

2024 Rural Housing Loan Product

ACTIVITY:

A. Regulatory Activity: Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c)(1)).

OBJECTIVE:

4. Conduct outreach in high-needs rural regions to improve knowledge of local market conditions.

INFEASIBILITY:

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

SUMMARY OF RESULTS:

This objective was modified. Please see the impact explanation section below for more detail.

<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"/> Conduct outreach to local housing experts specializing in high-needs rural regions.	Target exceeded through 2024 actions; see subsequent implementation steps.	
<input checked="" type="checkbox"/> Engage at least five lenders specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias, to promote relevant lending products and resources and to continue to gather information about local market conditions.	Fannie Mae engaged with at least five lenders in each of the high-needs rural regions (HNRRs), and a total of 27 lenders, to gather information about local market conditions.	
<input checked="" type="checkbox"/> Engage at least one Housing Finance Agency and/or CDFI specializing in each of Middle Appalachia, Lower Mississippi Delta, and the Colonias, to promote HFA Preferred and HomeReady and to continue to gather information about local market conditions.	We engaged with at least one housing finance agency (HFA) or community development financial institution (CDFI) lender in each of the HNRRs, and a total of nine, to gather information about local market conditions.	
<input checked="" type="checkbox"/> Engage at least one nonprofit organization specializing in each of Middle Appalachia, Lower Mississippi Delta, the Colonias and to continue to gather information about local market conditions.	We engaged with at least one nonprofit organization in each of the HNRRs, and a total of five, to gather information about local market conditions.	
<input checked="" type="checkbox"/> Engage with experts in the heirs' property market to inform a loan product strategy.	Target met through 2024 actions; see subsequent implementation steps.	



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"/> Establish a project plan and associated timeline to launch a pilot, a variance, or an enhancement to an existing product in 2025, if feasible.	We produced an internal project plan and associated timeline to support product development in 2025.	
<input checked="" type="checkbox"/> Meet regularly with practitioners to identify interventions that are currently being utilized to resolve heirs' property issues.	We hosted a convening in April 2024 to present research on heirs' property and to invite input and suggestions on next steps from heirs' property experts. Subsequently, we met individually with multiple lenders to discuss heirs' property mortgage concepts. We also met with two separate working groups organized by heirs' property practitioners to share updates and gather input on potential product features.	
<input checked="" type="checkbox"/> Determine which mortgage product features would be beneficial to heirs' property homeowner and whether those features could be incorporated into a Fannie Mae loan product.	We summarized a list of potential product features that we plan to use in additional 2025 socialization with lenders and other stakeholder.	

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?

Outreach to local housing experts

In 2024, Fannie Mae increased outreach efforts to stakeholders supporting HNRRs. With awareness of persistent market challenges, we sought to deepen our engagement with stakeholders to better understand the challenges consumers face and to identify trends and evolving needs. We concluded 2024 having engaged 27 lenders and nine HFAs/CDFIs with service areas in HNRRs. In addition, we reached a large number of HNRR stakeholders such as nonprofits, realtors, housing counselors, and developers during various trade association conferences. Moreover, these engagements afforded us the opportunity to market and deliver training on our affordable solutions, products, and various resources to support homeownership in the HNRRs.

HNRR stakeholders cited the following persistent barriers to homeownership: lack of affordable housing supply, rising home prices, homeowners insurance premium increases, and a higher interest rate environment. Promotion and training on shared equity, manufactured housing (MH), MH Advantage®, Desktop Underwriter® enhancements, HomeReady® very low-income purchase credit, and HFA Preferred™ were well-received as useful solutions to combat current market challenges. In summary, our engagement efforts remain an important tool in supporting HNRR. Lenders and stakeholders depend on these engagements as an opportunity to provide timely feedback on market challenges and to collaborate on potential solutions to better serve HNRR communities.

Finally, we made concerted efforts in 2024 to gather information to help serve the colonias HNRR, since colonia census tracts were only formally defined in 2023. We developed an initial lender engagement strategy that was focused on four nonprofits and five lenders/builders delivering loans from the colonias. In addition to engaging these lenders, we also identified key stakeholders that support consumers in the region, such as organizations that provide critical homeownership education and counseling to ensure consumers are informed and prepared for homeownership. Seeking out both lenders and nonprofits was an important step in the colonias strategy, as it would establish stronger relationships and potentially provide future opportunities for in-market training and business development. This outreach will serve as a foundation for future efforts to better understand the unique market challenges and forthcoming product development for the colonias. Feedback from lenders on the colonias region highlighted several key themes and challenges in understanding, identifying, and accessing this market. Lenders often shared limited or simply no familiarity with what the colonias are. They weren't aware of the unique geography of the colonias and their inclusion in the Duty to Serve (DTS) Plan.

Outreach to experts in the heirs' property market

Since Fannie Mae's April 2024 National Convening on Heirs' Property, we have been in contact with experts, including researchers, community organizations, and lenders. Over the past few months, we met with multiple mortgage lenders to discuss their experience working with heirs and to gauge interest in a potential partnership. Additionally, we convened a brainstorm at our Affordable Housing Advisory Committee Meeting on product features necessary to serve this market. In parallel, we have established and convened regular meetings with an internal working group, with representation from single-family mortgage products, collateral risk, and legal, among others, to refine the list of key challenges and to develop a new product or update an existing product in 2025.

These actions accomplished the modified target and implementation steps that we requested in 2024 to better capture the state of this work and the next steps necessary to bring a product strategy to market. Stemming from 2024 outreach on these topics, we have a robust project plan and a list of potential partners. We will use the information gathered in 2024 to finalize a product strategy designed to provide flexible mortgage financing options for rural residents of heirs' property.



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

Outreach to local housing experts

Underserved communities in HNRRs continue to face shrinking affordable housing stock. Similar to trends experienced in 2023 and prior, higher interest rates continue to constrain affordability, placing many homes out of reach of low- and moderate-income borrowers. First-time homebuyers have fewer housing options with narrowing affordability. Higher interest rates and labor costs have also tempered the rate of new construction in HNRRs. Current market conditions have caused many lenders to shift their lending strategies. Some lenders have eliminated or reduced their HNRR footprint while others have pivoted to portfolio products with lower rates and different guidelines with the hopes of increasing the number of borrowers they can serve.

MH remain one of the most viable affordable options in HNRRs. This year, lenders have experienced a decrease in their MH loan volume while credit and repurchase risk have increased due to higher default rates for MH purchases. Other lenders have seen a decrease in MH inventory as investors have entered the market creating additional competition for prospective homebuyers.

Appraisals remain a challenge in HNRRs. Mixed-use properties, acreage limits, and access to rural regions continue to impact lending. Lenders expressed concerns with the inability to use property data reports and appraisal waivers while the quality and availability of comparable sales for appraisal reports continue to be a challenge directly impacting value assessment.

Natural disasters continue to have a disproportionate impact on HNRRs. In 2024, multiple weather events created historic damage and will have a lasting impact on recovery and rebuilding. Many insurance providers have increased the cost of homeowners insurance, which directly impacts affordability. Other insurance providers have opted out of continuing coverage to impacted areas. Stakeholders are fearful that homes in impacted areas, especially along river lines, will simply not be rebuilt due to cost. Residents able to afford rebuild costs typically use the property as a vacation home or rental, while local residents are faced with potentially being priced out of community.

Product specific competition continues to constrain DTS-eligible lending in HNRRs. Many depositories, in response to current market conditions, have developed portfolio loan products that allow 100% loan-to-value lending coupled with softer credit requirements. Additionally, USDA and FHA mortgage loans were often preferred for low- and moderate-income borrowers due to flexible underwriting, lower down payment requirements, and competitive interest rates.

Regarding colonias, in addition to existing market challenges such as higher rates and limited affordable housing stock, we learned lending in the colonias presents additional challenges for lenders. A recurring theme in our outreach was simply that many lenders did not know what the colonias were, where the colonias were located, nor whether the regions were included in the DTS Plan. While these lenders were delivering loans from the colonias, they did so unaware of the loans' DTS eligibility. Conversely, lenders who were aware of the colonias stated they continue to face difficulties in accurately identifying DTS eligible loans. Builders developing in the colonias region are increasingly aware of the opportunity and have developments or land for future development in the region. However, they have stated the need to improve their internal processes to better track colonias-eligible loans. Lastly, some organizations indicated conventional lending in the region remains a challenge, and government loans and loan products that allow higher loan-to-value ratios are oftentimes the only options for borrowers.

Outreach to experts in the heirs' property market

Heirs' property homeowners may be unable to access traditional mortgage financing to build a new home or repair an existing home. Homeowners with tangled titles are ineligible for federal disaster relief funds, local energy efficiency grants, property tax relief, USDA program financing, or mitigation programs. Heirs' property owners face an increased vulnerability to involuntary loss through contested claims, adverse possession, forced sales to speculators, tax auction, unaffordable transaction costs, and court-granted partition sales.

Lenders have noted that financing heirs' properties can introduce uncertainty and extend timelines, leading to increased origination costs. Some lenders have expressed unfamiliarity with whether and how conventional loans can be used on heirs' properties. Heirs' properties can occur anywhere, but our research shows that they are a disproportionately rural phenomenon that is exacerbated by other rural lending challenges.



Rural residents of heirs' properties face several unique challenges, and our approach to providing mortgage liquidity to this market must consider solutions to those challenges. A non-exhaustive list of challenges include:

- An heir's path to a clear and fully vested title depends on their ability to access legal resources.
- An heir might need to access funds for critical repairs.
- An heir might need to access funds to buy out other heirs.
- An heir might need access to more than 80% of the home's equity.
- It can be unclear whether the potential transaction would be a purchase or refinance, particularly when an estate is involved.
- Lenders might be unfamiliar with lending opportunities in their markets.
- Loan originators might be less likely to pursue transactions with longer lead times and more uncertainty.

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

N/A



Rural Housing Second Quarter Report: April 1 - June 30, 2024 Loan Product

REGULATORY ACTIVITY:

Housing in high-needs rural regions (12 C.F.R. § 1282.35 (c)(1)).

OBJECTIVE:

4. Conduct outreach in high-needs rural regions to improve knowledge of local market conditions.

SUMMARY OF PROGRESS:

Fannie Mae is on track to meet the target to “Conduct outreach to local housing experts specializing in high-needs rural regions” and all of its supporting implementation steps.

However, we are off-track with respect to the second target under this objective, “Pilot a new product, an update to an existing product, or a variance with potential to promote increased liquidity to high-needs rural regions.” The intent for this target, when drafted, was for extensive research on heirs’ property conducted in 2022 and 2023 to inform new product development in 2024. While that intention has been met, it is likely to result in an heirs’ property product or variance in 2025, rather than in 2024. 2024 loan product efforts have been extensive and include:

- Convening a large group of heirs’ property researchers, practitioners, and lenders to discuss a host of potential product features including, among other things, Servicing Guide clarifications and homebuyer education curricula that could prepare more heirs’ property owners to successfully attain and maintain a mortgage;
- Since the convening, regular meetings with heirs’ property practitioners to gather input on potentially valuable product features, which has led to a focus on ensuring funds are available for necessary home repairs, clearing title; and
- Establishment of a project plan and associated timeline to launch a product or variance in 2025.

Fannie Mae will submit a modification request to capture the meaningful product development efforts conducted in 2024, replacing the target and implementation steps established nearly three years ago.



Rural Housing
Second Quarter Report: April 1 - June 30, 2024
Loan Product

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):