Fannie Mae

2024
Affordable Housing Preservation
Loan Purchase

ACTIVITY:

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

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance shared equity homes.

INFEASIBILITY:

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

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☐ Purchase 345 loans used to finance shared equity properties, which represents approximately a 123% increase from the baseline.	Fannie Mae purchased 317 shared equity loans, surpassing the baseline of 155 loans by 105%.	Due to a very aggressive target and challenging market conditions, Fannie Mae did not achieve the target loan purchase volume.

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?

Though we fell short of our target, we increased our purchase of shared equity loans by 5% vs. our 2023 deliveries despite persistent market challenges. These loan purchases supported shared equity properties across 24 states and the District of Columbia. The elimination of the requirement of Form 2200 in June helped further streamline shared equity origination and loan delivery, and we conducted significant industry outreach to raise awareness about shared equity and promote Fannie Mae shared equity guidelines and the Shared Equity Certification List. In addition, both government-sponsored enterprises have adopted our Certified Shared Equity Program List, effectively making this resource an industry standard.

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

Our continued work in the shared equity market, along with outreach to practitioners, lenders, and industry advocates, has uncovered additional information about the known challenges to scaling and standardization of the shared equity market.

The small size of the shared equity market continues to be a challenge. Lenders aren't incentivized to train staff, change processes, and change loan origination systems when the likely outcome is low single-digit annual loan production. This is why the majority of shared equity programs have a small number of lending partners, and in many cases one lending partner, who are local banks and credit unions that built specific lending programs to fit the shared equity program's needs. Also, it is common that these lenders create these specific loan programs with the intent to retain the loans on their books as part of their mission-oriented programs to support local residents and families.

Shared equity programs often operate within a small geographic footprint and with a small portfolio of properties. Their programs are customized to fit local needs and, as such, the loan programs they partner with are bespoke programs that have limited scale. Our engagement with practitioners suggests that the model works and that they are able to access financing for their clients; however, this business model is not well suited to the standardization and scale of Fannie Mae loan programs.

Funding for property acquisition and construction is a main barrier to increasing the supply of shared equity properties. Most funding comes from philanthropic grants, and many shared equity programs access local, state, and federal funding sources. These funding sources have different goals and objectives, which means they have differing requirements. This can cause shared equity programs to change their programs and their legal documents, such as their ground lease, for specific properties to be able to access these sources of funding. These kinds of changes require legal review, review with the shared equity board of directors, and with the program's lending partners. As a result, changes to program requirements complicate access to funding for purposes of acquiring new properties.

We also heard several real-life examples about the amount of subsidy provided for shared equity properties. The depth of property-level subsidy required to make properties affordable to their target Area Median Income (usually 80% or less) has grown dramatically in recent years and is very substantial. In engagements with practitioners, they cited examples described 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.

Given what we've learned about the limitations on future growth in shared equity property supply, and therefore the need for new financing, we have set shared equity loan purchase targets in the 2025 – 2027 Duty to Serve Underserved Markets Plan accordingly based on a realistic view of future opportunity.

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

The target loan purchase goal was very aggressive, representing a 123% increase from baseline and a 50% increase from the 2023 loan volume target. While we achieved a 105% increase over baseline and a 5% increase from 2023 loan purchase volume, challenging single-family market conditions and the continued limitation of the shared equity supply impacted our ability to achieve the loan purchase target.

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

ACTIVITY:

H. Shared equity programs for affordable housing preservation

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance shared equity homes.

SUMMARY OF PROGRESS:

As of the end of the second quarter, we have acquired 146 loans secured by shared equity properties, representing 42% of our goal for the year. Although we have acquired sufficient loans to surpass the baseline of 155 loans as of July 25th, we are below our pro-rated attainment. Given the current trajectory, we believe we are at risk of not meeting the 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 at risk of not meeting the 2024 loan purchase target of 345 loans. Broader market trends have resulted in challenges growing our shared equity loan volume in 2024 to the levels reflected in this target. Constraining factors affecting the broader housing market have persisted through 2024, such as higher interest rates, historically high home prices, and limited available housing supply. With the higher interest rates, refinances and housing unit turnover are also down considerably and are causing the associated “lock-in” effect for existing homeowners. This results in fewer financing opportunities in shared equity, given alternatives to shared equity properties may see price increases to prohibitively high levels, leading current shared equity homeowners to remain in place. For this reason, the market for shared equity lending is heavily dependent on housing supply, and limitations on the development or acquisition of new properties by shared equity programs, due either to cost increases or competition from investors seeking to acquire these properties, may have downstream impact on our loan acquisition growth. Additionally, there can also be a seasonal element to the timing of home supply availability.

We continue our work to support the review and certification of shared equity programs to encourage standardization and ease constraints in the lending process, facilitated through the Shared Equity Program Platform (SEPP). We maintain the Certified Shared Equity Program List of programs that we have reviewed and certified as meeting certain Duty to Serve requirements which we host publicly on fanniemae.com to provide visibility for lenders, as well as rep and warrant relief for loans originated with a program that uses one of the model documents. In June, Fannie Mae also eliminated the requirement for an executed and recorded Form 2200 in response to lender and industry feedback regarding the Shared Equity Amendment for shared equity properties with income and resale price restrictions. We continue to conduct lender outreach to understand current challenges in the shared equity lending process and how we can provide support.

Given that we do not anticipate market conditions to improve significantly throughout the rest of 2024, we have classified this objective as at-risk of not meeting or exceeding the loan purchase target of 345 loans.

Fannie Mae

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

ACTIVITY:

H. Shared equity programs for affordable housing preservation

OBJECTIVE:

2. Increase the purchase of mortgage loans that finance shared equity homes.

SUMMARY OF PROGRESS:

As of the end of the third quarter, we have acquired 223 loans secured by shared equity properties, representing 65% of our goal for the year. Although we have acquired sufficient loans to surpass the baseline of 155 loans, we are below our pro-rated attainment and likely at risk of not meeting the 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 at risk of not meeting the 2024 loan purchase target of 345 loans. Broader market trends have resulted in challenges growing our shared equity loan volume in 2024 to the levels reflected in this target, which accounts for approximately a 15% increase over our shared equity loan purchase volume in 2023. Constraining factors affecting the broader housing market have persisted through 2024, such as higher interest rates, historically high home prices, and limited available housing supply. Higher interest rates have affected both refinance volume and housing unit turnover due to the associated “lock-in” effect for existing homeowners. This results in fewer financing opportunities in shared equity, given alternatives to shared equity properties may see prices increase to prohibitively high levels, leading current shared equity homeowners to remain in place. Thus, the market for shared equity lending is heavily dependent on housing supply.

Affordable Housing Preservation
Third Quarter Report: July 1 - September 30, 2024
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Limitations on the development or acquisition of properties by shared equity programs, such as cost increases or competition from investors, may have downstream impact on our loan acquisition growth.

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Given that we do not anticipate market conditions to shift significantly throughout the rest of 2024, we have classified this objective as at-risk of not meeting or exceeding the loan purchase target of 345 loans.