and making a change to the loan product in 2019). For multi-year objectives, an Enterprise should clearly identify the actions specified for each year, along with the specific evaluation areas for each year.
- **Tied to Analysis of Market Opportunities.** Explain how the objective meets one or more of the market opportunities the Enterprise analyzed and identified in that underserved market and demonstrate how safety and soundness was taken into consideration in developing the objective.

Designating One Evaluation Area for Each Objective

The Duty to Serve statute and regulation require FHFA to evaluate separately whether each Enterprise has complied with its Duty to Serve obligations for each underserved market, taking into consideration four evaluation areas: outreach, loan products, loan purchases, and investments and grants. For each Plan objective, an Enterprise must designate in its Plan one evaluation area under which the objective will be evaluated. This is intended to ensure that the objectives are sufficiently focused to allow for a clear evaluation of performance under an evaluation area and is not intended to constrain the Enterprises’ actions. An Enterprise may designate a specific evaluation area for an objective for one year and a different evaluation area for the objective in a later year within the Plan cycle.

An objective may receive Duty to Serve credit in more than one underserved market in a Plan. For example, an Enterprise may receive credit under both the affordable housing preservation market and the rural market for purchasing loans on small multifamily rental housing in rural areas where the objective meets the Duty to Serve regulatory requirements for both underserved markets. If an Enterprise would like an objective to receive credit in more than one underserved market, it should separately identify that objective in each of the applicable underserved market sections in its Plan. An objective included in multiple underserved markets will be evaluated separately on its impact on meeting needs within each of the underserved markets.

C. Extra Credit-Eligible Activities

An Enterprise may receive extra Duty to Serve credit for activities that are particularly challenging to accomplish in an underserved market or that serve a part of an underserved market that is relatively less well-served. The activities that are eligible for extra credit for each underserved market are identified in Chapter 2 and include those that promote residential economic diversity as described below, as well as several other specific activities.

Residential Economic Diversity Activities

Enterprise activities that promote residential economic diversity are eligible for extra credit under each of the three underserved markets. “Residential economic diversity activity” for Duty to Serve purposes means an eligible Enterprise activity, other than an energy or water efficiency improvement activity or other activity that FHFA determines to be ineligible, that supports financing of mortgages on: (1) affordable housing in a high opportunity area; or (2) mixed-income housing in an area of concentrated poverty.

The Duty to Serve regulation provides that certain components of the definitions of high opportunity area and of mixed-income housing would be further specified in the Guidance. FHFA welcomes public input on the components of these definitions set forth below.

High Opportunity Area

The Duty to Serve regulation defines a “high opportunity area” for Duty to Serve purposes generally as:

- (i) an area designated by the Department of Housing and Urban Development (HUD) as a “Difficult Development Area” (DDA) during any year covered by a Plan or in the year prior to a Plan’s effective date, whose poverty rate is lower than the rate specified by FHFA in the Guidance; or
- (ii) an area designated by a state or local Qualified Allocation Plan (QAP) as a high opportunity area and which meets a definition FHFA has identified as eligible for Duty to Serve credit in the Guidance.

Difficult Development Areas: FHFA has elected to set maximum poverty rate thresholds for DDAs to qualify as high opportunity areas. For this Plan period, FHFA is proposing to set the maximum poverty rate threshold for HUD-designated metropolitan DDAs at 10 percent and for non-metropolitan DDAs at 15 percent. FHFA selected these thresholds in order to balance the objective of excluding high-poverty DDAs from its definition of high opportunity area while also ensuring that its definition covers a reasonable segment of the population. FHFA considered applying the same poverty rate threshold for metropolitan and non-metropolitan DDAs but elected to apply different thresholds because the poverty rate of non-metropolitan DDAs tends to be higher than that of metropolitan DDAs. While approximately 40 percent of metropolitan DDAs have poverty rates in excess of 10 percent, nearly three-quarters of non-metropolitan

DDAs have poverty rates above 15 percent. The national poverty rate in the last five years has ranged from 13.5 to 15 percent. FHFA welcomes public input on these proposed maximum poverty rate thresholds.

Definitions from Qualified Allocation Plans: For this Plan cycle, to meet the second component of the definition of high opportunity area, this proposed Guidance sets forth below the criteria that must be met by state or local definitions of high opportunity areas (or similar terms) contained in Low-Income Housing Tax Credit QAPs or QAP-related materials:

1. The definitions are clearly intended to describe areas that provide strong opportunities for the residents of housing funded through the QAP. Use of terminology such as “high opportunity areas,” “very high opportunity areas,” “areas of opportunity,” “opportunity areas,” or “economic integration areas” (singular or plural) can be helpful in signaling this intent; and
2. The QAP describes the location of the areas in sufficient detail to enable them to be mapped and/or includes a list(s) or map(s) of such high opportunity areas.

FHFA encourages interested parties to identify specific state or local definitions of high opportunity areas that meet FHFA’s criteria listed above in their input on this proposed Guidance. FHFA will rely in substantial part on this input in developing a list of qualifying state and local definitions, which will be included in revised Guidance. In order to avoid awarding Duty to Serve credit for Enterprise activities in higher-poverty areas, FHFA will review the areas designated as high opportunity areas under definitions that meet the above criteria and, as discussed in this Guidance, plans to exclude from this list of qualifying areas those areas that have a poverty rate above 10 percent in metropolitan areas and above 15 percent in non-metropolitan areas.

Mixed-Income Housing

The Duty to Serve regulation provides that FHFA will specify in the Guidance the minimum percentage of units in a multifamily property or development that must be affordable to very low-income families, or to families at lower income levels, as well as the minimum percentage of units that must be unaffordable to low-income families, or to families at higher income levels, in order for the property or development to be considered “mixed-income housing.” FHFA determined that minimum thresholds for both affordable and unaffordable units would ensure that the mixed-income housing the Enterprises are encouraged to support is affordable to households at a range of income levels.

For this Plan period, this proposed Guidance would adopt the following minimum thresholds for mixed-income housing, which were specified in the preamble of the Duty to Serve final rule: (i) at least 20 percent of the units are unaffordable to families with incomes at 80 percent of area median income; and (ii) at least 20 percent of the units are affordable to families with incomes at

or below 50 percent of area median income, or at least 40 percent of the units are affordable to families with incomes at or below 60 percent of area median income. FHFA welcomes public input on these proposed minimum thresholds for mixed-income housing.

Plan Process

Modifications

The Enterprises may modify their Plans annually. For example, an Enterprise might request to adjust the numeric targets for certain objectives in its Plan for the subsequent year based on the accomplishment of certain tasks or lessons learned during the evaluation year. A request for a modification is subject to FHFA Non-Objection. Annual Plan modifications should be submitted to FHFA at least 90 days before the end of a Plan evaluation year in order to take effect in the subsequent year. For example, in order to modify its 2019 Plan, an Enterprise would need to submit a request for Plan modification by September 30, 2018. With the exception of requests for annual Plan modifications, requests for modifications generally should occur only in special circumstances and should not be routine during an evaluation year.

FHFA may also require an Enterprise to modify its Plan during the three-year term. Instances in which FHFA might require a modification include significant changes in market conditions, including obstacles and opportunities, or safety and soundness concerns arising during the three-year term of the Plan.

FHFA and an Enterprise may seek public input on the Enterprise’s proposed Plan modification if FHFA determines that public input would assist its consideration of the proposed modification. FHFA is more likely to seek public input when an Enterprise requests to eliminate an activity or objective from its Plan, or to make numerous changes to the Plan, as opposed to when an Enterprise requests to modify the specific numeric target of an objective by a modest amount.

Treatment of Confidential or Proprietary Information and Data

FHFA recognizes that some information and data in the strategic priorities statement and the descriptions of activities, objectives, and narratives for an underserved market in a Plan may be confidential or proprietary. At the same time, FHFA has determined that informed public input on a proposed Plan is important to the Plan development, review, and evaluation processes.

FHFA may allow certain information and data in the Plan’s strategic priorities statement and the Plan’s descriptions of proposed activities, objectives, and narratives in each underserved market to be treated as confidential or proprietary and omitted from the proposed Plan posted for public input. Any Plan content that the Enterprise believes requires confidential or proprietary treatment should be clearly identified by the Enterprise, and the Enterprise should explain why the information and data should be afforded confidential or proprietary treatment.

Additional Guidance for Plans

The previous sections of this Chapter describe elements required of the Enterprises’ Plans in order for them to receive a Non-Objection for each of the underserved markets in the Plan. This section describes content for the Plans that is not required, but is recommended by FHFA. It first summarizes best practices that FHFA views as helpful ways for the Enterprises to construct effective Plans. It then discusses FHFA’s recommendation that the Enterprises engage in research that will support the underserved markets.

Meaningful Objectives

FHFA encourages the Enterprises to propose activities and objectives that are impactful yet achievable, as FHFA may award partial Duty to Serve credit for objectives that are not fully achieved. Chapter 2 explains how FHFA’s evaluation framework rewards achieving impactful objectives.

Best Practices for Developing Underserved Markets Plans

Below are some best practices and suggestions the Enterprises should consider in developing their Plans:

- Given the Duty to Serve goal to improve the distribution of investment capital available for mortgage financing where it may not currently exist, many of the activities undertaken by the Enterprises should span the three-year Plan term, with corresponding objectives that specify incremental steps expected to be achieved in each of the three years.
- There should be enough activities included in an underserved market in a Plan such that if a particular activity proves unachievable, the Enterprise still has other activities underway to enable it to meet its Duty to Serve obligation for that market.
- An Enterprise should carefully research and construct its Plan so that the need for later modifications of the Plan is minimized.
- An Enterprise should consider how to serve a diversity of geographic areas for each Duty to Serve activity in its Plan.
- A Plan should consider how to serve both single-family and multifamily activities for each underserved market.
- FHFA invites the Enterprises to consider undertaking Additional Activities in their Plans. Any Additional Activity should meet a need in an underserved market, be reasonable and

achievable based on the Enterprises’ capacity and market conditions, and take into account any safety and soundness considerations.

- FHFA recommends that the Enterprises organize multiple similar objectives for an underserved market in its Plan as a single objective where appropriate. For example, if an Enterprise includes 50 separate state-level loan purchase objectives for a specific loan program, FHFA may consider those 50 objectives as a single loan purchases objective for purposes of the evaluation and rating process.

Recommendation to Engage in Research that Supports the Underserved Markets

FHFA recommends and encourages the Enterprises to consider undertaking research – including outreach to stakeholders, market research, pilot testing, and product development – to close any knowledge gaps that currently limit progress towards meeting the needs of each of the underserved markets. FHFA also suggests the Enterprises consider sharing certain data with the public to provide better information about how to meet the challenges in each underserved market. By collecting and publicly sharing such data, the Enterprises could generate valuable information needed to diagnose challenges and develop solutions. However, FHFA also notes that research activities are not a substitute for loan purchases and other actions that can increase liquidity in the underserved markets.

The activities detailed below, which are not a condition for receiving a Non-Objection to an underserved market in a Plan, serve as examples of meaningful research objectives that could significantly assist each underserved market. In addition, FHFA encourages the Enterprises to consider other opportunities to undertake meaningful research that will benefit the underserved markets.

A. Manufactured Housing Market

Examples of potential research in the manufactured housing market include:

- Research on developing new mechanisms to share credit risk with private investors, developing potential securities structures or other arrangements to sell these loans, and recruiting new counterparties and investors to assist with these efforts.
- Research on how to develop loan products, guidelines, and standards that address potential consumer protection gaps in pad leases under current laws.
- Collecting data on manufactured home appraisals, loan originations, loan servicing (including foreclosure and repossession practices, and the resale markets), and credit enhancements.

B. Affordable Housing Preservation Market

Examples of potential research in the affordable housing preservation market include:

- Research on how to develop approaches for more effectively supporting the financing needs of small multifamily properties.
- Research on how to develop financing support mechanisms that help to preserve the long-term affordability and financial viability of multifamily affordable rental properties. Ideally, such mechanisms would: (a) be compatible with long-term affordability covenants of 40 years or more; and (b) reduce the share of properties that require recapitalization during the required affordability period in order to preserve scarce subsidy resources.
- Developing the data needed to effectively underwrite energy or water efficiency improvements and researching opportunities for energy or water savings in both single-family and multifamily housing. Examples of approaches include: collecting and sharing utility usage data, utility benchmarking, and evaluating changes in utility usage stemming from energy or water efficiency improvements in specific types of properties.
- Developing an improved understanding of the challenges involved in purchasing the loans on properties developed under inclusionary zoning or other local initiatives and tracking data on the volume of such purchases by the Enterprises, as well as the nature of the affordability restrictions.
- Research on how to meet the housing and services needs of older adults in different age groups through developing loan products that preserve affordable properties that are both physically accessible and provide sufficient services to meet residents' needs.
- Research on how to develop approaches supporting financing of transit-oriented housing, especially transit-oriented housing that includes housing affordable to low-, and very-low income households.

C. Rural Market

Examples of potential research in the rural market include:

- Considering strategies for collecting and sharing granular data on rural mortgage lending, rural affordable housing loan programs, and market characteristics of rural areas. Collecting and sharing such data with the public could be included as an objective in a Plan. By collecting and publicly sharing such data, the Enterprises could generate valuable information needed to diagnose challenges and develop affordable housing solutions in rural areas.

- Research on how to develop ways to reach specified high-needs rural regions and populations, including market research that can help sharpen efforts by the Enterprises and other market participants to facilitate affordable housing for high-needs rural regions and populations.
- Research on ways to develop workable protocols, standards, and documentation for identifying colonias at a more granular level than county-based definitions, for use in Enterprise transactions and for possible adoption by the housing finance industry generally.

D. Residential Economic Diversity

Examples of potential research that would support residential economic diversity include:

- Research on ways to work with interested stakeholders to gain a broad understanding of how the Enterprises could promote residential economic diversity. Strategies for engaging these stakeholders could be included as an outreach objective in a Plan.
- Conducting research to explore alternative approaches for defining “high opportunity areas” and “areas of concentrated poverty,” as well as for identifying work that supports concerted community revitalization plans.

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Chapter 2 Evaluation Process for Scoring Enterprise Performance

Overview

This Chapter describes how FHFA will evaluate and rate the Enterprises' performance under their Plans. FHFA will evaluate each Enterprise's performance in each of the three underserved markets annually, comparing the achievements of the Enterprise against the objectives it established in its Plan for the applicable year.

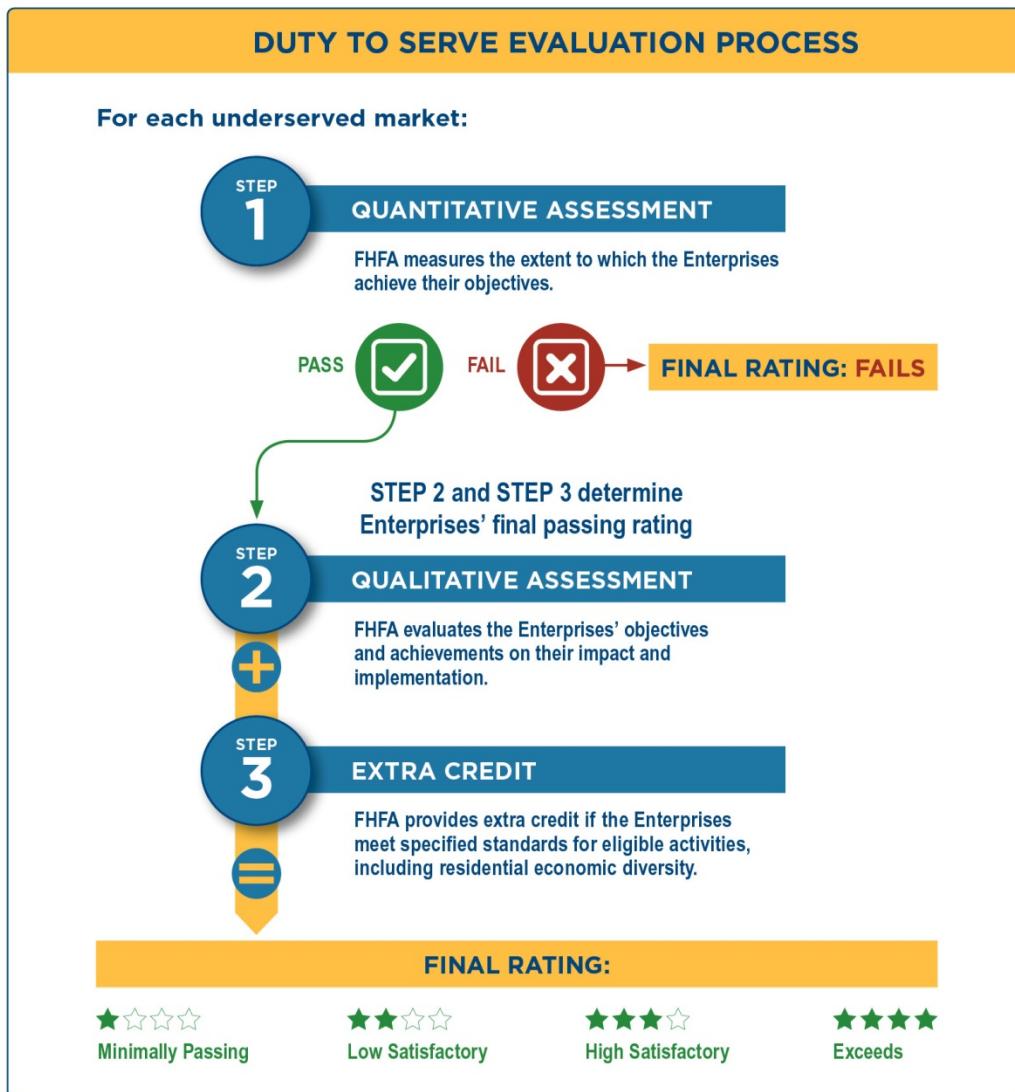
To evaluate an Enterprise's performance under its Plan, FHFA will use a three-step process:

- **In Step One**, FHFA will calculate the extent to which the Enterprise achieved each of the objectives it identified in its Plan, in order to determine whether the Enterprise is in compliance with its statutory Duty to Serve obligations for each market. This is a *quantitative* evaluation that will not consider the impact of the objectives in meeting the underserved market needs or how effectively they were implemented.
- **In Step Two**, FHFA will evaluate the Enterprise's performance under each underserved market in its Plan from a *qualitative* perspective, assessing each objective's impact on a need of the applicable underserved market and how effectively the Enterprise implemented each objective.
- **In Step Three**, FHFA will award *extra credit* for successful achievement of eligible activities that may be particularly challenging or that may serve part of an underserved market that is relatively less well-served, including promotion of residential economic diversity and other activities designated in this Guidance. Extra credit will be limited to only those objectives achieving a level of impact and implementation corresponding to the criteria in Appendix B for a final score of 40 or 50.

The purpose of Step One is to determine whether the Enterprise is in compliance with its Duty to Serve obligations for each underserved market. If FHFA determines under Step One that an Enterprise is in compliance and, thus, eligible for a passing rating, FHFA will then determine the Enterprise's final passing rating through the evaluations in Step Two and Step Three. The four possible passing ratings are: Minimally Passing; Low Satisfactory; High Satisfactory; or Exceeds. If FHFA determines under Step One that an Enterprise did not achieve compliance, the Enterprise will receive a rating of Fails. In this circumstance, FHFA nonetheless will complete a qualitative assessment of the Enterprise's performance under Step Two and an evaluation of extra credit under Step Three in order to provide complete feedback to the Enterprise and Congress in FHFA's Annual Housing Report to Congress.

Because this Guidance is for the first Plan cycle of the Duty to Serve program, FHFA will engage in an ongoing analysis and consideration of the evaluation process during the Plan cycle. This will enable FHFA to incorporate lessons learned over the first Plan cycle regarding the effect of the initial standards and thresholds in the evaluation process and to make modifications to the Guidance as appropriate.⁸

The evaluation steps are further described below.



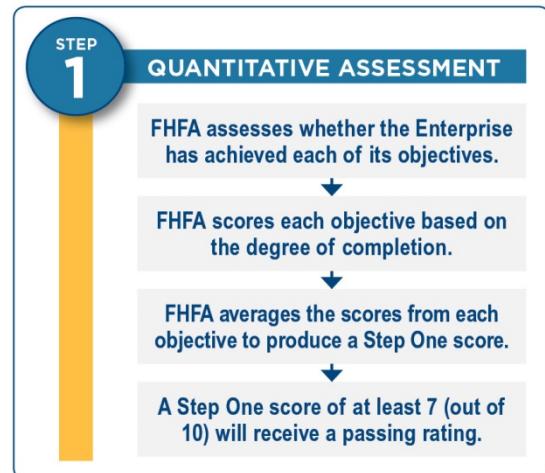
⁸ 12 CFR § 1282.36(c)(4)(ii)

Step One: Quantitative Evaluation of Enterprise Performance

Under Step One, FHFA will calculate the extent to which the Enterprise has accomplished each of the objectives that it identified in each underserved market in its Plan, in order to determine whether the Enterprise is in compliance with its statutory Duty to Serve obligations.

Step One is a *quantitative* evaluation designed to determine whether the Enterprise has passed or failed, and will not consider the impact of the objectives in meeting the underserved market needs or how effectively they were implemented.

FHFA will conduct a quantitative evaluation of the Enterprise's performance of each objective by assigning a score of 10, 6, 3, or 0 to the objective based on the extent to which the Enterprise accomplished the objective, as follows:



- | | |
|----|--|
| 10 | Enterprise accomplished the objective. |
| 6 | Enterprise accomplished a substantial amount of the objective. |
| 3 | Enterprise accomplished a moderate amount of the objective. |
| 0 | Enterprise failed to accomplish at least a moderate amount of the objective. |

For objectives under the loan purchase and investment evaluation areas that an Enterprise failed to fully accomplish, FHFA will review the extent to which the Enterprise exceeded its level of performance from the baseline identified by the Enterprise in its Plan.⁹ FHFA will determine whether the Enterprise accomplished a substantial or moderate amount of the objective compared to this baseline and award a score of 0, 3, or 6 according to the following standards:

- An Enterprise's performance of an objective constitutes a substantial amount if the Enterprise accomplished at least three-quarters of the target it established under the objective, using as a scale the difference between the baseline level it identified in its Plan and the targeted level specified in the objective.
- An Enterprise's performance under an objective constitutes a moderate amount if the Enterprise accomplished at least one-quarter of the target it established under the objective, using as a scale the difference between the baseline level it identified in its

⁹ See page 6 in Chapter 1, “Developing Underserved Markets Plans: Contents and Considerations” for more information on setting this baseline.

Plan and the targeted level specified in the objective, but did not accomplish a substantial amount.

- An Enterprise’s performance under an objective fails to constitute a moderate amount if the Enterprise accomplished less than one-quarter of the target it established under the objective, using as a scale the difference between the baseline level it identified in its Plan and the targeted level specified in the objective.

For example, if an Enterprise’s measurable objective in its Plan is to purchase 12,000 loans and if the baseline identified in its Plan is 10,000 loans, the Enterprise’s actual purchase of 11,600 loans would be considered a substantial amount, and the objective would receive a score of 6. Because it is greater than 11,500 loans, the purchase of 11,600 loans is more than three-quarters of the way toward the target of 12,000 loans established by the objective from the baseline level of 10,000 loans. In contrast, purchasing 10,600 loans would be considered a moderate amount, receiving a score of 3, because it is more than one-quarter (greater than 10,500 loans) but less than three-quarters of the way toward the target established by the objective from the baseline level of 10,000 loans.

For objectives under the outreach and loan product evaluation areas that an Enterprise failed to fully accomplish, FHFA will evaluate the extent to which the Enterprise accomplished that objective without reference to a baseline level of recent performance.¹⁰ Under this analysis, FHFA will determine whether the Enterprise’s performance of the objective constituted a substantial or moderate amount if the Enterprise failed to fully accomplish the objective, and assign a score of 0, 3, or 6, accordingly. For example, if a pilot project is proposed in an Enterprise’s Plan under the loan product evaluation area, the Enterprise will need to describe in its Plan the expected size of the pilot, the deliverables expected, the types of lenders intended to be engaged, the location of the pilot (if known), the populations expected to be served and their incomes, the timeline (milestones occurring within the Plan evaluation year), and how the Enterprise will determine if the pilot is successful. Based on the Enterprise’s actual level of performance against the targeted performance level established in the objective, FHFA would determine whether the Enterprise accomplished a substantial or moderate amount of the objective and assign a score of 0, 3, or 6, accordingly.

Feasibility

If underserved market conditions or other extenuating circumstances outside of an Enterprise’s control substantially interfere with the Enterprise’s ability to accomplish an objective, the Enterprise may request that its performance under that objective be disregarded by FHFA in evaluating the Enterprise’s performance in the applicable underserved market for that year. If FHFA agrees that the request is reasonable, FHFA will exclude that objective from the

¹⁰ See pages 6-7 in Chapter 1, “Developing Underserved Markets Plans: Contents and Considerations” for more discussion on the information to be included in the Plan related to outreach and loan product objectives.

performance evaluation under Steps One, Two, and Three. Thus, if an objective is determined to be infeasible, failing the objective will not harm the Enterprise’s ability to be rated in compliance with its Duty to Serve obligations under Step One. However, if an objective is found to be infeasible, actions under the objective also cannot affect the Enterprise’s performance score under Steps Two and Three.

Averaging of Scores

After FHFA has assigned a score to each objective in an underserved market, FHFA will average the scores for all of the objectives in that underserved market to produce an overall score for the underserved market. An overall score of seven or more will constitute a passing score, or compliance, for the underserved market. An overall score of less than seven will receive a rating of Fails, or noncompliance, for the underserved market, and the Step Two evaluation will not impact this decision. Appendix C contains examples illustrating how an Enterprise might achieve a minimum score of seven.

In selecting seven out of ten points as a passing score, FHFA has sought to balance two goals: holding the Enterprises accountable for making meaningful progress toward meeting the objectives in their Plans, and encouraging the Enterprises to set goals that impact the underserved market’s needs. If FHFA required a minimum score higher than seven to pass, the Enterprises might have a disincentive to set objectives with greater impact in order to ensure they meet the high bar for compliance. On the other hand, FHFA determined that setting the minimum score to pass lower than seven could be too low, since FHFA plans to award partial credit when an Enterprise fails to meet the target in its objective but accomplishes a moderate or substantial amount of the objective.

After determining compliance or noncompliance under Step One, FHFA will qualitatively assess the Enterprise’s performance of its objectives under Step Two and Step Three. If FHFA determines that an Enterprise achieved compliance under Step One, then Step Two and Step Three will determine the Enterprise’s final passing rating. If FHFA determines that an Enterprise failed to achieve compliance under Step One, then the Enterprise will receive a final rating of Fails, but FHFA will still complete a qualitative assessment of the Enterprise’s performance under Step Two and Step Three in order to provide complete feedback to the Enterprise and Congress in FHFA’s Annual Housing Report to Congress.

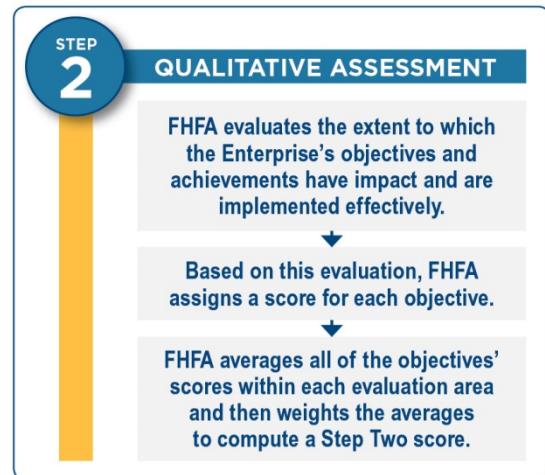
While the Step One analysis is limited to evaluating the extent to which an Enterprise met its Plan objectives, Step Two and Step Three allow for nuanced analyses of how effectively an Enterprise implemented its objectives and the impact of the objectives on the needs of the underserved market.

Step Two: Qualitative Evaluation of Enterprise Performance

Under Step Two, FHFA will evaluate an Enterprise’s performance under its Plan from a *qualitative* perspective. This evaluation will assess the impact of the Enterprise’s performance and whether the Enterprise implemented its objectives effectively.

A. Evaluating Each Objective

Under Step Two, FHFA will evaluate an Enterprise’s performance of each objective in its plan under two evaluation criteria: impact and implementation. FHFA will consider information provided by the Enterprises in their Duty to Serve reports and Plans, research by FHFA or external parties, and input from stakeholders in evaluating impact and implementation. Based on this evaluation, FHFA will assign a final score from 0 to 50 for each objective, using the criteria described in Appendix B. Under this scale, a final score of 30 means an objective’s achievements represent meaningful impact and were implemented effectively.



The following are brief descriptions of each of the evaluation criteria for the objectives in a Plan. Appendix B provides more detail on how the evaluation criteria will be applied.

- **Impact.** Under this criterion, FHFA will evaluate the impact of an objective on the needs of the underserved market. FHFA’s evaluation of impact will focus on one of two different kinds of impact, depending on the nature of the objective: direct impact and future impact. Each is described below:
 - **Direct Impact.** In considering direct impact, FHFA will evaluate the extent to which an Enterprise targets and achieves an impact that addresses an underserved market need. This evaluation will apply the levels of impact outlined in Appendix B, which include a focus on the size or difficulty of the objective. The difficulty of an objective may involve, for example, the extent to which the Enterprise is serving a sub-market that has a high need for housing assistance (for example, purchasing loans in Appalachia versus purchasing loans in rural areas that are comparatively better served).
 - **Future Impact.** In considering future impact, FHFA will evaluate the extent to which the Enterprise’s actions under an objective seek to lay the groundwork for future actions and improvements that would have an impact in addressing an underserved market need. These early steps could include, for example, undertaking a pilot

project, developing a new lending platform, meeting with stakeholders to develop new lending relationships, or collecting needed data. FHFA will apply the levels of impact outlined in Appendix B, which include a focus on the size or difficulty of the objective.

- **Implementation.** Under this criterion, FHFA will evaluate how each objective was implemented. FHFA will apply the levels of implementation outlined in Appendix B, which include a focus on how efficiently and effectively the Enterprise allocated resources to execute the objective.

Concept Score

Before evaluating an Enterprise’s achievements and implementation of an objective, FHFA will determine a concept score of 0, 10, 20, 30, 40, or 50 for each objective as included in an Enterprise’s Plan. This concept score will measure the expected level of impact that achievement of the objective would represent, assuming at least effective implementation, in light of the information available to FHFA. The concept score will inform FHFA’s ultimate evaluation of the achievements and implementation of the objective, allowing FHFA to assign a higher concept score for more meaningful objectives included by an Enterprise in its Plan.

While reviewing an Enterprise’s proposed Plan, FHFA will provide feedback to the Enterprise on those objectives FHFA believes do not reach the threshold for meaningful impact, i.e., the level of impact required to receive a concept score of 30. Additionally, FHFA will provide a preliminary concept score to the Enterprises for each objective at the time it makes its Non-Objection decision for each of the underserved markets in the Plan.¹¹

FHFA will finalize the concept score for each objective in December of the performance year that applies to the objective. For example, the concept score for an objective for the 2018 Plan year will be finalized in December of 2018. This allows the Enterprises to know the final concept score for each objective as they compose their annual reports on the Plan year.

FHFA will provide the Enterprises an opportunity to share their views about the concept score for objectives prior to FHFA’s determination of preliminary and final concept scores.

Scoring of Each Objective

Based on FHFA’s evaluation, FHFA will assign a final score of 0, 10, 20, 30, 40, or 50 for each objective. In all instances, FHFA will evaluate the impact an Enterprise achieved under an objective and how effectively the Enterprise implemented the objective. In this evaluation,

¹¹ An Enterprise may modify its Plan annually. However, if the Enterprise requests to completely eliminate an objective from its Plan, that request will be subject to heightened scrutiny by FHFA and possibly to public input. For more information on Plan modifications, please see the “Plan Process” section in Chapter 1 of this Guidance.

FHFA will use the final concept score as a guide for determining the final score for an objective as follows:

- When an Enterprise achieves but does not significantly outperform the level targeted by an objective, the Enterprise’s final score for that objective will be the same as the objective’s final concept score.
- When an Enterprise underperforms the level targeted by an objective, the Enterprise’s final score for that objective will be lower than the objective’s final concept score.
- When an Enterprise significantly outperforms the level targeted by an objective, the Enterprise’s final score for that objective will be higher than the objective’s final concept score, if the objective’s final concept score is 30 or higher.

Objectives that receive a final concept score of 0, 10, or 20 will not be eligible to receive a final score higher than the final concept score even if the Enterprise significantly outperformed the objective as described in an Enterprise’s Plan. This is intended to encourage the Enterprises to set well designed and rigorous objectives in their Plans.

The below examples demonstrate how this scoring process would work.

Outperforming an Objective’s Target

As indicated above, FHFA seeks to recognize an Enterprise’s achievements when the Enterprise significantly outperforms the target for an objective that received a final concept score of 30 or 40.

For example, if an Enterprise included in its Plan an objective that would represent meaningful impact if fully achieved and implemented effectively, FHFA will assign the objective a concept score of 30. FHFA will then evaluate the Enterprise’s actual achievements and implementation of the objective. If FHFA determines that the Enterprise significantly outperformed the objective’s target and achieved a level of impact and implementation corresponding to the criteria in Appendix B for a final score of 50, FHFA will assign that objective a final score of 50.

On the other hand, if an Enterprise included in its Plan an objective that would represent only minimal impact if fully achieved and implemented effectively, FHFA will assign the objective a final concept score of 20. FHFA will then evaluate the Enterprise’s actual achievements and implementation of the objective. If FHFA determines that the Enterprise significantly outperformed the objective’s target and achieved a level of impact and implementation corresponding to the criteria in Appendix B for a final score of 40, FHFA will not assign a final score for that objective higher than 20. Even though the Enterprise significantly surpassed the objective’s target, the objective’s final score will not be higher than its final concept score because the Enterprise designed the objective to have minimal impact.

Underperforming an Objective’s Target

In order to ensure that the Enterprises are not penalized for setting difficult objectives with meaningful or greater impact, the Enterprises can earn a score even if they do not fully achieve the objective.

For example, assume an Enterprise included in its Plan an objective that, according to the criteria in Appendix B, would represent comprehensive impact. FHFA will assign that objective a final concept score of 50. If FHFA subsequently determines, when reviewing the Enterprise’s actual achievements and implementation, that the Enterprise did not fully meet the objective but still achieved a meaningful impact and implemented the objective effectively, FHFA will assign the objective a final score of 30 since it met the criteria for meaningful impact described in Appendix B.

B. Developing a Weighted Average Score

After an Enterprise’s performance of each objective has been scored under Step Two, FHFA will average the scores of all of the objectives grouped under each evaluation area, as applicable (outreach, loan products, loan purchases, investments and grants) to produce a single numerical score for each evaluation area.

The numerical score for each evaluation area will then be multiplied by the applicable weight in the graphic below to produce an overall Step Two performance score for the Enterprise for each underserved market.



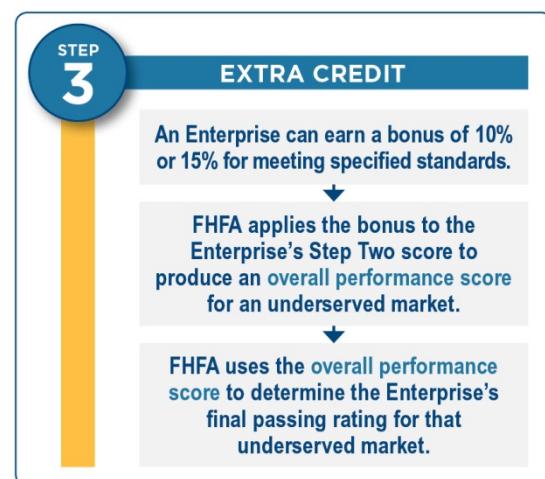
If an Enterprise has not included any activities within a particular evaluation area in its Plan, the weights will be adjusted to preserve the same ratios among the remaining weights.¹²

Thus, at the conclusion of Step Two, FHFA will have completed a detailed analysis of how well each Enterprise met an underserved market’s needs, and FHFA will have determined an overall performance score between 0 and 50 for each underserved market.

Under Step Three, FHFA may apply an upward adjustment to an Enterprise’s Step Two overall performance score for its performance of extra credit-eligible activities and objectives under certain standards described below.

Step Three: Extra Credit Evaluation

An Enterprise may receive an extra credit adjustment to its Step Two overall performance score for successfully undertaking certain eligible activities that FHFA considers particularly challenging or that FHFA considers serve part of an underserved market that is relatively less well-served. FHFA has determined that the activities set forth below are extra-credit eligible activities. For this Plan cycle, an Enterprise’s final score calculated under Step Two will be eligible for an extra credit adjustment if an Enterprise undertakes one or more of these eligible activities and achieves a final score of 40 or 50 according to the criteria in Appendix B on at least one objective pertaining to these activities.



MANUFACTURED HOUSING

- Regulatory Activity 1: Manufactured homes chattel pilot initiative
- Regulatory Activity 2: Manufactured housing communities with tenant pad lease protections that are located in states without comparable consumer protections
- Residential Economic Diversity Activity

¹² For example, if an Enterprise does not include any activities under investments and grants, the weights for the remaining objectives will be increased proportionately to total 100%, as follows: outreach (23.5%); loan products (35.3%); and loan purchases (41.2%).

AFFORDABLE HOUSING PRESERVATION

- Residential Economic Diversity Activity

RURAL

- Regulatory Activity 1: High-needs rural regions
- Regulatory Activity 2: High-needs rural populations
(only very low-income families: incomes \leq 50% of area median income)
- Residential Economic Diversity Activity

An Enterprise’s Step Two overall performance score will be adjusted upwards under the following circumstances:

- For the rural market and manufactured housing market, the score would be adjusted upward by 10 percent for addressing one of the extra credit-eligible activities, or by 15 percent for addressing two or more of the extra credit-eligible activities, identified for the underserved market if the corresponding objective(s) received a Step Two final score of 40 or higher.
- For this Plan cycle, for the affordable housing preservation market, residential economic diversity activities are the only activities eligible to receive extra credit. Because the affordable housing preservation market has 16 Statutory and Regulatory Activities, FHFA sought to avoid singling out one or two of these activities as eligible for extra credit. Accordingly, for this market, the Step Two overall performance score would be adjusted upward by 10 percent if a Step Two final score of 40 or higher was received on at least one objective in this market focused on achieving residential economic diversity.
- An individual objective that received a Step Two final score of 40 or higher would be sufficient to qualify the activity for an extra credit adjustment even if the Enterprise included other objectives related to that activity in its Plan that received lower final scores under Step Two. For example, if a Plan includes two objectives under a high-needs rural region but only one of those objectives received a Step Two final score of 40 or higher, the activity would qualify for an extra credit adjustment.

As noted above, an Enterprise must have received a Step Two final score of at least 40 on an objective corresponding to an extra credit-eligible activity in order for that activity to receive extra credit. FHFA has determined that requiring a Step Two final score of at least 40 would allow FHFA to reward the Enterprises not only for attempting particularly difficult activities, but

also for achieving a high level of impact and implementation through those activities. Setting the final score of 40 as a threshold also helps FHFA ensure that extra credit-eligible activities do not receive disproportionate weight in determining the final rating for the particular underserved market.

Applying the Results of the Evaluation to Determine a Final Rating

FHFA will compute an Enterprise’s final rating for each underserved market as follows:

1. **Compliance determination.** If the Enterprise received a Step One score of at least seven, the Enterprise will be considered in compliance with its statutory Duty to Serve obligations for the underserved market, but will not receive a rating until the Enterprise’s performance under Steps Two and Three is evaluated. If the Enterprise received a Step One score of less than seven, it will be considered in noncompliance with its statutory Duty to Serve obligations for the underserved market and will receive a rating of Fails. In this circumstance, FHFA nonetheless will evaluate the Enterprise’s performance under Steps Two and Three in order to adequately describe these components to the Enterprise and Congress in FHFA’s Annual Housing Report to Congress. An Enterprise’s Step One score, whether indicating compliance or noncompliance, will not be used for any other part of the evaluation and rating process.
2. **Conversion of final performance scores to ratings.** For an Enterprise that achieved compliance under Step One, FHFA will convert its final performance score after completion of Steps Two and Three into one of four passing ratings, as provided in the following conversion chart.

Ratings Conversion Chart for Final Performance Scores¹³

¹³ Note: The Low Satisfactory scale is inclusive of 18 but not of 26 ($18 \leq x < 26$). The High Satisfactory scale is inclusive of 26 but not of 36 ($26 \leq x < 36$).

| Rating | Minimally Passing | Low Satisfactory | High Satisfactory | Exceeds |
|-------------------------|-------------------|------------------|-------------------|-----------|
| Final Performance Score | < 18 | <u>18-26</u> | <u>26-36</u> | ≥ 36 |

Appendix C contains examples illustrating how the results of an evaluation of Enterprise performance in an underserved market might be reflected in a final rating.

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Chapter 3 Questions for Public Input

FHFA invites feedback on all aspects of the proposed Guidance, but specifically on the questions posed below.

Chapter 1: Developing Underserved Markets Plans: Contents and Considerations

In the section on residential economic diversity, FHFA outlines proposed criteria for state or local Qualified Allocation Plan (QAP) definitions of high opportunity areas that would be eligible for purposes of setting objectives related to residential economic diversity.

1. Which state or local QAPs include definitions of high opportunity areas that meet these criteria?

Chapter 2: Evaluation Process for Scoring Enterprise Performance

The proposed evaluation process is described in Chapter 2 of this Guidance. FHFA seeks input on all aspects of this process, including the following specific questions:

Step One: Quantitative Evaluation

Under Step One of the evaluation process, FHFA will conduct a quantitative evaluation of an Enterprise’s performance under its Plan based on the extent to which the Enterprise accomplished each of the objectives in its Plan. FHFA will use this evaluation to determine whether the Enterprise has complied with its Duty to Serve obligations for that market.

1. Should FHFA make partial credit available for objectives that are not fully accomplished? If so, are the levels of partial credit appropriate (6 points for substantial and 3 for moderate accomplishment of the objective)? Is the partial credit approach for loan purchase and investment objectives, which relies on baseline measures set by the Enterprises, an effective method? If not, how should FHFA make partial credit available for objectives not fully completed?
2. FHFA proposes setting the score needed to receive a passing rating under Step One at 70 percent. Is the proposed threshold of 70 percent too low or too high?

Step Two: Qualitative Evaluation

Under Step Two of the evaluation process, FHFA will conduct a qualitative evaluation of an Enterprise’s performance of each objective in each underserved market in its Plan, based on how the Enterprise implemented the objective (the implementation criterion) and the extent of the objective’s impact on addressing an underserved market need (the impact criterion).

3. Has FHFA clearly articulated the implementation and impact criteria in a reasonable way in Appendix B? Should FHFA consider different or additional evaluation criteria?

4. Should FHFA assign individual scores at the objective level as proposed under Step Two, or should FHFA instead assign a single score under Step Two for all actions undertaken by an Enterprise in each underserved market? How should FHFA balance providing clear guidelines to the Enterprises with minimizing complexity?
5. FHFA proposes to create concept scores at the Plan development stage which would then serve as a guide for assessing the achievements toward objectives at the evaluation stage. Is this proposal an effective approach? When should FHFA share a preliminary concept score with an Enterprise?
6. Once FHFA assigns a score for each objective, FHFA proposes to average the scores of all of the objectives within an evaluation area (outreach, loan products, loan purchases, investments and grants) and produce a single score for each evaluation area. FHFA would then calculate a weighted average for all of the Enterprise's objectives in a particular underserved market. Should FHFA weight objectives by evaluation areas? Has FHFA proposed to weight the evaluation areas appropriately?

Step Three: Extra Credit Evaluation

Under Step Three of the evaluation process, FHFA will award Duty to Serve extra credit for certain eligible activities that FHFA has identified as particularly challenging or as serving part of an underserved market that is relatively less well-served. Extra credit, if earned, would be applied as a percent increase to the Step Two overall performance score.

7. Has FHFA selected appropriate activities for which to award extra credit? Has FHFA appropriately calibrated the size of the extra credit adjustment?
8. Has FHFA appropriately limited extra credit only to those objectives achieving a Step Two final score of at least 40? Should extra credit be available for objectives receiving a Step Two final score of 30 or less?

Converting the Results of the Evaluations Into a Final Rating

After FHFA has determined under Step One that an Enterprise will receive a passing score for a particular underserved market, FHFA will adjust the Enterprise's Step Two overall performance score under Step Three, as applicable, to determine which of the four passing ratings to award the Enterprise for that underserved market: Minimally Passing, Low Satisfactory, High Satisfactory, or Exceeds. Examples illustrating the cut-offs for each rating are described in Appendix C.

9. Are the cut-offs for determining whether an Enterprise qualifies for each of the four passing ratings appropriate?

10. How might the overall evaluation process (Steps One, Two, and Three) be revised to strike an appropriate balance between providing simplicity and specificity in evaluating the Enterprises' Duty to Serve activities?

Appendix A: Duty to Serve Statutory and Regulatory Activities

| Activities | UNDERSERVED MARKETS | | |
|--|--|---|---|
| | Manufactured Housing | Affordable Housing Preservation | Rural Areas |
| Statutorily-Enumerated Activities | None | 1. Section 8 programs 2. Section 236 (rental and cooperative housing program) 3. Section 221(d)(4) (moderate-income and displaced families) 4. Section 202 (elderly) 5. Section 811 (persons with disabilities) 6. Permanent supportive housing projects (homeless assistance) 7. Section 515 (rural rental) 8. Low-Income Housing Tax Credits (LIHTCs- debt) 9. Comparable state and local affordable housing programs | None |
| Regulatory Activities | 1. Support manufactured homes titled as real property 2. Support manufactured homes titled as personal property 3. Support manufactured housing communities owned by government instrumentalities, nonprofits, or residents 4. Support manufactured housing communities with specified tenant pad lease protections | 1. Support small multifamily rental properties financing 2. Support multifamily energy efficiency improvements financing 3. Support single-family energy efficiency improvements financing 4. Support affordable homeownership preservation (shared equity) financing 5. Support HUD's Choice Neighborhoods Initiative (CNI) 6. Support HUD's Rental Assistance Demonstration (RAD) Program 7. Support purchase and rehabilitation financing of distressed properties | 1. Support housing in high needs rural regions: <ul style="list-style-type: none"> • Middle Appalachia • The Lower Mississippi Delta • Colonias • Rural tracts in persistent poverty counties 2. Support housing for high-needs rural populations: <ul style="list-style-type: none"> • Native Americans in Indian Areas • Agricultural workers 3. Support rural small financial institution financing 4. Support rural small multifamily rental property activity |

Appendices

Appendix B: Assigning Scores to Each Objective Under Step Two

Under Step Two, FHFA will conduct a qualitative evaluation of an Enterprise's performance under each of the objectives for the activities in an underserved market in its Plan. For each objective, FHFA will assign a score from 0 to 50 using the impact and implementation evaluation criteria as specified below.

The chart below details the standards for assigning performance scores for objectives after a Plan year concludes. FHFA will focus on the extent to which the objective has a direct impact or has laid the foundation for future impact on an underserved market need, depending on which type of impact is more appropriate for that objective. FHFA will evaluate all objectives according to the implementation criteria. An objective must meet both the impact and implementation criteria for a specific score in order to receive that score. Based on these criteria, a single score will be provided for each objective.

| Score | Impact | | Implementation |
|-----------|---|--|---|
| | Direct Impact | Foundation for Future Impact | |
| 0 | The objective represents less than a minimal impact in addressing an underserved market need and/or the objective does not meet the minimum requirements identified in the Guidance or in the Duty to Serve regulation. | | However implemented, the objective represents less than a minimal impact or does not meet minimum Duty to Serve requirements and, thus, will receive a score of 0. |
| 10 | The objective represents a minimal impact in addressing an underserved market need. The objective seeks minimal improvement relative to the market need. The Enterprise has not demonstrated that it would encounter significant difficulty in doing more. | The objective represents a minimal contribution to future impact in addressing an underserved market need. The Enterprise has not shown how the activity is tied to a theory of change in which its actions under the objective would generate anything above minimal impact. | The Enterprise implemented at least nominally the actions associated with the objective. |
| 20 | An objective will receive a score of 20 if it exceeds the criteria for a score of 10, but does not meet the criteria for a score of 30. | | |
| 30 | The objective represents meaningful impact in addressing an underserved market need. Meaningful impact may be represented by the size of the improvement for an underserved market or by the difficulty in meeting a particularly challenging need (such as purchasing loans to residents in Appalachia or serving very low-income households). | The objective represents a meaningful attempt to lay the foundation for future impact. The Enterprise has demonstrated that its actions under the objective could lay the groundwork for potentially meaningful impact in addressing an underserved market need in the future. This future impact may be represented by the size of the improvement for an underserved market or by the difficulty in meeting a particularly challenging need. | The Enterprise implemented effectively the actions associated with the objective. The Enterprise efficiently allocated resources to implement these actions and has additionally shown that it is open to incorporating what it learned through the activity into its current or future practices to help meet underserved market needs. Unless evidence is presented to the contrary, all loan purchases will be assumed |

Appendices

| | | | |
|-----------|--|--|--|
| | | | to be effectively implemented for purposes of this evaluation. |
| 40 | An objective will receive a score of 40 if it exceeds the criteria for a score of 30, but does not meet the criteria for a score of 50. | | |
| 50 | The objective represents comprehensive impact in addressing an underserved market need. Comprehensive impact may be represented by a particularly large improvement for an underserved market or by significant difficulty in meeting a particularly challenging need through a holistic approach. The actions under the objective may be very difficult to achieve given the challenges, time commitment, and resources involved. | The objective represents a meaningful attempt to lay the foundation for future impact that could be comprehensive. The Enterprise has demonstrated that its actions under the objective could accelerate progress toward addressing an underserved market need in a comprehensive way. This future impact may be represented by a particularly large potential improvement for an underserved market or by significant difficulty in attempting to meet a particularly challenging need through a holistic approach in the future. The actions under the objective may be very difficult to achieve given the challenges, time commitment, and resources involved. | The Enterprise implemented the actions associated with the objective effectively in a way that also enhanced the actions accomplished under the objective. The Enterprise efficiently allocated resources to implement these actions but exceeded what would be expected for effective implementation. Unless evidence is presented to the contrary, all loan purchases will be assumed to qualify for a score of 50 under the implementation criterion for purposes of this evaluation. |

Appendix C: Illustrating the Evaluation Process

This Appendix provides hypothetical illustrations of how the scoring processes in Step One will work. It also illustrates the process of developing an overall performance score from Steps Two and Three and converting this overall score into one of the four passing ratings.

Step One (Quantitative Evaluation)

In Step One, FHFA will calculate the extent to which an Enterprise has achieved each of the objectives in an underserved market in its Plan, in order to determine whether the Enterprise is in compliance with its statutory Duty to Serve obligations.

For example, assume that an Enterprise includes seven objectives in an underserved market in its Plan for a given year.

If the Enterprise meets four of those objectives, accomplishes a substantial amount of one of the objectives, accomplishes a moderate amount of one objective, and fails to accomplish at least a moderate amount of the last objective, it would receive a passing score of 7 under Step One, as shown below.

| Objective | Level of Accomplishment | Score |
|-----------------|--|-----------------|
| 1 | Met the objective | 10 |
| 2 | Met the objective | 10 |
| 3 | Met the objective | 10 |
| 4 | Met the objective | 10 |
| 5 | Accomplished a substantial amount of the objective | 6 |
| 6 | Accomplished a moderate amount of the objective | 3 |
| 7 | Failed to accomplish at least a moderate amount of the objective | 0 |
| Average Score = | | 7 (Pass) |

The Enterprise could also achieve a passing score of 7.14 under Step One if it met two of its objectives and accomplished a substantial amount of the other five objectives, as shown below.

| Objective | Level of Accomplishment | Score |
|-----------------|--|--------------------|
| 1 | Met the objective | 10 |
| 2 | Met the objective | 10 |
| 3 | Accomplished a substantial amount of the objective | 6 |
| 4 | Accomplished a substantial amount of the objective | 6 |
| 5 | Accomplished a substantial amount of the objective | 6 |
| 6 | Accomplished a substantial amount of the objective | 6 |
| 7 | Accomplished a substantial amount of the objective | 6 |
| Average Score = | | 7.14 (Pass) |

Step Two (Qualitative Evaluation) and Step Three (Extra Credit Evaluation)

If FHFA assigns a passing score under Step One to an Enterprise, FHFA will then use Steps Two and Three to determine an overall performance score for the Enterprise in each underserved market. The overall performance score will then be converted into one of the four passing ratings. This section illustrates how this process would work in three hypothetical scenarios.

For example, assume an Enterprise includes seven objectives in an underserved market in its Plan for a given year: three loan purchase objectives; two loan product objectives; one outreach objective; and one investments objective.

| Objective | Evaluation Area |
|------------------|------------------------|
| 1 | Loan purchase |
| 2 | Loan purchase |
| 3 | Loan purchase |
| 4 | Loan product |
| 5 | Loan product |
| 6 | Outreach |
| 7 | Investment |

The examples below show how different outcomes for this set of objectives would result in different passing ratings.

Example One

- Step One: The Enterprise meets the threshold for compliance.
- Step Two: The Enterprise receives an average score of:
 - 30 on its loan purchase objectives
 - 30 on its loan product objectives
 - 30 on its outreach objective
 - 30 on its investments objective
- Step Three: The Enterprise qualifies for a 15% upward adjustment.

FHFA would then use the overall performance scores from Steps Two and Three to determine one of the four passing ratings. For ease of reference, the conversion chart is repeated at the end of this Appendix.

| Step One | Achieves Compliance |
|--|----------------------------|
| Weighted performance score after Step Two ¹⁴ | 30 |
| Final performance score after Step Three | 34.5 |
| Final Rating: | High Satisfactory |

This example illustrates that if the Enterprise receives an average score of 30 for its objectives under each evaluation area, its weighted performance score after Step Two will qualify for a passing rating of High Satisfactory. If the Enterprise also receives a 10 percent or 15 percent upward adjustment under Step Three, its final performance score will still fall within the range for a High Satisfactory rating.

Example Two

- Step One: The Enterprise meets the threshold for compliance.
- Step Two: The Enterprise receives an average of:
 - 20 on its loan purchase objectives
 - 25 on its loan product objectives
 - 20 on its outreach objective
 - 20 on its investments objective
- Step Three: The Enterprise qualifies for a 10% upward adjustment.

| Step One | Achieves Compliance |
|--|----------------------------|
| Weighted performance score after Step Two | 21.5 |
| Final performance score after Step Three | 23.65 |
| Final Rating: | Low Satisfactory |

This example illustrates that averaging a score of 25 or less under the evaluation areas could result in a weighted performance score under Step Two that falls in the range for a Low Satisfactory rating. If enough evaluation areas average much lower than 25, then neither a 10 nor a 15 percent upward adjustment under Step Three would have enough impact to increase the Enterprise's rating, leaving the Enterprise's final performance score within the range for a Low Satisfactory rating.

Example Three

- Step One: The Enterprise achieves the threshold for compliance.

¹⁴ The weights are: 35 percent for loan purchase objectives, 30 percent for loan product objectives, 20 percent for outreach objectives, and 15 percent for investments and grants objectives. These weights are applied to the average score of the objectives under each evaluation area.

- Step Two: The Enterprise receives an average of:
 - 33.33 on its loan purchase objectives
 - 35 on its loan product objectives
 - 30 on its outreach objective
 - 40 on its investments objective
- Step Three: The Enterprise qualifies for a 10 percent upward adjustment.

| Step One | Achieves Compliance |
|--|---------------------|
| Weighted performance score after Step Two | 34.17 |
| Final performance score after Step Three | 37.58 |
| Final Rating: | Exceeds |

This example illustrates that some scores of 40 (or 50) on the objectives are needed for an Enterprise's final performance score to fall within the range for an Exceeds rating. In the example, the Enterprise had some objectives score 40 or 50, which is reflected in the averages for the loan purchase, loan product, and investments objectives being greater than 30. The weighted performance score after Step Two, though, was still only in the High Satisfactory range. Because the Enterprise qualified for a 10 percent upward adjustment, which requires scoring 40 on an objective under an extra-credit eligible activity, its score moved up into the Exceeds range.

These three examples all use the following chart for converting final performance scores into one of the four passing ratings:

Ratings Conversion Chart for Final Performance Scores¹⁵

| Rating | Minimally Passing | Low Satisfactory | High Satisfactory | Exceeds |
|-------------------------|-------------------|------------------|-------------------|-----------|
| Final Performance Score | < 18 | <u>18-26</u> | <u>26-36</u> | ≥ 36 |

¹⁵ Note: The Low Satisfactory scale is inclusive of 18 but not of 26 ($18 \leq x < 26$). The High Satisfactory scale is inclusive of 26 but not of 36 ($26 \leq x < 36$).