

2024 Affordable Housing Preservation Outreach

ACTIVITY:

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

OBJECTIVE:

1. Promote best practices and standardization for shared equity programs through a model deed restriction and a certification system for shared equity programs.

INFEASIBILITY:

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

SUMMARY OF RESULTS:

| <i>Objective's components detailed in the Plan</i> | <i>Corresponding actions taken</i> | <i>Explanation of any deviations from the Plan (if applicable)</i> |
|--|--|--|
| <input checked="" type="checkbox"/> Based upon the evaluation conducted in 2023, identify and execute enhancements to model deed restriction initiative. | In 2024, Fannie Mae continued to promote the Model Deed Restriction (MDR) and acquire industry feedback through outreach, including targeted outreach to practitioners, lenders, and industry groups, and broader audiences at conferences and convenings. | |
| <input checked="" type="checkbox"/> If determined to be necessary, make enhancements to model documents. | Through outreach from 2022 to 2024 as well as a comparison of common deed restriction program practices to our selling policy, we have determined that no enhancements to model documents are needed at this time. The model documents continue to serve as examples of best practices for shared equity program structures. We have therefore focused on adjusting our selling policy to increase the number of shared equity programs that meet our loan eligibility requirements. | |



SUMMARY OF RESULTS CONTINUED:

| <i>Objective's components detailed in the Plan</i> | <i>Corresponding actions taken</i> | <i>Explanation of any deviations from the Plan (if applicable)</i> |
|--|--|--|
| <input checked="" type="checkbox"/> Determine if additional outreach efforts are needed. | We conducted outreach to practitioners, lenders, and other stakeholders throughout the year, confirming that the model ground lease documents continue to be an industry standard and that widespread adoption of the MDR will likely take many years. Outreach has been useful for understanding barriers to MDR adoption and to inform our strategy of continued MDR promotion activities. | |
| <input checked="" type="checkbox"/> Evaluate documents for non-adopting programs to identify discrepancies with model documents and provide remedies to enable eligibility of non-adopting programs. | Our in-house Shared Equity Program Platform (SEPP) continues to be an invaluable source of information. By reviewing each deed restriction submitted for certification, we have gathered, and continue to gather, detailed program information about non-adopting programs and how their program provisions deviate from our loan delivery requirements. | |
| <input checked="" type="checkbox"/> Continue to promote the certification system to new partners and prepare for re-certification of programs. | We undertook significant outreach efforts to over 170 of shared equity programs, made technology updates to SEPP to accommodate the re-certification process, and contacted 97 shared equity programs for re-certification. | |
| <input checked="" type="checkbox"/> Analyze evaluation data to identify trends in program adoption and utilization. | Our outreach efforts have shown that program adoption is best accomplished through targeted program engagement and word-of-mouth promotion across programs. | |
| <input checked="" type="checkbox"/> Survey lenders and shared equity practitioners to assess satisfaction with system and associated processes. | Industry engagement indicates that SEPP is functioning well with practitioners finding the application process relatively easy and that certification is a meaningful support for their program. | |



SUMMARY OF RESULTS CONTINUED:

| <i>Objective's components detailed in the Plan</i> | <i>Corresponding actions taken</i> | <i>Explanation of any deviations from the Plan (if applicable)</i> |
|--|---|--|
| <input checked="" type="checkbox"/> Continue to conduct targeted outreach to shared equity programs and lenders not yet participating in the certification system. | In August, we promoted SEPP to 73 programs not on the certified list via an email blast with subsequent email and telephonic follow-up. | |
| <input checked="" type="checkbox"/> Initiate outreach efforts to raise awareness of the re-certification process. | In October, we promoted recertification to 97 certified programs via an email blast with subsequent email follow-up reminders. | |

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?

Fannie Mae conducted significant outreach throughout the year, raising awareness of shared equity, promoting our support for shared equity, promoting shared equity lending, and ultimately supporting our work to increase liquidity to this market. In 2024, we:

- Presented in five industry forums, including: Habitat for Humanity Affiliate Conference, Dallas Fort Worth Regional Housing Conference, FHFA Federal Home Loan Bank Advisory Board meeting, Ohio Community Land Trust Annual Network Meeting, and the Lending to Shared Equity Models webinar hosted by the Cooperative Development Foundation.
- Hosted the first in an ongoing series of Shared Equity Working Group meetings that includes a cross-section of practitioners, as well as advocacy and policy groups, among its seven participants.
- Direct engagements with five prominent industry advocacy, policy, and funding groups.
- Direct engagements with more than 16 key lending partners.



While this objective is categorized as outreach, there have been several loan product activities undertaken in 2024 to promote efficiency in the lending process. We acquired valuable insights from our industry outreach, which led to enhancements to our selling policies and processes to accommodate financing for more shared equity programs:

- To be responsive to common findings in our reviews, we proposed updates to Form 2100 to align with requirements in our *Selling Guide*, including a prohibition on mandatory arbitration, and to allow for flexibility in terms of the riders accepted.
- In June, based on practitioner and lender feedback, we eliminated the requirement for a completed Form 2200 for shared equity loans, further streamlining the shared equity loan origination and delivery process.
- In December, we published a *Selling Guide* update to incorporate the review of non-model ground lease programs into the scope of the SEPP.
- We completed the necessary analyses and development for a *Selling Guide* update targeted for 2025 to address shared equity programs with resale restrictions that survive foreclosure.

To further promote shared equity programs and financing, we completed various external communications activities:

- In January, we promoted the December 2023 policy update that made public the list of certified shared equity programs and relieves lenders from reviewing documents for certified programs that use a model document.
- Promoted SEPP in February via a LinkedIn post.
- Updated our lender-facing Duty to Serve landing page to draw attention to the loan-level price adjustment benefits for qualifying loans and provide links to information about our Duty to Serve mortgage products, including shared equity.
- In July, we promoted SEPP to 83 uncertified programs via an email blast, with subsequent follow-ups by email and telephone.
- In October, we promoted recertification to 97 certified programs via an email blast with subsequent email follow-up.

SEPP continues to be a valuable source of information and direct program engagement. By reviewing all legal documents for programs seeking certification, we are able to understand in great detail the different provisions and structures of shared equity programs. This also allows us to learn about program requirements and provisions that are not compliant with our requirements and to assess shared equity program trends and consider opportunities to alter our requirements to accommodate those programs.

To date, our Certified Shared Equity Program List reflects 120 certified programs, with 25 newly certified in 2024. Based on the standards established in the working paper “2022 Census of Community Land Trusts and Shared Equity Entities in the United States,”¹ published by Lincoln Institute of Land Policy, we have certified about one-third of shared equity programs in the nation, and we continue to work toward certifying the majority of programs.

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

The in-depth engagements we’ve had with practitioners, lenders, and advocacy and policy groups have led to new insights as well as reinforcement of past learnings. A strength of the shared equity model is that each program is created by and for a community, so each program is tailored to meet that community’s needs. This is one reason shared equity programs are an effective part of a localized affordable housing strategy. This also brings challenges with scaling: The shared equity model is generally structured to produce programs that have a relatively small footprint, resulting in a scattering of small programs that each have minor to major variations in their program structure. One practitioner mentioned that they have had several instances of lenders interested in working with their program, but the lenders would ultimately decide not to create a loan product after learning of the low volume that would be produced.

¹ Ruoni Wang, Celia Wandio, *et al.*, “The 2022 Census of Community Land Trusts and Shared Equity Entities in the United States,” Lincoln Institute of Land Policy (June 2023), <https://www.lincolninst.edu/publications/working-papers/2022-census-community-land-trusts-shared-equity-entities-in-united/>.



Lack of supply is a major issue for the growth and scaling of shared equity programs, with funding being a core challenge. Discussions with shared equity practitioners uncovered that the number of property-level subsidy required to make properties affordable to their target Area Median Income (usually 80% or less) is very substantial. We learned about specific examples of subsidies from 60% to 70% of acquisition costs, with the dollar of subsidy investment for these examples ranging from \$200,000 to \$350,000 per unit. Programs leverage public funds; however, philanthropic grant sources seem to be the most common source of funding for programs. Both public and philanthropic funding is limited, and both sources have specific goals and objectives that may or may not be compatible with the structure of shared equity programs. So, the combination of high levels of needed subsidy, limited sources of funding, and further limitation on funding sources based on the funders objectives makes it difficult for shared equity programs to grow their portfolio of properties.

The working paper “2022 Census of Community Land Trusts and Shared Equity Entities” also provides some insight into the challenges for growth of this market. Nearly 25% of active shared equity programs do not have any properties in their portfolio, and nearly 40% have five or less properties. It’s possible that some of these programs are relatively new and will acquire properties over time; however, this data indicates the difficulty that these programs face in acquiring properties, which is likely tied to the difficulties they face in acquiring funding.

We also learned about other challenges with funding. For example, some funders have specific objectives that require a shared equity program to alter their structure or requirements. This can also be a barrier to adopting model documents and to standardization not only across shared equity programs, but even *within* a single program. Another challenge is that funding for operations and back-end costs are even more scarce. We heard from one practitioner that the legal work (including title insurance) to acquire a property into their community land trust and sell it to a client is around \$7,000. Practitioners consistently cite the difficulty in acquiring ongoing funding for these kinds of costs and their general operating costs.

Through our outreach and SEPP review, we also noticed that some shared equity programs have resale restrictions that survive foreclosure. To address this, we conducted an analysis of existing shared equity loans to determine impact to the loan-to-value (LTV) ratio if we allowed for these types of restrictions to survive foreclosure. This included a review of operational impacts, consultation with internal stakeholders, and the creation of a specific LTV calculation, for which we are targeting a *Selling Guide* update in 2025. We also completed analysis of the San Francisco Below Market Rate variance to incorporate under this update and formally retire the variance.

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

N/A