



Fannie Mae 2020  
Rural Housing  
Loan Purchase

**ACTIVITY:**

D. Regulatory Activity: Small multifamily rental properties in rural areas (12 C.F.R. § 1282.35 (c) (4)).

**OBJECTIVE:**

1. Identify market opportunities to purchase small multifamily loans in rural areas (Partner and Innovate, 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:

<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 type="checkbox"/> Based on the work completed in 2018 and 2019:	•N/A	•N/A
<input type="checkbox"/> Increase the purchase of loans to 80 loans on small multifamily properties in rural areas, representing an approximate 110 percent increase over the Baseline.	•Fannie Mae purchased 66 loans on small multifamily properties in rural areas, representing a 74 percent increase over the baseline of 38 loans.	•Partial completion of the objective expected. Fannie Mae made 65 eligible loan purchases out of the targeted 80.
<input checked="" type="checkbox"/> Develop a plan for small multifamily rural loan purchases for the next Rural Duty to Serve Plan.	•Fannie Mae developed a plan for small multifamily rural loan purchases for the next Rural Duty to Serve Plan.	•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)
- Objective partially completed: 25-49% (minimal amount)
- Objective partially completed: 0-24% (less than a minimal amount)
- No milestones achieved



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### **PARTIAL CREDIT JUSTIFICATION:**

Partial completion of the Objective expected. Fannie Mae made 66 eligible loan purchases out of the target 80. With a baseline of 38 loans, Fannie Mae completed 67 percent of the Objective.

### **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?**

Small multifamily properties in rural areas are typically a challenging market segment for large mortgage banks and the secondary market to finance. Due to small deal sizes (under \$3 million on average), lower household incomes, less experienced deal sponsors and partners, and non-metro economies, this market has fewer available conventional debt financing sources. As a result, the market is underserved. These difficulties were made apparent to us during our engagement with developers, Delegated Underwriting & Servicing (DUS®) lenders, and other lenders outside our network. These challenges are compounded by aging housing stock in rural areas. Due to a lack of capital and operating subsidy, the supply of affordable housing has not kept up with demand.

Regardless, Fannie Mae leveraged our Small Loan deal team’s expertise to continue to serve this market in a meaningful way. The team has in-depth knowledge and experience making small loans work at scale within the Fannie business model. We’ve strengthened relationships with those lenders who likewise have a specialty and interest in the small loan business, as well as in secondary and tertiary markets. The team actively engaged with lenders to share our Small Rural Duty to Serve (DTS) loan goals, and spent considerable effort creating and promoting resources to identify eligible deals according to geographic indicators. Fannie Mae was intentional in offering competitive pricing on qualifying business – meaning that even when we didn’t win a deal, we created more value for the properties themselves due to our continued presence in the markets.

The overwhelming majority of units in the 65 eligible loans that qualify under this objective are affordable at or below 80 percent of area median income (AMI). Most properties are located outside of metropolitan areas, where financing is sorely needed. Many of the properties we financed in 2020 were developed or preserved using Low-Income Housing Tax Credits (LIHTC).

As a result of COVID-19 (See answer 3. below), Fannie Mae was only partially able to achieve this Objective. However, we remained committed to maintaining a reliable presence in this market as the pandemic raged, continuing to close deals and provide liquidity consistently throughout 2020. During the year, more deals than usual were delayed due to myriad sponsor difficulties securing secondary financing, obtaining approvals from



## Fannie Mae 2020 Rural Housing Loan Purchase

state and local governments, keeping tenants in the properties, working with contractors, etc. Fannie Mae stayed in close contact with lenders, working with them to get deals closed and provide financing where possible.

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

Underserved communities are hit the hardest by health and economic crises, especially in rural America, where health outcomes are less promising than in metropolitan areas. We are re-affirmed in our conviction that being a reliable source of capital even in a time of crisis is an essential role for Fannie Mae. However, safety and soundness continue to be paramount.

This year was a reminder that Fannie Mae is one of the very last steps in the development and preservation financing process. We don't often have insight into the specific reasons why deals work or don't work. Many of those reasons are outside our control, such as sponsor-related items, lender appetite, and investor interest. But by remaining in touch with lenders, we create relationships with the properties we finance and the communities themselves.

"Rural" can be a confusing Duty to Serve eligibility requirement for our partners. So, we see value in our efforts to make it easier and faster for Fannie Mae deal teams and lenders to identify rural eligibility.

### **3. (Optional): If applicable, why were all components of this objective not completed?**

COVID-19 presented significant obstacles in meeting this Objective. The economic uncertainty, business closures, and job losses experienced by the whole country were acutely felt in rural America. These forces created a perception of heightened credit risk within the lender and investor community, leading to tightened credit requirements and investors demanding greater returns. Therefore, the pipeline of eligible deals was smaller than expected, and the time to close deals was longer than expected.



**Fannie Mae  
Rural Housing  
First Quarter Report: January 1 - March 31, 2020  
Loan Purchase**

**ACTIVITY:**

D. Regulatory Activity: Small multifamily rental properties in rural areas (12 C.F.R. § 1282.35 (c) (4)).

**OBJECTIVE:**

1. Identify market opportunities to purchase small multifamily loans in rural areas (Partner and Innovate, Do What We Do Best).

**SUMMARY OF RESULTS:**

During the first quarter of 2020, we engaged directly with lenders interested in doing business in rural markets to communicate our focus on small property loans. We rolled out an enhancement to our deal management system that highlights transactions in Duty to Serve eligible rural areas and we provided training to our lender-facing deal teams. Last year we brought new lenders on to the platform and worked with existing lenders to start originating small property loans. The small loan deal team has worked closely with these lenders to advance their operational capacity. Small loan lenders contribute significantly to our loan production under this Objective.

However, despite these efforts, we are currently behind pace towards our year-end target and unfortunately the anticipated market disruption as a result of COVID-19, which began in the middle of March, puts our 2020 loan purchase goal further at risk.

Following are the 2020 Actions under this Objective:

- Based on the work completed in 2018 and 2019:
  - Increase the purchase of loans to 80 loans on small multifamily properties in rural areas, representing an approximate 110 percent increase over the Baseline.
  - Develop a plan for small multifamily rural loan purchases for the 2021 - 2023 rural Duty to Serve Plan.

**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



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**Fannie Mae  
Rural Housing  
First Quarter Report: January 1 - March 31, 2020  
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**ADDITIONAL INFORMATION (IF APPLICABLE):**

Partial completion of the objective is expected due to unforeseen market challenges.



**Fannie Mae  
Rural Housing  
Second Quarter Report: April 1 - June 30, 2020  
Loan Purchase**

**ACTIVITY:**

D. Regulatory Activity: Small multifamily rental properties in rural areas (12 C.F.R. § 1282.35 (c) (4)).

**OBJECTIVE:**

1. Identify market opportunities to purchase small multifamily loans in rural areas (Partner and Innovate, Do What We Do Best).

**SUMMARY OF RESULTS:**

During Q2, we made steady progress toward our year end goals. We developed a reporting process to identify and highlight eligible deals when they first enter our deal management system. We shared additional materials directing lenders to multiple online resources for determining rural eligibility. These efforts have helped win deals; even so, Fannie Mae still sees fewer deal submissions than we anticipated. We believe this is the result of a slowdown in rural markets due in large part to the economic uncertainty resulting from COVID-19. Lender focus appears to be pivoting from origination activities, to an increased need to manage their loss mitigation pipeline; reducing overall acquisitions. Given the current trajectory, we believe that we are at risk of missing the loan target for this goal. As of the end of Q2, we have acquired 33 loans.

Following are the 2020 Actions under this Objective:

- Based on the work completed in 2018 and 2019:
  - Increase the purchase of loans to 80 loans on small multifamily properties in rural areas, representing an approximate 110 percent increase over the Baseline.
  - Develop a plan for small multifamily rural loan purchases for the 2021 - 2023 rural Duty to Serve Plan.

**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):**

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**Fannie Mae  
Rural Housing  
Second Quarter Report: April 1 - June 30, 2020  
Loan Purchase**

Given current trajectory, Fannie Mae believes we will fall short of our year end loan purchase goal.



**Fannie Mae  
Rural Housing  
Third Quarter Report: July 1 - September 30, 2020  
Loan Purchase**

**ACTIVITY:**

D. Regulatory Activity: Small multifamily rental properties in rural areas (12 C.F.R. § 1282.35 (c) (4)).

**OBJECTIVE:**

1. Identify market opportunities to purchase small multifamily loans in rural areas (Partner and Innovate, Do What We Do Best).

**SUMMARY OF RESULTS:**

During Q3, progress toward our year-end goals was slower than in the first half of the year. We believe this to be due to a slowdown in rural markets and economic uncertainty resulting from COVID-19. This has tightened credit risk tolerances and risk appetite among the lender and investor communities, which have effectively shrunk our pipeline.

We focused our efforts in Q3 on managing our existing pipeline, including targeting portfolio deals. We have built awareness of this goal within both the Affordable and Conventional business lines, which helps eligible business to be managed effectively. We reviewed our book of business to better understand how lenders view rural markets, through an analysis of rural business within metropolitan areas, micropolitan areas, and neither metropolitan nor micropolitan areas. This information is important in understanding how lenders view credit risk in rural markets.

While these actions will help us maximize the pipeline, Fannie Mae still sees a slower pipeline than expected at this point in the year, especially with loss mitigation activities remaining a strong focus for lenders. Given the current trajectory, we believe that we are at risk of missing the loan target for this goal.

Following are the 2020 Actions under this Objective:

Based on the work completed in 2018 and 2019:

Increase the purchase of loans to 80 loans on small multifamily properties in rural areas, representing an approximate 110 percent increase over the Baseline.

Develop a plan for small multifamily rural loan purchases for the 2021 - 2023 rural Duty to Serve Plan.

**SELF-ASSESSMENT RATING OF PROGRESS:**

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**Fannie Mae  
Rural Housing  
Third Quarter Report: July 1 - September 30, 2020  
Loan Purchase**

- 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):**

Given current trajectory, Fannie Mae believes we will fall short of our year end loan purchase goal.