Fannie Mae 2020
Affordable Housing Preservation
Loan Product

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

OBJECTIVE:
1. Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).

SUMMARY OF RESULTS:
Following are the 2020 Actions under this Objective per the January 1, 2021 Duty to Serve Plan:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Conduct initial testing and feasibility analysis for a system to determine and communicate to lenders DTS-eligibility for shared equity programs.	•Fannie Mae procured a vendor and worked with them to develop a system structure and process map for a shared equity certification system. •We shared a list of likely DTS-eligible programs with a targeted lender group and solicited their feedback on the usefulness and impact of the information. •We monitored a small, test-and-learn certification initiative completed in 2018-2019 and captured lessons learned.	•N/A
☒ Complete first draft legal structure with supporting documents for a model deed restriction.	•We completed a first draft legal structure and declaration of covenants.	•N/A

SELF-ASSESSMENT RATING OF PROGRESS:
☒ Objective met
☐ Objective exceeded
☐ Objective partially completed: 75-99% (substantial amount)
☐ Objective partially completed: 50-74% (limited amount)

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☐ Objective partially completed: 25-49% (minimal amount)
☐ Objective partially completed: 0-24% (less than a minimal amount)
☐ No milestones achieved

PARTIAL CREDIT JUSTIFICATION:

N/A

IMPACT:

☐ 50 – Substantial Impact
☒ 40 – Between Meaningful and Substantial Impact
☐ 30 – Meaningful Impact
☐ 20 – Between Minimal and Meaningful Impact
☐ 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?

Model Deed Restriction:

Shared equity programs that utilize a deed restriction to ensure long term affordability often lack uniformity, resulting in divergent program designs and requirements that sometimes render their properties ineligible for Fannie Mae financing. The lack of standardization between programs makes it difficult for lenders to scale their shared equity lending as each program in which they might wish to participate must be evaluated independently. The additional due diligence required to ensure eligibility deters some lenders from considering expansion of their shared equity lending activity, impacting liquidity and consumer choice for shared equity programs.

To address this lack of standardization, in 2019, Fannie Mae entered into a contract with a vendor for the creation of model documents for shared equity programs that employ a deed restriction to preserve affordability. Unlike community land trusts, deed-restricted shared equity programs do not currently have model documents to guide them in establishing the program parameters articulated in their deed restriction covenants. The model documents created through this contract will bring greater uniformity to this market and incorporate industry best practices. As a result, the documents will remove a significant burden for local governments seeking to establish new shared equity programs and will help ensure that new or existing shared equity programs are eligible for Fannie Mae mortgage financing. For lenders, the alignment of program guidelines and practices will alleviate costly and burdensome due diligence requirements and enable them to broaden their shared equity lending activity to include multiple jurisdictions.

In 2020, the vendor assembled an inclusionary housing advisory group comprised of state and local officials to provide subject matter expertise to inform the design of the model documents. In addition, the first drafts of the legal structure and declaration of covenants were completed. The work completed this year will enable the publication of a final model deed restriction covenant in 2021.

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Shared Equity Program Certification:

Standardization and program eligibility challenges are not just limited to deed restriction programs. For lenders, validation of shared equity program compliance is a departure from their standard origination and underwriting processes, and therefore, they are often hesitant or unwilling to take on the added burden and risk associated with performing program evaluations and providing representations and warranties regarding a program's eligibility. The added underwriting complexity also erodes profitability for lenders when originating a shared equity loan. As a result, lender participation in shared equity programs is limited, impacting loan deliveries and reducing consumer choice for homebuyers.

Evidence gleaned from a limited program certification pilot program conducted in Florida, which wrapped up in 2019, supports the contention that certification programs are beneficial to both shared equity programs and lenders. Shared equity programs that participated in the pilot indicated in a follow-up survey that the certification process helped acquaint them with Fannie Mae and Duty to Serve (DTS) requirements. This enabled them to identify areas where their programs may not meet specific eligibility criteria and determine if they were willing to make necessary changes to become compliant. From the lender perspective, the vendor stated that each program review took between 4 and 10 hours, which represents a significant time investment that could be eliminated by a third-party certification. As a result of these findings, we concluded that third party certification of shared equity program eligibility can yield greater industry standardization and reduced underwriting burdens for lenders, making it easier them to scale their shared equity participation to DTS and Fannie Mae eligible programs.

Building upon the work completed in 2019, in 2020 we procured a vendor and began working with them to develop a system structure and process for a shared equity certification program. This program will collect certification applications from shared equity programs through which they attest to their compliance with each DTS eligibility condition and, as applicable, Fannie Mae's requirements for community land trusts. Programs that do not comply with DTS or Fannie Mae requirements will be provided with education and resources to make them aware of their areas of non-compliance. Programs that do meet all of the DTS and applicable Fannie Mae requirements will be added to a list of certified programs, which will be shared with Fannie Mae approved Seller/Servicers. Lenders will be able to originate loans for properties in certified programs without independently evaluating the program's eligibility. In addition to reducing lender underwriting burdens, the list of certified programs will also make lenders aware of other programs in which they could begin participating without additional due diligence needed to determine the program's eligibility.

Our work in 2020 has established a strong and necessary foundation for the construction and implementation of the certification system and will enable us to begin testing application, program review, data sharing, and loan purchase activities beginning in early 2021.

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

We learned that the need for standardization in the shared equity market remains, and in fact is likely increasing. As shared equity homeownership gains popularity as a means of addressing housing affordability challenges, more shared equity programs are being created, often without consideration of the source of the mortgage financing that homeowners will need. Without standardized documents and processes to turn to for guidance, program criteria can vary widely and frequently renders properties in these new programs ineligible for Fannie Mae financing. In addition, lenders continue to find it difficult and costly to determine if a program meets DTS and Fannie Mae eligibility requirements. This makes them uncomfortable to venture beyond programs for which Fannie Mae is already purchasing loans. The combination of the growth in potentially ineligible new programs and lenders' reticence to venture beyond existing programs may significantly impact the benefit to low- and moderate-income homebuyers resulting from the growth in the number of shared equity programs available.

Correspondingly, we also learned that Fannie Mae can play a central role in facilitating standardization and removing barriers to ensure robust liquidity and consumer choice in this market. As the principal secondary market liquidity source for shared equity home loans, Fannie Mae is well positioned to make the case for standardization. By working with stakeholders to educate shared equity practitioners on the value of secondary market access, we can help them better appreciate the link between program design and consumer choice. At the same time, our reputation with lenders as a market leader enables us to promote shared equity loans as a viable business opportunity. Our support for this market via investments in standardization and simplification of policies and processes can meaningfully contribute to moving shared equity mortgage loans from a niche product to a standard product offering for a greater number of lenders.

3. (Optional): If applicable, why were all components of this objective not completed?
N/A

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OBJECTIVE:

1. Increase the purchase of mortgage loans that finance shared equity programs (Do What We Do Best).

SUMMARY OF RESULTS:

Our efforts to promote standardization and efficiency in the shared equity market to facilitate increased loan purchases continued in 2020. Although disrupted by the effects of COVID-19, the vendor for the model deed restriction project has continued to move forward with the solicitation of feedback from industry experts and the development of the legal framework for the model documents. A preliminary outline of the proposed legal structure for the model documents is due to Fannie Mae by July 31st, 2020. While we are pleased that work has continued on this project, delays associated with the pandemic will unfortunately make it impossible to complete and publish the model documents in 2020.

With regard to DTS eligibility certification for shared equity programs, we have continued efforts to leverage existing resources to assist lenders while initiating new efforts to create a program certification system. Building upon the work done by Fannie Mae in 2019 to perform a high level analysis of DTS eligibility for more than 300 community land trusts (CLTs), in 2020, we shared a list of 135 CLTs found to be DTS eligible with lenders active in our shared equity programs. We hope that this list will prompt these lenders to explore new lending opportunities beyond those with which they currently participate, enabling them to add greater volume and scale to their shared equity business line.

In addition to making use of the existing list to communicate program eligibility information to lenders, we have also begun work to create a more robust and permanent system for the evaluation of DTS eligibility of shared equity programs. This includes the creation of clear and specific evaluation criteria, development of mechanisms for data collection and storage, and the establishment of a process for program recertification at regular intervals. This system will provide an important source of DTS eligibility verification, enabling lenders to better identify eligible programs and extend their lending activity beyond the localized strategies most employ today.

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Our efforts to promote standardization and remove obstacles for lenders are important steps necessary to increase the purchase of shared equity mortgage loans. By laying this foundation, we expect to drive increased lender participation and loan delivery volumes in the coming years.

Following are the 2020 Actions under this Objective:

☐ Fannie Mae will stand up a system for determining and communicating to lenders DTS-eligibility for shared equity programs.

☐ Publish a model deed restriction for use in Fannie Mae programs, marketing it to shared equity programs and encouraging adoption.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On-target to meet or exceed the objective

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

☐ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):