

## 2024 Rural Housing Loan Purchase

### ACTIVITY:

C. Regulatory Activity: Financing by Small Financial Institutions (SFIs) of rural housing (12 C.F.R. § 1282.35(c) (3)).

### OBJECTIVE:

1. Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

### INFEASIBILITY:

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

Comparing the current small financial institution (SFI) market to that of 2018 to 2020, when the baseline and associated target for 2024 were set, we observe a large decline in the size of the market. It is significant that 2024 loan purchases under this objective were 45% lower than the baseline. As a share of total single-family loan purchases, SFI declined from 0.49% to 0.37%.

There were several drivers for this decline that fall under three categories and are discussed in more detail under Question 3:

- SFIs report continued challenges in originating loans, including stagnant incomes for potential borrowers and worsening housing affordability.
- Non-SFI lenders that sell loans to Fannie Mae on behalf of SFIs report that as SFI originations dry up, aggregation channels are becoming more costly to operate.
- Quantitatively, we observe that the decline is spread fairly evenly across product types but is disproportionately driven by certain delivering lenders operating in certain markets.

### SUMMARY OF RESULTS:

Objective's components detailed in the Plan	Corresponding actions taken	Explanation of any deviations from the Plan (if applicable)
<input type="checkbox"/> Purchase 6,656 single-family mortgage loans in rural areas from SFIs, which represents a 16% increase over the baseline.	<p>Fannie Mae purchased 3,099 loans under this Objective, which fell short of the baseline of 5,749 loans as well as the 2024 target.</p> <p>It is worth noting that the baseline and target were set in 2021 according to loan purchase data from 2018 to 2020. The 2024 SFI mortgage market was materially different than in 2018 to 2020, largely due to higher interest rates and a host of SFI-specific factors discussed below, making this Objective infeasible.</p>	<p>Market conditions made achieving this target infeasible in 2024.</p>

### 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 purchased 3,099 loans in 2024 under this Objective. Notably, acquisitions were about 7% higher than in 2023 but still well short of both the target and the baseline, which was set according to the average of 2018, 2019, and 2020 acquisitions. Market challenges beyond our control limited our opportunity provide liquidity to this underserved market.

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

Qualitative research we conducted and feedback from market participants point to common market challenges for SFI lending. Lenders continue to face major headwinds in lending to low- and moderate-income borrowers in rural areas. Limited affordable supply and higher interest rates remain leading drivers in declining lending activity across the market.

Despite declining lending, non-SFI lenders retain competitive advantages that have allowed them to gain greater market share when compared to SFIs. Larger lending institutions benefited from targeted marketing and the ability to leverage more technology to achieve greater borrower outreach. As a result, some SFIs have been unable to compete with non-SFIs or retained a limited scope of borrowers they could serve.

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

Qualitative research with SFIs continues to highlight that their local markets face challenging economic circumstances. Stagnant incomes have not been able to keep pace with rising home prices and higher interest rates. Potential borrowers are often priced out of affordability or are more reliant on down payment assistance or grants to qualify. Other SFIs have noted they've had to adjust their lending strategy and either increase their portfolio lending or use Freddie Mac Loan Product Advisor® delivery to take advantage of more competitive pricing. Lastly, some SFIs have been unable to weather current market conditions and have gone out of business.

Outreach to lenders who are SFI aggregators (non-SFI lenders that acquire loans from SFIs and sell loans) revealed several additional market trends. Smaller aggregators have reported that they have paused direct marketing to rural SFI loan originators due to the higher cost of doing business in rural areas. Large aggregators stated participating lenders/SFIs that originate in rural markets have experienced a receding market volume, which has impacted their deliveries. Other aggregators that may be delivering SFI-eligible loans from qualified SFI correspondent lenders are experiencing operational challenges in which they are unable to identify SFIs at point of purchase.

Quantitatively, an analysis of our SFI loan purchases reveals a handful of insights. Comparing 2024 to the baseline years of 2018 to 2020, we observe that more than half of the decline occurred in just five states: Wisconsin, Michigan, Minnesota, Ohio, and Illinois. As all of these are clustered in the upper Midwest, it is likely that there are regional housing market factors driving limited SFI lending. Relatedly, we can see that the lenders responsible for delivering SFI loans have shifted since the baseline years. There were only 127 such lenders in 2024 compared to 234 in the baseline period. For those lenders that were active in both periods, eight lenders drove about half of the aggregate decline. Collectively, these observations from our SFI book of business aligns with the sentiments shared by lenders, painting the picture of a housing market facing unique challenges.



**Rural Housing  
First Quarter Report: January 1 - March 31, 2024  
Loan Purchase**

**ACTIVITY:**

C. Financing by Small Financial Institutions (SFIs) of rural housing (12 C.F.R. § 1282.35 (c) (3)).

**OBJECTIVE:**

1. Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

**SUMMARY OF PROGRESS:**

The following are the 2024 Actions under this Objective:

- Purchase 6,656 single-family mortgage loans in rural areas from SFIs, which represents a 16% increase over the baseline.

Under this Objective, Fannie Mae has a loan purchase target of 6,656 PMM loans and a baseline of 5,749 PMM loans. As of March 31, 2024, Fannie Mae has purchased 518 loans eligible for this loan purchase target, representing 7.8% progress towards meeting the target and 9.0 percent progress towards meeting the baseline. At this rate, the chance of meeting either the target or the baseline the target is unlikely, according to internal forecast models.

**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):**

There were 518 loan purchases under this objective in Q1 2024 and 516 loan purchases made in Q1 2023; a virtually flat trend. Notably, when comparing the same time periods, single-family PMMs dropped by about 9%, indicating that small financial institutions (SFI) lending has been slightly more resilient than the broader single-family business in the face of persistent macroeconomic challenges.



**Rural Housing**  
**First Quarter Report: January 1 - March 31, 2024**  
**Loan Purchase**

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. 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.



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

### REGULATORY ACTIVITY:

Financing by Small Financial Institutions (SFIs) of rural housing (12 C.F.R. § 1282.35(c) (3)).

### OBJECTIVE:

1. Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

### SUMMARY OF PROGRESS:

Under this Objective, Fannie Mae has a loan purchase target of 6,656 PMM loans and a baseline of 5,749 PMM loans. As of June 30, 2024, Fannie Mae has purchased 1,361 loans eligible for this loan purchase target, representing 20 percent progress towards meeting the target and 24 percent progress towards meeting the baseline. At this rate, the chance of meeting either the target or the baseline of the target is unlikely, according to internal forecast models.

### 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):

There were 1,361 loan purchases under this objective in the first half of 2024 and 1,350 loan purchases made in the first half of 2023; a virtually flat trend. Notably, when comparing the same time periods, single-family PMMs dropped by about 7 percent, indicating that small financial institutions (SFI) lending has been slightly more stable than the broader single-family business in the face of persistent macroeconomic challenges.

Qualitative research that Fannie Mae conducted in Q2 captures the most common market challenges that lenders identified. In addition to macroeconomic circumstances, both SFI originators (SFIs that originate and sell loans) and SFI aggregators (non-SFI lenders that acquire loans from SFIs and sell loans) note that portfolio products have become a common



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

strategy for SFI originations. Portfolio lending allows SFIs to utilize product features and underwriting standards that differ from the Fannie Mae Selling Guide in order to ensure borrowers can be approved.



## Rural Housing Third Quarter Report: July 1 - September 30, 2024 Loan Purchase

### ACTIVITY:

C. Financing by Small Financial Institutions (SFIs) of rural housing

### OBJECTIVE:

1. Acquire single-family purchase money mortgage (PMM) loans in rural areas from SFIs.

### SUMMARY OF PROGRESS:

Under this objective, Fannie Mae has a loan purchase target of 6,656 PMM loans and a baseline of 5,749 loans. As of September 30, 2024, Fannie Mae has purchased 2,264 loans eligible for this loan purchase target, representing 34% progress towards meeting the target and 39% towards meeting the baseline. At this rate, the chance of meeting either the target or the baseline of the target is unlikely, according to internal forecast models.

### 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):

There were 2,264 loan purchases under this objective through the first three quarters of 2024 and 2,236 loan purchases made in the same period of 2023. Notably, when comparing the same interval, single-family PMMs dropped by about four percent, indicating that small financial institutions (SFI) lending has been slightly more stable than the broader single-family business in the face of persistent macroeconomic challenges.