2024
Affordable Housing Preservation
Loan Purchase

ACTIVITY:

G. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3)).

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt.

INFEASIBILITY:

☒ Check here if the Enterprise is submitting an infeasibility request for the objective.

In 2024, Fannie Mae acquired 20 single-family energy and water loans, missing the stated target of 225 loans by 205 loans, or 91%. We have experienced significant market-driven challenges, including both macroeconomic and operational factors, that resulted in us attaining only a small portion of our goal, which was set based on historical loan purchases under more favorable market conditions. The macroeconomic drivers include elevated interest rates and the associated “lock-in” effect for existing homeowners, which have impacted refinance loan volume as identified in our 2023 narrative These trends persisted in 2024 and disproportionately affect Duty to Serve energy and water loans because a high proportion have historically been refinances, using Fannie Mae’s HomeStyle® Energy and HomeStyle® Renovation loan products. Increased interest rates ultimately reduce the value of this option for low- and moderate-income households. This is evidenced by fewer refinance loans as a proportion of total Duty to Serve Energy loan purchases as volume goes down. The reduction in refinance volume in 2024 compared with 2022 for the Duty to Serve-eligible segment, approximately 97%, is disproportionately large relative to the reduction in refinance volume for HomeStyle® loan products overall (approximately 67%).

DTS Energy Loan Acquisitions

Plan Year	Loan Acquisitions	% Purchase	% Refinance
2022	161	4.3%	95.7%
2023	36	41.7%	58.3%
2024	20	75.0%	25.0%

In addition to economic challenges, further obstacles to lender participation in this market are present in the form of operational challenges. Lenders are having trouble obtaining the necessary data to report eligible loans to Fannie Mae, including proof of ENERGY STAR® certification or other specific data points that measure compliance with the quantitative threshold for the energy savings generated by improvements. At the time of loan delivery, this detail is often not available via the scope of work for any scheduled improvements. Based on the persistent market challenges observed in 2024, we are requesting infeasibility for this objective.

SUMMARY OF RESULTS:

Objective’s components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
Purchase 225 loans used to purchase or refinance homes with energy, water, or energy debt refinance, which represents approximately a 20% increase over the 2023 target.	Fannie Mae acquired 20 loans used to purchase or refinance homes with energy, water, or energy debt refinance.	

SELF-ASSESSMENT RATING OF PROGRESS:

- ☐ Target met
- ☐ Target exceeded
- ☐ Target partially completed
- ☒ No milestones achieved

IMPACT:

- ☐ 50 – Very Large Impact
- ☐ 40
- ☒ 30 – Meaningful Impact
- ☐ 20
- ☐ 10 – Minimal Impact
- ☐ 0 – No Impact

IMPACT EXPLANATION:

1. How and to what extent were actions under this objective impactful in addressing underserved market needs, or in laying the foundation for future impact in addressing underserved market needs?

Despite our best efforts in 2024, Fannie Mae acquired 20 single-family energy and water loans, falling short of the target of 225 loans by 205 loans, or 91%. Of the loans that were purchased, these supported borrowers in seven states and included four loans that refinanced a Property Assessed Clean Energy (PACE) loan. This loan purchase volume was significantly lower than 2023, in which 36 loans were purchased, suggesting that single-family market pressures have not only disproportionately impacted this goal but resulted in diminished opportunity to serve low- and moderate-income households with this type of mortgage product over the long term. In 2024, loan purchases under this goal came from a smaller number of lenders, but those with heavy participation in this market continue to remain engaged. On a macroeconomic basis, interest rates continued to be elevated throughout 2024. While a high proportion of refinance loans have contributed to this goal in years past (see table above), we have observed that increases in key market indicators such as our Refinance Application-Level Index, which was up 46% year-over-year, have not necessarily translated to increased loan purchase volume under this target. As our ability to create impact for this market through loan purchases was limited by challenging market factors beyond our control, we have requested infeasibility for this target.

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

The work completed by Fannie Mae to understand market challenges under this goal provided us with insight around several key obstacles. From our strong lender partnerships in this space, we gathered valuable feedback around operational difficulties in obtaining the appropriate level of detail for each transaction to report on eligible loans. For example, the scope of work for improvements to a home often will not specify the type of equipment or appliances that are installed, including whether an ENERGY STAR® certification is present. The lack of available data on these improvements at the time a loan is delivered to Fannie Mae creates a barrier to lenders' ability to report on these loans in a manner that would qualify them for this Duty to Serve goal. To that effect, we have an opportunity to support participation in this market by leaning into our outreach strategy through lender-specific engagements, as there is an educational component to designing processes that capture appropriate data for loan identification and delivery to Fannie Mae. Feedback from our partners who have been early adopters of these loan products has been critical to designing functional processes that result in eligible loan deliveries.

An additional market constraint that presented in the high interest rate environment were the increased costs associated with a home refinance, which appear to reduce the value of this approach for low- and-moderate-income households despite the long-term energy savings. In most cases, refinance volume under this goal in 2024 came from cash-out transactions, as opposed to a more streamlined refinance to replace a key appliance. Where refinance products may not currently be an effective solution, we can continue to create impact through our efforts to connect eligible borrowers with alternative resources such as the Weatherization Assistance Program, which could significantly reduce their utility bills at no cost.

Given that many of the barriers to success under this goal have been market-driven, we are also considering ways in which we can capture impact that may not be represented by our current loan purchase methodology. The specificity of what is considered eligible for this target may create challenges achieving scale even in stable market conditions. In addition to HomeStyle Renovation and HomeStyle Energy loans with an ENERGY STAR-certified improvement or that achieve a 15% reduction in energy or water consumption, and refinances of a PACE loan, we are also exploring opportunities to add loans that support energy-efficient manufactured homes, consistent with the regulatory definition. We believe this will more accurately capture the impact that we are creating through our loan purchases in this space.

3. Optional: If applicable, why was the Enterprise unable to achieve the Plan target?

Please see infeasibility request, where we have outlined our reasons as to why Fannie Mae was unable to achieve the Plan target.

Affordable Housing Preservation
First Quarter Report: January 1 - March 31, 2024
Loan Purchase

ACTIVITY:

G. Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3)).

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt

SUMMARY OF PROGRESS:

The following are the 2024 Actions under this Objective:

- Purchase 225 loans used to purchase or refinance homes with energy, water, or energy debt refinance, which represents approximately a 20% increase over the 2023 target[1].

As of the end of the first quarter, we have acquired one (1) single-family energy and water loan. Given the current trajectory, we believe we are unlikely to achieve the 2024 target.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

☐ Progress delayed and/or partial completion of the objective expected

☒ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Given the current trajectory, we believe we are unlikely to achieve the 2024 loan purchase target of 225 loans. Broader market trends have resulted in lower single-family energy loan volume during the first quarter of 2024, compared to previous years. Specific drivers for this decline include factors affecting the broader housing market, such as higher interest rates, historically high home prices, and limited available housing supply. With the higher interest

[1] In 2023, we modified the loan purchase target from 187 loans to 28-33 loans, due to market conditions.

rates, refinances are also down considerably and are causing the associated "lock-in" effect for existing homeowners. This is particularly impactful for single-family energy and water loans. Based on Fannie Mae's Refinance Application-Level Index (RALI), for the week ending April 26, 2024, the RALI count is down 12.9% percent compared to the same week last year. To put it into more historical context, the RALI volume is down 90.1% from the refinance boom (Q3 2020) and down 31.4% from the "Refi Slowdown" of Q4 2018.[2]

We are currently on track to see the lowest volume of DTS Energy-eligible loans since we started tracking and reporting these loans for Duty to Serve in 2018. Lender outreach and training will continue throughout the year, particularly with HomeStyle Renovation lenders who we consider most likely to deliver DTS Energy loans; however, given that we have only acquired one loan in the first quarter and we do not anticipate market conditions to improve significantly throughout the rest of 2024, we have classified this objective as off-track and unlikely to meet or exceed the loan purchase target of 225 loans.

In April 2024, Cross Country Mortgage launched a loan product based on the Duty to Serve Energy LLPA Waiver, which provides income-eligible borrowers "with a lower mortgage interest rate for the life of your loan when you make eco-friendly appliance purchases and home renovations that will save you money on your utility bills." During Cross Country's development of the EasyGreen loan product, Fannie Mae provided information about the Duty to Serve LLPA waiver. We expect to see some Duty to Serve Energy-eligible loans from Cross Country, and we are continuing outreach to lenders on this energy LLPA waiver path.

Given this context, unless there is an unexpected shift in market conditions during the remainder of 2024, we are likely to request a modification to this loan purchase target. Notably, as market headwinds affecting loan purchase activity in 2023 have persisted into the first quarter of 2024, it is reasonable to expect that a 2024 modification might be of similar magnitude to the one in 2023, given loan purchase targets were set in 2021 under dramatically different macroeconomic circumstances.

[2] https://www.fanniemae.com/research-and-insights/surveys-indices/refinance-application-level-index

Fannie Mae

Affordable Housing Preservation
Second Quarter Report: April 1 - June 30, 2024
Loan Purchase

ACTIVITY:

G. Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt

SUMMARY OF PROGRESS:

As of the end of the second quarter, we have acquired five (5) single-family energy and water loans. Given the current trajectory, we believe we are unlikely to achieve the 2024 target stated above.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

☐ Progress delayed and/or partial completion of the objective expected

☒ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Given the current trajectory, we believe we are unlikely to achieve the 2024 loan purchase target of 225 loans. Broader market trends have resulted in lower single-family energy loan volume during the first half of 2024, compared to previous years. Specific drivers for this decline include factors affecting the broader housing market, such as higher interest rates, historically high home prices, and limited available housing supply. With the higher interest rates, refinances are also down considerably and are causing the associated “lock-in” effect for existing homeowners. This is particularly impactful for single-family energy and water loans. Based on Fannie Mae’s Refinance Application-Level Index (RALI), for the week ending July 19,

Affordable Housing Preservation
Second Quarter Report: April 1 - June 30, 2024
Loan Purchase

2024, the RALI count is down 87.5% from the refinance boom (Q3 2020) and down 13.6% from the "Refi Slowdown" of Q4 2018.[1]

We are currently on track to see the lowest volume of DTS Energy-eligible loans since we started tracking and reporting these loans for Duty to Serve in 2018. Lender outreach and training will continue throughout the year, particularly with HomeStyle Renovation lenders who we consider most likely to deliver DTS Energy loans; however, given that we have only acquired five loans in the first half of the year and we do not anticipate market conditions to improve significantly throughout the rest of 2024, we have classified this objective as off-track and unlikely to meet or exceed the loan purchase target of 225 loans.

[1] https://www.fanniemae.com/research-and-insights/surveys-indices/refinance-application-level-index

Fannie Mae®

Affordable Housing Preservation
Third Quarter Report: July 1 - September 30, 2024
Loan Purchase

ACTIVITY:

G. Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt

SUMMARY OF PROGRESS:

As of the end of the third quarter, we have acquired thirteen (13) single-family energy and water loans. Given the current trajectory, we believe we are unlikely to achieve the 2024 target of 225 loans.[1]

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

☐ Progress delayed and/or partial completion of the objective expected

☒ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

We have acquired 13 loans through the end of September against our goal of 225, representing about 6% attainment and considered off track and likely to miss both the target and baseline of 178 loans. Broader market trends have resulted in lower single-family energy loan volume throughout 2024 compared to previous years. Specific drivers for this decline include factors affecting the broader housing market, such as higher interest rates, historically high home prices, and limited available housing supply. Higher interest rates have affected refinance volume due to the associated “lock-in” effect for existing homeowners, but the impact to single-family energy and water loans has been disproportionately high relative

[1] In 2023, we modified the loan purchase target from 187 loans to 28-33 loans, due to market conditions.

to the overall refinance market. Fannie Mae's Refinance Application-Level Index (RALI) count is up 150% year-over-year for the week ending September 27, 2024[2]. Though RALI is a leading indicator, and changes in loan deliveries will lag changes in the RALI, there have been no DTS SF Energy-eligible loan purchases since mid-August, where only a single loan was purchased. To put it into more historical context, even with RALI count increasing, RALI count is still down 81.6% from the refinance boom (Q3 2020).

We are currently on track to see the lowest volume of DTS Energy-eligible loans since we started tracking and reporting these loans for Duty to Serve in 2018. Lender outreach and training will continue throughout the year, particularly with HomeStyle Renovation lenders who we consider most likely to deliver DTS Energy loans; however, given that we have only acquired 13 loans and we do not anticipate market conditions to improve significantly throughout the rest of 2024, we have classified this objective as off-track and unlikely to meet the loan purchase target of 225 loans. In comparison to our 2023 performance, it is also behind where we were at this point in 2023 (27 loans purchased through September 2023), and we did purchase a total of 36 loans under this target last year, implying market challenges that we observed in 2023 have persisted through 2024.

Fannie Mae is exploring the feasibility of including energy efficient manufactured housing under this objective, which may present an opportunity for future volume. Duty to Serve, ESG, and Capital Markets staff at Fannie Mae have been building relationships with Northwest Energy Works and Systems Building Research Alliance, who are the Quality Assurance Providers that certify and track ENERGY STAR and Zero Energy Ready manufactured homes, on behalf of the EPA and Department of Energy, respectively. In October, Fannie Mae, with help from Northwest Energy Works, was able to verify an ENERGY STAR Manufactured Home during loan delivery and include it in our Single-Family Green MBS. Our next step is to assess the historical volume of these loans to establish a baseline, which will be required for incorporating these loans in any updated loan purchase target for this objective.

---

[2] www.fanniemae.com/research-and-insights/surveys-indices/refinance-application-level-index