Fannie Mae

Introduction of the Duty to Serve Underserved Markets Plan for the Manufactured Housing, Affordable Housing Preservation, and Rural Housing Markets

Effective January 1, 2018



I. Preface

America's housing system does not guarantee equal outcomes for all of our people. But Fannie Mae believes in striving for a housing system that provides the greatest possible access to housing options that are affordable, safe, and sustainable for the greatest number of families. In fact, that's why we were created.

In 1938, the United States government identified a critical underserved part of the housing market: the market for long-term fixed rate mortgages. The government believed these new-style loans could contribute to economic stability and provide homeowners a safe, affordable path to homeownership. Banks were reluctant to provide a long-term commitment of their capital to make the loans, so the government created Fannie Mae to be a ready buyer for these mortgages. In the 80 years since, Fannie Mae's ability to buy and securitize 30-year fixed-rate home loans has helped to make these mortgages a defining feature of American home buying.

Today, the government is charging Fannie Mae with a duty to serve additional parts of America's housing market that are currently underserved: manufactured housing, affordable housing preservation, and rural housing. The Housing and Economic Recovery Act of 2008 (HERA) assigns both Fannie Mae and Freddie Mac (the Enterprises) with a "Duty to Serve" each of these markets by increasing the liquidity of mortgage investments and improving the distribution of mortgage investment capital for families of modest means. At the end of 2016, our regulator, the Federal Housing Finance Agency (FHFA) adopted implementing regulations (Regulations) requiring the Enterprises to submit three-year Duty to Serve Underserved Markets Plans (Plans) [1]. The pages that follow describe Fannie Mae's three Plans – one for each underserved market – in detail for 2018 – 2020. As importantly, they describe our thinking, our principles, and our strategic approach to this challenging work.

Fannie Mae welcomes this challenge because we believe our experience, knowledge, and capabilities will make a difference in these markets. Working with lenders and other partners to create housing opportunities that are affordable is what drives every facet of our business, and we are prepared to bring everything we have learned to bear in fulfilling our Duty to Serve.

We recognize that there are no easy solutions to the tough and often long-standing challenges that characterize each of these markets.

Some of the reasons these markets are underserved are easy to identify, but not easy to solve. Each of the underserved markets suffers from a lack of affordable housing capital. But why? As a secondary market participant, what can Fannie Mae do to spur the primary market to provide more capital? What other changes would bring capital into the market? Are the necessary stakeholders willing to make needed changes? Will new, innovative products attract investors? How can we make sure that the new financing is safe and sustainable? What has been tried before and worked? What hasn't, and why not?

In other instances, the reasons a market is underserved are hard to identify and analyze due to lack of available data and necessary information. In those cases, much more foundational work is needed before proposing solutions.

In all instances, it is clear that no single participant in the housing finance system can turn an underserved market into a well-served market. It will take strong partnerships and a high degree of collaboration among a wide range of stakeholders to make a difference in all three Duty to Serve markets.

All of these factors drove the development of our three Duty to Serve Plans. Each Plan is based on the following strategic priorities:

- **Analyze**: Fannie Mae will bring its considerable research and analytical capabilities to bear to understand the toughest challenges facing each underserved market. These markets lack the deep and broad data-driven understanding enjoyed by participants in well-served housing markets.

1 12 C.F.R. Part 1282, Subpart C

- **Test and Learn**: Fannie Mae will test and evaluate adjustments to our own products and programs to identify ways to serve these markets better with our existing business activities. We will also seek to design and undertake pilot programs and new initiatives, where appropriate, that will purposefully identify the strengths and weaknesses of our own, and the markets', capabilities and potential.

- **Partner and Innovate**: We are committed to listening to and working closely with existing and new partners to understand how we can support these challenging markets in new ways, based on sound facts, with loan products that make sense. Our effectiveness in meeting our Duty to Serve these three underserved markets will only be as strong as our ability to innovate and build partnerships with the stakeholders who best understand these markets.

- **Do What We Do Best**: Our commitment to affordable housing is more than just a series of regulatory requirements, it is a fundamental component of who we are as a company. By harnessing the power of the secondary market, we strive to bring private capital to make housing more affordable in all markets and we are excited to focus in areas that need the most help. Developing the standardization and scale necessary to leverage private capital in these markets will be difficult – but we embrace the challenge and are committed to finding new ways and new partners to better support these underserved markets.

Fannie Mae is committed to moving forward with our partners to build a stronger, safer, more efficient housing finance system. As part of this commitment, we look forward to fulfilling our Duty to Serve the markets for manufactured housing, affordable housing preservation, and rural housing. This will be hard work. It will require real creativity and real commitment. It is the kind of challenge that inspires the people who work at Fannie Mae. We invite you to learn more about our Duty to Serve Plans in the pages that follow and to let us know your thoughts on how we can improve them. Most of all, we invite your support in making them come to life for homeowners and renters in need of more housing options that are safe, sustainable, and affordable.

II. Introduction to the Duty to Serve Plans

The FHFA Regulations implementing the Duty to Serve provisions of HERA became effective in January 2017. The Regulations identify the statutory and regulatory activities for which the Enterprises are eligible to receive Duty to Serve credit in the three underserved markets, allow for additional eligible activities in those markets, and allow "extra credit" for certain activities identified by FHFA.

- For the M**anufactured Housing Market**, the Regulations provide eligibility for Duty to Serve credit for four regulatory activities: (1) manufactured homes titled as real property; (2) manufactured homes titled as personal property (chattel); (3) manufactured housing communities owned by government instrumentalities, non-profits, or their residents; and (4) manufactured housing communities with specified minimum tenant pad lease protections.

- For the **Affordable Housing Preservation Market**, there are nine statutory activities available for Duty to Serve credit related to: (1) the Section 8 rental assistance program; (2) the Section 236 rental and cooperative housing program; (3) the Section 221(d)(4) moderate-income and displaced families program; (4) the Section 202 housing for the elderly program; (5) the Section 811 housing for persons with disabilities program; (6) the McKinney-Vento permanent supportive housing projects (homeless assistance); (7) the Department of Agriculture's (USDA) Section 515 rural rentals program; (8) debt financing of low-income housing tax credits; and (9) other comparable State or local affordable housing programs.

  FHFA has also identified seven regulatory activities available for Duty to Serve credit for the Affordable Housing Preservation Market related to: (1) financing of small multifamily rental properties; (2) financing of multifamily energy efficiency improvements; (3) financing of single-family energy efficiency improvements; (4) affordable housing preservation (shared equity) financing; (5) the Department of Housing and Urban Development's (HUD) Choice Neighborhoods Initiative; (6) HUD's Rental Assistance Demonstration program; and (7) financing of the purchase or rehabilitation of distressed properties.

- For the **Rural Housing Market**, FHFA has identified four regulatory activities for which Duty to Serve credit is available. They are activities relating to supporting: (1) housing in high-needs rural regions (Middle Appalachia, the Lower Mississippi Delta, colonias, and rural persistent poverty counties); (2) housing for high-needs rural populations (Native Americans in Indian areas and agricultural workers); (3) financing of rural housing by small financial institutions; and (4) small multifamily rental properties in rural areas.

In addition, the Enterprises may receive extra credit for engaging in activities relating to: (1) a manufactured homes chattel pilot; (2) residential economic diversity activity in the Affordable Housing Preservation Market; (3) services to high-needs rural regions; and (4) services to rural high-needs populations.

The Regulations require each Enterprise to propose a three-year Plan for serving each of the underserved markets, which was subject to public review and comment. The Regulations specify what information must be included in the Plans, which is reflected in their format. Among other things, Plans must identify specific, realistic objectives and related strategies, measures, time periods, and relevant market opportunities. Prior to becoming effective, each of the Plans must receive a “non-objection” from FHFA.

FHFA will then rate each Enterprise’s performance annually under its Plan based on reporting provided throughout the year. Final Performance Scores range from a low of “Minimally Passing”” to a high of “Exceeds.”

Performance of the Objectives set forth in the Plan is evaluated on a qualitative and quantitative basis, taking extra credit activities into consideration. One of the four evaluation factors identified in the Plan – outreach, loan product development, loan purchases, and investments – is applied to each Objective. The Plans must also serve families of modest means in each year including very low-, low-, and moderate-income families.

Fannie Mae’s Duty to Serve Plans for the underserved markets were developed against the backdrop of the laws under which Fannie Mae operates. Understanding those laws helps in understanding what is and is not in the Plans.

Fannie Mae traces its genesis to 1934, when Congress passed the act authorizing our charter as part of Franklin D. Roosevelt’s New Deal legislation. Through a series of later statutes, the company became privately owned and subject to the regulatory authority of FHFA. We continue to operate today under the Federal National Mortgage Association Charter Act (Charter Act).

The Charter Act defines our mission as providing liquidity, increasing stability, and promoting affordability in the secondary residential housing market. It also directs Fannie Mae to promote access to mortgage credit throughout the nation including central cities, rural areas, and underserved areas by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

The Charter Act provides certain powers that allow Fannie Mae to meet its statutory mandates. For example, it authorizes us to engage in the purchase and securitization of single-family and multifamily residential mortgages and issue debt obligations and mortgage-related securities. Our general corporate powers enable us to enter into contracts, buy and lease property, and take other actions necessary or incidental to the proper conduct of our business.

At the same time, the Charter Act imposes certain limits on Fannie Mae’s activities in the secondary market. There are loan limits on the single-family conventional loans that we acquire, and if the loan-to-value ratio is over 80 percent, the loan must have a credit enhancement, such as mortgage insurance. The Charter Act also prohibits us from originating loans in the primary mortgage market, and we may not purchase or securitize mortgages on properties outside of the United States and its territories.

With the enactment of HERA, Congress augmented Fannie Mae's affordability mission, directing us to serve three underserved markets that lack adequate credit through conventional lending sources. Congress intended these duties to complement and supplement our affordable housing goals, requiring us to "provide leadership" beyond simply purchasing mortgage loans. Congress made clear that our performance should be evaluated based on the totality of our efforts, including our development of innovative loan products, outreach to market participants, volume of loans purchased, and amount of investments. The focus on innovation, outreach, and investments, in addition to loan purchases, demonstrates Congress' recognition that, to provide leadership to underserved markets, Fannie Mae would need to stretch its efforts.

The scope of our statutory authority in many ways drives our Duty to Serve activities. For example, our authority to purchase and securitize loans can provide stability and liquidity in the underserved markets, but we cannot purchase and securitize loans unless and until they have been originated. Similarly, we can support affordable multifamily apartments by providing their permanent financing, but we cannot undertake their construction. Accordingly, our Duty to Serve activities must necessarily take the form of working closely with our lender partners to resolve the problems that discourage them from extending residential credit in certain areas.

Fannie Mae is ready to do more to serve the markets for manufactured housing, affordable housing preservation, and rural housing. What follows are three Plans – one for each market – that outline three years of activities projected to commence in January 2018. We look forward to implementing our Plans as part of our broader mission to create housing opportunities that are safe, sustainable, and affordable, while managing risk to protect lenders, homeowners, and taxpayers.

Duty to Serve Underserved Markets Plan for the Manufactured Housing Market

Effective January 1, 2018

Disclaimer

Implementation of the activities and objectives in Fannie Mae's Duty to Serve Underserved Markets Plan may be subject to change based on factors including FHFA review for compliance with the Charter Act, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.

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I. Fannie Mae's Strategic Priorities for the Manufactured Housing Market

In 2015, Fannie Mae began to engage in a variety of outreach activities designed to gather information from market stakeholders about challenges and possible solutions in the three Duty to Serve underserved markets. This included the single-family manufactured housing and the multifamily Manufactured Housing Communities (MHC) markets.

- We held manufactured housing roundtables, attended numerous conferences, and spoke directly with stakeholders in the market, including owners, lenders, non-profits, trade associations, and more.

- Additional information on the Federal Housing Finance Agency (FHFA) Regulations was supplied during the public comment period. These comments provided feedback on implementing the Duty to Serve provisions of the Housing and Economic Recovery Act of 2008 (Regulations) where we heard from a broader group of stakeholders, including many homeowners.

- Still more information was gathered through the four listening sessions, hosted by FHFA along with Fannie Mae and Freddie Mac (the Enterprises) earlier this year, to enable stakeholders to make recommendations about what they believe should be in the Enterprises' Underserved Markets Plan (Plans).

- Finally, additional commentary was provided in response to FHFA's request for public input regarding a chattel pilot.

From the information we gathered, our own experience and analysis, and the requirements set by FHFA, Fannie Mae established four strategic priorities for our service to the underserved markets. Because the issues are numerous and the problems complex in each market, we believe it is essential that we simplify our approach. This is particularly true for our first Plan. Accordingly, our strategic priorities for the Manufactured Housing Market include the following:

- **Analyze**: Fannie Mae will bring our considerable research and analytical capabilities to bear to understand the toughest challenges facing each underserved market. These markets lack the deep and broad data-driven analysis enjoyed by participants in well-served housing markets. For this reason our Plan seeks to conduct significant market research where the existing data is particularly insufficient such as in the areas of chattel loan performance or the variations in the types of ownership of MHC. In addition, we will analyze our own portfolio and share our findings to further the market's access to data.

- **Test and Learn**: Fannie Mae will test and evaluate adjustments to our own products and programs to identify ways to serve these markets better with our existing business activities. We will also seek to design and undertake pilot programs, where appropriate, that will purposefully identify the strengths and weaknesses of our own, and the markets', capabilities and potential. Under our Plan, a pilot program would be created for the acquisition and securitization of chattel mortgages. In addition, we will implement a pilot for the acquisition of mortgages on resident-owned MHC (ROC). Both will be designed with an eye to ultimately bringing more liquidity to these markets.

- **Partner and Innovate**: We are committed to listening to and working closely with existing and new partners to understand how we can support these challenging markets based on sound facts, with loan products that make sense. Our effectiveness in meeting our Duty to Serve these three underserved markets will only be as strong as our ability to innovate and build partnerships with the stakeholders who best understand these markets. In our proposed activities we look forward to working with governmental entities, non-profits, and resident owners to bring more liquidity to MHC that have these owners. We also will be working with investors to determine what securitization structures are appropriate for chattel mortgages. Our many forms of outreach will be to market stakeholders throughout the nation.

- **Do What We Do Best**: Our commitment to affordable housing is more than just a series of regulatory requirements, it is a fundamental component of who we are as a company. What we were established to do and what we do best is to facilitate a secondary market by purchasing mortgages – and that is what we need to do in this market. In some instances – like with chattel – we have to build a scaffold to get there by conducting research, enhancing or developing loan criteria, and assessing performance before creating opportunities for mortgage acquisitions. In some instances we are already there – as reflected in a simple commitment to purchase more manufactured housing mortgages where we can safely do so.

Our four strategic priorities have been woven into our Plan. To highlight their incorporation, one or more of them is referenced for every Objective we put forward. An overview of our Objectives appears in Part V of this Plan.

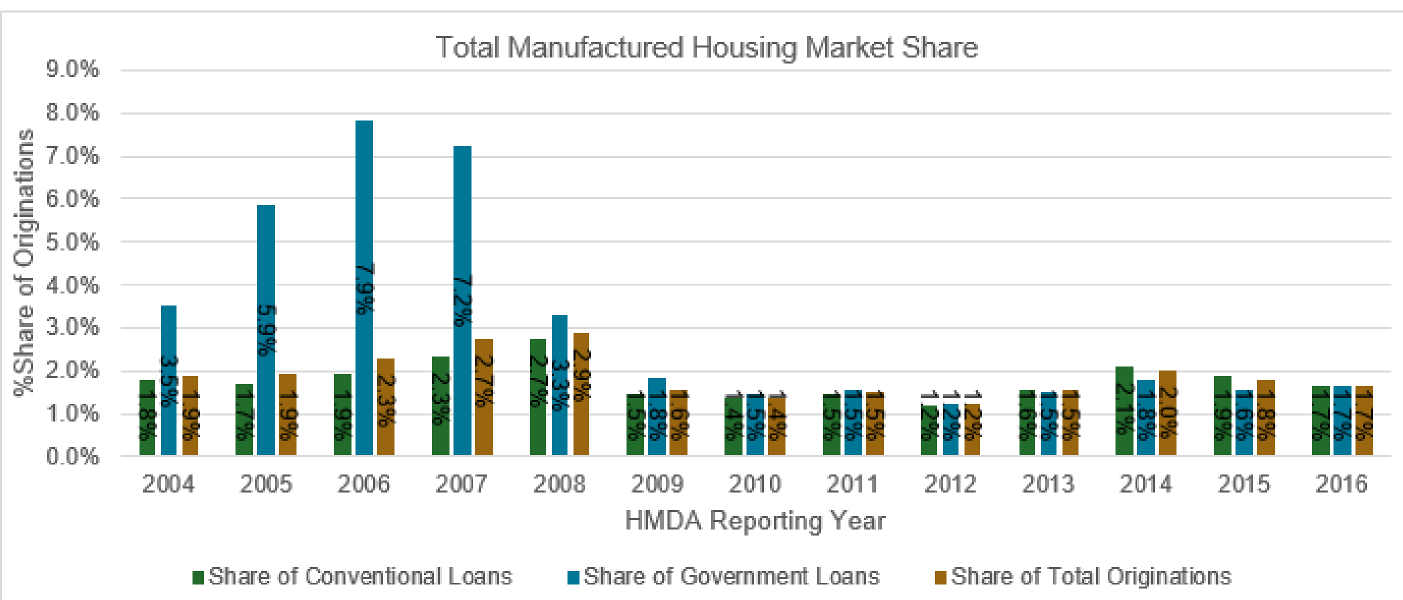
Some of our Objectives propose investments we want to make, subject to compliance with Fannie Mae's Charter Act and receipt of FHFA approval, or numbers of loans we intend to buy. However, this is an inexact science. Next year or in three years, the market may undercut our ability to achieve these goals. Alternatively, it may support efforts to do even better. Accordingly, we see this Plan as a living document that will have to change over time. We look forward to working with the manufactured housing community to be responsive to the ongoing needs of this market, whatever and wherever they may be.

II. Overview of the Manufactured Housing Market

A. The Single-Family National Manufactured Housing Market

This overview is provided to place the Plan in the context of this market (including identifying significant data gaps) and to provide information relevant to market needs and opportunities.

Based on data compiled for 2016, pursuant to the Home Mortgage Disclosure Act (HMDA),[1] the total Manufactured Housing Market share was approximately 1.7 percent for government loans, 1.7 percent for conventional loans, and 1.7 percent for total originations.



1 Pub. L. 94-200. 89 Stat. 1125, enacted Dec. 31, 1975 (codified at 12 U.S.C. §§ 2801 – 2811). Unless otherwise specified, HMDA data utilized for this analysis excludes loans for investor owned properties, home improvement loans, and second liens.

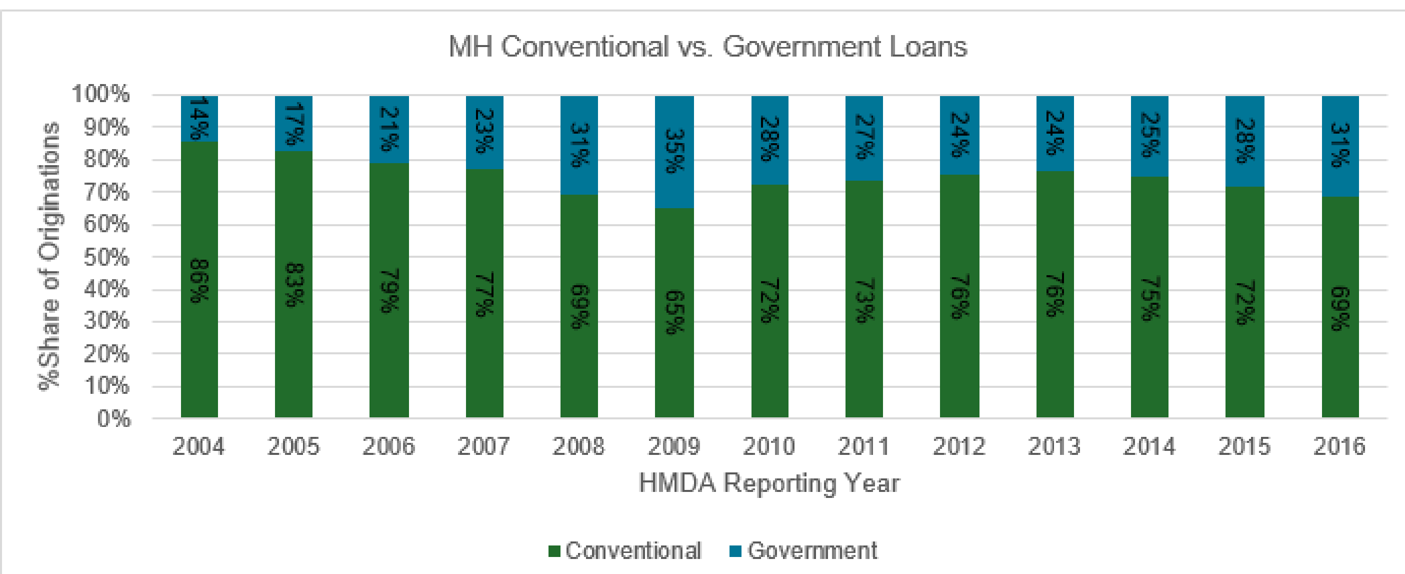
Manufactured housing may be titled as either personal (chattel) or real property (non-chattel). How the manufactured home is titled affects the available options for financing. Structures titled as personal property are only eligible for chattel financing while structures titled as real property may be financed through conventional loans. Many factors might impact a borrower's decision for titling and financing a manufactured home, including but not limited to taxes, credit standing, the recommendations of their broker or seller, and even location.

Regardless of the borrower's decision, there are various financing options that are available for both chattel and non-chattel loans.

Primary Market Loan Type	Secondary Market Participant	Chattel Eligible	Non-Chattel Eligible
Federal Housing Administration (FHA) Guaranteed Loans	Ginnie Mae	X	X
Veterans Administration (VA) Guaranteed Loans	Ginnie Mae	X	X
Conventional Conforming Loans	Fannie Mae and Freddie Mac		X
Personal Property Loan (Conventional)	Private Label Security	X	
Non-Government Sponsored Enterprise (GSE) Eligible Conventional Loans	Private Label Security	X	X

Note: In addition to the above, loans may be held in lenders' portfolios.

Although both chattel and non-chattel loans are eligible for FHA and VA financing, as shown below, the share of government loans within the Manufactured Housing Market is relatively small.



The key characteristics of chattel financing for manufactured housing compared with non-chattel financing include:

- Shorter loan terms (typically 20 years instead of 30);
- Higher interest rates (at least two to five percentage points);
- Fewer rights when in default; and
- A more limited pool of lenders, due to the lack of a secondary mortgage market.

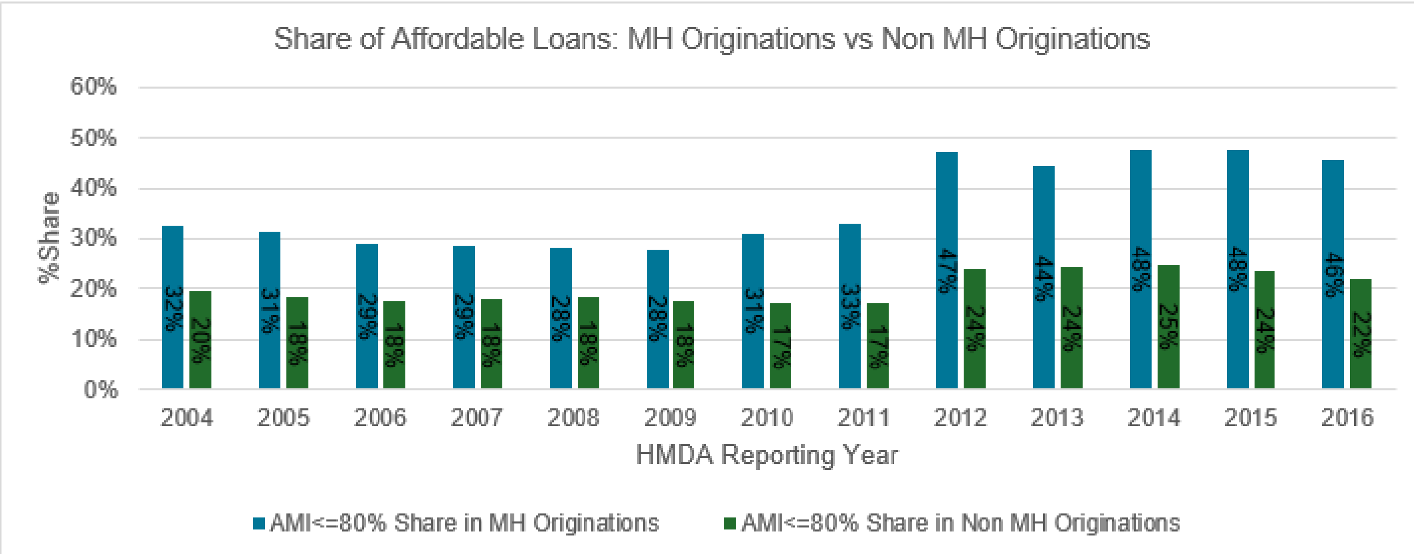
Many mortgage lenders do not originate chattel loans mostly due to risk factors and the lower property value associated with these loans. Significant numbers of chattel borrowers may be eligible to qualify for a non-chattel loan, but do not realize it. According to the Consumer Financial Protection Bureau (CFPB), the lending market for chattel loans is concentrated among just a few lenders: Vanderbilt Mortgage, U.S. Bank, San Antonio Federal Credit Union, 21st Mortgage, and Triad Financial Services.[2]

Manufactured housing is available at a significantly reduced cost when compared to site-built housing. The average sales price of a new single-section manufactured home was approximately $43,000 in the first six months of 2014.[3] The median sales price of a new site-built home, including land, during that same period was $288,000. Moreover, in 2013 the cost per square foot was less than half the cost of site-built construction.[4]

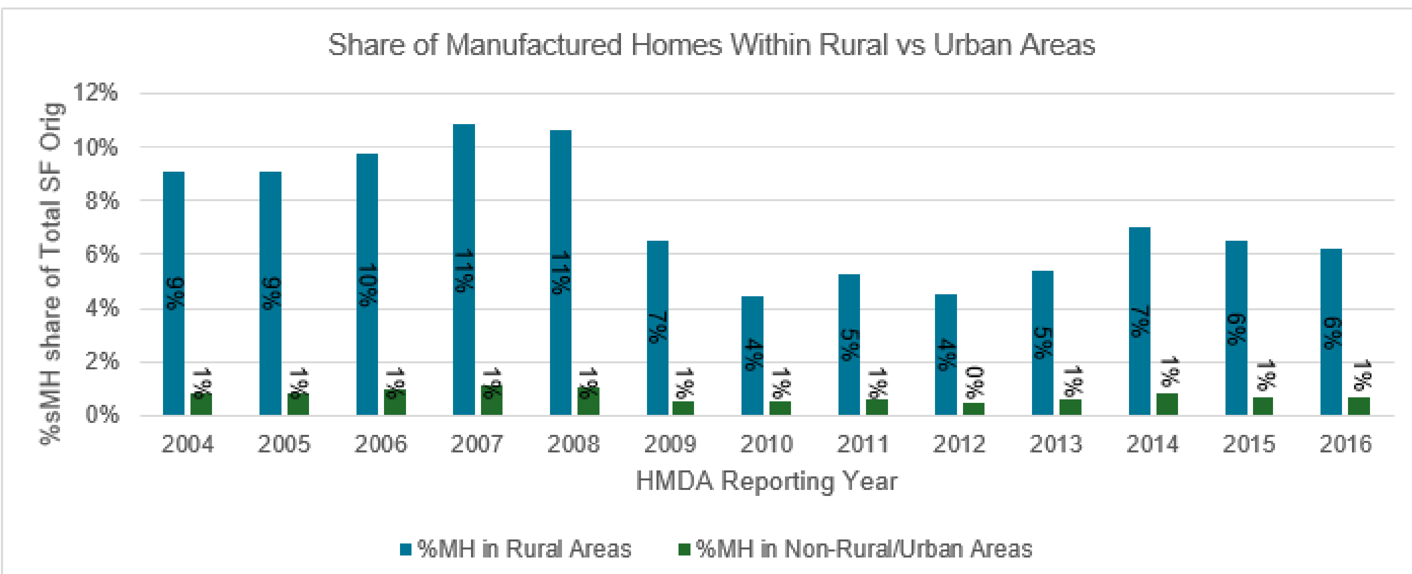
Manufactured housing owners tend to be about the same as the rest of the homeowner population; the average owner age is 56. The average size of the household tends to be small at 2.35 persons. While 38 percent of the national homeowner population has a bachelor's degree or higher, only about 8.7 percent of manufactured homeowners achieve the same.[5] Nearly 20 percent of manufactured housing households have a single head of household with no children in the home; for site-built homes this is true for less than 15 percent of households. Approximately 32 percent of manufactured housing households are headed by a retiree, compared to 24 percent for site-built households.[6]

Manufactured housing serves as a significant source of affordable housing for borrowers of more modest means. More than 22 percent of manufactured housing residents have incomes at or below the Federal poverty line. The median annual housing income for those living in manufactured housing was $28,400 as compared to a national median of $52,250.[7] Nonetheless, households living in manufactured homes still are likely to be "cost burdened" in that they spend more than 30 percent of their income on housing. For example, approximately 27 percent of families living in manufactured housing in Middle Appalachia are cost burdened.[8]

2 *Manufactured housing consumer finance in the United States*, CFPB, 23 (Sept. 2014) (CFPB Report). Available at http://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf. Note that Vanderbilt Mortgage and 21st Mortgage are both subsidiaries of Clayton Homes, which is a subsidiary of Berkshire Hathaway.
3 CFPB Report at 20 (Sept. 2014).
4 *Id*.
5 2015 American Housing Survey, Census Bureau.
6 CFPB Report at 6.
7 Manufactured Housing Institute, comments on the Proposed Duty to Serve Rule, 3 (Mar. 17, 2016).
8 *Mobile and Manufactured Homes in Central Appalachia and Alabama: Age, Conditions and Need for Replacement*, Virginia Center for Housing Research 4, (Sept. 2016).



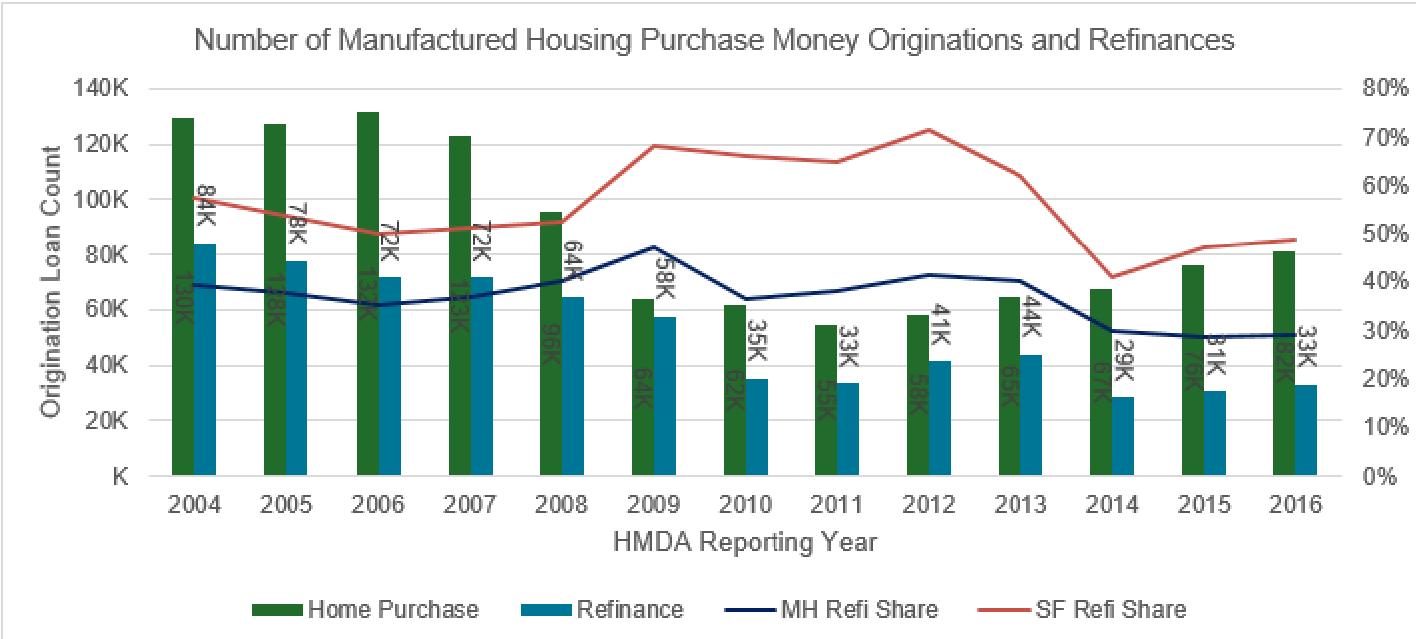
Manufactured housing represents a significant percentage of all housing in rural areas. Nearly 20.7 percent of the occupied housing stock in Middle Appalachia is manufactured homes.[9] That figure drops only slightly in the Lower Mississippi Delta to 17 percent.[10] It is estimated that 19.2 percent of the occupied housing stock in colonias along the U.S. border consist of manufactured homes.[11]



HMDA data reflects that in more recent years since 2012, the share of refinance originations in manufactured housing has been decreasing from about 40 percent to 30 percent. The greater manufactured housing activity has been in purchase money originations while single-family housing activity is evenly distributed across refinances and purchase money

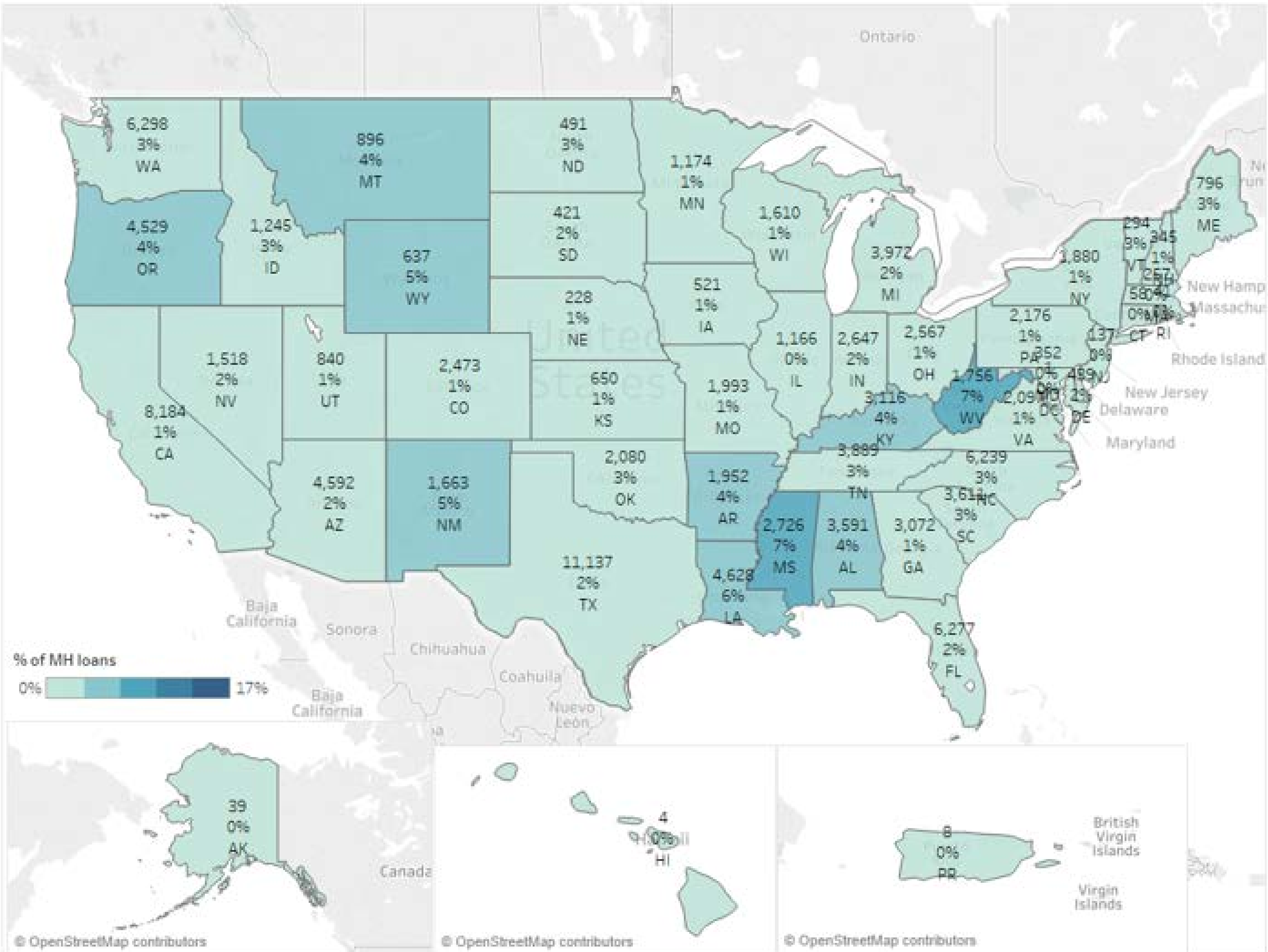
9 *Taking Stock: Rural People, Poverty, and Housing in the 21st Century*, Housing Assistance Council, 72 (Dec. 2012). Available at http://www.ruralhome.org/component/content/article/587-taking-stock-2010.
10 Id. at 90.
11 Id. at 62.

originations. The single-family market has experienced a similar drop in refinance activity since 2012 but the share has picked up in recent years to 49 percent.



As a percentage of originations within a State, based on 2016 HMDA data, West Virginia, Mississippi, and Louisiana are the top three States in the nation with, respectively, 1,756, 2,726, and 4,628 manufactured housing loans financed.

2016 Manufactured Housing Share of Originations, by State Reported in HMDA



However, the top three States for number of manufactured housing originations nationwide, according to 2016 HMDA data, were Texas, California, and Washington State with, respectively, 11,137, 8,184, and 6,298, mortgages originated. There are currently a number of challenges in sizing the national single-family Manufactured Housing Market. Paramount among these is that there is no loan level market data source that is comprehensive enough to allow for a breakout of manufactured housing loans by chattel and non-chattel loans. There are several reasons for this:

- Although this will change for 2018, currently HMDA data does not provide a breakout between chattel and non-chattel loans. In addition, HMDA data may under-report the market because it is serviced by smaller financial institutions that often are not required to report under HMDA.
- Census data that provides manufactured housing shipment statistics (i.e., new units), is not mortgage data and does not capture re-sales or refinancing.

- Other loan level data sources that are commonly used in the industry, such as CoreLogic or Black Knight, also do not provide a breakout between chattel and non-chattel loans, in addition to having an even smaller coverage than HMDA.

Some sources provide instructive (but not definitive) information about the size of the market. For example, the CFPB reports that:

- An estimated 65 percent of borrowers who own their land and who took out a loan to buy a manufactured home between 2001 and 2010 financed the purchase with a chattel loan.[12]

- About 48 percent of households that live in manufactured homes own both the home and the land it is placed on; about 30 percent rent the land, but own the home; and about 18 percent rent both the home and the land.[13]

- In 2013, only 14 percent of new manufactured homes were titled as real property.[14]

- Manufactured homes in land-lease communities, about 30 percent of all manufactured housing placements in recent years, are generally only eligible for chattel financing.[15]

According to Prosperity Now[16], the U.S. Census Bureau reported that in 2008, out of approximately 79,000 new manufactured homes, 50,000 (or approximately 63 percent) of these were titled as chattel, even though 75 percent were placed on private land (*i.e.*, not in a land-lease community).[17] In 2006, citing from a 2005 study, the Center for Community Development Investments of the Federal Reserve Bank of San Francisco placed the share of manufactured houses titled as real estate at one-third.[18] By 2013, the U.S. Census Bureau was reporting that the share of new manufactured homes titled as real estate had decreased from 28 percent in 2009 to 14 percent.[19]

B. The Multifamily Manufactured Housing Communities Market

This overview of the MHC market is provided to place the Plan in the context of this market (including identifying significant data gaps) and to provide information relevant to market needs and opportunities.

Contrary to popular belief, most manufactured homes are not located in large MHC. Rather, according to the 2015 American Housing Survey, less than 30 percent of manufactured homes are located in MHC with at least seven units.[20] Among manufactured homes located in communities, 80 percent are owned by their inhabitants. However, only 14 percent of MHC residents also own the lot on which their unit is placed.

According to the CFPB, ownership of MHC is highly fragmented and populated with many single-site operators. The largest groups of MHC owners are publicly and privately held Real Estate Investment Trusts (REIT) property investment firms, and specialty institutional investors. The largest publicly held portfolio of MHC is owned by Equity LifeStyle Properties, a Chicago based REIT, and consists of 201 MHC properties with over 70,000 manufactured home and MHC

12 *CFPB Report* at 6.
13 Id. at 21.
14 Id. at 23.
15 Id. at 24.
16 f/k/a Corporation for Economic Development
17 Manufactured Housing Resource Guide, *Conventional Mortgage Financing,* CFED, 1 (June 2010).
18 Sean West, *Manufactured Housing Finance and the Secondary Market*, 2 Community Development Investment Review, 39 (2006).
19 U. S. Census Bureau, *Cost & Size Comparisons: New Manufactured Homes and New Single-Family Site-Built Homes* (2007 – 2013).
20 Table C-01-AH, 2013 American Housing Survey (AHS) and Fannie Mae tabulations of 2015 AHS microdata.

model home sites.[21] Further, the CFPB reports that most recently the industry has been consolidating with investors acquiring both single-site operators and larger portfolios of manufactured home community assets.[22]

There is currently very limited data available on MHC, which makes it difficult to establish the size of the market. There are several reasons for this:

- HMDA data, which is the source that is commonly used to size the mortgage market, does not provide reliable loan information on MHC.

- The American Community Survey tracks owners and renters who inhabit manufactured housing, but does not track the number of MHC.

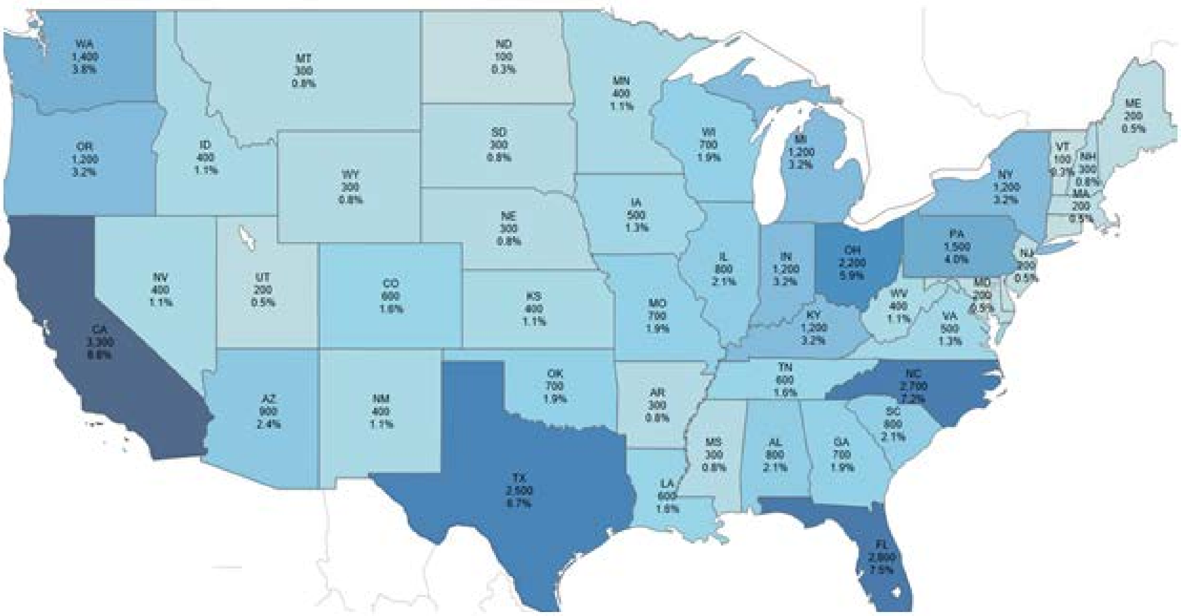
- The American Housing Survey indicates whether a manufactured home is located in a group setting or scattered site setting, but does not track MHC directly.[23]

- To the extent there is data available, the data itself may be incomplete or difficult to secure. For example, States that require MHC to register with them for health or housing reasons may maintain this data, but it would be difficult to collect this information State-by-State and create a consistent database with consistent data.

- Free data may not focus on the relevant subject area (e.g., Marcus and Millichap reports on performance of MHC rather than sizing data).

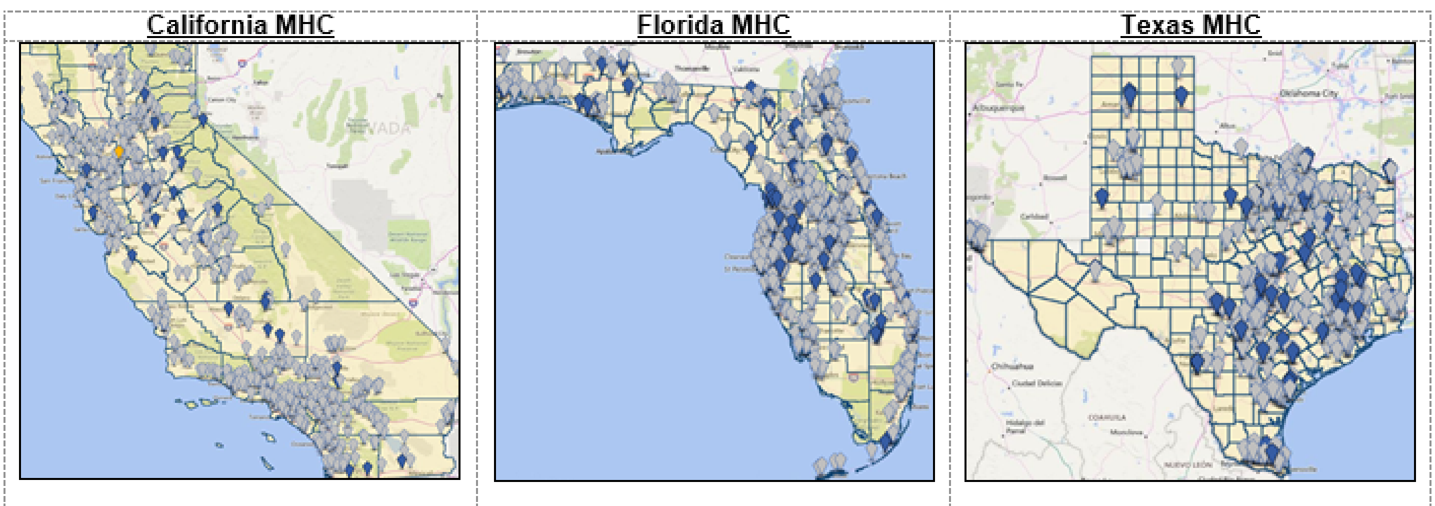
Nonetheless, an estimated 37,000 MHC have been verified and tracked. They are distributed throughout the U.S. as provided below.

21 *CFPB Report* at 42.
22 Id.
23 The US Census designates manufactured home sites gathered close together as a “group,” regardless of whether they are in MHC or on adjacent individually-owned lots, but it does not directly track the number of MHC.



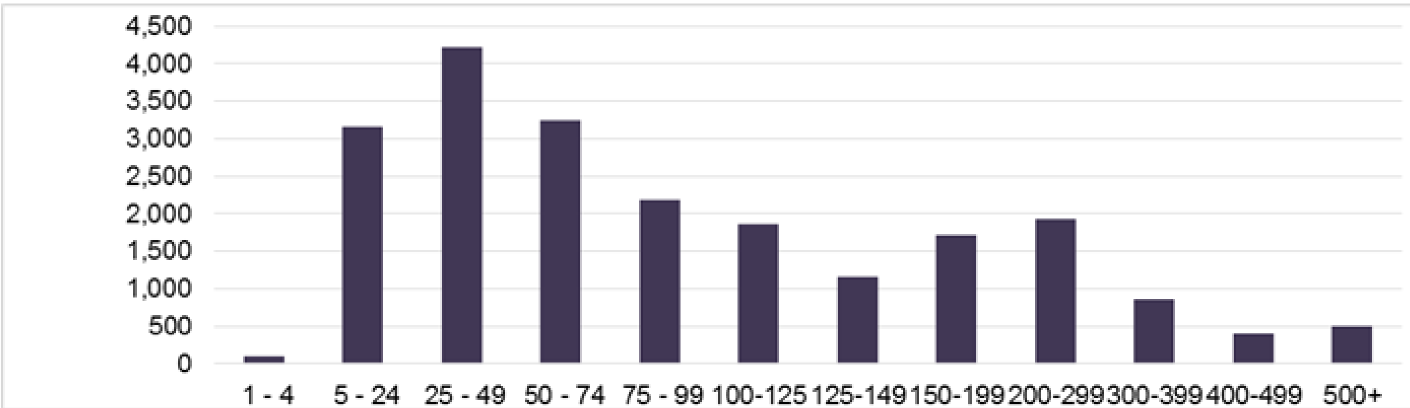
Source: Datacomp/JLT
Note: Datacomp JLT created and maintains the MHI Database.

Approximately half of all MHC are concentrated in just 10 States with heavy concentrations in Florida, California, and Texas.



The size of MHC may vary significantly from below five units to more than 500.

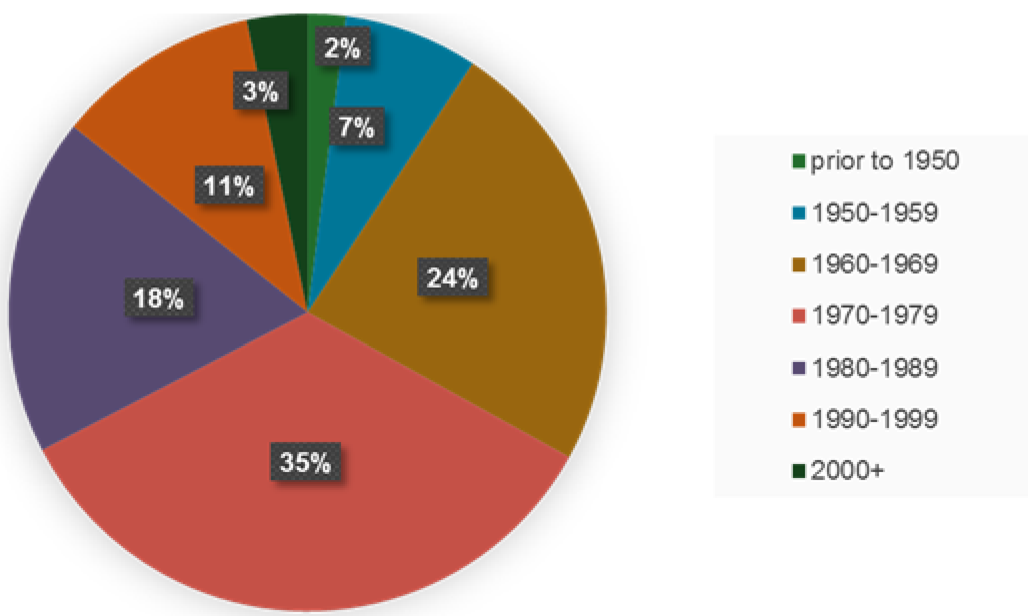
Distribution of MHC by Number of Pads



Source: Datacomp/JLT
Note: Based on an estimated 16,100 MHC where the number of pads is known.

The stock of MHC is aging, with most of the stock built prior to 1980.

Distribution of MHC by Year Built



Source: Datacomp/JLT
Note: Datacomp/JLT created and maintains the Manufactured Housing Institute Database.

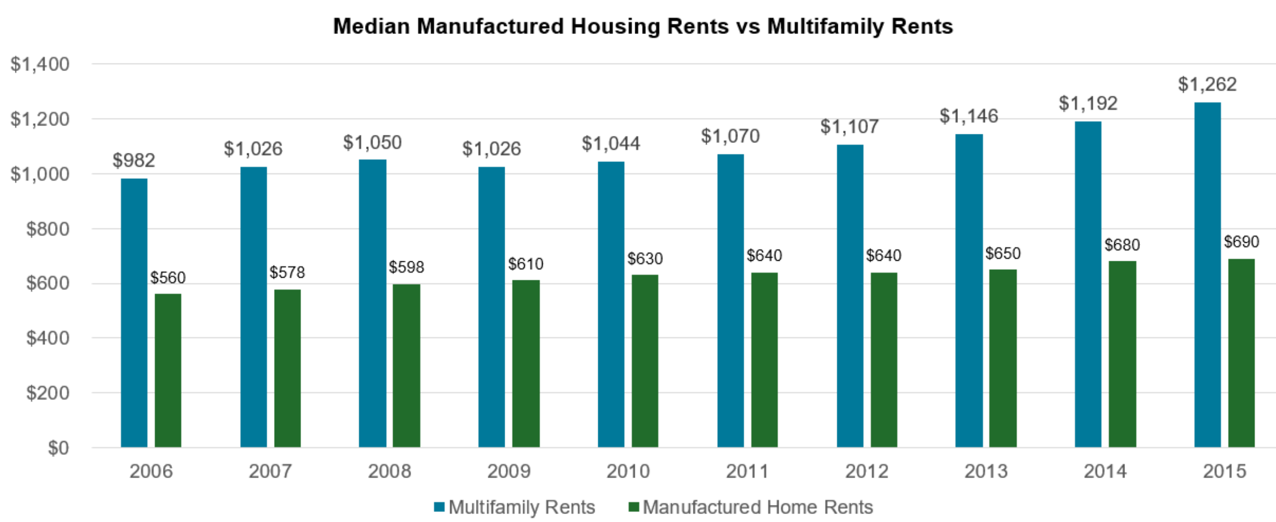
While the beginning of the century saw significant construction, in the second quarter of 2017, only eight new MHC were under construction with fewer than 1,000 pads being built.

MHC Under Construction as of June 30, 2017

MHC Name	Details
11350 State Road 121 Inglis, FL 34449	81 Unit Class B MHC Delivering 8/2017
901 5th Street Upton, WY 82730	Units Unknown, Class B MHC Delivering 11/2017
2530 132nd J Ave NW Arnegard, ND 58835	48 Unit Class C MHC Delivering 8/2017
235 Eld Ln Donnelly, ID 83615	Units Unknown, Class C MHC Delivering 4/2018
925 E Garnet Ave Granby CO 80446	Units Unknown, Class B MHC Delivering 2018
Emerald Village 25 N Polk St Eugene, OR 97402	22 Unit Class B MHC Delivering 4/2018 Note: 22 of the homes will be affordable and range in size from about 150-250 square feet.
Countryside Village of Atlanta Phase II 10 Sweetwater Way Lawrenceville, GA 30044	92 Unit Class C MHC Delivering 9/2017
315 Atigun Dr Valdez, AK 99686	Units Unknown Class C MHC Delivering 8/2017

Source: CoStar Group, Inc.
Map excludes one MHC under construction in Valdez Alaska

Manufactured housing continues to not only serve as a source of affordable housing, but as a source of housing that is significantly less expensive than traditional brick and mortar multifamily rentals. Nationwide, manufactured homes have rents that are approximately half of traditional multifamily rents.



Source: REIS, Inc. for asking rents. Fannie Mae Tabulations of 2014 American Community Survey Data for MHC rents.

Note: Rents include utilities; rents based on all manufactured housing rentals including those outside of manufactured housing communities

As shown on the chart below, asking rents for new units are slightly higher than existing units, but still well below apartment rents.

Lowest Asking Rent Markets:

Market	Existing Unit Average Rent
Fort Wayne IN	$292
Toledo OH	$400
Bakersfield CA	$495
Saginaw-Bay City-Midland MI	$591
Springfield IL	$597
Denver-Boulder-Greeley CO	$601

Market	New Unit Average Rent
Cleveland-Akron OH	$571
Youngstown-Warren OH	$619
Fort Wayne IN	$656
Pittsburgh PA	$700
Elmira NY	$708
St. Louis MO	$726

Source: Datacomp/JLT based on rentals listed for select metros with at least 5 listings as of March 31, 2017.

Historical transaction volumes for MHC vary by source. Real Capital Analytics (RCA) provides the most consistently robust source of data. While not a comprehensive source of data for MHC property sales, RCA provides a window into the MHC sector. As shown in the chart below, transactions involving MHC properties totaled an estimated $3.8 billion from January through mid-August 2017, compared to $8.5 billion in all of 2016.

MHC Sales and Refinances January 1, 2007 – August 24, 2017

Source: Real Capital Analytics, based on transactions valued at $2.5 million or higher. Include both sales and the appraised value of properties which refinanced.

Generally, between 1,000 and 2,000 arm's length transactions reflecting a change in ownership occur annually with one-third of transactions related to age restricted communities and two-thirds of transactions related to all-age communities.

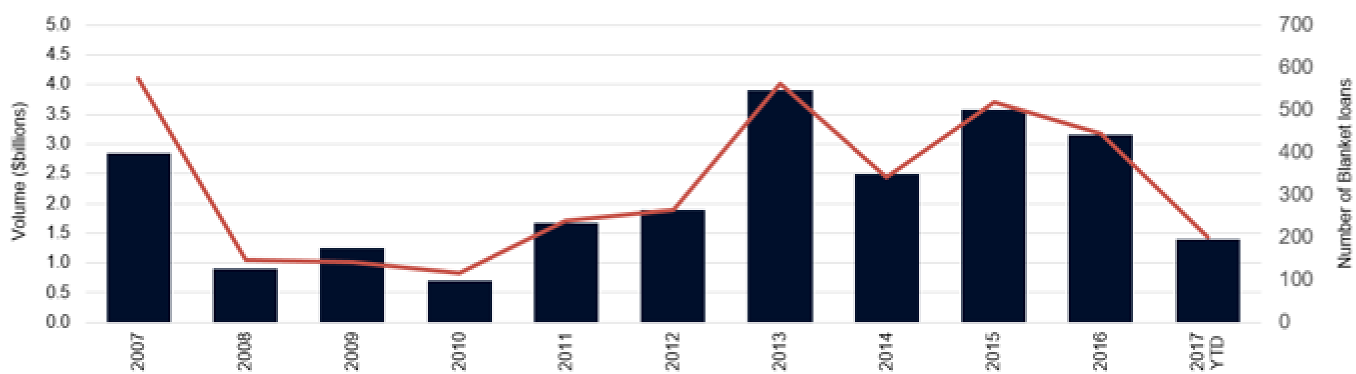
Manufactured Housing Community Sales Volume 2006-2016 by Type of Community

Year	55+	All Ages	Unknown	Grand Total
2017	8	50		58
2016	250	369	7	626
2015	427	665	18	1110
2014	138	416	3	557
2013	582	1635	8	2225
2012	653	1769	19	2441
2011	479	1387	3	1869
2010	345	682	7	1034
2009	258	1109	4	1371
2008	315	1389	19	1723
2007	1098	3628	75	4801
2006	412	1189	6	1607
Grand Total	4965	14288	169	19,422

Note: Datacomp/JLT created and maintains the Manufactured Housing Institute Database

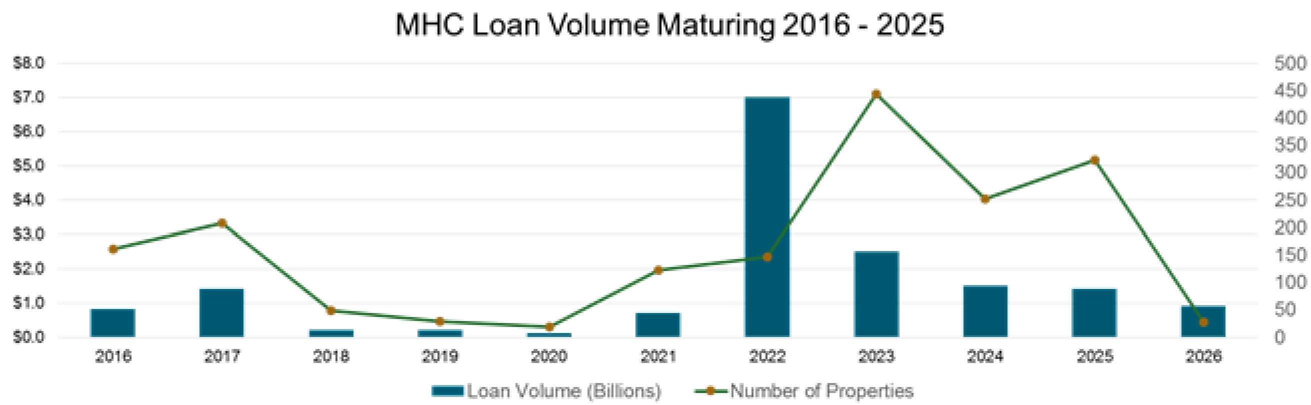
Although not a comprehensive source of MHC data, RCA can provide a window into lending on MHC. While lending on MHC has risen substantially since the end of the recession, the volume still remains low. Lending appears to be under $4 billion annually.

MHC Lending Volume Jan 1, 2007 – June 30, 2017

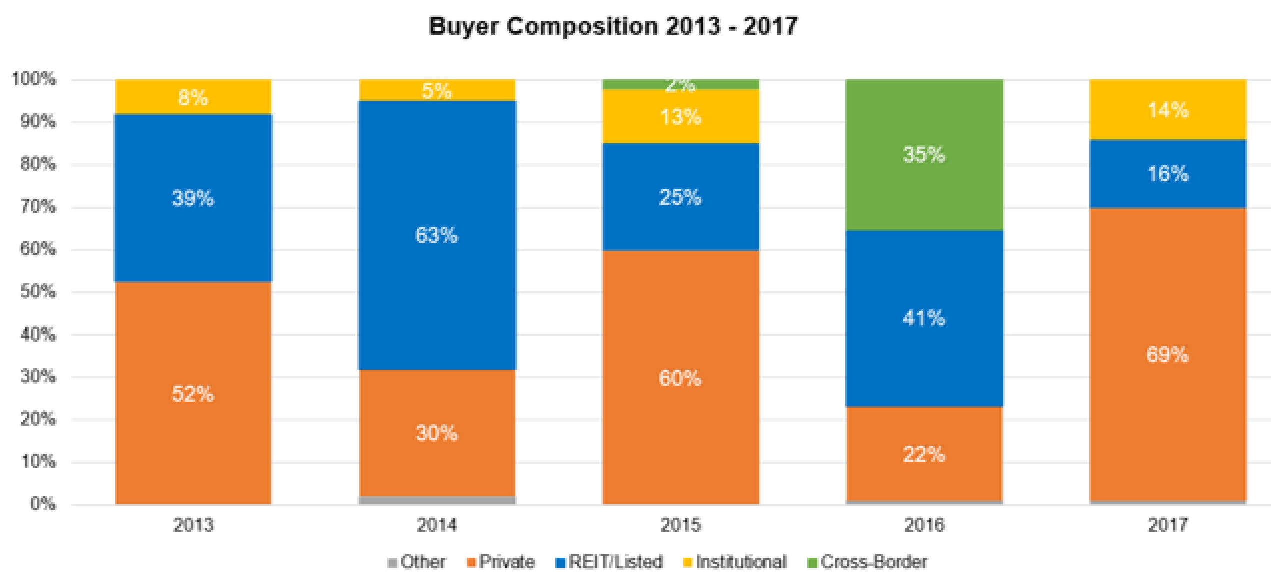


Source: Real Capital Analytics, based on transactions valued at $2.5 million or higher. Includes refinances.

Lending in 2016 – 2018 is expected to be active with a minimum of $2.4 billion in MHC loans maturing during this time. The number of maturing loans in 2019 is expected to be about equal to those maturing in 2018, with a significantly increased number expected for 2021, and then a very significant number in 2022, when close to $7 billion in MHC loans will mature.



Finally, investment activity in MHC is also active. While publicly-listed REITs remained active in the MHC sector during 2017, private entities had the highest share of investment in MHCs through mid-August 2017, as seen in the chart below. Private investors, which include privately-owned companies and real estate developers, represented 69 percent of MHC purchase volume through mid-August 2017, followed by public REITs at 16 percent. Institutional investors, which can include insurance companies, equity funds, and sovereign wealth funds, came in third with estimated 14 percent of purchase volume.



Source: Real Capital Analytics

User/Other investor category includes: Corporation, Government, Non-Profit, Religious and Educational Institutions

While Sun Communities remained the top investor over the last 24 months, investing almost $1.8 billion in 117 MHC properties, foreign investors also remained interested in the sector. For example, the Government of Singapore Investment Corporation (GIC), which is the sovereign wealth fund of Singapore, invested almost $1.5 billion to gain a majority interest in 178 MHC properties. The opportunity was created when Yes! Communities, one of the largest owners and operators of MHC properties, sold a nearly 71 percent equity interest in its combined businesses to institutional investors, including affiliates of GIC. (Note that Fannie Mae helped provide financing).

Top Buyers Past 24 Months

Rank	Buyer	Investor Group	Type of Investor	Location	Acquisition ($)	Number of Properties	Average Price ($)
1	Sun Communities Inc	Listed/REIT	Public REIT	Southfield, MI, USA	1,773,024,951	115	15,417,608
2	Government of Singapore Investment Fund (GIC)	Institutional	Sovereign Wealth Fund	Singapore, SGP	1,526,500,000	178	8,575,843
3	Carlyle Group	Institutional	Equity Fund	Washington, DC, USA	233,701,000	4	58,425,250
4	RHP Properties	Private	Developer/Owner	Oakland, MI, USA	216,655,400	16	13,540,963
5	Meritus Communities	Private	Developer/Owner	Oakland, MI, USA	180,246,030	20	9,012,302
6	Equity Lifestyle Props	Listed/REIT	Public REIT	Chicago, IL, USA	120,496,667	4	30,124,167
7	Investment Property Group MHC	Private	Developer/Owner	Irvine, CA, USA	108,534,131	5	21,706,826
8	Hometown AM	Private	Developer/Owner	Chicago, IL, USA	96,645,000	6	16,107,500
9	Tricon Capital Group	Institutional	Equity Fund	Toronto, ON, CAN	89,111,000	11	8,101,000
10	Cobblestone Real Estate	Private	Developer/Owner	Oak Brook, IL, USA	87,041,000	11	7,912,818
11	Cal-Am Properties	Private	Developer/Owner	Costa Mesa, CA, USA	86,180,000	4	21,545,000
12	UMH	Listed/REIT	Public REIT	Freehold, NJ, USA	84,463,589	12	7,038,632
13	Northwestern Mutual	Institutional	Insurance Company	Milwaukee, WI, USA	80,000,000	1	80,000,000
14	MHP Funds	Private	Developer/Owner	Delta, CO, USA	69,457,500	17	4,085,735
15	FollettUSA	Private	Developer/Owner	Sacramento, CA, USA	62,850,000	4	15,712,500
16	Lakeshore Communities	Private	Developer/Owner	Skokie, IL, USA	54,712,895	7	7,816,128
17	Has Capital	Private	Developer/Owner	Chicago, IL, USA	52,750,000	3	17,583,333
18	Ladder Capital	Listed/REIT	Public REIT	New York, NY, USA	52,700,000	1	52,700,000
19	Shopoff Props Trust	Private	Private REIT	Irvine, CA, USA	52,700,000	1	52,700,000
20	Riverstone Communities	Private	Developer/Owner	Birmingham, MI, USA	46,721,286	4	11,680,322

Source: Real Capital Analytics

III. Statutory and Regulatory Activities Considered but not Included

Under the Regulations, there are no Statutory Activities for the Manufactured Housing Market. All Regulatory Activities have been considered and are addressed in this Plan.

IV. Activities and Objectives

A. Regulatory Activity: Manufactured homes titled as real property (12 C.F.R. § 1282.33 (c) (1)).

1. *Objective #1: Increase the purchase volume of conventional manufactured housing secured by real estate each year of the Plan (Do What We Do Best)*

Meeting the Challenges
One of the biggest challenges in the Manufactured Housing Market is a lack of liquidity. To address this challenge Fannie Mae will: • Purchase an additional 4,540 to 5,540 manufactured housing loans secured by real estate over three years which equals an estimated additional contribution of $544 million to $664 million of liquidity over the Baseline to be contributed to the Manufactured Housing Market. This is an ambitious outcome given that Fannie Mae forecasts an overall decrease in loans in 2018 and 2019 as higher interest rates are projected, resulting in the transition to a purchase market which increases the challenge of growing loan volume over the Baseline derived from the lower interest rate and higher acquisition volumes from the 2013 – 2016 three year period.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Purchase between 8,750 and 9,000 conventional manufactured housing loans[24], representing a one to four percent increase over the Baseline. This includes the loan purchases referenced in Objective #3. o **Baseline**: The average number of manufactured housing loans purchased by Fannie Mae over the last three years (2014, 7,806; 2015, 7,749; 2016, 8,660) is 8,072 loans. However, in 2016 there was an increase in manufactured housing loan volume to 8,660 and accordingly the 2018 loan purchase target has been set above the 2016 volume. • Assist Fannie Mae lenders in meeting loan delivery requirements and expanding manufactured loan deliveries by engaging 25 manufactured housing lenders that have been identified as reasonably likely to increase loan originations and loan deliveries of this type to promote the loan product and provide further instruction and assistance.

24 Of this group, a target number of: 505 loans will be manufactured housing loans in rural areas, as provided under Fannie Mae's Rural Housing Plan.

Year	Actions
2019	• Purchase between 9,000 and 9,250 conventional manufactured housing loans[25], representing an approximate four to seven percent increase over the Baseline. This includes the loan purchases referenced in Objective #3. • Expand lender outreach to an additional 25 lenders (i.e., lenders not approached in 2018) that have been identified as reasonably likely to increase loan originations and loan deliveries of this type to increase the population of lenders delivering manufactured housing loans.
2020	• Purchase between 11,000 and 11,500 conventional manufactured housing loans[26], representing an approximate 27 to 33 percent increase over the Baseline. This includes the loan purchases referenced in Objectives #2 and #3. • Expand lender outreach to an additional 25 lenders (i.e., lenders not approached in 2018 or 2019) that have been identified as reasonably likely to increase loan originations and loan deliveries of this type to increase the population of lenders delivering manufactured housing loans.

The ultimate opportunity available in this market is to finance increased numbers of manufactured housing mortgages secured by real estate. Fannie Mae has a large presence in the manufactured housing loan market and has the systems, operations, and resource tools needed to facilitate efficient manufactured housing loan delivery in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to acquisition of this product. Based on Fannie Mae's experience purchasing manufactured housing loans, we believe the Objective is reasonable and can be achieved within the time periods described.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Increase liquidity for manufactured housing titled as real property through industry outreach and increasing purchases (Analyze, Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
The market for manufactured housing secured as real estate faces a number of challenges, including: • It is complex with a wide range of housing and lending products. The market serves various income ranges for homebuyers and also has very specific geographic market differentiation. • Existing manufactured housing loan products have specific limitations and restrictions that impact borrower and property eligibility.

25 Of this group, a target number of: 750 loans will be manufactured housing loans in rural areas, as provided under Fannie Mae's Rural Housing Plan.
26 Of this group, a target number of: 1,250 loans will be manufactured housing loans in rural areas, as provided under Fannie Mae's Rural Housing Plan.

Meeting the Challenges
• The market suffers from a lack of available information and data present in other markets which discourages market stakeholders from lending and investing in the market. • There is a population of manufactured homes titled as chattel which could be titled as real property and enjoy the associated benefits that come from conventional financing. To address these challenges, Fannie Mae will: • Use the information gathered through outreach and market research to identify appropriate product enhancements that when implemented will increase borrower and property eligibility and simplify loan requirements, resulting in the provision of increased liquidity to the market. • Employ a test and learn approach using negotiated variances to enhance Fannie Mae's manufactured housing loan products that will best serve the needs of very low-, low-, and moderate-income families, thus bringing greater liquidity to the market for these populations. Variance performance will help inform potential policy changes available to all approved lenders. • Publish and publicly distribute the information that it gathers and analyzes to bring clarity to the marketplace which supports additional liquidity to the market by providing factual information that may address misconceptions about manufactured housing loan performance, promoting Fannie Mae's presence in this market, and ultimately providing critical information to support and encourage capital sources to venture into lending and investing where they may not have done so previously. • Expand scope and availability of homebuyer education and financial counseling. • Focus activities in States which allow for the conversion of manufactured housing titled as chattel to real property so that borrowers can benefit from the protections and benefits of conventional financing.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Actively participate in the manufactured housing industry as a member of the Manufactured Housing Institute (MHI) (excluding any lobbying activity) in order to maintain an industry presence and remain current on activities and developments facing the market. • Review credit and/or collateral policies identifying opportunities to simplify and overcome challenges with Fannie Mae's manufactured housing loan products for the purpose of increasing mortgage loan purchases. Examples of barriers and challenges that will be reviewed include loan-to-value (LTV) limits, affordable housing programs with resale restrictions, and use of manufactured housing as accessory dwelling units. o Establish a test and learn approach issuing one negotiated variance to select lender(s). Fannie Mae will determine test Objectives and proposed terms based on stakeholder input, conduct related economic and operational impact analyses, and issue at least one lender variance – by Q2 end. ▪ One or more participating lenders will be chosen, based on level of interest and capacity after conducting lender outreach as noted above, potential volume, and market focus.

Year	Actions
	▪ The variance outcome will be evaluated in 2019 and success will be based on actual volume delivery relative to projected volume as well as positive lender feedback on the changes implemented. o Publish at least one policy change that expands access to credit for manufactured housing – by Q4 end. • Host one manufactured housing roundtable in Q2 with cross-functional industry representation (e.g., manufacturers, dealers, community owners, valuation providers, and lenders) to capture diverse perspectives on market challenges and identify new opportunities to provide liquidity. • Develop and publish manufactured housing data set from Fannie Mae's portfolio (e.g., transaction type, LTV, borrower credit score, and performance) and other analysis of our manufactured housing business to promote transparency, inform the industry, and encourage increased market development – by Q3 end. • Participate in two key industry conferences to maintain market awareness, identify market concerns, and obtain insights to inform manufactured housing activities – by Q4 end. • Identify the States where manufactured housing can be titled as real property instead of personal property and where manufactured housing titled as personal property can be converted to real property – by Q2 end. • Educate 15 lenders active in manufactured housing lending to the advantages of originally titling manufactured housing as real property or subsequently converting its title to real property – by Q3 end. • Engage appraisers of manufactured homes via webinars, Fannie Mae Appraiser Update newsletter, or presentations at appraisal roundtables, seminars, workshops, or panel discussions to provide information and education about Fannie Mae policies, including policy changes. The newsletter currently is subscribed to by over 7,000 appraisers and other industry participants. Webinars, roundtables, seminars, workshops, or panel discussions, in total, will typically produce in-person engagement with over 200 appraisers.
2019	• Evaluate the outcomes of variance(s) and policy change(s) executed in 2018 as well as findings from industry and customer engagement to identify, validate, and prioritize opportunities to enhance, simplify, clarify, and expand our manufactured housing policies and product offering. Introduce one new negotiated variance with terms for at least one additional change to Fannie Mae loan product parameters – by Q2 end –, or depending on research, learnings, and analysis, publish at least one policy update – by Q4 end. • Expand the scope and availability of homebuyer education and financial counseling based on diverse industry perspective and collaboration, identifying areas targeted to benefit manufactured housing homebuyers and homeowners – by Q3 end – because education and counseling are equally important for manufactured housing homebuyers as they are for any affordable housing. • Continue to engage appraisers via webinars, Fannie Mae Appraiser Update newsletter, or presentations at appraisal roundtables, seminars, workshops, or panel discussions to provide information and education about Fannie Mae policies, including policy changes. • Continue industry outreach activities started in 2018 to maintain engagement and inform product activities.

Year	Actions
	o Host one manufactured housing roundtable with cross-functional industry representation – by Q2 end – and discuss new challenges facing the market. Feedback and engagement will inform future decisions and prioritizations. o Participate in two key industry conferences – by Q4 end – to remain current on activities and developments in the market and to inform future decisions and prioritizations.
2020	• Purchase between 450 and 500 manufactured housing loans titled as real property, an approximate five percent of the total purchases in 2020 from Objective #1. These loan purchases will result from variances and policy changes issued in 2018 and 2019 and are included in the total manufactured housing purchases in Objective #1. • Continue industry outreach activities started in 2018 to maintain engagement and inform product activities. o Host one manufactured housing roundtable with cross-functional industry representation to capture diverse perspectives – by Q2 end. o Participate in two key industry conferences – Q4 end – to remain current on activities and developments in the market and to inform future decisions and prioritizations. • To promote transparency and describe progress made to increase access to credit for manufactured housing, publish to the public a summary of learnings since 2018 including items such as qualitative market information, trended data for Fannie Mae's manufactured housing loan portfolio, and performance data about variances or policy changes issued – by Q4 end.

Fannie Mae has significant experience evaluating, developing, and purchasing enhanced loan products. Accordingly, we believe the Objective is reasonable and can be achieved within the time periods described. The ultimate opportunity available in this market is to finance an increased number of manufactured housing mortgages secured by real estate. We also will look for focused opportunities in the rural and affordable housing preservation markets as manufactured housing is prevalent in rural areas and preserving this affordable form of housing is important. Any variances or policy changes that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

3. *Objective #3: Develop an enhanced manufactured housing loan product for quality manufactured housing and purchase loans (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
The average price point for new, site-built homes continues to increase and in many markets is outpacing income growth, putting purchases out of reach for many very low-, low-, and moderate-income families. Modern quality manufactured housing is an affordable alternative to site-built homes. Nonetheless, the market for quality manufactured housing faces a number of challenges, including: • Quality manufactured housing may be affordable, but there are financing barriers which do not apply to conventional lending for site-built housing, for example, higher down payment requirements. • Manufactured housing may be perceived to be of low quality despite improvements made in the quality of construction and features included. To address these challenges, Fannie Mae will: • Develop and market a loan product for quality manufactured housing to provide greater liquidity by allowing increased flexibility and reduced requirements. • Establish a lender and appraiser engagement and education strategy to drive market support for financing of quality manufactured housing.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions

2018	• Issue one negotiated variance to select lender(s) or issue one policy change to improve financing options for quality manufactured housing by taking the following actions – by Q2 end:
	  o Define distinguishing construction features or property characteristics of quality manufactured housing. These may include items such as exterior or interior design features, energy efficiency features, foundation systems, or other structural build features.
	  o If necessary, enhance business processes and technology infrastructure.
	• Purchase between 100 and 250 loans – by Q4 end, representing an approximate one to three percent of the total manufactured housing purchases in Objective #1. These loans are included in the total manufactured housing purchases in Objective #1.
	  o **Baseline**: Previously Fannie Mae introduced a product for the financing of quality manufactured housing loans, MH Select™, which had no deliveries in its last three years of availability (i.e., 2010-2012). However, based on renewed interest in the manufacturing of quality manufactured housing, and anticipated enhancements of and focused marketing for the new financing product, we believe we will be able to acquire between 100 and 250 loans of this product in its first year of production.

2019	• Explore opportunities to enhance or clarify policy to support appraisals that account for the value of distinguishing construction features or property characteristics specific to the variance or policy change implemented in 2018 – by Q1 end.

Year	Actions
	o Engage appraisers about Fannie Mae requirements and acquire feedback to establish best appraisal practices. o Assess appraisals for loans delivered in 2018 under the variance or product offering. • Enhance, modify, or simplify product offering as needed based on customer feedback and performance of the product – by Q2 end. • Purchase between 250 and 500 loans, representing an approximate three to five percent of the total manufactured housing purchases in Objective #1 – by Q4 end. These loans are included in the total manufactured housing purchases in Objective #1.
2020	• Enhance, modify, or simplify product offering as needed based on customer feedback and performance of the variance or product – by Q2 end. • Purchase between 500 and 750 loans, representing an approximate five to seven percent of the total manufactured housing purchases in Objective #1 – by Q4 end. These loans are included in the total manufactured housing purchases in Objective #1.

Many moderate-income families cannot afford to buy a home due to the increasing costs of newly constructed homes and decreasing supply of existing, affordable homes. This product aims to promote quality manufactured homes as an acceptable alternative to site-built homes and will allow moderate-income families to purchase a manufactured home with lending terms similar to those for site-built homes, ultimately increasing liquidity to the market.

Fannie Mae has significant experience evaluating, developing, setting standards for, and purchasing enhanced loan products. Accordingly, we believe the Objective is reasonable and can be achieved within the time periods described. The ultimate opportunity available in this market is to finance mortgages secured by quality manufactured housing. This enhanced loan product will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be acquired consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Moderate-Income Level for all Years		

B. Regulatory Activity: Chattel. Loans on manufactured homes titled as personal property (12 C.F.R. § 1282.33 (c) (2)).

Note: Fannie Mae seeks extra credit for this Activity.

1. *Objective #1: Conduct outreach, perform research, and promote information sharing that supports the development of a chattel loan pilot and market standardization of the product (Analyze, Partner and Innovate).*

Meeting the Challenges
Manufactured housing titled as personal property (chattel) makes up the majority of manufactured housing in the U.S. However, financing options are limited and the market is faced with numerous challenges, including: • The lack of overall market transparency makes it difficult to understand risks which discourages Enterprise, lender, and investor participation in the market. • Market data and information on chattel is largely unavailable. • There is a lack of understanding of how chattel loans perform. To address these challenges, Fannie Mae will: • Conduct significant market outreach, research, and data acquisition to better understand requirements and best practices on matters such as loan origination, collateral valuation, servicing standards, applicable legal requirements, and financial risks. • Seek data standardization to improve data availability. • Publish to the public Fannie Mae's learning and experience to promote transparency, encourage collaborative engagement, and inform future research and development.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions

2018	• To maintain engagement with the industry, stay current on the dynamics and challenges facing the chattel market, and acquire information to assist in the development of a chattel pilot, Fannie Mae will:
	  o Host two manufactured housing advisory council meetings with representation from the chattel manufactured housing industry – by Q4 end. The advisory council will include at least five lenders (as the industry is dominated by a small number of lenders, Fannie Mae will include both large volume and small volume lenders on the advisory council), one industry trade association, two manufactured housing retailers, one industry data services company, two chattel loan servicers, one consumer advocacy group, and three manufacturers representing small, regional, and large companies. To effectively manage the advisory council, Fannie Mae will develop a stakeholder management plan to assist with identification of all key stakeholders, critical information needs, key risks and mitigants, capture of stakeholder feedback, and items requiring follow-up.
	  o Participate in:
	    ▪ Two key industry conferences.

Year	Actions
	▪ Two regional conferences serving different geographic areas. ▪ One manufactured home show. • Conduct and publish to the public, one analysis that highlights the legal differences between chattel and real property secured manufactured homes (e.g., disclosures, State titling requirements and investor responsibility, and liability) to inform a chattel pilot – by Q2 end. • Acquire industry chattel data and information essential to the development of a chattel pilot such as: o Chattel loan origination, performance and loss severity data from lenders, servicers, FHA Title I, and other government programs. o Consumer disclosure and protection requirements for unit sales, loan origination, and loan servicing. o Chattel valuation and appraisal data, including homes in communities and on private land. o Chattel lending underwriting guidelines, servicing and disposition best practices and policies, and investor reporting requirements. o State and local titling, insurance, disposition, and decommissioning requirements. o Credit enhancement structures to reduce economic risk to Fannie Mae. • Publish to the public a comprehensive set of learning and analysis from all outreach activities to promote transparency across the housing industry and encourage collaborative engagement – by Q4 end.
2019	• To maintain engagement with the industry and stay current on the dynamics and challenges facing the chattel market Fannie Mae will leverage our outreach format established in 2018 (e.g., meetings of advisory council, participation in conferences and manufactured housing shows, etc.) to address the following: o Communicate pilot development and early findings. o Promote credit and servicing standards to establish standardization. • Establish chattel data standards with the industry to promote standardization. • Obtain pilot feedback to inform any changes. • Publicize update to experience gained from chattel loan purchases to promote transparency, awareness, and inform future research – by Q4 end.
2020	• To maintain engagement with the industry and stay current on the dynamics and challenges facing the chattel market, Fannie Mae will leverage our outreach format established in 2018 (e.g., meetings of advisory council, participation in conferences and manufactured housing shows, etc.) to address the following: o Communicate pilot progress and industry updates – by Q2 end. o Identify opportunities for research and collaborative engagements to further the future of a sustainable chattel secondary market. • Publish an update for the public on experience gained from chattel loan purchases to promote transparency, awareness, and inform future research – by Q4 end. • Establish outreach and research strategy for the 2021 – 2023 Duty to Serve Plan and potential options for developing future chattel activities.

Manufactured housing titled as chattel represents the largest U.S. housing market opportunity for which Fannie Mae currently does not provide liquidity. To participate in this market, Fannie Mae's strategy is to conduct outreach and maintain an annual commitment to the advisory council, regional and national conferences, and other events to understand all aspects of chattel lending for the life of the loan from origination practices to loan servicing to loss mitigation and property disposition. In addition, Fannie Mae will establish advisors who currently participate in chattel financing and may provide valuable insights into the challenges and successes within this dynamic market. Taking such steps are prerequisites to being able to determine whether Fannie Mae may participate in this market, consistent with notions of safety and soundness. Fannie Mae has significant experience conducting outreach efforts in the marketplace and participating in market activities. Fannie Mae will publish our findings and experience annually for the public to provide transparency and promote collaborative engagement. Based on our experience analyzing markets, developing new products, and creating pilots, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described.

The Objective requires substantial use of Fannie Mae resources to maintain market engagement, manage industry relationships, establish standards, and publish findings to promote collaboration and inform future development.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Outreach	Outreach
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Establish a chattel loan pilot structure and secure approval from FHFA to purchase chattel loans (Do What We Do Best).*

Meeting the Challenges
While Fannie Mae has acquired chattel loans in the past and continues to hold some of these loans, Fannie Mae does not currently purchase chattel loans and FHFA has indicated that Fannie Mae must secure its approval to do so. Before approval can be secured, Fannie Mae must establish the parameters by which it will purchase chattel loans. The challenges in the market are: • Currently, there are only a handful of lenders originating loans in the primary market and there is no secondary market. • Lenders which make chattel loans hold them in portfolio so there has been no move towards product consistency. • Loans lack uniformity and standardization. Accordingly, facilitation of a secondary market requires significant efforts to address these challenges, including: • Establishing consumer protection, credit, collateral, and servicing standards for any purchase of chattel loans. • Gathering information on legal requirements and assessing financial risks. • Pursuing internal and FHFA approval to purchase chattel loans in 2019 and 2020. • Providing transparency and encouraging collaboration by publishing findings and insights annually for the benefit of the public.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

2018	• Prepare one set of consumer protection, credit, collateral, and servicing policies and standards to acquire chattel loans in a safe and sound manner and establish metrics for monitoring activity – by Q2 end. • Obtain full approval to pursue chattel pilot by completing the following: o Complete FHFA Notification of New Activity pursuant to 12 CFR Part 1253.4 and submit for approval to purchase chattel loans – by Q1 end. o Pursue internal approval to purchase chattel loans – by Q3 end. o Pursue FHFA approval for the purchase of chattel loans – by Q4 end. • Assess impact and modifications to operations technology and infrastructure in order to implement changes for chattel pilot purchase – by Q3 end.
2019	Subject to internal and FHFA approvals in 2018, Fannie Mae will: • Implement chattel pilot monitoring capabilities – by Q2 end. • Purchase 1,000 chattel loans (UPB of approximately $60 million) – by Q4 end. • **Baseline**: Because Fannie Mae has not purchased any chattel loans since 2006, a Baseline cannot be reasonably established for these purchases. Moreover, the primary purpose for purchasing these loans is analysis and research rather than contributing liquidity to the market, although the purchases will, in fact, contribute liquidity. Accordingly, the number of loans purchased has been established because, based on our experience of acquiring loans and analyzing loan performance, it represents a sufficient sample for initial analytical purposes while not creating safety and soundness concerns.
2020	• Facilitate an opportunity to analyze a larger sample of loans by purchasing an additional 1,000 chattel loans – by Q4 end. • Define chattel pilot terms for the 2021 – 2023 Duty to Serve Plan based on learning from purchase activity in 2019 and 2020 – by Q4 end.

Manufactured housing titled as chattel represents the largest housing market in which Fannie Mae currently does not provide liquidity. In addition to requesting FHFA approval to develop a chattel pilot, Fannie Mae must seek internal approval to purchase chattel loans. The number/UPB of loans approved for purchase must meet safety and soundness standards while also meeting the requirement to be a sufficient number so as to be appropriate for analysis and to gain an understanding of their performance. Fannie Mae's strategy is to leverage the pilot to develop a sustainable chattel solution.

The Objective establishes the credit criteria and servicing standards for Fannie Mae to participate appropriately and attract private capital to the chattel market and provide direct liquidity of up to approximately $120 million to the chattel market. The acquisition of chattel loans is essential in determining impact to Fannie Mae's infrastructure and processes as part of a comprehensive assessment of the chattel pilot. Acquisition of chattel loans will also provide Fannie Mae direct and fully transparent access to chattel loan performance and servicing, which will inform chattel product development efforts and will supplement the information and data to be publicized.

Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. The Objective requires substantial use of Fannie Mae resources including capital markets, analytics, risk, and operations as it is a complex challenge that impacts many areas across multiple disciplines.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

3. *Objective #3: Explore securitization structures that attract private capital and provide sustainable liquidity to the chattel market (Do What We Do Best).*

Meeting the Challenges
Manufactured housing titled as personal property is currently financed by private lenders that hold the assets in private portfolios. This creates the following market challenges: • The lack of a secondary market to provide liquidity to chattel lenders and attract other sources of private capital. • Interest and appetite in the capital markets for a chattel backed security is unknown. • Different chattel security structures must be researched to determine plausible and optimal structure options. To address these challenges, Fannie Mae will: • Conduct significant market outreach and research to better understand the capital market interest in a chattel-backed security. • Identify potential securitization solutions based on outreach and research.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Study the chattel market to understand the opportunity to develop a chattel security. o Acquire loan balance data for chattel originations over the last five years to determine the overall size of the chattel market and market size trends. o Identify the top 10 originators and their market share, and determine if loans are being sold. If chattel loans sales are of a significant volume, gather additional information about the investors. • Explore the requirements for structuring a chattel security, including: o Determining if mortgage backed securities can be comprised of personal property assets. o Determining if LTVs above 80 percent would be allowed in a security, and, if so, determine what credit enhancement options are acceptable or required, noting that mortgage insurance is not available for chattel loans. • Engage rating agencies via teleconference to gather information about opportunities and requirements to rate a chattel security. o Establish points of contact with Moody's, Standard & Poor, and Fitch Ratings to engage throughout chattel pilot development.

Year	Actions
	o Gather information on any historical data held by the rating agency and/or the data that would be needed to support a chattel security rating. o Discuss security structure options and credit enhancement requirements. • Research tax and accounting issues associated with a chattel security to gain understanding of items such as implications to GAAP earnings and the effect on Fannie Mae's balance sheet. • Explore security structure options to address credit risk and pricing issues. Leverage loss projections created by an analysis of data gathered in Objective #1 to assist in exploration of options such as retaining a first loss position and bond guarantees. • Engage lenders and/or dealers with previous experience with chattel securities to gain insight on data and performance information and an understanding of underwriting criteria and lessons learned from their experience. • Engage private equity fund managers with knowledge and experience in manufactured housing to discuss market potential, roadblocks, and plausible products and structures. • Use learning acquired through 2018 actions to inform future actions in 2019 and 2020.

Manufactured housing titled as chattel represents the largest housing market in which Fannie Mae currently does not provide liquidity. The Underserved Market Plan seeks to establish a chattel pilot, subject to approval from FHFA, to purchase the pilot loans. However, holding loans in portfolio is not a sustainable solution for Fannie Mae. Thus the ability to create chattel securities is essential. Given there have been no new chattel securities introduced to the capital market since the mid-2000s, there is a lack of chattel performance data for investors to understand the prepayment and default risk in chattel loans; therefore the investor appetite for a chattel security is unknown.

Fannie Mae's strategy is to conduct outreach and research to understand the capital markets opportunity. Furthermore, Fannie Mae will establish advisors who may provide valuable insights into the potential securitization structures for chattel consistent with notions of safety and soundness. Fannie Mae has significant experience securitizing mortgage loans efficiently and in a manner that receives market interest, but has not done so with chattel loans. Fannie Mae will seek market feedback to validate and prioritize the most appropriate security structures to inform strategy for the 2019-2020 Underserved Market Plan. Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described.

The Objective establishes the foundation for future securitization that is needed to develop a sustainable secondary market for chattel loans and leverages the credit criteria and servicing standards established through the chattel pilot. The future success for chattel securitization is based on the ability to accurately project demand for Fannie Mae liquidity balanced with the demand for the subsequent security.

The Objective requires substantial use of Fannie Mae resources including capital markets, analytics, risk, and operations.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	n/a	n/a
Income Levels:	Very Low-, Low- and Moderate-Income Levels		

C. Regulatory Activity: Manufactured housing communities owned by a governmental entity, non-profit organization, or residents (12 C.F.R. § 1282.33 (c) (3)).

1. *Objective #1: Increase liquidity to governmental entity, non-profit organizations, or ROC (collectively "Non-Traditional Owners") through research, data analysis, loan product review and enhancement, implementing a pilot for ROC, and publishing Fannie Mae's experiences (Analyze, Partner and Innovate).*

Meeting the Challenges
The MHC finance market faces several key challenges, including: • The market opportunity for MHC with Non-Traditional Owners cannot easily be determined because of a lack of data. • MHC with Non-Traditional Owners often does not fit standard MHC underwriting criteria, including that the transactions may have a higher LTV, subordinated debt, and a key principal/sponsor with a non-standard counterparty profile. These distinctions undermine the standardization required to contribute additional liquidity to the market. To address these challenges, Fannie Mae will: • Engage in outreach and research activities with key stakeholders to attain a greater understanding of liquidity needs in the Non-Traditional Owners market. • Use the information gathered through outreach and market research to identify potential product enhancements that could increase the provision of liquidity to the Non-Traditional Owners market by creating greater standardization. • Design and implement a pilot program focused on ROC to test and learn about the needs and risk characteristics of ROC and what potential financing roles exist for Fannie Mae. • Increase loan purchases in the Non-Traditional Owners MHC market. • Utilize the information that is gathered and analyzed to increase greater awareness and acceptance of MHC with Non-Traditional Owners by publishing and distributing it to the public to encourage capital sources to venture into lending and investing where they may not have done so previously.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions

2018	• Research the Non-Traditional Owners MHC market to gain knowledge of the current market barriers and challenges by:
	  o Meeting with three government entities and three non-profits that own or are considering owning MHC.
	  o Meeting with four entities that focus on ROC to gain knowledge of market barriers and challenges.
	• Research existing financing options for MHC with Non-Traditional Owners to gain knowledge of the current market barriers and challenges by:
	  o Meeting with four Fannie Mae lenders that have significant involvement in MHC finance.

Year	Actions
	o Meeting with three non-Fannie Mae lenders that have experience with MHC finance including structures for Non-Traditional Owners. o Participate in two key industry conferences in order to gain exposure to a larger cross-section of the MHC market. o Host/participate in one manufactured housing roundtable to discuss the market and opportunities for MHC with Non-Traditional Ownership. • Utilize results from outreach/research activities to identify potential changes, consistent with safety and soundness, to current Fannie Mae MHC guidelines that could result in increased liquidity to meet the needs of Non-Traditional Owners. • Review and approve one to three guideline changes that will facilitate additional standardization for, and therefore liquidity to, the Non-Traditional Owners MHC market with a focus on government and non-profit ownership. (For activities related to resident ownership, see discussion of pilot below). • Based on outreach and research conducted as part of the loan product development process, review and refine Baseline loan purchase goals for 2019. • Educate three lenders that have had involvement in subject guideline changes so that the lenders are able to increase their loan originations for MHC with Non-Traditional Owners. • Design a pilot program (including implementation plan) specifically for ROC that can be used to test potential guideline changes that could increase loan purchases for ROC. The plan will include details for ongoing management, monitoring, and reporting for 2019 and 2020. • Establish a plan to create and distribute a white paper that documents Fannie Mae's experience and findings that can eventually be made publicly available to other market participants interested in financing loans for MHC with Non-Traditional Owners. • Confirm 2019 loan purchase goals based on 2018 research and outreach.
2019	• Purchase four loans secured by MHC owned by government entities and/or non-profits. o **Baseline**: To date, Fannie Mae has purchased one loan that is secured by a non-profit owned MHC which serves as the Baseline. The loan purchase goal will be reviewed and confirmed again in 2018 (noted above). • Implement pilot program for ROC loan purchases and purchase five loans. o **Baseline**: To date, Fannie Mae has not made any loan purchases for ROC. Although Fannie Mae has a solid history of purchasing MHC loans, ROC present a number of unique characteristics. These include higher overall leverage and ownership entities that do not fit Fannie Mae's historical MHC counterparty profile. As a result, Fannie Mae's past MHC loan purchase history is not a good indicator of future ROC loan purchases. Based on this analysis, Fannie Mae has determined that the ROC loan purchase Baseline is zero. However, Fannie Mae has collaborated with ROC USA® to estimate the market for ROC financing over the term of the Plan as well as a reasonable initial loan purchase target for Fannie Mae of five purchases. The analysis leading to this Baseline is as follows. ROC USA projects roughly 75 ROC transactions will occur during the term of the Plan. This estimate was established by first estimating the number of potential MHC with 50+ units (the size of MHC that ROC USA most frequently encounters in its work) in each of the States where ROC USA has a technical assistance provider (14 current States and three in process of becoming ROC USA technical assistance providers) and adjusting the numbers to account for MHC owned by REITs or consolidators (given those MHC rarely come on the market

Year	Actions
	for financing). ROC USA then used a factor between two percent and five percent (depending on the State) to estimate that 500 MHC may actively be marketed for sale in the next five years. Looking at the capacity of its technical assistance provider network and estimating its overall capacity to facilitate MHC sales to residents, ROC USA reduced the estimate to 125 MHC over five years (25 percent of 500 MHC) or 75 MHC over the three year term of the Plan. ROC USA currently completes between 10 and 12 ROC financings per year (roughly half of the potential annual transactions over the term of the Plan). Fannie Mae believes that setting a goal of purchasing at least five ROC loans in 2019 (approximately 50 percent of ROC USA's current estimated annual loan volume) is a meaningful target for the first year of ROC loan purchases. • Prepare a review of the results to date of the pilot program and identify what, if any, guideline or other changes might be required based on performance to date coupled with ongoing industry outreach and research –by Q4 end. • Continue ongoing outreach activities to increase our understanding of the Non-Traditional Owners market to ensure our work is correctly targeted to increasing liquidity in this market over the previous year including: o Meeting with two additional government entities (i.e., not met with previously) that own or are considering owning MHC and with at least two additional non-profits that own or are considering owning MHC to obtain their input regarding the challenges that affect this market. o Meeting with two additional non-Fannie Mae lenders (i.e., not met with previously) that have experience with MHC finance, including MHC with Non-Traditional Owners, to obtain their perspective regarding additional challenges that affect this market over previous year. o Participating in two key industry conferences to gain additional perspective on information gained in the previous year. o Hosting/participating in one manufactured housing roundtable with key stakeholders to gain additional knowledge over the previous year and use the information to further increase our understanding of the market. • Continue work on a white paper by collecting and documenting Fannie Mae's outreach, product development, and loan purchase activities during 2019 with respect to MCH with Non-Traditional Owners. • Confirm 2020 loan purchase goals based on 2019 research and outreach.
2020	• Purchase six loans secured by MHC owned by government entities and/or non-profits. • Purchase seven ROC loans through the pilot program. • Continue to monitor the results of the pilot, and identify what, if any, changes might be required based upon performance to date. • Make a determination of next steps for pilot including: to continue as a pilot for further examination, to approve some or all of the pilot as product enhancements to be rolled out, or to terminate pilot due to adverse findings with regard to safety and soundness or other issues. • Continue ongoing outreach activities to increase our understanding of the market to ensure work is correctly targeted to increasing liquidity and to inform the establishment of the 2021 – 2023 Duty to Serve Plan, including:

Year	Actions
	o Meeting with two additional (i.e., not met with previously) government entities and non-profits that own or are considering owning MHC. o Meeting with two additional (i.e., not met with previously) non-Fannie Mae lenders that have experience with MHC finance including structures with Non-Traditional Owners. o Participating in two key industry conferences. o Hosting/participating in one manufactured housing roundtable. • Publish publically and distribute a white paper to key MHC industry stakeholders through presentations at outreach activities and other means of distribution. • Prepare the 2021 – 2023 Duty to Serve Plan.

Fannie Mae has served the MHC market for nearly 18 years and has purchased just under $11 billion in MHC loans since 1999. Fannie Mae has a solid familiarity with the numerous stakeholders across the MHC industry. However, while aware of the potential need for financing MHC with Non-Traditional Owners, Fannie Mae has considered purchasing such loans only on a one-off and exception basis. To strategically address loan purchases of MHC with Non-Traditional Owners and to determine the market opportunity, Fannie Mae must conduct research and outreach to key market stakeholders. Fannie Mae will use the information gathered to identify potential product enhancements that could increase the provision of liquidity to the Non-Traditional Owners market and create greater standardization.

Designing, assessing, and implementing a pilot program for ROC is consistent with Fannie Mae's strategy of providing liquidity to the market. However, while reasonable estimates are available, the market opportunity for ROC cannot be determined with appropriate certainty due to the lack of data. Fannie Mae will engage in outreach and research activities to attain a greater understanding of liquidity needs in this market. Fannie Mae will analyze the data gathered in conjunction with a review of existing MHC guidelines for the development of a pilot program. Fannie Mae will be able to enhance the MHC product, consistent with notions of safety and soundness, to accommodate this ownership. Fannie Mae has a long standing history of providing capital to affordable housing (with income and other restrictions), MHC and cooperatives, all of which have common issues with ROC. In addition, Fannie Mae has solid relationships with lenders that are actively involved in financing MHC.

Fannie Mae regularly publishes white papers and similar documents to draw attention to affordable housing issues and potential solutions. By utilizing our national stature in the housing market, Fannie Mae may bring attention to affordable housing issues and potential solutions along the "Main Street" to "Wall Street" continuum. By publicly describing our successes and failures as we address MHC with Non-Traditional Owners, Fannie Mae may enhance knowledge of and spark investment in this affordable housing solution.

Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. ***Objective #2: Establish pilot program for investments in non-profit organizations, Community Development Financial Institutions (CDFI), small financial institutions, or other entities that have a major focus on MHC with Non-Traditional Owners (Partner and Innovate).***

Meeting the Challenges
As indicated in several public comments, additional challenges for MHC with Non-Traditional Owners include: • There are very few financial entities that specialize in this type of MHC. • Entities that work with MHC with Non-Traditional Owners are often small and local or regional and have limited access to capital for financing, especially with respect to the earlier stages of acquisition/stabilization financing which may include higher LTVs, subordinate debt, and require other forms of long-term capital. To address these challenges, Fannie Mae will: • Design and conduct a pilot program, subject to receipt of FHFA approval, to test entity level financing to non-profit organizations, CDFI, small financial institutions, or other entities that have a major focus on development and financing of MHC with Non-Traditional Owners. • Utilize pilot results in conjunction with the activities in Objective #1 to help determine the best role for Fannie Mae in supporting MHC with Non-Traditional Owners going forward, to provide long term permanent debt or to invest in intermediary financial organizations working with this product.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions

2018	• Using Fannie Mae's multifamily product development process, design a pilot investment program that will include, but not be limited to, a review of:
	  o One to five potential investment types that could include:
	    ▪ Intermediary Line of Credit for CDFI and similar organizations.
	    ▪ Equity Equivalent Investment ("EQ2"), a relatively common investment structure utilized in the CDFI market.
	    ▪ Program Related Investment ("PRI") for CDFI and/or non-profit organizations. A PRI is a longer term debt investment at a below market interest rate that can be utilized as lending capital.
	    ▪ Purchase of certificates of deposit at small lending institutions.
	    ▪ Purchase stock in CDFI.
	• As part of the pilot, determine the following:
	  o Investment underwriting guidelines.
	  o Approval process requirements.
	  o Maximum allocated portfolio capacity.

Year	Actions
	o Asset management requirements. o Reporting requirements. o Performance measures including traditional financial measures as well as impact performance measures. • Secure preliminary internal approval for proposed pilot program. • Submit pilot program to FHFA for review and approval. • If the pilot program complies with Fannie Mae's Charter Act and receives approval from FHFA, implement the steps necessary to begin to make investments commencing in 2019. • Analyze lessons learned throughout the year in order to make adjustments to the Plan if necessary.
2019	• Source, underwrite, approve, and fund two investments under the pilot program representing 40 percent of the amount of the appropriate investment identified. Fannie Mae will engage in the following tasks to approve the investments. o Assess counterparty risk. o Determine acceptable performance measures and/or loan covenants. o Identify and mitigate key risks. o Negotiate investment documentation. o Develop appropriate asset management requirements including quarterly review process. o Close and fund investment. • Utilize performance review(s) to inform additional investments to be made in 2020. • Analyze lessons learned in 2019 to determine if any modifications are needed for 2020.
2020	• Source, underwrite, approve, and fund three investments under the pilot program representing the remaining 60 percent of the amount of the appropriate investment. • Conduct quarterly reviews of investments made to date to assess performance under the pilot program. Quarterly reviews will include: o Review of loan covenants (if required) to confirm borrower's financial health. o Review of loan portfolio to confirm that it is performing as expected. o Review of payment history. • During Q4, conduct a review of the pilot program to determine appropriateness in terms of both safety and soundness, mission impact, and implications for Fannie Mae's role in the Non-Traditional Owners MHC market going forward (including during the 2021 – 2023 Plan).

The need for capital investments in the underserved markets of the type described in this Objective was raised during the outreach Fannie Mae conducted in 2015, the comments that were received on the proposed Duty to Serve rule in 2016, and in the three listening sessions which took place in 2017. These comments define a significant market opportunity for these investments. Investment of this capital would in turn leverage significant funds into manufactured housing, which would enhance the market for MHC. Based on Fannie Mae's significant experience in developing products, acquiring approval and making investments of this nature, we believe this Objective is realistic and may be achieved within the time periods described. Any new investment would be subject to internal approval that would incorporate safety and soundness analysis. Implementation of this Objective is contingent upon a determination that the Objective and related actions are compliant with Fannie Mae's Charter Act, and receipt of FHFA approval.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Investment	Investment
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

D. Regulatory Activity: MHC with certain pad lease protections (12 C.F.R. § 1282.33 (c) (4)).

1. *Objective #1: Conduct research and outreach to determine market opportunities for FHFA's minimum tenant pad lease protections (FHFA Pad Requirements), offer one loan product enhancement, and acquire loans (Test and Learn, Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
The MHC finance market faces several key challenges, including: • Inconsistent legal requirements for tenant pad leases across the country. • No State law that meets all of the FHFA Pad Requirements. • Borrower resistance to adopting consumer-oriented pad leases. To address these challenges, Fannie Mae will: • Conduct research and outreach on potential acceptance by MHC owners of FHFA Pad Requirements. • Identify, approve, and market one product enhancement to Fannie Mae's MHC product that will encourage borrower adoption of the FHFA Pad Requirements. • Purchase loans secured by MHC that are subject to the FHFA Pad Requirements.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Conduct outreach to three manufactured housing organizations to get more insight on the impact/effectiveness of the FHFA Pad Requirements and similar requirements in different locations as well as which protections have the most impact. • Conduct outreach to five States that require the most significant number of pad lease protections included in the FHFA Pad Requirements to understand how such requirements are enforced and monitored.

Year	Actions
	• Conduct outreach to 10 MHC owners (including ROC) and four lenders to better understand the barriers to incorporating the FHFA Pad Requirements and the market opportunities for financing MHC that meet the FHFA Pad Requirements. • Conduct outreach to five MHC owners to better understand any owner resistance to adopting FHFA Pad Requirements and how to address that resistance. • Based on the outreach and other research results, identify, review, and approve at least one product enhancement for lenders and/or MHC owners that would incent loan purchases secured by MHC that meet the FHFA Pad Requirements. • Review the 2019 loan purchase goal and Baseline to determine any necessary adjustments based on the knowledge attained through the activities completed during 2018.
2019	• Train three MHC lenders to market the product enhancement to 10 MHC owners to encourage the owners to adopt the FHFA Pad Requirements at their properties based on the response of the MHC owners. • Market product enhancement at appropriate trade conferences to increase awareness and loan purchases. • Purchase seven loans secured by MHC that meet the FHFA Pad Requirements. o **Baseline**: Because Fannie Mae has not purchased any MHC loans that meet the FHFA Pad Requirements, a Baseline cannot be reasonable established for these purchases. There are no States that currently require all of the FHFA Pad Requirements. The goal to purchase seven loans meeting the FHFA Pad Requirements also includes the purchases that will be made through Fannie Mae's 2019 ROC pilot. Until research and outreach is conducted as noted in 2018, Fannie Mae cannot assume that communities owned by Non-Traditional Owners are more likely to include the FHFA Pad Requirements. As noted in the 2018 actions, the proposed Baseline will be reviewed and possibly adjusted based on knowledge gained through outreach and research actions planned for that year. • Review proposed 2020 loan purchase goal based on 2019 results.
2020	• Purchase 10 loans secured by MHC that meet the FHFA Pad Requirements. • Review the product enhancement to determine its impact in the overall financing decision and to identify potential changes that would further increase loan purchases that meet the FHFA Pad Requirements. • Establish goals for the 2020 – 2023 Duty to Serve Plan.

Based on Fannie Mae's initial research, there are no States or localities that require all or substantially all of the FHFA Pad Requirements. MHC are unlikely to adopt such protections voluntarily. Accordingly, we believe there is little existing market opportunity for financing MHC subject to the FHFA Pad Requirements absent marketing of a product enhancement that incents MHC owners to adopt them. By conducting research and outreach to both our current and new MHC stakeholders, Fannie Mae could facilitate a greater understanding of the FHFA Pad Requirements and identify opportunities to incent developers, States, localities, and MHC owners to establish such protections where they are not required to do so. Based on Fannie Mae's significant experience in the MHC market and developing products, and our strong relationship with MHC owners and MHC lenders, we believe this Objective is realistic and may be achieved within the time periods described. Any product enhancements will be supported by thorough economic, risk and operational analyses, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

V. Overview of Objectives for Manufactured Housing

Objectives		2018 Evaluation Factor	2019 Evaluation Factor	2020 Evaluation Factor
A. Regulatory Activity: Manufactured homes titled as real property.				
1.	Increase the purchase volume of conventional manufactured housing secured by real estate each year of the Plan.	Loan Purchase	Loan Purchase	Loan Purchase
2.	Increase liquidity for manufactured housing titled as real property through industry outreach and increasing purchases.	Outreach	Loan Product	Loan Purchase
3.	Develop an enhanced manufactured housing loan product for quality manufactured housing and purchase loans.	Loan Purchase	Loan Purchase	Loan Purchase
B. Regulatory Activity: Manufactured homes titled as personal property.				
1.	Conduct outreach, perform research, and promote information sharing that supports the development of a chattel loan pilot and market standardization of the product.	Outreach	Outreach	Outreach
2.	Establish a chattel loan pilot structure and secure approval from FHFA to purchase chattel loans.	Loan Product	Loan Purchase	Loan Purchase
3.	Explore securitization structures that attract private capital and provide sustainable liquidity to the chattel market.	Outreach	n/a	n/a
C. Manufactured Housing Communities owned by a governmental entity, non-profit organization, or residents.				
1.	Increase liquidity to governmental entity, non-profit organizations, or ROC (collectively "Non-Traditional Owners") through research, data analysis, loan product review and enhancement, implementing a pilot for ROC, and publishing Fannie Mae's experiences.	Outreach	Loan Product	Loan Purchase
2.	Establish pilot program for investments in non-profit organizations, Community Development Financial Institutions (CDFI), small financial institutions, or other entities that have a major focus on MHC with Non-Traditional Owners.	Loan Product	Investment	Investment
D. Regulatory Activity: MHC with certain pad lease protections.				
1.	Conduct research and outreach to determine market opportunities for FHFA's minimum tenant pad lease protections (FHFA Pad Requirements), offer one loan product enhancement, and acquire loans.	Loan Product	Loan Purchase	Loan Purchase

Fannie Mae®

Duty to Serve Underserved Markets Plan for the Affordable Housing Preservation Market

Effective January 1, 2018

Disclaimer

Implementation of the activities and objectives in Fannie Mae's Duty to Serve Underserved Markets Plan may be subject to change based on factors including FHFA review for compliance with the Charter Act, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.

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I. Fannie Mae's Strategic Priorities for the Affordable Housing Preservation Market

In 2015, Fannie Mae began to affirmatively engage in a variety of outreach activities designed to assist in gathering information from market stakeholders about challenges and possible solutions in the three Duty to Serve underserved markets. This included the single-family and multifamily Affordable Housing Preservation Market.

- Fannie Mae held affordable housing preservation roundtables, attended numerous affordable housing preservation conferences, and spoke directly with a broad range of stakeholders in the market, including owners, lenders, housing finance agencies (HFA), housing authorities, representatives from the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA), non-profits, community organizations, tax credit investors, and more.

- Additional information on the Federal Housing Finance Agency (FHFA) Regulations was supplied during the public comment period. These comments provided feedback on implementing the Duty to Serve provisions of the Housing and Economic Recovery Act of 2008 (Regulations) where Fannie Mae heard from a broader group of stakeholders including activists working hard to preserve affordable housing on behalf of communities, homeowners, and tenants.

- Still more information was gathered through the four listening sessions, hosted by FHFA along with Fannie Mae and Freddie Mac (the Enterprises) earlier this year, to enable the public to make recommendations about what they believe should be in the Enterprises' Duty to Serve Underserved Markets Plans (Plans).

From the information we gathered, our own experience and analysis, and the requirements set by FHFA, Fannie Mae established four strategic priorities for our service to all of the underserved markets. Because the issues are numerous and the problems complex in each market, we believe it is essential that we keep our approach simple. This is particularly true for our first Plan covering 2018-2020. Accordingly, Fannie Mae's strategic priorities for the Affordable Housing Preservation Market include the following:

- **Analysis**: Fannie Mae will bring our considerable research and analytical capabilities to bear to understand the toughest challenges facing the Affordable Housing Preservation Market. To do this, for example, we need more information about energy and water improvements and shared equity financing. This is why we are proposing to conduct research, develop data, identify challenges, and finalize findings so we may be better informed on how to increase activities in these markets.

- **Test and Learn**: Fannie Mae will test and evaluate adjustments to our own products and programs to identify ways to better serve this market within existing business activities. For example, a second look at our loan products, such as HomeStyle® Renovation loans and Section 8 financing, will be used to identify enhancements that will increase liquidity. We also hope that engaging in pilot programs and other initiatives, such as using lenders outside of our traditional network or lenders within our network in an enhanced capacity, will prove to be of significant benefit when expanding our activities.

- **Partner and Innovate**: Our Plan reflects our commitment to listen to and work closely with partners in the market. Existing partnerships will be revitalized with different or enhanced activities. New partnerships will bring fresh eyes and fresh ideas to our efforts. We will work with traditional and tried partners such as HUD and USDA, but will also look to special lenders, newly identified energy experts, and rising community leaders to address the tasks before us. We understand our effectiveness in serving the Affordable Housing Preservation Market will only be as strong as our ability to innovate and build partnerships with the stakeholders who know this market best.

- **Do What We Do Best**: Our commitment to affordable housing is more than just meeting a series of regulatory requirements, it is a fundamental component of who we are as a company. In large part, harnessing the power of the secondary market to preserve the affordability of more housing means buying more mortgages and making targeted equity investments. This Plan would do just that. Whether it be for energy improvements, shared equity, or increasing our support for federal, State, and local affordable housing programs, we will seek to bring standardization and scale to bear in a manner that creates more liquidity for affordable housing preservation across the country. It is what we do best.

Our four strategic priorities are woven into our Plan. To reflect this fact, one or more of them is referenced for every Objective in the Plan. An overview of our Objectives appears in Part V of this Plan.

Some of our Objectives propose investments we want to make, subject to compliance with Fannie Mae's Charter Act and receipt of FHFA approval, or numbers of loans we intend to buy. However, this is an inexact science. Next year or in three years, the market may undercut Fannie Mae's ability to achieve these goals. Alternatively, it may support efforts to do even better. Accordingly, we see our Plan as a living document that will have to change over time. We look forward to working with the affordable housing preservation community to be responsive to the ongoing needs of this market, whatever and wherever they may be.

II. Overview of the Affordable Housing Preservation Market

Many of the Regulatory Activities for the Affordable Housing Preservation Market essentially are "new" markets created by the Regulations. Accordingly, there is very little or no information available as to the parameters of these markets. This is the case, for example, with energy or water efficiency improvements on single-family, first lien properties where there are generally accepted standards that the financed improvements will reduce energy or water consumption "by at least 15 percent and the utility savings generated over an improvement's expected life will exceed the cost of installation."[1] In other instances there may already be a market, but for lack of data, its parameters currently cannot be reasonably established. This is the case, for example, with the "financing of small multifamily rental properties by a community development financial institution (CDFI), insured depository institution, or federally insured credit union where the entity's total assets are $10 billion or less."[2]

Accordingly, this discussion does not address all of the sub-markets identified in the Regulations. However, where there is information available, it is provided below and we hope that it helps to set the stage where we will conduct our activities.

A. The Single-Family Affordable Housing Preservation Market

There are a broad array of properties covered by the single-family Affordable Housing Preservation Market identified in the Regulations and, as noted above, some have more information available about them than others. We have broken this market overview down into the areas addressed by the three Regulatory Activities: energy and water efficiency, shared equity homeownership, and purchase or rehabilitation of distressed properties.

Energy and Water Efficiency Improvements on Single-family First Lien Properties

Across the United States, the number of homes owned by those with very low- to moderate-incomes is estimated to be 34.4 million.[3] There is no data, however, to determine how many of these are energy and/or water "efficient" or how many are in need of upgrades. Relative to those with higher incomes, in general, populations of more modest means live in older homes that are more in need of repair and upgrades.[4] Yet regardless of its owner's or tenant's income level or if it meets high standards such as LEED or ENERGY STAR® certification, unless a home operates under complete zero net

1 12 C.F.R. § 1282.34(d)(3).
2 12 C.F.R. § 1282.34(d)(1).
3 American Community Survey 5-year average as of 2015.
4 Sixty-three percent of very low-income families and 59 percent of low-income families live in a house built before 1980, compared to 45 percent of higher income (over 120 percent of area median income) families. American Community Survey 5-year average as of 2015.

energy we believe there is almost always an opportunity to lower energy and/or water consumption, thereby lowering total housing costs.

Addressing energy and water efficiency is particularly important for very low-, low-, and moderate-income consumers because utility bills make up a greater percentage of these families' monthly expenditures relative to the average household. According to the U.S. Bureau of Labor Statistics, consumers overall spend 7.1 percent of their income on utilities, fuels, and public services. Those earning below $20,000 a year spend 9.6 percent of their income on utilities, fuels, and public services compared to 5.8 percent spent by those with incomes above $70,000.[5] A study of the American Council for Energy-Efficient Economy (ACEEE) found that the majority of single-family low-income households experienced higher energy burdens than the average household in the same city. The median U.S. energy burden across all cities in ACEEE's sample was 3.5 percent while the median low-income household's energy burden was more than twice as high at 7.2 percent.[6]

Significant barriers exist for very low-, low-, and even moderate-income households to make energy and/or water efficiency improvements that will yield savings. Home energy repairs and improvements may require a large amount of upfront capital, which these populations typically do not have. A study by the Lawrence Berkeley National Laboratory estimated comprehensive energy improvements to be between $5,000 and $15,000.[7] Even smaller and simpler steps such as purchasing insulation and weatherization materials may be a burden. Homeowners also may be challenged with understanding their best options for equipment and financing so that they may achieve meaningful savings. Lack of standardization and recognition of the value of improvements in the real estate market also deter some from making upgrades.

Financing choices for energy and water efficiency improvements are varied in terms of interest rates, payment methods, underwriting, and consumer protections. They each carry pluses and minuses based on the circumstances of the equipment and the homeowner and include credit card debt, manufacturer/contractor financing, Property Accessed Clean Energy assessments, utility on-bill financing, home equity loans or lines of credit, energy mortgages, grants and assistance programs and State loan fund programs. There is no data as to the market size of each of these options as used by different income populations nor how they compare in terms of achieving savings. Also, today there are no energy or water efficiency improvement financing products that require that the criteria set forth in the Regulations be met.

An additional challenge in helping to establish and support a market for financing that meets the Regulations' criteria includes the breadth of participants and stakeholders for energy and water efficiency. There are hundreds of equipment manufacturers, utility companies, energy programs, and financing agents. While we cannot reach all, efforts must be made to identify valuable sources of information and to perform robust data collection, research, and analysis. Furthermore, understanding how homeowners and tenants make choices, access resources, and otherwise behave needs to be a factor in developing this market.

Shared Equity Programs for Affordable Homeownership Preservation

Shared equity homeownership programs enable eligible individuals and families to purchase homes at below market prices and, in return for the subsidy, require capital gains restrictions or a share in the appreciation. Although there are for-profit investors who offer loans that require sharing appreciation, shared equity programs are usually administered by non-profits or municipalities.

Shared equity homeownership programs with resales restrictions are recognized for preserving affordability and include the following:[8]

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5 U.S. Bureau of Labor Statistics, "Table 1202. Income before taxes: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Survey," 3rd quarter 2014 through 2nd quarter 2015.
6 *Lifting the High Energy Burden in America's Largest Citie*s, ACEEE (April 2016).
7 Mark Zimring, Merrian Goggio Borgeson, Ian Hoffman, Charles Goldman, Elizabeth Stuart, Annika Todd, and Megan Billingsley, *Delivering Energy Efficiency to Middle Income Single Family Households,* Lawrence Berkeley National Laboratory, 8 (Dec. 2011).
8 Rick Jacobus and Jeffrey Lubell, *Preservation of Affordable Homeownership: A Continuum of Strategies*, Center for Housing Policy, 23 (2007).

- ***Deed-restricted Homeownership.*** Under this common approach, a subsidy is applied to reduce the purchase price of a home to a level affordable to homeowners at the target income level. Restrictions are then put into place requiring that the units be sold to buyers meeting certain qualifications – for example, incomes below 80 percent of Area Median Income (AMI) – at an affordable price as defined according to a formula set in the deed restriction or covenant. While these agreements are sometimes assumed to be self-enforcing, experience suggests they need to be actively monitored by an entity with an interest in maintaining ongoing affordability.

- ***Community Land Trust.*** Under this approach, the land is owned by a community land trust (CLT) and then leased to families that purchase the homes that sit on CLT land. Because the family needs to purchase only the building and not the land, a CLT home is more affordable than a conventional home. The ground lease establishes the conditions under which ongoing affordability is maintained, with the CLT always having the right to repurchase the property at an affordable price, established by a resale formula built into the ground lease.

Shared appreciation loan programs offer second mortgages that require no payments until the home is sold (or in some cases, the first mortgage is refinanced). At the time of sale, the borrower is required to repay the original principal plus a share of home price appreciation in lieu of interest.[9]

There are serious challenges to sizing this component of the Affordable Housing Preservation Market. They include the following:

- There is no standard definition on what should be included and the unique products that exist make it more challenging.

- There is currently no unified, loan level data source.

- Methods for preserving affordability are not tied to a specific borrower, loan-type, or geographic location, making it difficult to measure and benchmark; thus available loan-level market data sources cannot be used to define or even estimate the market.

- Data is often gathered by multiple agencies, creating significant inconsistencies across the industry.

- Existing data takes the form of survey results or non-transactional data, which is more like a one-time snapshot of existing units/homes/trusts.

Accordingly, only broad estimates of existing products, often based on data that is many years old, are available as follows.

9 Id. at 6. While shared appreciation loans may be recognized as part of an "unrestricted program," restrictions may be added to make this approach a tool for affordable housing preservation and they are considered in that context.

Model/Program	Industry Estimates
Deed-Restricted Homeownership	▪ Between 250,000 and 450,000 units.[10] ▪ 500 inclusionary housing programs in 27 States and the District of Columbia.[11]
Community Land Trust	▪ About 225 active CLTs, which represent about 20,000 rental units and 15,000 homeownership units.[12]
Shared Appreciation Loans (with restrictions)	▪ Only a few programs that cover about 100 units.[13]

Distressed Properties

On a national level, the inventory of distressed properties – homes eligible for a short sale, eligible for foreclosure sale, or acquired through foreclosure also known as real estate owned (REO) – has been dropping steadily over the last several years. Post-crisis economic improvement and stabilization of the housing market along with stronger servicing loss mitigation efforts, and the improved credit quality of new mortgage loan originations, have meant that there is a declining number of seriously delinquent single-family loans. Other factors include bulk sales of non-performing loans to investors which are able to control properties for rental after foreclosure.

Nationwide, at the end of 2016, it was estimated there were just over 90,000 distressed properties that were listed as a short sale or being sold as REO, an 81 percent decline from year-end 2011.

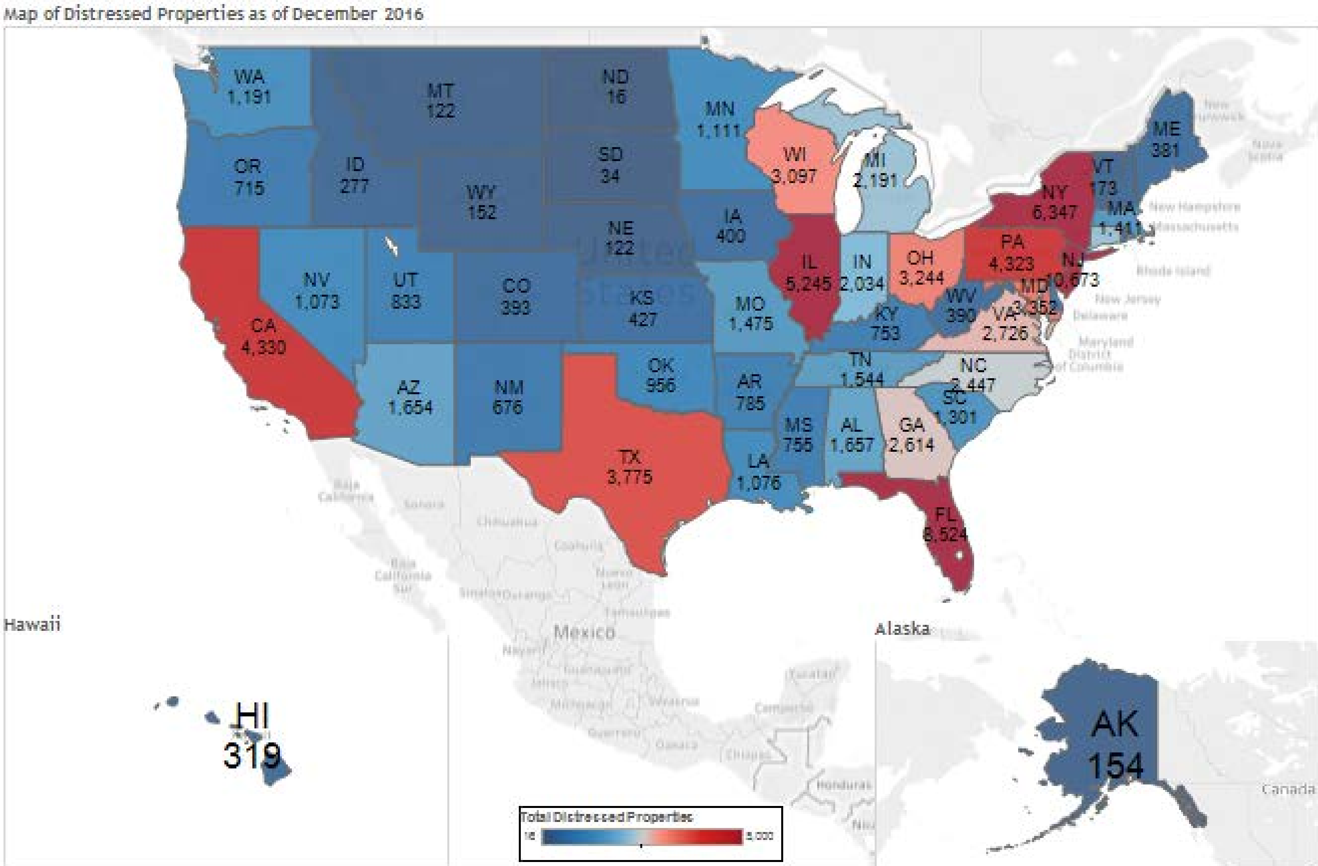
Type	Dec-11	Dec-16	%
Short Sales	232,581	31,011	-86.7%
REO Properties	234,682	59,729	-74.5%
Distressed Properties	**467,263**	**90,740**	**-80.6%**

Source: Red Bell Real Estate

Geographically, the markets differ and in some areas of the country particular markets have large concentrations and volumes of distressed properties. The following chart shows the distressed inventory of short sale and REO properties for sale by State at the end of 2016.

10 Edwin Stromberg and Brian Stromberg, *The Federal Housing Administration and Long-Term Affordable Homeownership Programs,* Cityscape: A Journal of Policy Development and Research , Volume 15, Number 2, 247, 250 (2013), citing 2006 and 2012 studies (*HUD Study)*.
11 Robert Hickey, Lisa Sturtevant and Emily Thaden, *Achieving Lasting Affordability through Inclusionary Housing,* Lincoln Institute of Land Policy, 2014.
12 Emily Thaden, Director of National Policy and Sector Strategy, Grounded Solutions Network: email exchange 3/13/2017 (Emily Thaden, email exchange).
13 Emily Thaden, email exchange.

Map of Distressed Properties as of December 2016

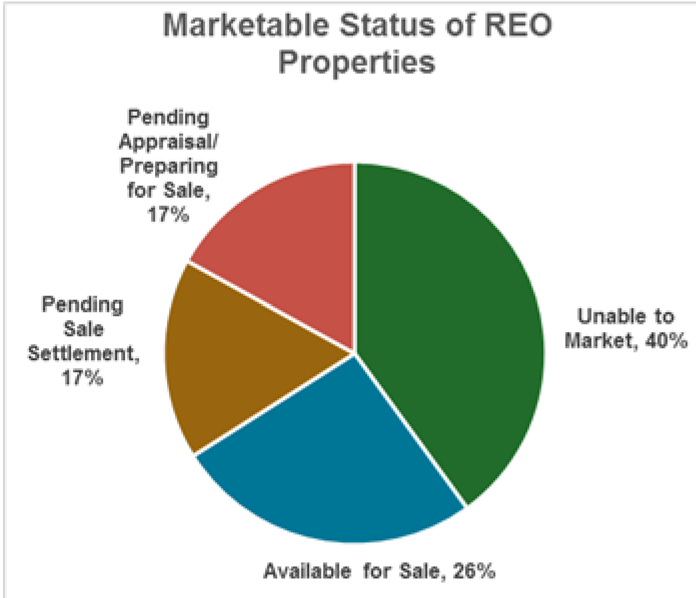


Source: Red Bell Real Estate

New York, New Jersey, Florida, and Illinois have the highest count of these properties by State. As of the end of 2016, the top five metro areas with REO properties available for sale were New York City (5,715), Chicago (3,211), Philadelphia (2,527), Miami (2,310), and Washington, DC (1,339).[14]

The number of properties being sold back into the market is much smaller than those that are acquired through the foreclosure process. In fact, Fannie Mae reported that at the end of 2016, less than half of our REO properties were available for sale or pending settlement of a sale.[15]

14 Equator, REO Market Insights, 1 (Feb. 2017).
15 Fannie Mae Form 10-K for the Fiscal Year Ending December 31, 2016, 104 (Feb. 2017) (Fannie Mae 2016 10K).



Many factors determine if and when a property entering REO inventory may be sold again, including:

- Occupancy (e.g., tenants).
- State and local ordinances.
- Pending appraisals and preparation for listing.
- Property condition.

Often properties entering REO inventory need some type of repair and/or improvement to bring them up to code and/or make them marketable – some properties need extensive repairs. Other properties may benefit from upgrades and retrofits to increase energy efficiency, which will reduce housing expenses. Very low-, low-, and moderate-income homeowners, however, face challenges in purchasing properties that need repairs due to:

- Restrictions on purchasing a home with repair needs when also using down payment assistance.
- Knowledge of the renovation and contracting process.
- Financing required to make the repairs and improvements.

While mortgage loan products are available to help homeowners finance repairs and improvements, many lenders are unable or unwilling to make a rehabilitation loan to a homeowner because of the complexity of renovation financing. Other options such as home equity lines, contractor financing, or credit card debt are generally not feasible for this purpose for very low-, low-, and moderate-income families.

Non-profits that support affordable housing for renters and future homeowners finance the purchase or rehabilitation and repair of distressed properties through several sources. While mortgage loans are available, unless a property is held for rent, mortgage loans are not widely used because financing is typically needed for short periods while properties are acquired, repaired, and resold to qualifying homeowners.

Although they typically leverage private capital, federal grant sources such as Community Development Block Grants and HOME Investment Partnership Program funds, State and local grant programs and revolving property sales, many of these important resources are shrinking. And in general, obtaining financing and resources to purchase or rehabilitate distressed properties can be challenging as the small size of non-profits and their equally small balance sheet make traditional bank letters of credit and construction loans difficult and costly to obtain.

As a result of financing challenges, for-profit investors may purchase properties, make repairs, and resell or rent them at prices that may be unaffordable to very low-, low-, and moderate-income households. Fannie Mae reported at the end of 2016, that 55 percent of the single-family properties we sold that year were purchased by owner occupants, non-profit organizations, or public entities.[16]

Finally, while robust data exists regarding the number of properties in inventory and available for sale, there are a number of challenges in sizing the current and future market for the purchase or rehabilitation of distressed properties, including that the following information is not available:

- Segmentation of properties by status of rehabilitation requirement; some may need minor repairs while others are nearly uninhabitable.

- Demand by individuals for properties needing rehabilitation and the ability for them to execute repairs.

- Future inventory. The distressed property market has always been dependent upon foreclosure rates, key factors of which are employment and housing expenses.

Nevertheless, estimates for the coming years indicate that volumes of these properties available for purchase or rehabilitation will continue to fall as they have in recent years.

B. The Multifamily Affordable Housing Preservation Market

Properties Included

The multifamily Affordable Housing Preservation Market includes properties that, because of a federal, State, or local subsidy, or a combination thereof, are subject to a regulatory agreement or recorded restriction that limits rents, imposes maximum income restrictions on tenants, or places other affordability restrictions on the use or occupancy of the property. Affordable preservation properties also may be subject to risk sharing with HUD's Federal Housing Administration (FHA), be financed through the use of credit enhanced bonds, receive Low-Income Housing Tax Credits (LIHTC), be subject to inclusionary zoning and/or resale restrictions, or receive other State, local, or federal subsidies that are conditioned on the affordability of some or all of the units in the property.

In addition, we recognize that there are a substantial number of units (possibly as many as 9.4 million units)[17] that may be affordable, but are not subject to rent restrictions nor do the units receive government subsidies. This non-subsidized segment of affordable housing is also a critical component of the affordable housing stock across the country and one that Fannie Mae actively serves; over 80 percent of our 2016 loan acquisitions served very low-, low- or moderate-income families.

Sizing the multifamily preservation market is challenging because data is scarce regarding lending on subsidized properties other than lending done through government programs. For instance, while there is a publicly available database of LIHTC properties, it does not contain loan information. For this reason, market sizing has been analyzed in units.[18]

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16 *Id*.at 103.
17 Fannie Mae tabulations of 2016 American Community Survey (ACS) data net of subsidized units.
18 HMDA data does not include affordability information. HUD data is limited to insured loans. HUD and the U.S. Census Bureau released the second Rental Housing Finance Survey in 2017, but it is unclear that it covers all types of subsidized housing.

There are nine statutorily enumerated programs identified in the Regulations. The estimated market size for each is shown below. The majority of units eligible for preservation come from two programs: LIHTC with an estimated 2.2 million low-income units and the project-based Section 8 program with 1.4 million units.

Inventory of Subsidized Housing Programs for Statutorily Enumerated Activities

Program	Debt Component	Properties	Low Income Units
Federal Low Income Housing Tax Credits (LIHTC)	Yes	39,000	2.2 million
HUD Section 8 Rental Assistance Program	Yes	22,700	1.4 million
HUD Section 236 Interest Rate Subsidy Program	Yes	279	31,000
HUD Section 221(d)(4) FHA Insurance Program	Yes	1,600	240,000
HUD Section 202 Housing Program for Senior Households	Yes	1,600	54,000
HUD Section 811 Housing Program for Disabled Households	Equity during construction/ Section 8 after	3,000	34,000
McKinney Vento Homeless Assistance Programs	Equity only	N/A	N/A
USDA Rural 515 Rural Housing Programs	Yes	14,000	450,000
Other Comparable State and Local Housing Programs	Yes	--	440,000

N/A: Not Applicable
Sources:
HUD Low Income Housing Tax Credit Database for units placed in service through 2015, Retrieved October 20, 2017 from http://lihtc.huduser.gov/
Section 8 – Multifamily Assistance and Section 8 Contracts Database retrieved March 3, 2017 from http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/exp/mfhdiscl
Includes 329,000 units of Section 202 and 34,000 units of Section 811
Section 236, Section 221(d)(4),: HUD Insured Multifamily Database retrieved October 20, 2017 from http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/comp/rpts/mfh/mf_f47. Note, only total units are provided.
Section 202 direct loan program – Section 202 direct loans dataset retrieved October 20, 2017 http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/202directloan
USDA Rural 515/538 program - National Low Income Housing Preservation Database http://www.preservationdatabase.org/summaryreport.php; background summary spreadsheet provided 8/30/2017.
Units for "Other Comparable State and Local Housing Programs" estimated based on CoStar data. CoStar tracks an estimated 4.4 million total units in properties with an affordable component where buildings can have anywhere between 5% and 25% of units set aside. On average, 10% of units were assumed to be set aside to arrive at 440,000 units.

Properties with Multiple Subsidies

To keep rents affordable for the lowest income renters, properties tend to have multiple subsidies. For instance, analysis of HUD's LIHTC database shows that an estimated 3,000 properties with LIHTC subsidies also have project-based Section 8 subsidies, as shown in the table below. As a result, there are fewer total subsidized affordable units than summing across programs would indicate.

LIHTC Properties with Other Types of Subsidy

Type of Subsidy	Number of Properties
Project-Based Section 8	3,000
State Based Rental Assistance Only	800
Rural Housing Authority (RD) subsidy programs	3,400
Community Development Block Grant	700
FHA Loan*	300
HUD financing or rental assistance	1,500

Source: HUD Low Income Housing Tax Credit Database, Retrieved June 28, 2016.
Note: FHA insured database indicates the number is closer to 800.

To obtain a property level size of the multifamily Affordable Housing Preservation market, data from the National Low Income Housing Coalition's (NLIHC) National Housing Preservation Database [19] is the most suitable source. This national property-level database of federally subsidized properties was created by combining databases for various federal subsidy programs for multifamily rental properties. It is particularly useful because it identifies multiple subsidies on a single property, eliminating duplication of units.

However, this database does have some limitations, in that it:

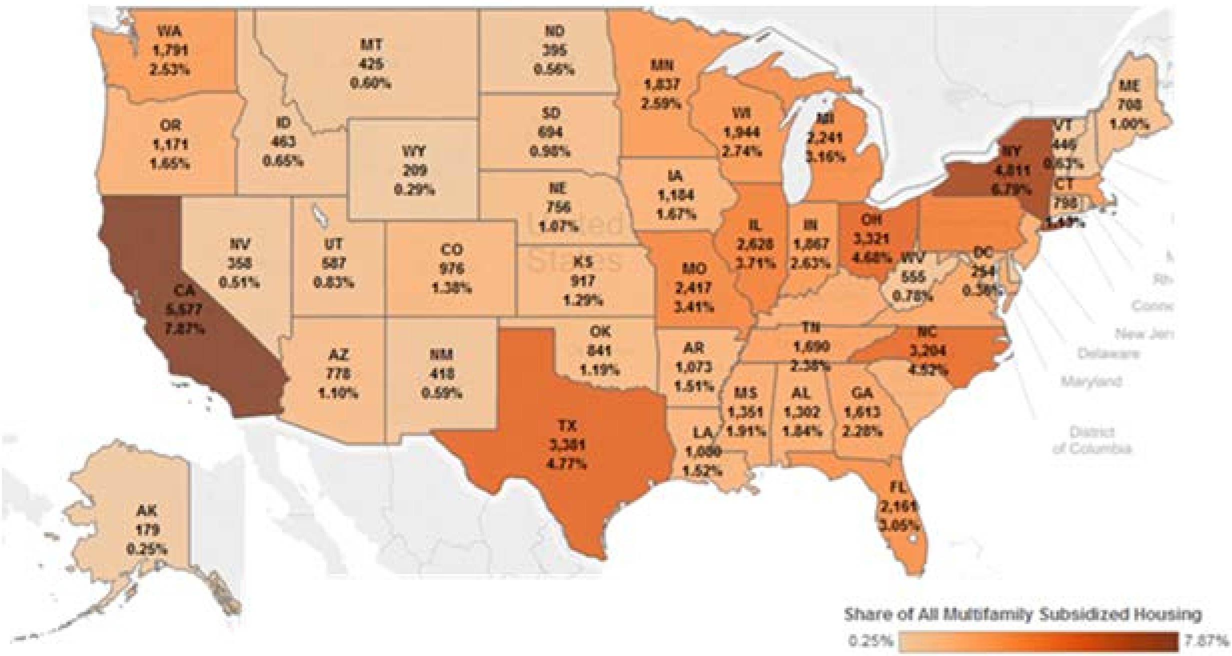
- Does not include State and locally subsidized properties without additional federal subsidies.
- Does not identify properties for which federal subsidies have expired but have been refinanced by entities such as the Community Development Trust, a non-profit that will voluntarily limit rents.
- Does not include non-subsidized affordable properties, which as noted above, are estimated to include as many as 9.4 million additional units.
- Provides more of a snapshot of the Affordable Housing Preservation market than a historical view of the market.

Utilizing the parameters described, according to the NLIHC database as of October 2017, there were approximately 77,000 unique properties subsidized with federal subsidies and just over 3.9 million subsidized units in those properties, excluding public housing outside of the Rental Assistance Demonstration (RAD) program.

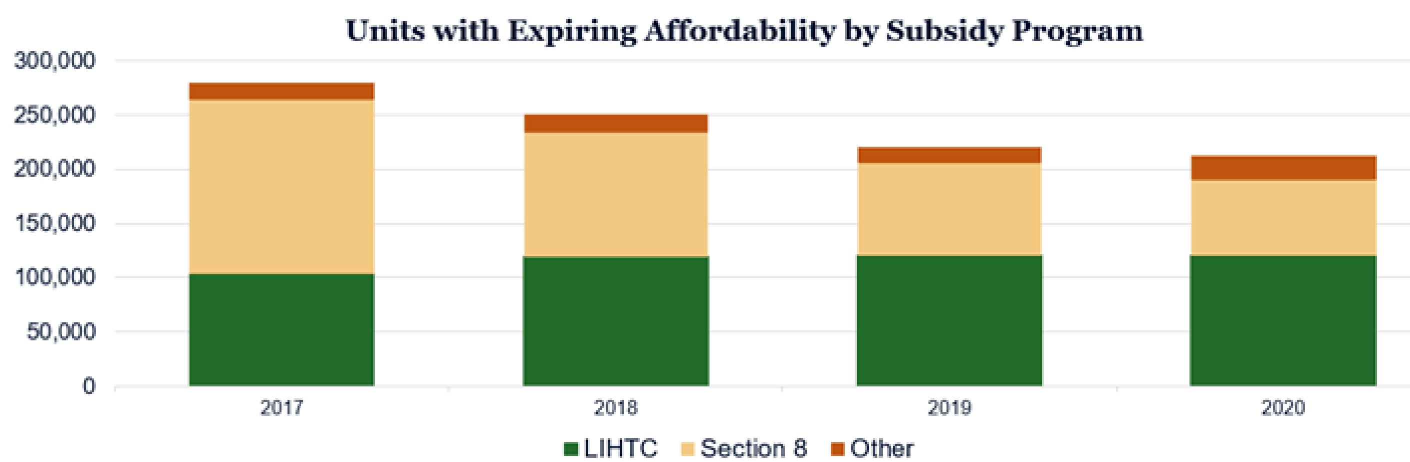
As shown on the map below, California has the biggest share of federally subsidized properties with 7.9 percent, followed by New York with 6.7 percent, then Texas with 4.8 percent. Ohio and North Carolina round out the top five States.

19 Fannie Mae tabulations of data in Preservation database. Available at http://www.preservationdatabase.org/.

State Shares of Federally Subsidized Multifamily Properties



Through 2020, the LIHTC and Section 8 programs will have the highest number of units with annually expiring subsidies of the nine statutorily enumerated activities, as shown in the chart below. Overall, the number of units with expiring subsidies through 2020 will average an estimated 240,000 units annually, starting at 280,000 units in 2017, and falling to 190,000 by 2020. Of the 280,000 units eligible for preservation in 2017, an estimated 110,000 have Section 8 contracts, which are renewed annually.



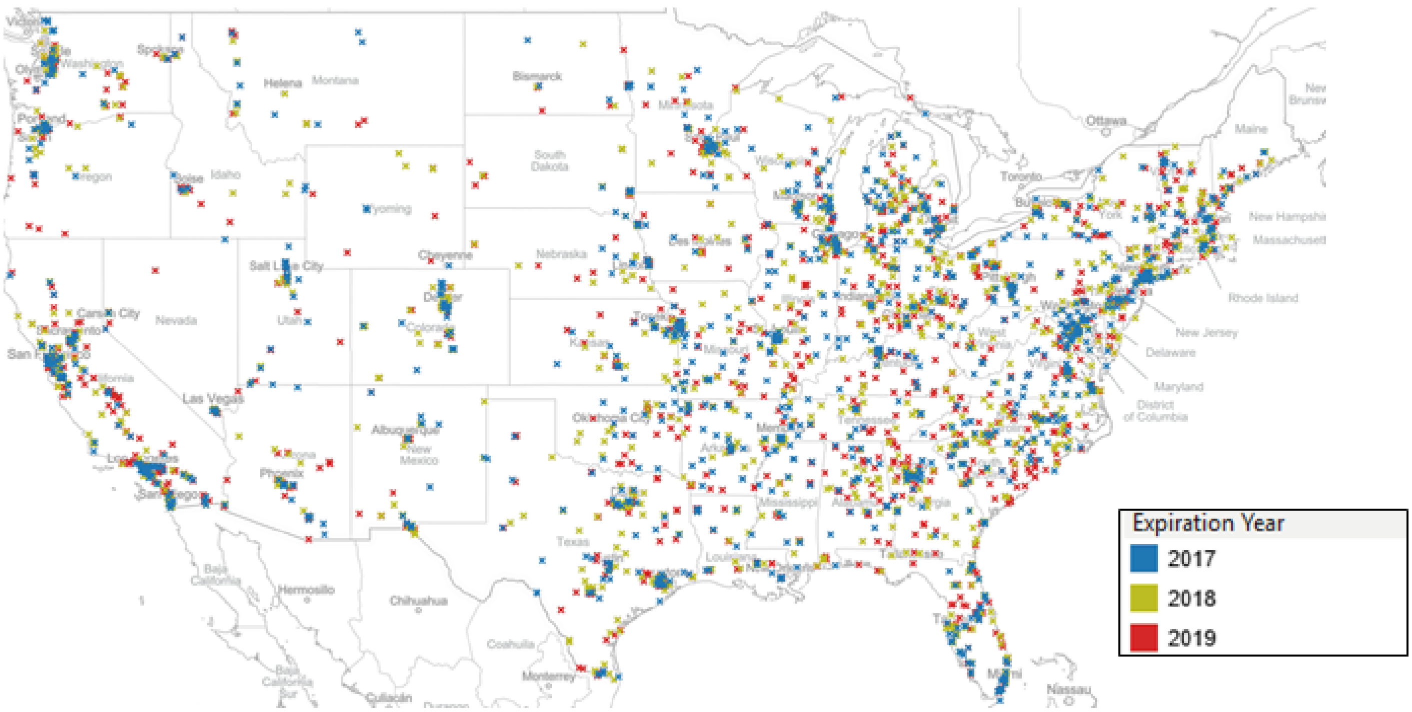
Sources:

1) *LIHTC - HUD Low Income Housing Tax Credit Database for units placed in service through 2014, Retrieved June 28, 2016:*
2) *Section 8: Multifamily Assistance and Section 8 Contracts Database retrieved March 2, 2017. 2017 figure includes an estimated 110,000 units with an annual contract.*
3) *Source for other - Public and Affordable Housing Research Corporation and the National Low Income Housing Coalition. National Housing Preservation Database. Retrieved from http://www.preservationdatabase.org; on November 7, 2016*

Notes: Other units include those funded by HOME Rental Assistance, FHA insurance, Section 202 Direct Loans, USDA Section 515 Rural Rental Housing Loans, USDA Section 538 Guaranteed Rural Rental Housing Program , and State Housing Finance Agency Funded Section 236. Data include properties with active subsidies as of July 2015.

Over the next three years, there will be far fewer properties with expiring LIHTC subsidies in parts of the Midwest and non-coastal West than properties with expiring LIHTC subsidies along the coasts as shown on the map below.

Low Income Housing Tax Credits – Subsidies Expiring in 2017 – 2019



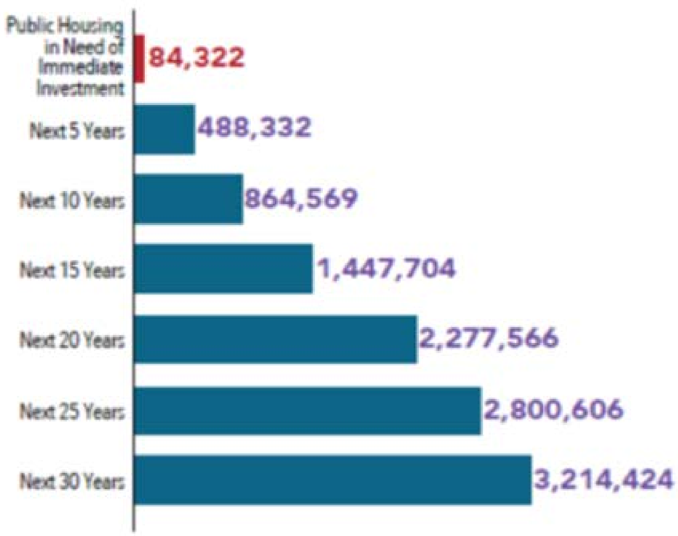
Source: HUD Low Income Housing Tax Credit Database retrieved June 28, 2016.
Note: LIHTC subsidy expiration date based on the assumption of a 15 year compliance period.

The NLIHC database shows that about 24 percent of properties have multiple subsidies.[20] These properties will remain affordable until the last subsidy expires.

In 2017, the NLIHC changed the methodology used when estimating the number of units at “risk of loss,” with risk of loss being defined as expiration of the last subsidy on a property. As shown on the chart below, the NLIHC now estimates that approximately 489,000 federally subsidized units are at risk of loss from the nation’s affordable stock over the next five years.

20 *See* http://preservationdatabase.org/reports/2017-preservation-profiles/.

Subsidized Affordable Units at Risk of Loss

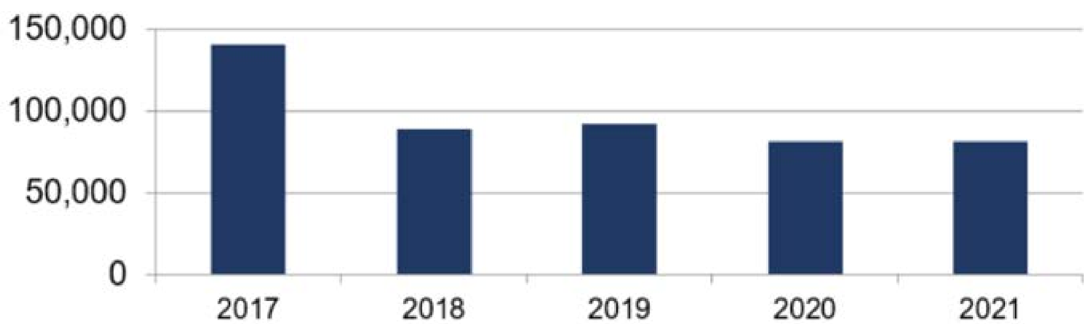


Note: Nearly one in ten publically supported rental homes face an expiring affordability restriction in the next five years and 84,322 public housing units are in need of immediate investment as indicated by a Real Estate Assessment Center (REAC) score of less than 60. (Note that HUD requires an assessment of the physical condition of all HUD-related multifamily projects which results in the assignment of a REAC score on a scale of 1-100.)

Source: http://preservationdatabase.org/reports/2017-preservation-profiles

As shown in the chart below, the number of subsidized units at risk of loss now translates to an average of about 100,000 units annually from 2017 – 2021.

Subsidized Affordable Units at Risk of Loss 2017 – 2020



Note: Determined by subsidy expiration date. In the case of multiple subsidies on a single property, this is the year in which the last active subsidy on a property expires

Source: National Low Income Housing Coalition provided back up files for summary reporting on 8/30/2017.

It should be noted that the expiration of a subsidy does not necessarily coincide with the need for financing. Many properties subsidized with Section 8 payments have contracts which are renewed annually. However, these properties are generally not refinanced annually.

While there is little information regarding maturing loan volumes for properties eligible for preservation, federal subsidy programs are the exception. As shown in the table below, which summarizes maturing loan volumes for federal subsidy programs, one program with a significant maturing loan volume financed by HUD is the project-based Section 8 program, which will have a maturing loan volume of between $71 million and $91 million annually over the next five years. Another program with a significant amount of federal financing is the USDA Section 515 Rural Housing Program, which has between $64 million and $116 million in maturing debt through 2021. The maturing loan volume of the HUD Section 202 Direct Loan Program will increase to $312 million in 2021 from just $32 million in 2017.

FHA/RD Loan Volumes for Expiring Subsidies Where Available ($ Millions)

Federal Subsidy Program	2017	2018	2019	2020	2021
1) Low Income Housing Tax Credits – FHA insured only	$27	$0	$5	$4	$36
2) HUD Section 8 Rental Assistance Program – FHA Insured only	77	91	82	86	71
3) HUD Section 236 Interest Rate Subsidy Program	55	30	30	5	0
4) HUD Section 221(d)(4) FHA Insurance Program	3	27	26	44	30
5) HUD Section 202 Direct Loan Program	32	32	122	211	312
6) USDA 515 Rural Housing Programs	80	79	64	116	100
Sum FHA/RD Maturing Loan Volumes	$274	$259	$329	$466	$549

Notes:

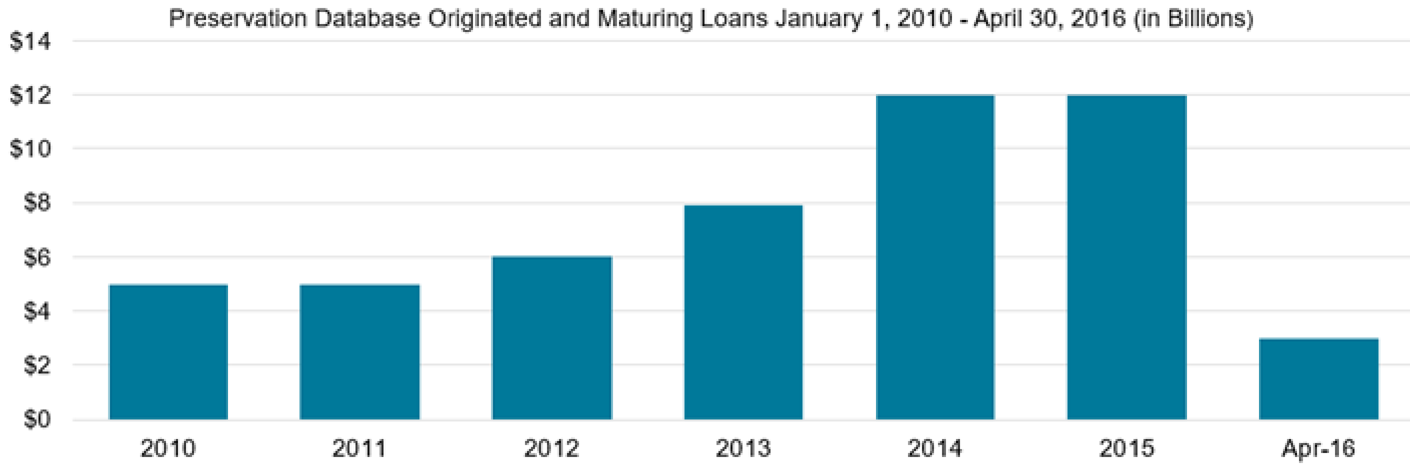
1) *LIHTC with FHA financing other than Section 8*
2) *An estimated 800 Section 8 subsidized properties also have LIHTC subsidies*
3) *Excludes properties already refinanced.*
4) *Includes OMI, OMR, MMR and MMI codes.*
5) *Includes RD 515 only.*

Sources:

- *LIHTC - HUD Low Income Housing Tax Credit Database, Retrieved June 28, 2016*
- *HUD Section 8: Multifamily Assistance and Section 8 Contracts Database as of July 1, 2016*
- *HUD Section 236, Section 221(d)(4),: HUD Insured Multifamily Database retrieved July 5, 2016*
- *HUD Section 202 direct loan program – Section 202 direct loans dataset retrieved July 5, 2016*
- *USDA RD 515 - National Low Income Housing Preservation Database retrieved July 5, 2016*

Historically, the Home Mortgage Disclosure Act (HMDA) has not tracked affordable multifamily programs. However, by matching the NLIHC Preservation database to data provided by CoreLogic, which it gathered from publicly available county level property records, a reasonable estimate of loan volume may be ascertained.

As shown in the chart below, the estimated total loan volume originated for properties eligible for preservation totaled approximately $12 billion in 2015, the last complete year for which data was available. However, this is likely the minimum amount originated based on the fact that only 40 percent of the properties were identified and matched.



Source: CoreLogic
Note: Based on matching the NLIHC Preservation Database to CoreLogic transaction data. Results based on data from an estimated 30,000 matched records, about 40% of eligible properties.

Energy Efficiency Finance

In the last five years, green building, sustainability, and energy efficiency principles have become increasingly integrated into the multifamily housing sector. A prime driver for developers, owners, operators, and tenants toward sustainability is cost reduction, rather than natural resource use reduction; yet sustainability principles achieve both. Given the multitude of benefits realized through implementing sustainability measures, lenders are now offering programs to incentivize investment in green property improvement in the multifamily housing sector.

There has been strong market demand for sustainability by all industry players in the multifamily housing sector over the last several years. Developers and owners are looking for ways to save money when it comes to building and maintaining multifamily housing; property managers see sustainability principles as reducing tenant turnover and increasing tenant satisfaction with building temperatures and overall quality; and tenants are attracted to the lower costs in their utility bills while also living in a healthier home.

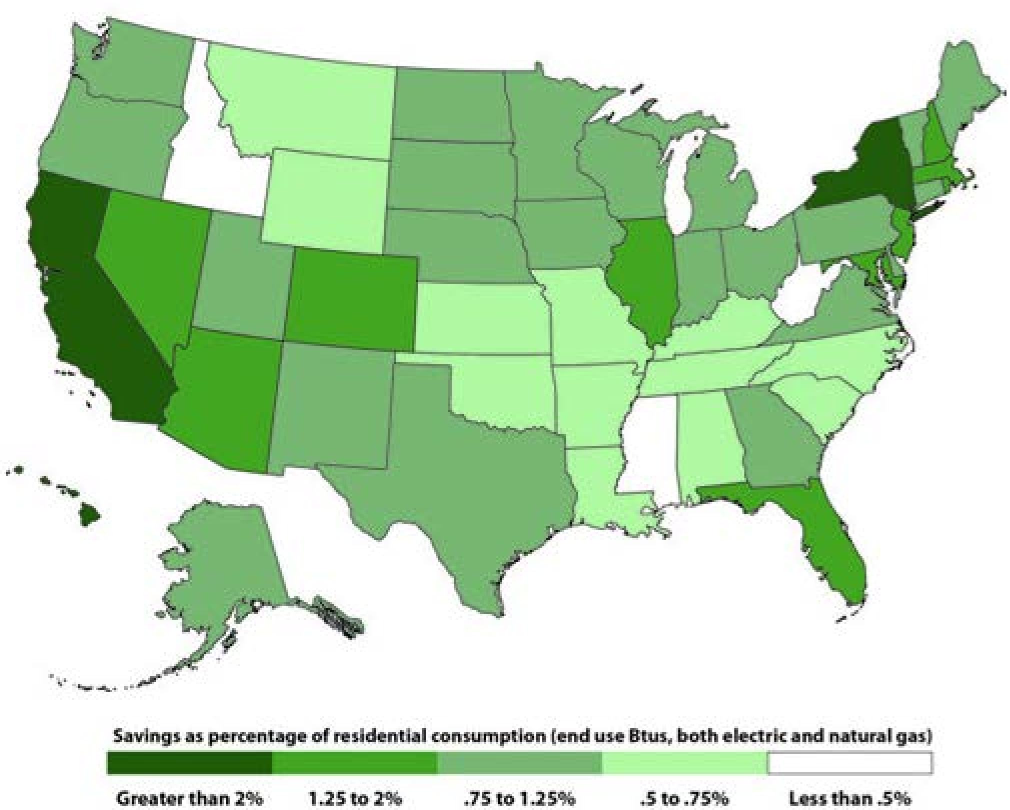
From a pure business and economic standpoint, green is important because of the money it saves for both property owners and tenants. The implementation of energy- and water-efficient features in a property helps owners save money and can qualify the property for various tax breaks and specialty products. When owners save money, it reduces the pressure to raise rents, and the improvements extend the useful life of the property and can play a large part in long term affordable housing preservation.

Most importantly, the biggest significance of green is the positive outcome on the environment. Studies have concluded that green multifamily housing properties can significantly decrease overall energy use. For example, according to a report from ACEEE and CNT Energy, comprehensive retrofits can effectively improve the efficiency of multifamily buildings by three percent for natural gas and 15 percent for electricity, which in 2010 national average energy prices translates into an annual utility bill cost savings of almost $3.4 billion for the multifamily sector.[21] Furthermore, buildings that have been certified to a LEED Gold certificate consume 25 percent less energy, and 11 percent less water and have maintenance costs that are 19 percent lower than buildings without the gold certificate. Below is a map highlighting the annual potential savings from green multifamily building in each State.

21 From ACEEE Fact Sheet on Multifamily Energy Savings Project, available at http://aceee.org/multifamily-project.

Annual Potential Savings from Multifamily Buildings by State

at 15% electricity and 30% natural gas efficiency improvement



III. Statutory and Regulatory Activities Considered but not Included

Under the Regulations, the Enterprises need to consider and address a total of seven Statutory and Regulatory Activities for this market in their Plans. If fewer than seven are addressed, the Enterprises must explain why other activities are not being considered.[22] This is not the case for Fannie Mae because our Plan includes five Statutory and six Regulatory Activities.

IV. Activities and Objectives

A. Statutory Activity: Section 8. The project-based and tenant-based rental assistance housing programs under Section 8 of the U.S. Housing Act of 1937, 42 U.S.C. § 1437f.

1. *Objective #1: Purchase loans secured by properties served by the Section 8 program (Do What We Do Best).*

Meeting the Challenges
Section 8 properties have several key challenges, including: • Approximately 487,000[23] low-income units with Section 8 subsidies that will expire during the Plan and are at risk of being permanently lost from the affordable housing market. • The number of units with expiring Section 8 subsidies annually during the Plan will be decreasing from 169,000 to 151,000. To address these challenges, Fannie Mae will: • Provide liquidity to the market by purchasing loans that support 92,350 Section 8 units during the Plan (up to approximately 19 percent of the total units expiring during that time). • Serve as a stable liquidity provider for the preservation of Section 8 housing.

<u>SMART Factors</u>
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Purchase loans secured by Section 8 properties that support 30,420 units, representing approximately 18 percent of the estimated 169,000 units with Section 8 subsidies expiring in 2018, a market share increase of five percent over Fannie Mae's Baseline of 13 percent of the total of number of units with expiring Section 8 subsidies. o **Baseline**: Between 2014 and 2017, Fannie Mae's purchase of loans secured by Section 8 properties supported an average of 20,229 units per year (2014: 17,679 units; 2015: 14,705 units; 2016: 25,675 units; 2017: 22,856 units). During the same time frame, an average of 152,250 Section 8 units expired annually (2014: 172,000; 2015: 119,000; 2016: 181,000; 2017: 137,000). Thus, Fannie Mae

22 Duty to Serve Evaluation Guidance, 2018-2020 Plan Cycle 2017-2, at 6 (Nov. 29, 2017)(*Evaluation Guidance*).
23 This figure includes approximately 110,000 units each year that have either annual Section 8 subsidy renewals or existing subsidies from the prior year.

Year	Actions
	purchased loans that supported an average of 13 percent of the annual expiring Section 8 units between 2014 and 2017. Accordingly, Fannie Mae is using this average “market share” of expiring Section 8 units that it financed since 2014 as the Baseline. • Confirm loan purchase goals for 2019.
2019	• Purchase loans secured by Section 8 properties that support 31,730 units, representing approximately 19 percent of the estimated 167,000 units expiring in 2019, a market share increase of approximately six percent over Fannie Mae’s Baseline of 13 percent of total expiring units. • Confirm loan purchase goals for 2020.
2020	• Purchase loans secured by Section 8 properties that support 30,200 units, representing approximately 20 percent of the estimated 151,000 units expiring in 2020, a market share increase of seven percent over Fannie Mae’s Baseline of 13 percent of total expiring units. • Plan for the 2021 – 2023 Duty to Serve Plan.

Fannie Mae has regularly reviewed the preservation databases of HUD and others for market information and will continue to do so in order to confirm annual volume. According to recently updated data from the National Housing Preservation Database, approximately 487,000 low-income units with Section 8 subsidies are expiring during the three-year term of the Plan. Fannie Mae has a long history of purchasing loans secured by Section 8 properties and may rely on our traditional lender partners to continue to originate these transactions. Based on this experience and the currently available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Any changes to guidelines for Section 8 loan purchases and the purchases of the loans themselves will be subject to internal processes and review incorporating notions of safety and soundness.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-Income Levels for all Years		

B. Statutory Activity: The supportive housing program for the elderly under Section 202 of the Housing Act of 1959, 12 U.S.C. § 1701q.

1. *Objective #1: Consider loan product changes, prepare work-plan, and purchase Section 202 loans (Analyze, Do What We Do Best).*

Meeting the Challenges
Financing Section 202 properties has several key challenges, including: • Between 2017 and 2021, the total maturing direct loans on Section 202 properties amount to nearly $210,000,000 on approximately 27,600 units. • Section 8 rents on older Section 202 properties are above market, but under Fannie Mae’s current Section 8 underwriting guidelines the portion of the rent above market is not allowed to be underwritten.

Meeting the Challenges
• Given the age of most Section 202 properties, the amount of rehabilitation required can be extensive, however not underwriting the above market portion of the rent results in inadequate proceeds for the rehabilitation. • Section 202 properties developed since 1991 using a capital grant program are also in need of rehabilitation and preservation. To address these challenges, Fannie Mae will: • Identify and review two potential product enhancements to our existing affordable housing preservation products to increase Section 202 loan purchases. • Examine the capital needs for Section 202 properties that were not financed by a direct loan. • Proactively purchase loans secured by Section 202 properties.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Create one Section 202 market analysis that addresses a wide variety of issues (e.g., expiring/maturing loans, loans eligible for prepayment, post 1991 construction property issues, identification of key owner operators, market conditions, Delegated Underwriting and Servicing (DUS)® lender appetite for financing and experience and geographic exposure). Fannie Mae will use this analysis to determine our most effective role and approach to preserve Section 202 properties. Fannie Mae will focus initially on Section 202 direct loan properties, but will include other types of Section 202 financing as part of our market analysis. • Review Fannie Mae's underwriting guidelines regarding above market Section 8 rents and other relevant Section 202 factors identified in the market analysis. • Based on the market analysis and the review of the underwriting guidelines, identify and approve one product enhancement which will increase Fannie Mae's ability to purchase Section 202 loans. • Implement product enhancement(s) by training three lenders who finance Section 202 loans to offer the product enhancement(s) and market the enhanced product to preservation stakeholders. • Implement operational changes in Fannie Mae's systems that will provide for the tracking of Section 202 loans. • Identify one potential portfolio refinance opportunity and determine whether it can be utilized. • Based on the work completed during 2018, confirm 2019 Baseline and loan purchase goals.
2019	• Finance 1,300 Section 202 units, representing 4.1 percent of Fannie Mae's Section 8 unit goal in 2019. o **Baseline**: Fannie Mae does not operationally track Section 202 unit financings so it is unable to identify our previous Section 202 unit financings over the last three years to establish a Baseline. Section 202 financing requests that lenders bring to Fannie Mae are delivered as "Section 8 preservation" loans that meet Fannie Mae's Section 8 underwriting guidelines; in other words, these loans are not identified as Section 202 properties which is why Fannie Mae does not have information regarding the historic number of Section 202 properties in our book. In order to estimate a proxy Baseline for Section 202 loans, Fannie Mae reviewed the Preservation Database (2017 update) to determine the proportion of Section 8 loans that are Section 202 properties and apply that ratio to Fannie Mae's targeted Section 8 loan purchase goals. While not perfect, as it infers that the expiring 202 units are

Year	Actions
	a uniform percentage of expiring Section 8 units each year, it gives Fannie Mae a reasonable order of magnitude for estimating initial loan purchase goals. The 2017 Preservation Database indicates that Section 202 loans are approximately 4.1 percent of all Section 8 loans. Accordingly, Fannie Mae is establishing our Section 202 unit financing goal as 4.1 percent of our 2019 Section 8 unit financing goal (31,730 units), or 1,300 Section 202 units. As noted above, Fannie Mae will confirm the estimated Baseline and loan purchase goals as part of our product development work in 2018. • Continue to conduct outreach to key stakeholders in Section 202 to update and adjust strategy as needed. • Confirm 2020 loan purchase goals.
2020	• Finance 1,238 Section 202 units, representing 4.1 percent of Fannie Mae's Section 8 unit goal in 2020.

The market opportunity for financing Section 202 units needs to be defined more precisely. However, several of Fannie Mae's traditional lender partners have significant experience in Section 202 refinance and there is current information available from HUD regarding the existing properties that have expiring subsidies in the next three years. Based on this information, the experience of our lenders and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Any changes in underwriting guidelines or credit risk standards and all loan purchases will be supported by thorough economic, risk, and operational analyses and will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

C. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

1. *Objective #1: Work with the USDA and other stakeholders to adopt an approach resulting in increased liquidity for preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
Financing and preserving Section 515 properties has several key challenges, including: • According to the USDA, there are over 5,000 properties under the Section 515 program that are becoming eligible for prepayment each year during the next 10 years, with a significant increase in annual prepayment eligibility beginning in 2028. • The program supports housing in rural markets where it is subject to many challenges including: small markets with few, if any, comparable properties; declining populations; and the lack of a dependable source of

Meeting the Challenges
long-term financing due to limited transaction flow, absence of standardization, and a lack of economies of scale. • The requirement that the USDA must have a first lien on the property to retain the rental assistance – which is especially problematic for a secondary market execution. • Many of these properties may not be able to support sufficient traditional debt, thus LIHTC investments are likely to be required. To address these challenges, Fannie Mae will: • Work with the USDA and other key stakeholders to devise and implement an effective strategy that includes an acceptable solution to maintaining the rental assistance on and providing rehabilitation for Section 515 properties that can be replicated in rural communities across the country and be in place when the number of Section 515 properties at risk of exiting the program increases to 164 properties during the term of the 2021 – 2023 Duty to Serve Plan, and to 271 properties during the 2024 – 2026 Duty to Serve Plan. • Consider coupling debt with LIHTC equity and/or relaunching Fannie Mae's permanent loan option for the construction, acquisition, or rehabilitation of rural multifamily properties through the USDA's RD 538 program. • Purchase loans that preserve Section 515 properties.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions

2018	• Establish a workable strategy to preserve Section 515 properties across the country by undertaking the following:
	  o Meeting with 10 market stakeholders, including rural housing advocates, Section 515 property owners/developers, State HFA, and the USDA to better understand the specific issues with Section 515 properties (e.g., loss of housing stock) and to discuss possible solutions and formulate the most effective and viable strategy.
	  o Engaging with a total of three DUS and special affordable lenders that have experience with Section 515 properties to get insight to ensure that any proposed strategy is viable for potential lenders.
	  o Reviewing Fannie Mae's financing through the USDA's Section 538 program as part of designing an effective strategy to determine if the product could further enhance Fannie Mae's ability to bring liquidity to the Section 515 preservation effort.
	• Create a comprehensive Section 515 work-plan that will drive loan purchases and other actions during 2019 and 2020.
	• As part of Fannie Mae's overall LIHTC equity strategy, conduct a review of the potential use of LIHTC equity investments in conjunction with debt on the USDA Section 515 properties.
	• Process one Section 515 work-plan (including any potential product enhancements) through internal Fannie Mae product development procedures to secure approvals as required.
	• Formulate one loan purchase and two other goals for 2019 – 2020, with an aim to provide financing annually for at least 10 percent of the total Section 515 properties that could potentially exit the program during the three year term of the Plan. Based on USDA's multifamily housing property preservation tool,

Year	Actions
	122 Section 515 properties could potentially exit the program during the term of the Plan. Accordingly, the loan purchase goal for 2019 and 2020 is to purchase a total of at least 12 loans secured by Section 515 properties. The Baseline will be updated as needed as Fannie Mae's strategy is established during 2018.
2019	• Purchase at least six loans secured by Section 515 properties at risk of exiting the program. o **Baseline:** While Fannie Mae has refinanced a small number of Section 515 properties in the past, operationally they have not been formally identified and tracked by Fannie Mae and therefore, their numbers cannot be ascertained. Fannie Mae has determined that establishing a Baseline as a percentage of the total number of Section 515 properties with maturing or prepayment eligible loans is an acceptable initial estimate. As noted above, Fannie Mae has set an initial target of at least 10 percent of expiring Section 515 properties during the Plan (a total of 12 loans). However, a Baseline will be reviewed in conjunction with the product development process during 2018 and cannot be determined at this time. • Confirm loan purchase goals for 2020.
2020	• Purchase at least six loans secured by Section 515 properties at risk of exiting the program. • Develop loan purchase goals for the 2021 – 2023 Duty to Serve Plan.

According to the USDA, there are over 5,000 properties under the Section 515 program that have maturing loans or are becoming eligible for prepayment each year during the next 10 years, with a significant increase in annual prepayment eligibility beginning in 2028. Several of Fannie Mae's traditional lender partners have experience in the Section 515 market. In the past, refinancing Section 515 properties has been challenging because of the USDA's requirements around rental assistance coupled with the fact that many of these properties cannot support sufficient debt. However, because the USDA has placed a high priority on preservation of the Section 515 stock, Fannie Mae believes that establishing a workable solution consistent with safety and soundness principles will be difficult, but possible. Based on this information, the experience of our lenders, and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

D. Statutory Activity: Low-income housing tax credits under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42.

1. *Objective #1: Increase purchases of mortgages secured by LIHTC properties (Do What We Do Best).*

Meeting the Challenges
Financing and preserving LIHTC properties has several key challenges, including:

Meeting the Challenges
• The LIHTC market is sensitive to potential changes in the US Tax Code as recently demonstrated by the decline in LIHTC prices based on a presumption that the corporate tax rate could drop as part of a national tax reform. • While communities on both coasts and interior cities have access to competitive LIHTC equity, the needs of tertiary cities and rural communities are not met. To address these challenges, Fannie Mae will: • Review the LIHTC market to determine key trends and identify issues which may drive Fannie Mae's possible enhancements of our LIHTC debt product. • Review and consider product enhancements that could result in increased loan purchases. • Contribute additional liquidity to the market by acquiring an increased number of loans secured by LIHTC properties. • As noted in Objective #1 of Fannie Mae's activities relating to Residential Economic Diversity (RED), incorporate concepts of RED into Fannie Mae's LIHTC Debt Purchase activities.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions

2018	• Identify two trends and two product enhancement needs in the LIHTC industry, and propose ways to address them in order to increase liquidity to the LIHTC debt market.
	  o Consider specific geographies, rent cost burdens, and potential RED as part of this review.
	• Purchase 85 loans secured by LIHTC properties, representing approximately a 13 percent increase over the Baseline.
	  o **Baseline:** The average number of LIHTC debt loans purchased by Fannie Mae over the last three full years is 56 loans (2014: 51; 2015: 51; 2016: 68). However, given that this average is lower than the number of loans purchased in 2016 and 2017 (annualized at 82 loans) and to account for the upward trend, Fannie Mae is using an average of the 2016 purchases (68) and the 2017 purchases (82) as our Baseline, or 75 loans.

2019	• Purchase 89 loans secured by LIHTC properties, representing approximately an 18 percent increase over the Baseline. • Confirm loan purchase goal for 2020 including LIHTC debt purchases on properties that serve other Duty to Serve underserved markets including rural high-needs regions, high-needs populations, and RED housing.
2020	• Purchase 95 loans secured by LIHTC properties, representing approximately a 26 percent increase over the Baseline. • Plan for the 2021 – 2023 Duty to Serve Plan.

Fannie Mae has a long history of purchasing loans secured by LIHTC properties and may rely on our traditional lender partners to continue to originate and work with Fannie Mae to expand the number of transactions. Based on this history and these relationships, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Market opportunity is generally based on the information provided in HUD and other preservation databases and utilization of these databases allows for the estimation of annual volume. Fannie Mae's standard underwriting guidelines and risk standards, which incorporate notions of safety and soundness, will be applied to these purchases.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

E. Statutory Activity: Other comparable State or local affordable housing programs.

1. *Objective #1: Expand Fannie Mae's multifamily affordable housing (MAH) definition to support other comparable State or local programs to preserve affordable housing and purchase loans (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
Providing liquidity through other comparable State or local affordable housing programs has several key challenges, including: • The programs are often not aligned with federal housing programs, which creates a lack of standardization between the jurisdictions. • What qualifies as "affordable" may vary between jurisdictions. • Different jurisdictions may have different requirements for various debt structures (e.g., subordination, term and compliance). • The lack of standardization among jurisdictions may require time-consuming waivers for loan purchases, which may result in a less efficient market. • If a jurisdiction's affordable housing program does not meet Fannie Mae's MAH requirements, these properties cannot take advantage of the beneficial MAH underwriting guidelines (e.g., higher loan-to-value ratio (LTVR) and lower debt service coverage ratio (DSCR) than for conventional multifamily) and may take more time to be reviewed and processed. • Only one State program is currently delegated to Fannie Mae's DUS lenders for approval. To address these challenges, Fannie Mae will: • Review affordable housing programs in various jurisdictions to determine if they can be incorporated into Fannie Mae's existing MAH guidelines, thus qualifying them for special underwriting requirements as well as facilitating delegation to lenders to approve loans, which will shorten processing time. • Support research on other comparable State or local affordable housing programs nationwide in order to educate the market on the various programs for further consideration. • As noted in Fannie Mae's activity relating to RED, identify other comparable State or local affordable housing programs that include concepts of RED.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Review transactions that have been submitted to MAH for a "Special Purpose" waiver to utilize MAH underwriting guidelines in order to find out what other comparable State or local affordable housing programs are utilized in these transactions and to see which ones currently receive a one-time exception. • Review five of the other comparable State or local affordable housing programs that have come into Fannie Mae for waivers that do not currently qualify for eligibility under Fannie Mae's MAH program in order to determine if the programs can be approved as acceptable MAH programs that can utilize the MAH underwriting guidelines without a special waiver. • As part of the review above, determine which, if any, of other comparable State or local affordable housing programs incorporate RED. • Support research that reviews programs in various jurisdictions including inclusionary zoning, shared equity, and rent restrictions in order to identify other comparable State or local affordable housing programs that have the potential to be delegated and/or receive an expedited review. In addition, publish research results to inform the market on other comparable State or local affordable housing programs. • Based on this review and the completed research, approve appropriate expanded guidelines and/or delegation for loans to qualify in these jurisdictions as MAH transactions. • Confirm loan purchase goals for 2019.
2019	• Purchase 30 loans secured by properties under a Fannie Mae-approved State or local affordable housing program, representing a goal of approximately a 43 percent increase over the Baseline. o **Baseline:** Fannie Mae started tracking loans that did not meet Fannie Mae's MAH definition but still had some sort of income restriction on the property in 2015. Because we do not track any specific State or local affordable housing programs, Fannie Mae has chosen to utilize this group of loans that have income restrictions but are not part of a federal housing program as a proxy for an initial Baseline for this activity. The category of loans includes properties where more than 20 percent of the units have income restrictions at 80 percent of AMI. Fannie Mae's three-year average for loan purchases is 18 loans (2015: 13; 2016: 20; annualized 2017: 21 loans). However, because the most recent production level is 21 loans, we will use that as the Baseline. • Continue to build upon knowledge gained in the previous year by reviewing other comparable affordable housing programs in five additional State or local jurisdictions that could benefit from streamlined guidelines and/or delegation in order to increase liquidity to those jurisdictions. • Continue to support research that identifies and reviews other comparable State or local affordable housing programs across the country. • Based on this review and the completed research, provide for appropriate expanded guidelines and/or delegation for loans to qualify as MAH transactions under the approved State or local affordable housing programs.
2020	• Purchase 36 loans secured by properties under Fannie Mae-approved State or local affordable housing programs, representing a goal of approximately a 71 percent increase over the Baseline. • Analyze lessons learned in previous years to determine if modifications are needed to expanded guidelines and/or if there are additional State and/or local guidelines to be reviewed.

Year	Actions
	• Publish research on State or local affordable housing programs (format to be determined) so that the knowledge can be shared publicly to better inform the market. • Plan for the 2021 – 2023 Duty to Serve Plan.

Fannie Mae has significant experience purchasing loans secured by properties subject to different comparable State or local affordable housing programs. Expanding Fannie Mae's MAH definition to include other comparable State or local affordable housing programs that do not meet the current definition used by Fannie Mae would allow affordable housing preservation transactions to be financed using the benefits of Fannie Mae's MAH guidelines, which in turn would increase liquidity to those markets. In addition, Fannie Mae would be making capital available to support affordable housing preservation issues that are important to each State and locality. Fannie Mae regularly reviews data available from third party data vendors and is exploring collaboration with potential non-profit partners to estimate the potential market opportunity for these loans, which is not ascertainable at this time. The ultimate opportunity available in this market is to finance an increased number of properties that are the subject of other acceptable State or local affordable housing programs. Any expansion of underwriting guidelines or credit standards to include other comparable State or local affordable housing programs would be subject to underwriting guidelines and credit risk standards consistent with safety and soundness. Based on Fannie Mae's experience working with other comparable State or local programs, we have determined that this Objective is realistic and may be achieved within the time periods described.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

F. Regulatory Activity: Financing of small multifamily rental properties (12 C.F.R. § 1282.34 (d) (1)).

1. *Objective #1: Adopt an effective approach to purchase small multifamily loans from financial entities with $10 billion or less in assets and purchase loans (Test and Learn, Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
Financing small multifamily properties has several key challenges, including: • A lack of standardization in underwriting and documentation. • A lack of economies of scale in the loan origination process due to the small size of each loan. • Smaller, individual owners that do not necessarily meet a standard sponsor profile. • Loans are made by community banks and smaller institutions that may not choose to deliver loans via Fannie Mae DUS lenders. To address these challenges, Fannie Mae will: • Pursue outreach and research to determine an effective approach to addressing the challenges identified.

Meeting the Challenges
• Work with existing and other lenders to bridge the gap between smaller institutions, unique sponsors, and Fannie Mae. • Pursue a pilot program to test potential product enhancements to increase loan purchases.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Engage stakeholders in discussions to gain knowledge and understanding of the challenges facing this market to determine an effective approach to broadening the market and increasing Fannie Mae purchases of small multifamily loans from institutions with $10 billion or less in assets (Institutions ≤$10B) including: o Identify 10 Institutions ≤$10B that actively finance small multifamily loans for possible future engagement. As part of this process, Fannie Mae will examine our current offerings and market reach to confirm any existing gaps and determine whether there are non-Fannie Mae lenders that could help to fill such gaps. In addition, Fannie Mae will assess our current portfolio of small loans originated by Institutions ≤$10B to determine characteristics such as geography, LTVR and DSCR, performance, etc. o Work with three DUS lenders to consider and build or enhance correspondent networks with Institutions ≤$10B. • Based on the analysis completed above, design and implement a pilot program focused on increasing purchases of small multifamily loans from Institutions ≤$10B to test and learn about the perceived gaps (e.g. product, geography, affordability) and risks as well as the potential for standardization and securitization. o Identify lenders to participate in the pilot program. The pilot lenders will be chosen on characteristics such as experience and success in the small loan market, relationships with smaller loan originators, financial condition, and geographical coverage. o Based on work completed in 2018, confirm the Baseline and loan purchase goals for 2019.
2019	• Commence the pilot program and purchase 273 small multifamily loans from Institutions ≤$10B, representing approximately a three percent increase over the Baseline. o **Baseline:** The average number of small multifamily loans purchased by Fannie Mae from Institutions ≤$10B over the last four years (2014: 230 loans; 2015: 210 loans; 2016: 257 loans; 2017: 274 loans[24]) is 243 loans per year. However, given that purchases in 2016 and 2017 both exceeded 243 loans, the average of the purchases in 2016 (257) and 2017 (274), or 265 loans, is being used as the Baseline. • In Q4 2019, prepare a review of the pilot program results to date and identify what, if any, changes might be required based on performance to date coupled with ongoing industry outreach and research. • Confirm pilot loan purchase goals for 2020 based on review of results.
2020	• Purchase 283 small multifamily loans from Institutions ≤$10B, representing a seven percent increase over the Baseline.

24 Fannie Mae purchased 137 small multifamily loans from Institutions ≤$10B through 6/30/17, annualized as 274 loans.

Year	Actions
	• Continue to monitor the results of the pilot, and identify what changes, if any, might be required based upon performance to date. • Make determination of next steps for the pilot: to continue as a pilot for further examination, to approve some of all of the pilot as product enhancements to be rolled out, or to terminate the pilot due to adverse findings with regard to safety and soundness or other issues. • Plan for the 2021 – 2023 Duty to Serve Plan.

Establishing an efficient program focused on small multifamily property loans originated by Institutions ≤$10B could greatly increase liquidity to this market. Fannie Mae will base our program on research on potential market opportunities for small multifamily loans and on potential partners that qualify as Institutions ≤$10B that are engaged in originating small multifamily loans. Our actions under this Objective will meet notions of safety and soundness, which will be incorporated into our arrangements with the subject financial institutions as well as in the purchases of loans, which will be subject to appropriate underwriting guidelines and credit risk standards. Based on Fannie Mae's experience acquiring small multifamily loans and working with a wide variety of lenders, we have determined that this Objective is realistic and may be achieved within the time periods described.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

G. Regulatory Activity: Finance improvements on multifamily properties: (a) which reduce energy or water consumption by tenant or property by at least 15 percent; and (b) where the savings generated over the improvement's expected life will exceed its cost (FHFA Criteria) (12 C.F.R. § 1282.34 (d)(2)).

1. *Objective #1: Engage stakeholders and conduct research to increase awareness and understanding of energy or water efficiency improvements and financing needs (Analyze, Test and Learn).*

Meeting the Challenges
The multifamily energy and water efficiency market faces a number of challenges, including: • It is complex, with many participants, products, evolving technologies, standards, and regulations. • Energy and water improvements (collectively Improvements) can require significant upfront capital and financing options are varied and can be costly. • Mortgage products that finance or refinance Improvements have terms that impact eligibility, do not meet the FHFA Criteria, and are not well understood by lenders. • There is a lack of information about the needs and opportunities for Improvements and factors driving outcome. To address these challenges, Fannie Mae will:

Meeting the Challenges
• Engage stakeholders, including utilities, through roundtable discussions to assess the evolving market and assist market participants in better serving their customers. • Engage lenders for education, to get input into product changes to meet the FHFA Criteria, to simplify loan requirements, increase eligibility, and increase delivery of loans. • Invest in research, data collection, and analysis to improve the market and develop products that will incent stakeholders to engage and assist us to underwrite Improvements effectively and to identify methods to measure savings on Improvements that meet the FHFA Criteria. • Publish information gathered and analyzed to promote liquidity by encouraging capital sources to venture into new lending and investing areas related to Improvements.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Participate in two key industry conferences and host one energy advisory council meeting with cross-functional industry representation to gain a better understanding of the current market barriers and challenges. • Develop and implement a research plan to clarify the market's understanding of the evolving technical landscape. • Establish and participate in an outreach program to increase multifamily owners'/operators' awareness of and access to energy and water efficiency savings and financing programs. • Conduct a review of Fannie Mae's current product offerings to find ways to potentially overlap with the existing incentives provided by utility and State energy offices. • Identify two potential product enhancements that, if approved, could result in loan purchases meeting the FHFA Criteria. • Establish and test a methodology to confirm actual energy savings on Improvements.
2019	• Participate in two key industry conferences and host one energy advisory council meeting with cross-functional industry representation to continue to increase Fannie Mae's understanding of the market and to ensure our work is correctly targeted over the previous year. • Continue to expand the outreach by hosting roundtables and participating in industry conferences to increase awareness and access to energy and water efficiency savings and programs that help finance Improvements. • Continue to test and confirm actual energy savings on loans purchased through Fannie Mae's green finance programs. • Approve one of the two product enhancements identified through outreach and research activities. • Analyze lessons learned and make adjustments to the plan if necessary. • Draft work-plan for a white paper to educate key stakeholders on best practices in energy efficiency financing and affordable housing preservation, with the goal to publish during 2020.

Year	Actions
2020	• Participate in two key industry conferences and host one energy advisory council meeting with cross-functional industry representation to build upon knowledge and information gained over the previous year. • Continue to participate in the outreach program developed in 2018 to increase multifamily owners'/operators' awareness of and access to energy and water efficiency savings and financing programs and to stay abreast of current industry trends. • Host a 400+ person conference to bring together lending, housing energy audit, and green building stakeholders for discussions and to identify key lessons from last two years. • Continue to test and confirm actual energy savings on loans purchased through Fannie Mae's green finance programs. • Publish and distribute a white paper to key stakeholders in the industry through the web, outreach activities, industry conferences, and other potential means of distribution. • Plan for the 2021 – 2023 Duty to Serve Plan.

Fannie Mae has significant experience in outreach, market engagement, data collection and analysis, consumer research, and product development. Accordingly, we believe this Objective is realistic and can be achieved within the time periods described. The ultimate opportunity available in this market is to finance an increased number of Improvements meeting the FHFA Criteria. Any product enhancements that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Product
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Facilitate the establishment and dissemination of energy or water efficiency improvements finance industry standards that will facilitate increased liquidity to the multifamily energy efficiency improvements finance market (Partner and Innovate).*

Meeting the Challenges
Additional challenges facing the residential energy and water efficiency market include: • A lack of standards and methodologies for communicating the presence of, types, and value of energy and water efficiency upgrades in residential properties. • An overall lack of liquidity for mortgages that support financing for Improvements meeting the FHFA Criteria. To address these challenges, Fannie Mae will: • Convene the energy efficiency finance industry to identify and adopt at least one standard for underwriting energy efficiency loans.

Meeting the Challenges
• Educate the industry on the new standard(s) through engaging with key stakeholders in energy efficiency finance and by publishing the new standard(s). • Incorporate the standards into Fannie Mae's energy efficiency products and documentation.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Engage the industry to identify opportunities and challenges in setting standards for underwriting, valuations, financing commissions, and measuring utility savings from Improvements by: o Participating in one industry working group that addresses the need for standardization. o Engaging with five relevant trade organizations, valuation services, rating groups, and appraisal companies to understand similarities and gaps in measurement in order to address standardization issues. o Identify at least two potential industry standards that would facilitate energy efficiency financing.
2019	• Confirm industry adoption of at least one new standard related to underwriting, valuations, financing commissions, and measuring utility savings from Improvements by: o Developing and implementing a plan to encourage the industry to adopt standards. o Engaging in at least three industry roundtables to validate the Plan to reach the industry. o Publishing the adopted standard and executing the Plan to reach the industry. o Updating Fannie Mae documentation to incorporate the new standard(s).
2020	• Facilitate training across the industry on the new standard(s) by: o Advocating on behalf of the new standard(s) at one industry conference. o Develop a training program on the new standard(s) and training at least 10 key industry stakeholders including lenders, appraisers, rating groups, and related trade organizations.

The ultimate opportunity available in this market is to finance increased numbers of Improvements meeting the FHFA Criteria. Fannie Mae plays an active role within the industry to set standards in many areas, including collateral value, data, and property valuation. Based on this experience, coupled with the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Fannie Mae has the systems, operations, and resource tools needed to facilitate efficient loan delivery in a safe and sound manner.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Outreach	Outreach
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

3. *Objective #3: Purchase multifamily loans that finance energy or water efficiency improvements that meet the FHFA Criteria (Do What We Do Best).*

Meeting the Challenges
Additional challenges facing the residential energy and water efficiency market include: • An overall lack of liquidity for mortgages that support financing for Improvements meeting the FHFA Criteria. To address these challenges, Fannie Mae will: • Purchase multifamily energy efficiency loans for Improvements that meet the FHFA Criteria.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Purchase 622 loans that meet the FHFA Criteria, representing an approximate 10 percent increase over the Baseline. o **Baseline:** Fannie Mae has two existing green multifamily products, "Green Rewards" and "Green Preservation Plus," which have energy savings requirements similar to the FHFA Criteria. Based on our experience with these loan products, we believe it is appropriate to use our purchase of Green Rewards and Green Preservation Plus to determine the Baseline. However, both of these products are relatively new and, unlike other products like Section 8 and/or LIHTC debt that Fannie Mae has been purchasing for well over 10 years, we do not have as much experience on which to base future loan purchase goals. As of now, the green loan products are not subject to the lending cap of $35 billion announced by FHFA on Fannie Mae's multifamily acquisitions. The loan purchase goals are based on the cap exemption remaining in place. Should the cap exemption be reduced or deleted, the loan purchase goals could change materially. An analysis of the energy cost savings and energy efficiency improvement costs associated with Fannie Mae's current book of Green Rewards and Green Preservation Plus loans demonstrates that roughly 88.9 percent of the portfolio met or exceeded the FHFA cost savings and cost efficiency requirements. However, because the average of three years is not representative given the low number of loans purchased in the early years, as a Baseline Fannie Mae will use the annualized 6/30/17 loan purchases adjusted by 88.9 percent to reflect those loans that meet the cost efficiency requirements, which is 565 loans.[25] • Confirm loan purchase goals for 2019.
2019	• Purchase 684 loans that meet the FHFA Criteria, representing approximately a 21 percent increase over the Baseline. • Confirm loan purchase goals for 2020.
2020	• Purchase 753 loans that meet the FHFA Criteria, representing approximately a 33 percent increase over the Baseline. • Plan loan purchase goals for the 2021 – 2023 Duty to Serve Plan.

25 Fannie Mae purchased a total of 318 Green Rewards and Green Preservation Plus loans through 6/30/2017, annualized as 636 loans. When adjusted for those loans that met the cost efficiency requirement (88.9 percent of total), the Baseline is 565 loans.

The ultimate opportunity available in this market is to finance increased numbers of loans that meet the FHFA Criteria. Fannie Mae has significant experience purchasing loans of various types including “Green” products that finance energy efficiency improvements. Based on this experience, coupled with the available resources, Fannie Mae has the systems, operations and resource tools needed to facilitate efficient loan delivery in a safe and sound manner.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

H. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3)).

1. *Objective #1: Increase liquidity for energy or water efficiency improvements through outreach, research, and developing solutions (Analyze, Partner and Innovate, Test and Learn).*

Meeting the Challenges

The residential energy and water efficiency improvements market faces a number of challenges, including:

- Complexity. There are many participants and the products and technologies, standards, and regulations continually evolve.
- Lack of information. The needs and opportunities and factors driving Improvements and outcomes are often not well understood by those serving homeowners.
- Inexperience and prioritization. Many homeowners do not know how to cost effectively reduce their household energy and water consumption, or how to access assistance to make Improvements. Many simply do not prioritize Improvements for their home.
- Financing challenges. Improvements may require a large amount of upfront capital. Financing options and terms for Improvements are varied and may be costly. Mortgage products, including Fannie Mae’s, that allow for Improvements to be financed at purchase or refinance have terms that: impact eligibility; are not required to meet the FHFA Criteria; are not well known or understood by lenders, borrowers, and others; and may not be the appropriate option for financing in many situations.

To address these challenges, Fannie Mae will:

- Develop and execute a comprehensive outreach strategy to help fill knowledge gaps, educate lenders and others about our products and the opportunities, bring the industry together to understand the market and opportunities, and help homeowners, including:
  - o Contribute to the discussion, analysis, and resolution of the challenges for affordable financing of Improvements and assist market participants in better serving their customers by engaging a cross-functional representation of industry stakeholders through advisory council meetings we host, conferences we attend, and other meetings we facilitate.
  - o Engage lenders (1) to educate them further about our products and help them in meeting loan delivery requirements; (2) to seek key input into product changes to meet the FHFA Criteria; and (3) to identify opportunities to simplify loan requirements, expand eligibility, and increase delivery of Fannie Mae’s mortgage

Meeting the Challenges
loans that finance Improvements such as our existing HomeStyle® Energy[26] and HomeStyle Renovation[27] products. o Work with housing counselors, community groups, Fannie Mae customers, and others in the industry to promote consumer access to products, resources, education, and capital financing, including third-party grants. o Develop and promote resources to help homeowners reduce monthly housing costs by achieving energy and/or water savings. • Develop and execute a robust research and analysis strategy in order to also fill knowledge gaps and bring discipline to housing finance for Improvements, including: o Invest in research, data collection, and analysis in order to: (1) improve the market and Fannie Mae's understanding of consumer sentiment, needs and opportunities, future trends, business models, and factors driving Improvements and outcomes; (2) assist us to underwrite Improvements effectively and identify methodologies to measure energy and/or water savings that meet the FHFA Criteria; and (3) promote industry awareness and inform future research. o Publish the information gathered and analyzed to bring clarity to the marketplace, which helps create liquidity because it encourages capital sources to venture into lending and investing in these market segments where they may have not been before. • Employ a test and learn approach to market, test the feasibility of enhancements to Fannie Mae loan products that will best serve the needs of the target markets in financing Improvements and make appropriate policy updates.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Engage three industry participants that finance Improvements such as State energy financing agencies, utilities, and solar energy financing companies, to identify potential innovative financing opportunities meeting the FHFA Criteria such as developing plans to partner financing, subsidy, or assistance programs with new affordable homeownership opportunities – by Q2 end. • Establish a consumer outreach platform, to increase awareness and access to programs that help finance Improvements that includes homeownership education that can be delivered by non-profits or accessed online; that includes a catalog of or links to programs to finance Improvements; that provides access to online tools and other resources such as the Department of Energy's consumer materials; and that facilitates a regular social media schedule such as leveraging Twitter. Target engagement with 10 stakeholders who interact with consumers, including utilities, lenders, HFA, State and local administrators and/or non-profit groups – by Q3 end. Ten relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.

26 Fannie Mae's HomeStyle Energy mortgage loan helps lenders offer affordable financing to borrowers seeking to improve the energy and water efficiency of their homes. HomeStyle Energy is open to all Fannie Mae lenders; no special approval is needed. More information can be found at https://www.fanniemae.com/singlefamily/homestyle-energy as well as in Fannie Mae's *Selling Guide*, B5-3.3-01: HomeStyle Energy for Energy Improvements on Existing Properties.

27 Fannie Mae's HomeStyle Renovation mortgage loan permits borrowers to include financing totaling up to 50 percent of the as-completed appraised value of the property with a first mortgage, rather than a second mortgage, home equity line of credit, or other, more costly financing method. More information can be found at https://www.fanniemae.com/content/fact_sheet/homestyle-renovation-overview.pdf as well as in Fannie Mae's *Selling Guide*, B5-3.2-01: HomeStyle Renovation Mortgages.

Year	Actions
	• Participate in two key industry conferences and host one in-person energy advisory council meeting with cross-functional industry representation (e.g., utility companies, product manufacturers, lenders, realtors, non-profits, government agencies, and consultants) – by Q4 end – for the purpose of developing and building relationships and helping to identify and evaluate strategies and partnerships that will help Fannie Mae execute our Plan. • Establish business-to-business marketing and outreach that includes providing educational materials and lender webinars on financing Improvements with Fannie Mae products for the purpose of helping the market to understand availability, terms and conditions, and opportunities for such loans so that lenders will be able and willing to use and originate them. Target engagement of fifteen lenders and five other stakeholders, including HFA, non-profit organizations, and realtor associations – by Q4 end. Fannie Mae has chosen to target our five largest lenders of our mortgage loan deliveries in 2016 as well as 10 other lenders that represent geographical diversity. Fannie Mae will also work with HFA in two of the top five most populated States, two of the largest non-profit organizations that counsel homeowners, and the nation's largest association of realtors. Twenty relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Develop and execute a research plan – by Q4 end – for the purpose of: (1) improving the market and Fannie Mae's understanding of consumer sentiment, needs and opportunities, future trends, business models, and factors driving Improvements and outcomes; (2) assisting us to underwrite Improvements effectively and identify methodologies to meet the FHFA Criteria; and (3) promoting industry awareness and informing future research. Fannie Mae will: o Investigate the opportunity to acquire data related to home energy ratings, solar panel installation, and/or utility usage on Fannie Mae properties and will analyze such data, as well as secondary research, if able to be secured. o Study consumer behavior or sentiment by executing, directly or through a partnership, one primary consumer research survey and/or focus group or other primary research project. o Analyze our portfolio of loans where borrowers have financed energy or home renovation projects to understand geographic and demographic characteristics and performance. o Publish findings related to one of these research outcomes. • Create variance terms and/or policy updates that enable Fannie Mae to partner with lenders to test and learn one or more market, economic or operational impacts related to financing Improvements, leveraging products such as HomeStyle Energy or HomeStyle Renovation for the purpose of increasing mortgage loan purchases. Fannie Mae will determine test parameters – by Q2 end – based on stakeholder input, conduct related economic, and operational impact analyses – by Q3 end – and issue one lender variance – by Q4 end. One or more participating lenders will be chosen based on level of interest and capacity, potential volume, and market focus. The variance outcome will be evaluated in 2019 and success will be based on actual volume delivery relative to projected delivery as well as positive lender feedback on the changes implemented. If feasible, and depending on research, learnings, and analysis, publish one policy update – by Q4 end.
2019	Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests: • Enhance and continue to execute the business-to-business marketing and outreach by identifying new market entrants and incorporating impact and needs into outreach efforts and updating product materials and webinars. Target engagement with an additional seven lenders and three additional stakeholders (i.e., lenders and stakeholders not approached in 2018) –by Q3 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. Fannie Mae will also work with additional HFA in two more

Year	Actions
	States and work with the non-profit organizations engaged in 2018 to determine additional organizations we should target. Ten additional relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Expand industry leadership efforts by participating in two key industry conferences and seek a leadership role in speaking at one other event for purposes of informing the industry of research findings, product enhancements, and/or market insights. Host one in-person energy advisory council meeting, incorporating feedback from 2018 and including two new participants in order to improve engagement and outcomes – by Q4 end. • Assess findings from Fannie Mae research to date and build upon the outcome of 2018 as well as new trends to acquire additional data and industry research, study consumer behavior or sentiment by executing, directly or through a partnership one new consumer survey and/or focus group that contributes to a trend analysis, add new acquisitions to the loan analysis, and publish findings related to one of these research outcomes – by Q4 end. • Evaluate the outcomes of variance(s) executed in 2018 and introduce one new variance with terms for one additional policy/product update, or review credit and/or collateral policy identifying opportunities to enhance policy/product parameters – by Q4 end. One variance will focus on opportunities to finance Improvements in high-needs rural areas. If feasible and depending on research, learnings, and analysis, publish one policy update – by Q4 end. • Update the consumer outreach strategy and execute necessary changes to incorporate an analysis of the appropriateness of social media types and frequency, update resources and expand consumer education to two additional non-profit networks or counseling agencies. Fannie Mae plans to focus on large national networks and organizations that can reach a number of affiliated non-profits and as such, has determined that two such entities is appropriate.
2020	Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests: • Enhance and continue to execute the business-to-business marketing and outreach campaign by identifying new market entrants, incorporating impact and needs into outreach efforts, and updating product materials and webinars. Target engagement with an additional seven lenders and three other stakeholders (i.e., lenders and stakeholders not approached in 2018 or 2019), representing a significant commitment of time – by Q3 end. The additional lenders and stakeholders will be selected based on evaluation of 2019 activities and responses as well as an assessment of geographical and other needs. Fannie Mae will also work with additional HFA in two more States and work with the non-profit organizations engaged in 2018 and 2019 to determine additional organizations which we should target. Ten additional relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Continue to expand industry leadership efforts by participating in two key industry conferences and speaking at two other events for purposes of informing the industry of research findings, product enhancements, and/or market insights. Host one energy advisory council meeting with cross-functional industry representation, incorporating feedback from 2018 and 2019 and including two new participants in order to improve engagement and outcomes – by Q4 end. • Assess findings from Fannie Mae research to date and build upon the outcomes of 2018 and 2019 as well as new trends to acquire additional data and industry research, conduct one new consumer survey and/or focus group that contributes to a trend analysis, add new acquisitions to the loan analysis, and publish findings publicly related to one set of these research outcomes – by Q4 end. • Evaluate the outcomes of variance(s) executed in 2018 and 2019 and introduce one new variance with terms for one additional policy/product update, or review credit and/or collateral policy identifying

Year	Actions
	opportunities to enhance policy/product parameters – by Q4 end. If feasible, and depending on research, learnings, and analysis, publish publicly one policy update – by Q4 end.

Fannie Mae has significant experience in outreach, market engagement, data collection and analysis, consumer research, and product development. Accordingly, we believe this Objective is realistic and can be achieved within the time periods described. The ultimate opportunity available in this market is to finance an increased number of Improvements meeting the FHFA Criteria. We also will look for focused opportunities in high-needs rural regions as the need in these regions for Improvements is significant and preserving affordable housing is important. Any variances that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Product
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Increase liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
Additional challenges facing the residential energy and water efficiency market include: • Standards. There is a lack of standards and adoption of methodologies for communicating the presence and types of Improvements in residential properties, for reflecting their added value, and for measuring whether the FHFA Criteria have been met. • Liquidity. There is an overall lack of liquidity for mortgages that support financing for the FHFA Criteria. To address these challenges, Fannie Mae will: • Take a leadership role in working with the industry to establish standards in appraisals, real estate listings, and delivery data, and in establishing how the FHFA Criteria will be met so that homebuyers, realtors, appraisers, and lenders will have a uniform understanding of Improvements, which will facilitate a secondary market. • Provide direct liquidity to the market by purchasing mortgage loans that finance Improvements meeting the FHFA Criteria.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Evaluate how to establish loan product standards, guidelines, and tracking to demonstrate that the FHFA Criteria have been met by engaging four administrators of major energy rating and certification programs, by researching 10 energy and water saving calculation methodologies and lists used by State, local, tribal, and utility programs, and by developing a plan to operationalize tracking methodologies. Identify a single master list to serve as a benchmark – by Q3 end. Currently Fannie Mae has standards for two energy rating organizations and plans to engage the two largest single family certification programs in evaluating how to leverage credible projections. Fannie Mae has chosen to research 10 programs in order to represent a cross-section of the largest utility providers and geographic diversity. • Hold two meetings – by Q4 end – with interested parties (e.g., the National Realtors Association, Real Estate Standards Organization, the U.S. Department of Energy) to evaluate gaps in appraisal, multiple listing service (MLS), and investor delivery data that is needed by Fannie Mae and the industry in order to identify property-level information about energy and water efficiency features and assess the value impact. Evaluate opportunities to establish a formal partnership with a standardization effort and sign appropriate agreements if Fannie Mae determines we can do so after conducting due diligence. • Outline a plan for an education and training program for realtors and loan officers so that they and their customers will be able to understand the impact of Improvements on real estate forms. • Purchase between 50 and 100 mortgage loans that meet the FHFA Criteria. [28] Fannie Mae established a proxy Baseline, described below, for 2019 and beyond because operational processes will not be in place during the full year of 2018 to be able to track loans that meet the FHFA Criteria. The targets set for 2018 are based on outreach efforts planned to test methodologies that will enable us to assess them. As such, the 2018 targets are below the proxy Baseline while Fannie Mae establishes tracking methods. o **Baseline:** Fannie Mae currently does not require that the FHFA Criteria be met with our HomeStyle Energy mortgage, nor do we require lenders to account for and report when mortgage loans are used to finance Improvements. Our acquisitions have not been tracked for this purpose. To establish a Baseline and to project loan purchase goals for 2019 and 2020 we have used the following data and assumptions: ▪ HomeStyle Energy – This product was introduced in March 2016 and prior to this Fannie Mae had another energy efficiency mortgage product. From 2010 through 2016, a total of six loans were delivered to Fannie Mae in the target market range, with three of those in 2016. ▪ HomeStyle Renovation – Because this product is used to finance home renovations Fannie Mae assumes that some homeowners included Improvements in their projects. It is most likely that Improvements will be included in a kitchen remodel, bath remodel, or system upgrade (e.g., heating and cooling). According to a study by the Joint Center for Housing Studies (JCHS)[29], respondents reported that 17.2 percent of renovations included kitchen or bath updates or additions and 15.7 were for system upgrades. Therefore, we assumed that approximately 33 percent of HomeStyle Renovation loans had the potential to include an

28 In Fannie Mae's proposed Plan dated 5/8/17, lower purchase goals in Year 2 (50 to 100) and Year 3 (100 to 200) were disclosed and no Baseline was established given that Fannie Mae has not required the FHFA Criteria to be met and our acquisitions have not been tracked for this purpose. Since the original analysis was completed, Fannie Mae determined that other mortgage products besides HomeStyle Energy may include Improvements and we were able to obtain external data to better estimate a proxy Baseline and future loan purchases.

29 *Improving America's Housing 2015: Emerging Trends in the Remodeling Market*, Joint Center for Housing Studies of Harvard University.

Year	Actions
	Improvement. The JCHS study also cited that 84 percent of respondents indicated they installed energy efficiency improvements in their projects. As such, we assumed 27.6 percent[30] of HomeStyle Renovation mortgages could have included an Improvement that meets the FHFA Criteria. As we have chosen to use 2016 as a benchmark where HomeStyle Renovation deliveries were 1,737, this results in 480 loans meeting our assumption. ▪ Totaling HomeStyle Energy and HomeStyle Renovation loans for 2016, the Baseline we established is 483 mortgage loans.
2019	Based on outcomes in 2018 and to further accelerate industry standardization efforts and liquidity for Improvements, the following will be undertaken: • Update Fannie Mae's delivery data requirements to incorporate the identification of Improvements by - Q1 end. • Work with the Uniform Data Committee to gain consensus for updating the appraisal form to include identified fields for property-level information about energy and water efficiency features. If feasible based on the outcome of joint Uniform Data Committee efforts, update Fannie Mae's appraisal policy to incorporate the updated appraisal – by Q4 end. • Continue to work with the industry to drive efforts for standardization on the MLS. Assess progress and required actions to address challenges – by Q4 end. • Launch the lender and realtor training program – by Q4 end. • Purchase between 500 and 550 mortgage loans that meet the FHFA Criteria – by Q4 end. This represents a four to 14 percent increase over the Baseline[31].
2020	Based on outcomes in 2018 and 2019 and to further accelerate and sustain industry standardization efforts and liquidity for Improvements: • Continue to lead industry meetings to evaluate the status of implementation of appraisal, MLS, and delivery data standards and identify additional changes. Assess progress and required actions to address challenges – by Q4 end. • Purchase between 550 and 650 mortgage loans that meet the FHFA Criteria – by Q4 end. This represents a 14 to 35 percent increase over the Baseline[32].

The ultimate opportunity available in this market is to finance increased numbers of Improvements meeting the FHFA Criteria for the target markets and having standards is a critical part of ensuring sources of capital will participate. Fannie Mae plays an active role within the industry to set standards in many areas, including collateral value, data, and property valuation. Based on this experience, coupled with the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to improve acquisition of this product.

30 (32.9 percent x 84 percent)
31 Of this range, we will target 20 loans to be in high-needs rural regions.
32 Of this range, we will target 25 loans to be in high-needs rural regions.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

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

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

Meeting the Challenges
• One of the biggest challenges in the market for shared equity programs for affordable housing preservation is the lack of liquidity in the marketplace. To address these challenges, Fannie Mae will: • Purchase a total additional 1,100 to 1,300 loans over three years for the purpose of financing shared equity homeownership, which equals an estimated additional $158 million to $194 million of liquidity over the Baseline.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Purchase between 250 and 300 shared equity loans, representing a 20 to 44 percent increase over the Baseline. o **Baseline**: Fannie Mae's current guidelines do not require, nor do we identify or track, an affordability term of at least 30 years after recordation, or a preemptive option to purchase or limit proceeds at resale as required for shared equity loans qualifying for Duty to Serve credit. In order to determine a Baseline, we used an assumption based on industry research, that 75 percent of our shared equity loans met such criteria. We started with the total number of shared equity loans purchased in 2016, which was 277, when purchase volumes reached a high over the last three years. (2014: 172; 2015: 185; 2016: 277). Applying our assumption, we estimate a Baseline of 208.
2019	• Purchase between 350 and 400 shared equity loans, representing a 68 to 92 percent increase over the Baseline.
2020	• Purchase between 500 and 600 shared equity loans, representing a 140 to 188 percent increase over the Baseline. This includes the loan purchases referenced in Objective #2.

The ultimate opportunity available in this market is to finance increased numbers of shared equity loans for affordable housing preservation. Fannie Mae has significant experience purchasing various loans with deed-restrictions and under inclusionary housing programs. Based on this experience, coupled with the help of industry stakeholders, we believe this Objective is achievable within the time periods described. Underwriting standards and credit guidelines that are consistent with safety and soundness will be applied to acquisition of this product.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Increase liquidity for shared equity homeownership through outreach, research, and loan product solutions (Analyze, Partner and Innovate, Test and Learn).*

Meeting the Challenges

The shared equity market faces a number of challenges, including:

- Complexity and fragmentation. It serves various household income ranges, differs across geographic markets, and represents a variety of program types.
- Unknown size. The various programs are unique and no standard definition exists on what should be included in the "shared equity market." With data gathered by multiple agencies, often in survey form, there is a lack of a unified, loan level data source. There is also a lack of guidance on what should be identified as a shared equity mortgage loan in the Uniform Loan Delivery Data (ULDD) set.
- Lack of support. Shared equity mortgage loan products are generally not well promoted or supported in the larger mortgage finance industry as they add complexities to the loan origination process and to servicing. These complexities and challenges include additional underwriting requirements and steps and representations for the lender and servicer versus other loan types, leading to fears of non-compliance with investor requirements. As a result, lenders avoid originating and selling shared equity mortgages to Fannie Mae.[33]

To address these challenges, Fannie Mae will:

- Develop and execute a robust research and analysis strategy in order to fill knowledge gaps and help expand liquidity by:
    - Conducting research and data analysis to understand the market size, challenges, and opportunities for preserving the long-term affordability of shared equity property types, as well as related financing issues.
    - Distributing findings to bring clarity to the marketplace, which encourages capital sources to venture into lending and investing in these market segments where they may not have done so previously.
- Develop and execute a comprehensive outreach strategy to educate and seek input from the industry. In addition to engaging with program providers, housing counselors, other non-profits, government organizations, industry leaders and subject matter experts, engage lenders (1) to educate them further about our existing eligibility guidelines and products and help them in meeting loan delivery requirements and (2) to seek key input to identify potential opportunities to simplify requirements, increase eligibility, and increase delivery of shared equity mortgage loans.
- Identify potential policy updates in order to increase borrower and property eligibility, simplify loan requirements, and ultimately increase liquidity by leveraging information gathered through outreach, market research, and employing a test and learn approach to assess feasibility.

[33] Fannie Mae considers shared equity mortgage loans as those secured by properties in CLTs or inclusionary zoning programs, or those that have resale restrictions to preserve affordable housing stock in communities over the long term. Descriptions and guidelines may be found in Fannie Mae's *Selling Guide* Chapter B5-5, Community Seconds, CLTs, DU Refi Plus and Refi Plus, and Loans with Resale Restrictions.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Work with a leading industry organization to consider the advisability of creating a new housing database that may contribute to calculating the true size and scope of the shared equity market. • Analyze Fannie Mae's current portfolio of shared equity loans for the purpose of understanding performance and characteristics by geography, program type, and financing in order to provide insights to the industry and inform outreach and product development efforts; publish results for the public – by Q3 end. • Demonstrate industry leadership by: o Participating in one key conference as a means to develop and maintain relationships with program providers, housing counselors, other non-profits, government organizations, industry leaders, and subject matter experts, all of whom can help us to better understand market issues and opportunities; stay abreast of best practices and successful strategies; inform product activities; and communicate the "Duty to Serve" message – by Q4 end. o Facilitating a roundtable with industry stakeholders (e.g., lenders, servicers, program providers, non-profits, and government organizations), industry leaders, and subject matter experts to meet – by Q3 end – for the purpose of discussing, analyzing, and solving for the challenges facing shared equity, identifying loan product enhancements, and policy updates and providing input as Fannie Mae implements the activities outlined in the Plan. • Establish methodologies – by Q4 end – for tracking shared equity loans that meet FHFA's criteria of 30-year affordability, preemptive options to purchase and limit of proceeds at resale, in order to report accurately loan product deliveries and to refine Baselines for subsequent years. Engage the five Fannie Mae lenders who deliver the most shared equity loans to Fannie Mae in order to understand how they review and capture these features. • Review credit and/or collateral policy, evaluating opportunities to update shared equity lending parameters for the purpose of: o Identifying variances that will help us test the feasibility of changes. Introduce one product variance – by Q4 end – that will enable Fannie Mae to partner with lenders to test and learn one or more market, economic, or operational impacts for the purpose of increasing mortgage loan purchases. One or more participating lenders will be chosen based on level of interest, capacity potential, volume of loan delivery to Fannie Mae, and market focus. Fannie Mae will also work with a program provider to identify opportunities and ensure the terms and conditions of the variance will meet the needs of the homeowners. The variance outcome will be evaluated in 2019 and success will be based on actual volume delivery relative to projected delivery as well as positive lender feedback on the changes implemented. o Identifying opportunities to provide lenders and program providers with further guidance on program organizational standards and best practices. o Adding clarity to Fannie Mae's *Selling Guide* by making identified updates, if feasible, and depending on research, learnings, and analysis – by Q4 end. • Establish a business-to-business outreach campaign that includes the availability of educational materials and lender webinars about Fannie Mae products for financing shared equity programs for the purpose of helping the market to understand availability, terms and conditions, and opportunities for such loans so that lenders will be able and willing to use and originate them. Target engagement with 10 lenders (representing our five largest lenders of shared equity mortgage deliveries in 2016 as well as five other lenders who represent geographical diversity), two HFA (representing two of the top five States

Year	Actions
	with the most programs), five shared equity program providers (representing two different program types and that are geographically diverse), and one national industry organization – by Q4 end. Eighteen relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years. • Create a case study framework for a particular shared equity homeownership program such as a CLT or an inclusionary zoning program that will look in-depth at a community for the purpose of helping the industry understand how different parties (e.g., program administrator, government, lenders) work together so that a to-be-announced eligible mortgage can be created to finance homeowners; begin case study research – by Q4 end.
2019	Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests: • Leverage market outreach, policy evaluation, and outcome of variance(s) executed in 2018 to introduce one new product variance – by Q3 end. If feasible, and depending on learnings, announce one policy update – by Q4 end. • Evaluate progress and continue analysis of the case study begun in 2018, making appropriate adjustments to the approach, engaging additional stakeholders, and determining preliminary findings; publish results to the public – by Q4 end. • Continue and expand industry outreach activities started in 2018 to maintain engagement and inform product activities by participating in two key conferences or seminars and speaking at one other event – by Q4 end. Facilitate one roundtable, incorporating feedback from 2018 and including two new participants in order to improve engagements and outcomes – by Q3 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing shared equity properties by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with five additional lenders and five additional stakeholders (i.e., lenders and stakeholders not approached in 2018) – by Q4 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. In particular, we will target three lenders and one program provider who are new to shared equity programs. Ten additional relationships over the ones established in 2018 will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.
2020	Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests: • Purchase between 50 and 100 shared equity program loans, an approximate 10 to 15 percent of the total purchases in 2020 from Objective #1. These loans are included in the total shared equity loan purchases in Objective #1, where the Baseline has been described. • Continue and expand industry outreach activities started in 2018 and 2019 to maintain engagement and inform product activities by participating in two key conferences or seminars and speaking at one other event. Facilitate one roundtable, incorporating feedback from prior years and including two new participants in order to improve engagements and outcomes – by Q4 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing shared equity properties by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with five additional lenders and five additional stakeholders (i.e., lenders and stakeholders not approached in 2018 or 2019) – by Q4 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 and 2019 activities and responses as well as an assessment of geographical and other needs. In particular, we will target three

Year	Actions
	lenders and one program provider who are new to shared equity programs. Ten additional relationships over the ones established in 2018 and 2019 will be a significant commitment of time and will provide learnings on how to expand engagement in following years.

Fannie Mae has significant experience in outreach, market engagement, data collection and analysis, consumer research, and product development. Accordingly, we believe this Objective is realistic and can be achieved within the time periods described. The ultimate opportunity available in this market is to work with lenders to increase liquidity in the shared equity market. Any variances that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

J. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

1. *Objective #1: Conduct outreach, review potential loan product enhancements, and purchase loans secured by RAD properties (Analyze, Test and Learn, Do What We Do Best).*

Meeting the Challenges
Financing RAD properties has several key challenges, including: • Properties converting into a RAD structure are located in low-income communities that have significant challenges not directly tied to the property. • Because HUD is on both sides of the transaction (i.e., managing both the subsidy and the debt through FHA), developers often opt for FHA financing in the belief that it is more advantageous. • There is a wide range in size and capacity of Public Housing Authorities (PHA) and other parties to the transaction which lenders need to understand to assess counterparty risk. • While combining properties into a single loan could be cost beneficial, transactions must reflect unique property ownership characteristics. To address these challenges, Fannie Mae will: • Meet with key stakeholders including PHA, State HFA, and non-profit and for-profit developers to determine what, if any, product enhancements or other changes are needed to Fannie Mae's current RAD product to increase loan purchases. • Establish a PHA Advisory Council to provide insight and guidance to Fannie Mae as we address long term solutions for RAD and other PHA issues.

Meeting the Challenges
• Increase loan purchases of mortgages secured by RAD properties.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Conduct outreach to five key RAD stakeholders including PHA, State HFA, and non-profit and for-profit developers to determine challenges and possible solutions to increase RAD business. o Establish a PHA Advisory Council to provide insight and guidance to Fannie Mae on RAD and other public housing issues. o Ensure that the PHA Advisory Council includes PHA representation from diverse geographies and of different sizes so that Fannie Mae can better understand the varying needs across the country. • Conduct outreach and marketing to five Fannie Mae affordable lenders to (1) understand any issues with Fannie Mae's current RAD product and (2) enhance the lenders' knowledge of Fannie Mae's RAD program. • Utilize outreach responses to consider two changes to and/or incentives for the RAD financing product. • Purchase loans secured by six RAD properties, representing a 50 percent increase over the Baseline. o **Baseline**: Fannie Mae did not have a product that provided for the purchase of these loans until 2016 and then did not start tracking these purchases until 2017. The annualized number of RAD loans expected to close in 2017 is four loans, each secured by one RAD property. Accordingly, Fannie Mae is using our annualized 2017 purchases of four loans as the Baseline for this activity. • Review and adjust 2019 loan purchase goals as needed based on work completed in 2018.
2019	• Continue to conduct outreach to determine challenges and possible solutions to increase RAD business through quarterly PHA Working Group meetings. • Purchase loans secured by 10 RAD properties, representing a 150 percent increase over the Baseline. • Review and adjust 2020 loan purchase goals as needed based on work completed in 2019.
2020	• Purchase loans secured by 20 RAD properties, representing a 400 percent increase over the Baseline. • Review experiences with RAD program financing to inform the 2021 – 2023 Duty to Serve Plan.

The information gathered through outreach, analysis, and market research will help Fannie Mae determine potential product enhancements and/or marketing approaches necessary to increase our RAD business, which in turn will increase liquidity for very low-income housing. Fannie Mae actively established our guidelines for RAD financing over the last two years and has continued to track the RAD program and seek ways to increase our loan purchases secured by RAD properties.

As of January 1, 2017, there were roughly 127,500 units under the RAD program for which financing was likely to be sought. Additionally, the cap was increased to 225,000 (from 185,000 initially) units in May 2017. To date, Fannie Mae has engaged in several RAD transactions. In the past, volume has been limited largely due to the fact that many RAD deals were in process with FHA. However, the pace of conversion has increased significantly since FY 2015, when roughly 13,000 units converted. As of the end of April 2017, RAD units were converting at an annualized rate of roughly 35,000 (280 projects assuming 125 units/project) per year, with roughly 129,000 units remaining to be converted. HUD's data indicates that approximately 37 percent of RAD units will not require debt, but that nonetheless leaves roughly 80,000 units (640 projects assuming HUD's average of 125 units/project) that will need some kind of debt financing as they go through the RAD program. This would suggest that the bulk of the RAD units currently authorized and awarded will likely seek financing over the three year term of the Plan.

Based on our experience with RAD financing and similar products, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Financing of RAD loans will be conducted subject to applicable underwriting guidelines and credit standards that incorporate notions of safety and soundness. Any changes to these guidelines or standards will be processed through Fannie Mae's standard internal approval procedures which also incorporate notions of safety and soundness.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties (12 C.F.R. § 1282.34 (d) (7)).

1. *Objective #1: Increase affordable capital through industry outreach and developing loan financing solutions (Analyze, Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
Financing the purchase or rehabilitation of distressed properties as homes for very low-, low-, and moderate-income families faces a number of challenges, including: • Decreasing supply. Market recovery means the supply of these properties is declining. • Investor advantage. Private investors are able and willing to pay higher prices for distressed properties, which eliminates opportunities for homeowners and non-profits to purchase or rehabilitate them. • Small balances. Mortgage loans are often for small amounts due to the low value of the properties, which discourages lenders from originating them. • Appraisals. Appropriate comparison data is not available to support home appraisals. • Limited homeowner awareness and capabilities. Potential homeowners lack information about how to purchase a distressed home and lack experience and resources to renovate properties, which are often in need of significant repairs. • Complexity. Renovation mortgages are complex and lenders are often reluctant to originate them due to policies on draw authorizations, LTV limits, property types (e.g., only 1- or 2-units) and loan proceeds limits allowed for the renovation, as well as other operational complexities related to approving and overseeing the contractor and project. • Non-individual underwriting difficulty. Mortgage loan products are designed for individual borrowers and not easily suited for non-profits needing long-term capital for strategies such as financing or maintaining rental portfolios. There is a lack of underwriting standards for non-individuals and limitations on the number of properties that can be financed by an organization. To address these challenges, Fannie Mae will:

Meeting the Challenges
• Leverage the strong framework we have developed through our Neighborhood Stabilization Initiative efforts and use the information gathered through outreach and market research to identify appropriate financing solutions and product enhancements that, when implemented, will increase awareness of individual and non-profit borrower eligibility and clarify loan requirements, resulting in the provision of increased liquidity to the market. • Employ a test and learn approach to enhance Fannie Mae loan products for both individuals and non-profits that will best serve the needs of very low-, low-, and moderate-income families, thus bringing greater liquidity to the market for these populations. • Increase awareness and access to resources to help potential homeowners with the purchase or rehabilitation of distressed properties. • Establish strategic relationships with vendors and work with housing counselors, community groups, CDFI, customers, and others in the industry to increase awareness and to promote access to resources and capital financing, including third-party grants.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Demonstrate industry leadership by: o Participating in two key conferences or seminars as a means to develop and maintain engagement and build strategic partnerships with key industry stakeholders such as non-profit developers, housing counselors, community groups, CDFI, and renovation contractors; stay abreast of best practices and successful strategies; inform product activities; and communicate the "Duty to Serve" message – by Q3 end. o Facilitating one housing roundtable with cross-functional industry representation, as noted above, to discuss, analyze, and solve for the challenges facing financing distressed properties and to solicit input as Fannie Mae implements the activities outlined in the Plan – by Q3 end. • Establish a business-to-business marketing and outreach campaign that includes the availability of educational materials and lender webinars about financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products for the purpose of helping the market to understand availability, terms and conditions, and opportunities so that borrowers and lenders will be able and willing to use and originate them. Target engagement with 15 lenders and five other stakeholders including HFA and realtor associations – by Q4 end. Fannie Mae has chosen to target the five largest lenders of our mortgage loan deliveries in 2016 as well as 10 other lenders who represent geographical diversity. Fannie Mae will also work with the HFA in two of the top five most populated States, two of the largest non-profit organizations who counsel homeowners, and the nation's largest association of realtors. Twenty relationships will be a significant commitment of time and will provide learnings on how to expand engagement in following years. • Establish a consumer outreach program to increase awareness and access to financing that includes education and resources about home purchase and renovation, an update to HomePath®,[34] and a catalog of organizations and programs throughout the United States that provide assistance to consumers with purchase or rehabilitation of distressed properties. Target engagement with 10 organizations that represent a cross-section of size, geography, and type of assistance – by Q4 end. Ten

34 HomePath is Fannie Mae's online platform for selling our REO inventory. See www.HomePath.com

Year	Actions

	such relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.
	• Evaluate opportunities to establish partnerships with State and other programs that can combine subsidies and assistance, together with Fannie Mae mortgage loan products, for the purpose of purchase or rehabilitation of distressed properties. Target engagement with five such organizations – by Q4 end. Fannie Mae has relationships already with programs that provide subsidies to homeowners, but not for the specific purpose of purchase or rehabilitation.
	• Increase awareness among public entities and non-profits that purchase Fannie Mae-owned distressed properties for the purpose of serving the target markets; develop a targeted list identifying past and potential purchasers and develop and execute a training and outreach plan – by Q2 end.
	• Evaluate opportunities to (1) purchase bulk mortgage loan purchases from and (2) make investments in institutions or ventures, subject to compliance with Fannie Mae's Charter Act and receipt of FHFA approval, that support the financing of the purchase or rehabilitation of distressed properties. Target engagement with five non-profit, tribal, and/or government-related organizations, and three CDFI – by Q3 end. Fannie Mae has previously purchased mortgages in bulk and has relationships with organizations that would use investment dollars towards enhancing their ability to purchase and rehabilitate distressed properties for the target market. Engaging a total of eight organizations representing different sizes and geographic diversity, will provide us sufficient input for the evaluation exercise.
	• Review credit and/or collateral policy identifying opportunities to simplify and overcome challenges with Fannie Mae's mortgage loan products, such as HomeStyle Renovation, for the purpose of increasing mortgage loan purchases. Specific barriers and challenges that will be reviewed include LTV limits, non-individual borrower underwriting, and small balance loans. Fannie Mae will:
	  o Establish a test and learn approach issuing one negotiated variance to select lender(s). Fannie Mae will determine test objectives and proposed terms – by Q2 end – based on stakeholder input, conduct related economic and operational impact analyses – by Q3 end - and issue one lender variance – by Q4 end.
	    ▪ One or more participating lenders will be chosen based on level of interest, capacity, potential volume of loan delivery, and market focus.
	    ▪ The variance outcome will be evaluated in 2019 and success will be based on actual volume of loan delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented.
	  o If feasible and depending on review, learnings, and analysis, publish one policy update by Q4 end.
	• Enhance the relationship with a national home improvement company and test a renovation partnership program for the purpose of improving homeowners' access to products and services for rehabilitating distressed properties – by Q2 end.

2019	Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests: • Evaluate the home improvement vendor partnership tested in 2018 and make a decision – by Q2 end – to continue or not. If the determination is to continue, develop, and execute a plan to maintain the program. • Analyze trends such as appraisals for distressed properties in order to evaluate the impact on product and policy and, based on learnings and if feasible, make updates – by Q4 end. • Continue industry leadership by participating in two key conferences or seminars and speaking at one other event for purposes of informing the industry of research findings, product enhancements and/or

Year	Actions
	market insights. Facilitate one housing roundtable, incorporating feedback from 2018 and including new participants in order to improve engagements and outcomes – by Q4 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with an additional five lenders and three other stakeholders (i.e., lenders and stakeholders not approached in 2018) – by Q4 end. The additional lenders and stakeholders will be selected based on evaluation of 2018 activities and responses as well as an assessment of geographical and other needs. Fannie Mae will work with the non-profit organizations engaged in 2018 to determine additional organizations with whom we should target. Eight additional relationships will be meaningful and will provide learnings on how to expand engagement in following years. • Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Target engagement with an additional five organizations (i.e., organizations not approached in 2018) that provide assistance to consumers with purchase or rehabilitation of distressed properties – by Q4 end. Two of such organizations will be community organizations for the purpose of bringing resources directly to community venues/events serving potential homeowners. These additional five relationships will provide substantial learnings on how to expand engagement in following years. • Based on the outcomes of the 2018 evaluation of opportunities to establish partnerships with State and other programs that can combine subsidies and assistance together with Fannie Mae's HomeStyle Renovation product, create a negotiated variance with select lender(s) and program(s) as a test and learn approach. Fannie Mae will determine variance objectives and proposed terms – by Q1 end – based on stakeholder input, conduct related economic and operational impact analyses – by Q2 end – and issue one lender variance – by Q3 end. o Participating lenders will be chosen (after conducting lender outreach as noted above) based on level of interest, capacity, potential loan delivery volume, and market focus. o The variance outcome will be evaluated in 2020 and success will be based on actual volume delivery to Fannie Mae relative to projected delivery as well as positive lender feedback on the changes implemented. • Evaluate the outcomes of variance(s) executed in 2018 and introduce one new negotiated variance with terms for one additional change to Fannie Mae loan product parameters, or review credit and/or collateral policy identifying opportunities to enhance product parameters – by Q4 end. One variance will focus on opportunities in high-needs rural areas. If feasible and depending on research, learnings, and analysis publish one policy update – by Q4 end.
2020	Based on lessons learned in 2018 and 2019 and to further increase knowledge through market outreach, research, analysis, and tests: • Expand industry leadership by participating in two key conferences or seminars and speaking at two other events for purposes of informing the industry of research findings, product enhancements, and/or market insights. Facilitate one housing roundtable, incorporating feedback from 2019 and including new participants, in order to improve engagements and outcomes – by Q4 end. • Enhance and continue to execute the business-to-business marketing and outreach campaign focused on financing the purchase or rehabilitation of distressed properties with Fannie Mae mortgage loan products by incorporating learnings from outreach efforts into updated product materials and webinars. Target engagement with an additional five lenders (i.e., lenders not approached in 2018 or 2019) – by Q4

Year	Actions
	end. The additional lenders will be selected based on evaluation of 2019 activities and responses as well as an assessment of geographical and other needs. • Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. Target engagement with an additional five organizations (i.e., organizations not approached in 2018 or 2019) that provide assistance to consumers with purchase or rehabilitation of distressed properties – by Q4 end. The focus of 2020 consumer outreach will be on helping homeowners to incorporate energy and water efficiency into their new homes and will leverage the results of Fannie Mae's activities within the related Regulatory Activity in our Plan. Two organizations selected will have experience in working with homeowners on this topic. An additional five relationships will provide learnings on how to expand engagement in following years. • Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials. • Evaluate the outcomes of variance(s) executed in 2019 and introduce one new negotiated variance with terms for one additional change to Fannie Mae loan product parameters, or review credit and/or collateral policy identifying opportunities to enhance product parameters – by Q4 end. One variance will focus on energy or water efficiency upgrade opportunities. If feasible and depending on research, learnings, and analysis, publish credit and/or collateral policy updates – by Q4 end.

Fannie Mae has significant experience in outreach, market engagement, and product development. Accordingly, we believe this Objective is realistic and can be achieved within the time periods described. The ultimate opportunity available in this market is to finance an increased number of distressed property purchases and rehabilitations by individuals and non-profits. We also will look for focused opportunities in the high-needs rural regions as the need there for financing the purchase or rehabilitation of distressed properties and preserving affordable housing is important. Any variances that create changes in credit parameters and product guidelines will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Product
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties (Do What We Do Best).*

Meeting the Challenges
One of the biggest challenges in the market for the purchase or rehabilitation of distressed properties as homes for very low-, low-, and moderate-income families is a lack of liquidity for individuals, non-profits, and other mission-oriented entities. To address these challenges, Fannie Mae will: • Purchase an additional 21,875 to 23,550 loans over the Baseline over three years that were originated for the purpose of purchasing or rehabilitating distressed properties, which equals an estimated additional $3.1 billion to $3.3 billion of liquidity. This is an ambitious outcome given that Fannie Mae forecasts an overall decrease in distressed properties as the housing market recovers and fewer homes are in the distressed inventory.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Purchase between 11,000 and 11,540 loans[35] originated for the purchase or rehabilitation of a distressed property,[36] representing approximately a five to 10 percent increase over the expected Baseline for 2018 as noted below. o **Baseline**[37]: Because the purchase volume for these loans has steadily decreased over the last three years (2014: 20,606; 2015: 17,776; 2016: 14,002) and is expected to continue to do so, a three-year average is not an appropriate Baseline and, therefore, 2016 is being used as a representative number of purchases[38]. For these purposes, Fannie Mae has included mortgage loans that finance the purchase of REO and short sales, as third party sales are not usually financed with a mortgage. Because of market recovery and a resulting expected decrease in distressed property inventory, Fannie Mae analyzed third party forecast data in relation to our historical purchases to establish Baselines for each year of the Plan. We obtained quarter-by-quarter national REO inventory reported by Moody's that represented actual inventory to-date and forecast inventory through 2020. This data shows there will be a 29.1 percent decline in national inventory from 2016 to 2018, a 13.1 percent decline from 2018 to 2019, and a 24.8 percent increase from 2019 to 2020. We analyzed that on average given 2011 loans that Fannie Mae financed for the purchase of REO properties was three percent of the national REO inventory[39]. We then used the projected national REO inventory for 2018, 2019, and 2020 to apply a three percent purchase rate to determine what we would expect to purchase in each year, absent the work under the Plan. In addition, to determine Baselines for the financing of short sales, we modeled these as a percentage share of the incoming flow of loans into the national REO inventory. The inflow into REO inventory, as opposed to the REO stock, better aligns over time with the flow of loans through the default process, which is the source of our short sale acquisitions. We analyzed the relationship between our own REO inflows, dispositions, and stock historically to infer a time series of national REO inflows. Then, analyzing our short sale acquisitions as a share of inferred national REO inflows since 2011 we determined that, historically, Fannie Mae financing for the purchase of short sale properties was on average one percent of the national REO inflow in a given year. We then used projected national REO inflows for 2018, 2019, and 2020 to apply a one percent purchase rate to determine what we would expect to purchase in each year, absent the work under the Plan. For purposes of establishing Baselines for the high-needs rural regions, we looked at Fannie Mae's 2016 Baseline for loan purchases for all distressed properties—the addition of REO and short sales—and the forecasted volumes to assess the relative changes. The following table shows our

35 In Fannie Mae's proposed Plan dated 5/8/17, significantly lower purchase goals in Year 1 (150 and 200), Year 2 (200 and 250), and Year 3 (250 and 300) were proposed and a small Baseline was established. Fannie Mae focused that draft Plan exclusively on financing rehabilitation, and not purchases alone. Also, at that time we could identify only mortgage loans that financed properties from Fannie Mae's REO inventory and relied only on our internal forecasts. Subsequently, we obtained additional internal and external market data that allowed us to increase our loan purchase goals.
36 Of this range, we will target between 100 and 105 loans on properties in high-needs rural regions.
37 Since Fannie Mae submitted our draft Underserved Markets Plan, we have obtained additional national market data as well as purchase volume data that allowed us to more accurately size this market and the Baselines.
38 Fannie Mae determined that in 2016, 155 mortgage loans on properties in high-needs rural regions were for the purchase of a REO or short sale.
39 The average number of REO inventory was 466,101 and Fannie Mae purchased an average of 13,959.

Year	Actions
	analysis of projected loan purchases absent any initiatives under the Plan in order to determine yearly Baselines.

	Baseline	
Year	Total	High-Needs Rural
2016	14,002	155
2018	10,490	96
2019	9,939	86
2020	12,156	106

Year	Actions
2019	• Purchase between 10,900 and 11,430 loans originated for the purchase or rehabilitation of a distressed property,[40] representing approximately a 10 to 15 percent increase over the expected Baseline for 2019.
2020	• Purchase between 13,975 and 14,585 loans originated for the purchase or rehabilitation of a distressed property,[41] representing approximately a 15 to 20 percent increase over the expected Baseline for 2020.

Increasing the purchase volume of loans originated for the purchase or rehabilitation of distressed properties provides direct liquidity to the market. Fannie Mae has a significant presence in the distressed property market and has the systems, operations, and resource tools needed to facilitate efficient loan delivery in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to improve acquisition of mortgages for this purpose. Based on Fannie Mae's experience purchasing loans that finance distressed properties and the available resources, Fannie Mae has determined that this Objective is realistic and maybe achieved within the time periods described.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

L. Additional Activity: Workforce Equity (12 C.F.R. § 1282.34 (e)).

1. *Objective #1: Establish a program to provide investment capital to non-LIHTC properties to preserve multifamily rental properties affordable to workforce families (Analyze, Do What We Do Best).*

Meeting the Challenges
The Workforce Housing market has several key challenges, including: • The proportion of more affordable multifamily Class B/C inventory (as compared to Class A properties) declined from 65 percent as of year-end 2000 to 54 percent as of year-end 2016.

40 Of this range, we will target between 95 and 100 loans in high-needs rural regions.
41 Of this range, we will target between 120 and 125 loans in high-needs rural regions.

Meeting the Challenges
• Nearly half of the nation's 100 largest metro areas posted absolute declines in their stock of low-rent units (defined as having real gross rents under $800) between 2005 and 2015. The total number of units renting for less than $800 per month declined by over 260,000 from 2005 to 2015, while the overall rental stock increased by over 6.7 million units. • The most inexpensive rentals are most likely to have major quality issues. Approximately 11 percent of rentals under $600 per month lack complete bathrooms, running water, or electricity, or have other indicators of major disrepair, forcing lower income renters to choose between affordable and safe housing. • While the gap is diminishing, rent growth for Class B/C properties has been equivalent to or exceeded rent growth for Class A properties since 2012. Cumulatively, from Q1 2012 to Q4 2016, asking rents for Class B/C units grew by almost 24 percent while asking rents for Class A grew by only about 19 percent. • The gap between severely cost-burdened working renter households and homeowners has widened, with one in four working renter households spending more than 50 percent of income on rent and utilities compared to just one in six homeowners. • A recent joint study released by Enterprise Community Partners and the JCHS estimated that, going forward, it is likely that the number of severely cost-burdened renters will grow by anywhere from 1.7 to 3 million in the coming decade. • We cannot "build our way out" of this problem (i.e., increase supply sufficiently) due to the fact that new construction is expensive. As a result, rents charged on new apartments must be high to pay back high upfront costs. • Limited Capital – The aggregate amount of equity capital dedicated to workforce housing is relatively small in the context of the multifamily capital markets, given very few investors are willing to accept the below market rate yields required for these projects to be feasible. • Limited Sponsors – There are a limited number of funds and other financing vehicles, with a variety of approaches and goals, targeting rental workforce housing. • No standard definition of "workforce" housing exists. • Affordability Protections – Workforce housing is an underserved market segment that could benefit from additional protections that ensure the rental units remain affordable at reasonable levels for their particular market. To address these challenges, Fannie Mae will: • Design and implement a non-LIHTC passive equity investment program and seek FHFA approval of the program. • Work with stakeholders to develop a standard definition for workforce housing. • Review opportunities to include RED in the workforce equity efforts. • In partnership with a new generation of social responsibility funds that have the goal of creating, rehabbing, and maintaining the affordability of housing, bring new capital sources to workforce housing. Provide investment capital for both naturally occurring affordable housing (NOAH) and preservation of deals with existing regulatory agreements and/or investments with entities whose charters obligate them to retain the long-term affordability of the units.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Work with industry stakeholders to define workforce housing that may be used as a standard. • Design one non-LIHTC workforce investment program, including reviewing and addressing:

Year	Actions
	o Investment underwriting. o Approval process. o Maximum portfolio capacity. o Asset management. o Reporting – ongoing monitoring activities to ensure that the workforce housing serves very low-, low-, and moderate-income families at affordable rents. o Performance measures – traditional financial as well as impact performance. • As further outlined in Objective #3 of our RED Activity, include a review of ways to incorporate elements of RED into the workforce equity program. • Attain preliminary internal approval for proposed program. • Submit program to FHFA for approval. • If the program receives approval from FHFA, process the approved program through Fannie Mae's internal product development process if required or, if required by FHFA, make revisions to the program and seek final FHFA approval.
2019	• Build out internal team to implement the program. • Identify and approve one to five potential investments. • Close one to five investments that have been approved internally and where approval has been received from FHFA. o **Baseline**: Because this is a new product and quite different from equity that Fannie Mae invested in prior to conservatorship, Fannie Mae has no comparable product to establish a Baseline. One to five investments has been established as a reasonable goal, assuming approval by FHFA and the opportunity to put the infrastructure in place to manage this line of business.
2020	• Incorporate "lessons learned" from 2018 and 2019 activities. • Close 10 investments.

The goal of this Objective is to bring new capital to improving and preserving affordable housing opportunities for workforce families, and to address the growing affordability gap. We will do so by engaging in partnerships with a new generation of social responsibility funds that have the goal of creating, rehabbing, and maintaining the affordability of housing, bringing new capital sources to workforce housing. These activities will also provide investment capital for NOAH and preservation of transactions with existing regulatory agreements and/or investments with entities whose charter obligates them to retain the long term affordability of the units.

Assuming the current trends in income and rents outlined above in the "Challenges" section remain in place, affordability concerns will keep becoming more pronounced for such households. This demonstrates a solid need for workforce housing that shelters moderate-income families.

Workforce housing will serve families of modest means who have very low-, low- and moderate incomes. However, it is important to understand that this type of housing is important because it serves moderate-income families which often will not benefit under other Duty to Serve activities. For example, they do not qualify under the Statutory Activity for Section 8 project based housing which provides assistance to very low-income families. They also do not qualify under the Statutory Activity for Section 202 supportive housing for the elderly. Further, because of the preference for very low- and low-income families reflected in State and local LIHTC allocation criteria, moderate-income families are unlikely to become residents of an affordable LIHTC property, which is another Statutory Activity.

Integratec (now part of MRI Real estate Software) reports that of the 35,291 LIHTC properties they track (representing 2,251,569 total units), 2,151,517 units are LIHTC qualifying units. From this data it can be inferred that less than five percent of this significant number of units are available to moderate-income families. Nonetheless, moderate-income families are statutorily-designated beneficiaries of the Duty to Serve and their needs must be addressed. Permitting Fannie Mae to invest in workforce housing would benefit moderate-income families, who are an underserved segment of this market, and would provide a benefit comparable to the benefit provided to very low- and low-income families pursuant to many of the Statutory and Regulatory Activities. Because Fannie Mae's investments will be placed with social responsibility funds, the purpose of which is to create, rehab, and maintain affordable housing, the affordability of the housing is expected to be retained. Moderate-income families living in workforce housing will be provided with the consumer protections available to tenants under applicable State and local laws and regulations.

Investments in workforce housing are also important because due to the affordable (i.e., lower) rents, only lower levels of debt are supportable, meaning that without additional equity capital, the property will likely not be recapitalized and "preserved" as affordable to working families. Compounding this issue is the fact that because rental revenue is not being maximized, equity investments yield a below market rate of return relative to comparable properties, limiting the amount of equity capital available to fund workforce housing. Based on our experience with equity investing activities, coupled with our very strong market knowledge, Fannie Mae has determined that this Objective is realistic and can be achieved within the time periods described. In addition, the product will be developed and approved with strong consideration to principles of safety and soundness.

Implementation of this Objective is contingent upon a determination that the Objective and related actions are compliant with Fannie Mae's Charter Act, and receipt of FHFA approval.

Criteria	2018	2019	2020
Evaluation Factor:	Investment	Investment	Investment
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

M. Additional Activity: Residential Economic Diversity Activity (12 C.F.R. §§ 1282.32 (d)(3) and 1282.36(c)(3)).

<u>Note</u>: Fannie Mae seeks extra credit for this Activity.

1. *Objective #1: Establish a Residential Economic Diversity (RED) initiative to increase loan purchases relating to the Statutory Activity for the provision of debt for LIHTC under Section 42 of the Internal Revenue Code (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
Preserving affordable housing while incorporating notions of RED has several key challenges, including: • Existing subsidized affordable housing, including LIHTC properties, is often located in neighborhoods that are not economically diverse.

Meeting the Challenges
• Economically challenged neighborhoods are often deprived of needed public services and private sector investments and are therefore, unattractive to renters who could pay market prices and who have an abundance of other choices. • Gentrification has pushed affordable housing out of neighborhoods as housing prices and rents increase. • Higher end communities often oppose affordable housing development in their neighborhoods out of fear and misinformation. To address these challenges, Fannie Mae will: • Establish an initiative to incorporate RED into Fannie Mae's Statutory Activity relating to the acquisition of mortgages on LIHTC financed properties. • Work with lenders originating LIHTC loans and LIHTC sponsors and investors to increase awareness of RED and proactively seek RED LIHTC projects. • Through outreach and loan product review, increase Fannie Mae's percentage of our LIHTC Debt purchases that qualify as RED from 15 percent in 2016 to 20 percent by the end of the Plan. • Review RED LIHTC projects in both high opportunity areas and mixed income neighborhoods. • Publish our experience incorporating RED into our LIHTC Debt program as part of an overall white paper (or similar document) regarding RED.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Meet with seven DUS lenders to increase awareness of RED and to specifically identify projects eligible for four percent and nine percent LIHTC that may meet the requirements of RED as provided in the Regulations (RED Transaction(s)). • Meet with five sponsors to better understand the difficulties of including RED concepts in housing development. • Meet with three LIHTC investors to discuss hurdles faced when reviewing potential investment opportunities in RED deals. • Based on the outreach conducted, identify two potential enhancements to Fannie Mae's existing products that could increase the volume of LIHTC deals that qualify as RED Transactions. • Review and approve at least one of the identified potential enhancements. • Confirm projected loan purchases for 2019 and establish a Baseline for mixed-income LIHTC Debt.
2019	• Commence work on a RED white paper on lessons learned from activities including LIHTC Debt transactions in order to educate and inform stakeholders. • At least 17 percent of Fannie Mae's LIHTC Debt purchases will be secured by LIHTC properties that qualify as RED Transactions. This represents a two percent increase in the percentage of Fannie Mae's LIHTC Debt purchased in 2016 that qualified as RED (15 percent).

Year	Actions
	o **Baseline:** Under FHFA's Draft Evaluation Guidance, activities that support financing of mortgages on affordable housing in high opportunity areas qualify for duty to serve credit if they are undertaken in connection with a Statutory Activity, such as the financing of LIHTC Debt. Accordingly, to establish the Baseline for this Objective, Fannie Mae analyzed our portfolio to determine how many of our LIHTC Debt purchases were loans located in high opportunity areas. Between 2014 and 2016, an average of 14 percent of the LIHTC Debt purchased by Fannie Mae was located in a high opportunity area and, therefore, qualified as RED (2014: 14 percent; 2015: 14 percent; 2016: 15 percent). However, given that the percentage in 2016 was higher than the average, Fannie Mae will use the 2016 percentage (15 percent) as the Baseline for RED LIHTC Debt purchases. Fannie Mae believes we have purchased LIHTC Debt on mixed income properties, however, we are not able to track these loans at this time. Part of the work completed during 2018 will be to confirm/refine the Baseline for this Objective. Currently, however, the Baseline is based solely on loans in high opportunity areas. As noted above, a Baseline for mixed income LIHTC Debt purchases will be established based on research and outreach completed in 2018. • Confirm RED LIHTC Debt purchase goals for 2020.
2020	• At least 20 percent of Fannie Mae's estimated LIHTC Debt purchases will be secured by LIHTC properties that qualify as RED Transactions. • Review initiative for lessons learned to be included in the white paper. • Publish and distribute a white paper that includes Fannie Mae lessons learned regarding LIHTC Debt purchases secured by LIHTC properties qualifying as RED Transactions, so that other LIHTC stakeholders can use the information to increase awareness of and investment in RED Transactions. • Prepare for the 2021 – 2023 Duty to Serve Plan.

Fannie Mae believes that the Statutory Activity relating to LIHTC Debt also provides an excellent potential opportunity to finance RED Transactions. By affirmatively incorporating RED Transactions into the identified Statutory Activity involving LIHTC Debt, Fannie Mae can better coordinate our internal activities, share lessons learned across different work channels, and bring the expertise of various stakeholders to the subject as a whole. Accordingly, we believe our activities are better implemented and assessed on this basis. This RED Activity does not raise issues relating to whether there are adequate levels of consumer protections or benefits to the tenants or homeowners that are consistent with the requirements of other Statutory and Regulatory Activities in the Regulations. If Fannie Mae were to acquire a mortgage on a RED Transaction, that acquisition would not impact homeowner or tenant rights. Fannie Mae's security instruments require the parties to adhere to all applicable federal, State, and local laws and such laws would remain in full force and effect to the same extent and with the same application as if Fannie Mae had not acquired the mortgage, including State and local landlord-tenant, zoning, and other laws and regulations relating to LIHTC tenants.

Based on Fannie Mae's significant experience in multifamily housing finance and our strong relationship with lenders, owners, and developers, we believe this Objective is realistic and may be achieved within the time periods described. Any product enhancements and/or incentives and loan purchases will be supported by thorough economic, risk, and operational analyses, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns. The relevant market opportunity is the increased funding of projects that qualify as RED Transactions.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. Objective #2: Establish a RED initiative to increase loan purchases relating to the Statutory Activity for other comparable State or local affordable housing programs (Partner and Innovate, Do What We Do Best).

Meeting the Challenges

In addition to several of the challenges noted in the LIHTC Debt RED Objective, preserving affordable housing at the State or local level while incorporating notions of RED has several key challenges:

- Some current State and local programs provide very little subsidy to increase affordable housing.
- State or local affordable housing programs may differ significantly as to how they address the issue of RED or may not address it at all.

To address these challenges, Fannie Mae will:

- Establish an initiative to incorporate RED concepts into Fannie Mae's proposed activities related to the Statutory Activity regarding the acquisition of mortgages associated with other comparable State or local affordable housing programs.
- Work with lenders, State agencies, sponsors, and other key stakeholders active in other comparable State or local affordable housing programs to increase awareness of RED and proactively seek RED projects.
- Review current and propose future loan guidelines to determine and address what, if any, enhancements would be needed to increase Fannie Mae's loan purchases on RED properties under other comparable State or local affordable housing programs.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• As part of the review of at least five State or local affordable housing programs identify at least two States or localities that have a successful RED program in their affordable housing strategy. Meet with key stakeholders in those States or localities to better understand the program(s). • Review the identified RED programs to determine what product enhancements might be required to facilitate Fannie Mae loan purchases on RED projects through those particular programs. • Process at least one product enhancement that would facilitate RED loan purchases in the identified State and/or local RED programs. • Meet with four DUS lenders to increase awareness of RED and to specifically identify projects eligible for other comparable State or local affordable housing programs.

Year	Actions
	• Based on the research and outreach conducted during 2018, adjust the Baseline if necessary for future RED loan purchases in 2019.
2019	• Commence work on a RED white paper on lessons learned from activities including other comparable State or local affordable housing programs in order to educate and inform stakeholders. • Purchase four loans that qualify as RED Transactions under the Statutory Activity of other comparable State or local affordable housing programs. o **Baseline:** Four loans represents 20 percent of the total 2019 loan purchases to be made by Fannie Mae in connection with Objective #1 of the Statutory Activity for other comparable State or local affordable housing programs. As noted above, this Baseline may be adjusted based on research and outreach completed during 2018. • Confirm loan purchase goals for 2020.
2020	• Purchase eight loans that qualify as RED Transactions under other comparable State or local affordable housing programs, representing approximately 30 percent of the total of loans to be purchased in 2020 in connection with Objective #1. • Review the initiative for lessons learned to be included in the white paper with respect to RED and other comparable State or local affordable housing programs. • Publish and distribute a white paper that includes Fannie Mae lessons learned regarding RED Transactions associated with other State or local affordable housing programs so that other comparable State or local stakeholders can use the information to increase awareness of and investment in RED Transactions. • Plan for the 2021 – 2023 Duty to Serve Plan.

Fannie Mae believes that the Statutory Activity relating to other State or local affordable housing programs provides an excellent potential opportunity to finance RED Transactions. By affirmatively incorporating RED Transactions into the identified Statutory Activity involving other comparable State or local affordable housing programs, Fannie Mae can better coordinate our internal activities, share lessons learned across different work channels, and bring the expertise of various stakeholders to the subject as a whole. Accordingly, we believe our activities are better implemented on this basis. This activity does not raise issues relating to whether there are adequate levels of consumer protections or benefits to the tenants or homeowners that are consistent with the requirements of other Statutory and Regulatory Activities in the Duty to Serve Regulations. If Fannie Mae were to acquire a mortgage on a RED Transaction, that acquisition would not impact homeowner or tenant rights. Fannie Mae's security instruments require the parties to adhere to all applicable federal, State, and local laws and such laws would remain in full force and effect to the same extent and with the same application as if Fannie Mae had not acquired the mortgage, including State and local landlord-tenant, zoning, and other laws and other applicable regulations relating to other comparable State or local affordable housing programs.

Based on Fannie Mae's significant experience in multifamily housing finance and our strong relationship with lenders, owners and State and local entities, Fannie Mae believes this Objective is realistic and may be achieved within the time periods described. Any product enhancements and/or incentives and loan purchases will be supported by thorough economic, risk, and operational analyses, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns. The relevant market opportunity is the increased funding of projects that qualify as RED Transactions.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

3. *Objective #3: Establish an initiative to make investments that promote RED in conjunction with Fannie Mae's Additional Activity for Workforce Equity Investments (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
As noted above, preserving affordable housing while incorporating notions of RED has numerous challenges. With respect to Workforce Equity, the hurdles include: • In some cities, RED takes the form of serving very low-income residents and very wealthy residents (e.g. 80/20 bond deals where 20 percent of the housing must be affordable to very low-income residents and the rest of the property is market rate), which, in high cost areas, is well outside the reach of workforce residents who may have moderate-incomes. • Community opposition to mixed income housing in higher cost neighborhoods can often hamper the development of more affordable housing. • There is no standard definition of "Workforce" housing. To address these challenges, Fannie Mae will: • Identify tools that could be used to increase RED in Workforce Equity projects that utilize Fannie Mae capital. • Seek out and make Workforce Equity Investments in projects that meet RED requirements. • Document Fannie Mae's RED experience and learning involving Workforce Equity and other RED Transactions into a white paper that will be made publicly available in order to allow other investors to learn best practices and expand RED into more projects.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• As part of the design of any approved RED program, plan to proactively identify opportunities to finance RED Workforce Equity Transactions: o Research successful RED Workforce housing projects to determine at least three elements required for success that could be incorporated into Fannie Mae's Workforce Equity "product". o Identify potential projects that use Fannie Mae capital that qualify as "workforce" housing and include RED characteristics; research successful RED projects to determine elements required for success.
2019	• As part of the work completed in 2019 for Workforce Equity, including building out the internal team and closing five investments, including at least one RED Workforce Equity Investment. Commence work on a

Year	Actions
	white paper that documents Fannie Mae's lessons learned in all aspects of the RED Additional Activities in the Plan including Workforce Equity Investments.
2020	• Make at least two investments representing 20 percent of the total projected Workforce Equity Investments contemplated in 2020 that qualify as RED Transactions. o **Baseline:** Fannie Mae has not made any RED Workforce Equity Investments and thus the Baseline is zero. • Publish a white paper on Fannie Mae's experience with RED Transactions that includes a section on RED in Workforce Equity Investments.

Fannie Mae believes that the Additional Activity in our Plan relating to Workforce Equity provides an excellent potential opportunity to invest in RED Transactions. By affirmatively incorporating RED Transactions involving Objectives concerning Workforce Equity Investments, Fannie Mae can better coordinate our internal activities, share lessons learned across different work channels, and bring the expertise of various stakeholders to the subject as a whole. Accordingly, we believe our activities are better implemented on this basis. This activity does not raise issues relating to whether there are adequate levels of consumer protections or benefits to the tenants or homeowners that are consistent with the requirements of other Statutory and Regulatory Activities in the Duty to Serve Regulations. If Fannie Mae were to make an investment in a RED Transaction as part of our Workforce Equity Investment activities, that investment would not impact homeowner or tenant rights. Fannie Mae's investment documentation would require the parties to adhere to all applicable federal, State, and local laws and such laws would remain in full force and effect to the same extent and with the same application as if we had not made the investment, including State and local landlord-tenant, zoning, and other laws and regulations applicable to Workforce Equity Investment properties.

Based on Fannie Mae's significant experience in multifamily housing finance and our strong relationship with lenders, owners, developers, and investors, we believe this Objective is realistic and may be achieved within the time periods described. Any investment will be supported by thorough economic, risk, and operational analyses, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns. The relevant market opportunity is the increased funding of projects that qualify as RED Transactions.

To the extent implementation of this Objective contemplates an investment by Fannie Mae, it is subject to a determination that the investment and related actions are compliant with Fannie Mae's Charter Act, and receipt of FHFA's approval.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Product	Investment
Income Levels:	Very Low-, Low- and Moderate-Income Levels for all Years		

V. Overview of Activities and Objectives for Affordable Housing Preservation

Activities and Objectives		2018 Evaluation Factor	2019 Evaluation Factor	2020 Evaluation Factor
A. Statutory Activity: Section 8 housing programs.				
1.	Purchase loans secured by properties served by the Section 8 program.	Loan Purchase	Loan Purchase	Loan Purchase
B. Statutory Activity: Section 202 housing programs.				
1.	Consider loan product changes, prepare work-plan, and purchase Section 202 loans.	Loan Product	Loan Purchase	Loan Purchase
C. Statutory Activity: Section 515 housing programs.				
1.	Work with the USDA and other stakeholders to adopt an approach resulting in increased liquidity for preservation of Section 515 properties and purchase Section 515 loans.	Loan Product	Loan Purchase	Loan Purchase
D. Statutory Activity: Low-Income Housing Tax Credits (LIHTC).				
1.	Increase purchases of mortgages secured by LIHTC properties.	Loan Purchase	Loan Purchase	Loan Purchase
E. Statutory Activity: Other comparable State or local affordable housing programs.				
1.	Expand Fannie Mae's multifamily affordable housing (MAH) definition to support other comparable State or local programs to preserve affordable housing and purchase loans.	Loan Product	Loan Purchase	Loan Purchase
F. Regulatory Activity: Financing of small multifamily rental properties.				
1.	Adopt an effective approach to purchase small multifamily loans from financial entities with $10 billion or less in assets and purchase loans.	Loan Product	Loan Purchase	Loan Purchase
G. Regulatory Activity: Energy or water efficiency improvements on multifamily rental properties that meet the FHFA Criteria.				
1.	Engage stakeholders and conduct research to increase awareness and understanding of energy or water efficiency improvements and financing needs.	Outreach	Loan Product	Loan Product
2.	Facilitate the establishment and dissemination of energy or water efficiency improvements finance industry standards that will facilitate increased liquidity to the multifamily energy efficiency improvements finance market.	Outreach	Outreach	Outreach
3.	Purchase multifamily loans that finance energy or water efficiency improvements that meet the FHFA Criteria.	Loan Purchase	Loan Purchase	Loan Purchase

H. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria.				
1.	Increase liquidity for energy or water efficiency improvements through outreach, research, and developing solutions.	Outreach	Loan Product	Loan Product
2.	Increase liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans.	Loan Purchase	Loan Purchase	Loan Purchase
I. Regulatory Activity: Shared equity programs for affordable housing preservation.				
1.	Increase the purchase of mortgage loans that finance shared equity programs.	Loan Purchase	Loan Purchase	Loan Purchase
2.	Increase liquidity for shared equity homeownership through outreach, research, and enhancing loan product solutions.	Outreach	Loan Product	Loan Purchase
J. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program.				
1.	Conduct outreach, review potential loan product enhancements, and purchase loans secured by RAD properties.	Loan Product	Loan Purchase	Loan Purchase
K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties.				
1.	Increase affordable capital through industry outreach and developing loan financing solutions.	Outreach	Loan Product	Loan Product
2.	Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties.	Loan Purchase	Loan Purchase	Loan Purchase
L. Additional Activity: Workforce Equity.				
1.	Establish a program to provide investment capital to non-LIHTC properties to preserve multifamily rental properties affordable to workforce families.	Investment	Investment	Investment
M. Additional Activity: Residential Economic Diversity Activity.				
1.	Establish a Residential Economic Diversity (RED) initiative to increase loan purchases relating to the Statutory Activity for the provision of debt for LIHTC under Section 42 of the Internal Revenue Code.	Loan Product	Loan Purchase	Loan Purchase
2.	Establish a RED initiative to increase loan purchases relating to the Statutory Activity for other comparable State or local affordable housing programs.	Loan Product	Loan Purchase	Loan Purchase
3.	Establish an initiative to make investments that promote RED in conjunction with Fannie Mae's Additional Activity for Workforce Equity Investments.	Loan Product	Loan Product	Investment

Fannie Mae®

Duty to Serve Underserved Markets Plan for the Rural Housing Market

Effective January 1, 2018

Disclaimer

Implementation of the activities and objectives in Fannie Mae’s Duty to Serve Underserved Markets Plan may be subject to change based on factors including FHFA review for compliance with the Charter Act, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.

Table of Contents

I. Fannie Mae's Strategic Priorities for the Rural Housing Market

In 2015, Fannie Mae began to affirmatively engage in a wide variety of outreach activities designed to gather information from market stakeholders about challenges and possible solutions in the three Duty to Serve underserved markets. This included the single-family and multifamily Rural Housing Market.

- We held rural housing roundtables, attended numerous rural housing conferences, and spoke directly with stakeholders in the rural market, including owners, lenders, government entities, non-profits, trade associations, and more.

- Additional information on the Federal Housing Finance Agency (FHFA) Regulations was supplied during the public comment period. These comments provided feedback on implementing the Duty to Serve provisions of the Housing and Economic Recovery Act of 2008 (Regulations) where we heard from a broader group of stakeholders, including rural homeowners.

- Still more information was gathered through the four listening sessions, hosted by FHFA along with Fannie Mae and Freddie Mac (the Enterprises) earlier this year, to enable stakeholders to make recommendations about what they believe should be in the Enterprises' Duty to Serve Underserved Markets Plans (Plans).

From this information we gathered, our own experience and analysis, and the requirements set by FHFA, Fannie Mae established four strategic priorities for our service to all of the underserved markets. Because the issues are numerous and the problems complex in each market, we believe it is essential that we keep our approach simple. This is particularly true for our first Plans. Accordingly, our four strategic priorities for the rural market include the following:

- **Analyze**: Fannie Mae will bring our considerable research and analytical capabilities to bear to understand the toughest challenges facing the rural market, which lacks the deep and broad data-driven understanding that is needed. For example, we need more information on the liquidity requirements of high-needs rural regions and high-needs rural populations. That is why we propose to undertake research on Middle Appalachia, the Lower Mississippi Delta, and the colonias and let that analysis drive the creation of work-plans to address identified problems and set new roles for Fannie Mae. We also need more information on who lends in the rural market and why they are willing to do so. Similarly, we need to know who does not lend in the rural market and why they do not do so. When we are done, we will share our analysis with the public.

- **Test and Learn**: Fannie Mae will propose, test, and evaluate adjustments to our own products and programs to identify ways to better serve rural markets with our existing business activities. We also will revise our terms for Fannie Mae loan products so that they will better serve the rural market and provide special authority to select rural lenders. Where appropriate, with FHFA's approval and ensuring the activity is compliant with Fannie Mae's Charter Act, we will seek to design and implement pilot programs, such as those which contemplate investments in non-profits and community development financial institutions (CDFI) that focus on high-needs rural populations.

- **Partner and Innovate**: Our Plan reflects our strategy to listen to and work closely with existing and new partners to understand how we can best support the rural market. We view collaboration as essential to success. For that reason, our Objectives reflect our intent to work with our other housing partners in the rural market – the U.S. Department of Agriculture (USDA), Native Americans, small financial institutions, community organizations, non-profits, counselors, and owners – to find solutions.

- **Do What We Do Best**: Our commitment to affordable housing is more than just a series of regulatory requirements, it is a fundamental component of who we are as a company. We bring capital to the market by buying loans, it is what we do best. This is reflected in the final step of many of our Objectives, which is simply to buy loans. Getting to these purchases may first include outreach and then product modification, but it is ultimately where we strive to be.

Our four strategic priorities have been woven into our Plan. To highlight their incorporation, one or more of them is referenced for every Objective we put forward. Part V provides an overview of our Objectives.

Several of our Objectives propose investments we want to make, subject to compliance with Fannie Mae's Charter Act and receipt of FHFA approval, or numbers of loans we intend to buy. However, this is an inexact science. Next year or in three years, the market may undercut our ability to achieve these goals. Alternatively, it may support efforts to do even better. Accordingly, we see this Plan as a living document that will have to change over time. We look forward to working with the rural community to be responsive to the ongoing needs of this market, whatever and wherever they may be.

II. Overview of the Rural Housing Market

This overview is provided to place the Plan in the context of this market, including identifying significant data gaps. In addition, it provides information relevant to market needs and opportunities.

A. Renters and Homeowners in Rural America

Fannie Mae plays an important role in helping families and individuals buy or rent homes nationwide. But in rural areas, housing options are affected by persistent and pervasive poverty more so than other areas. Ninety-six of the nation's 100 poorest counties are located in rural areas,[1] and while 14 percent of Americans nationwide live below the poverty line, in rural areas that number increases to approximately 17 percent.[2]

Rural demographics often do not support a flourishing housing market. Rural residents are often older and less well-educated. Consequently, there is a lower demand for new housing and limited ability to finance homeownership.[3]

Additionally, rural households are more likely to pay a large portion of their income for housing. Nearly 30 percent of all rural households and 47 percent of rural renters are cost-burdened. Nearly half are considered to be severely cost-burdened as they are spending more than 50 percent of their monthly incomes on housing.[4] The majority of cost-burdened households are renters, with 21.3 million cost-burdened renter households in 2014. The overwhelming majority of low-income renters were severely rent-burdened.[5]

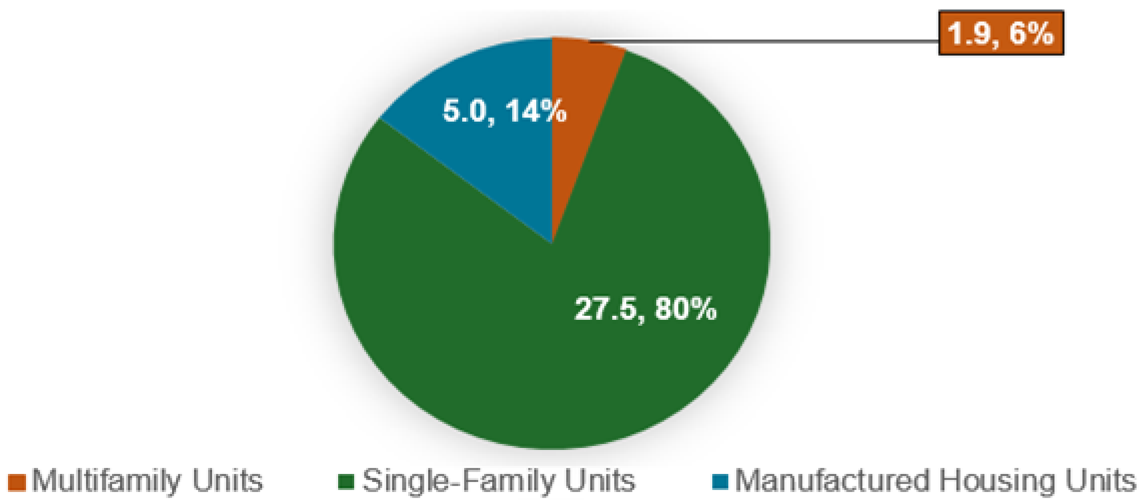
Renters in rural areas are more likely to live in one-unit single-family homes or single-family homes with less than five units than their counterparts in the cities and the suburbs.[6] Rural residents are also much more likely to live in manufactured housing, with nearly two-thirds of all manufactured housing located in rural areas. Twelve percent of rural renter occupied units are manufactured homes. This is more than twice the national rate.[7]

The homes occupied by rural renters are generally older, with 35 percent built before 1960.[8] There are also significant housing condition challenges in rural areas: "Nearly six percent of rural homes are either moderately or severely substandard, without hot water, or with leaking roofs, rodent problems, or inadequate heating systems."[9]

The distribution of housing unit types in rural areas, shown in the chart below, identifies that single-family units account for 80 percent of the rural housing stock, multifamily units account for six percent and manufactured housing units account for the remaining 14 percent.

1 *The Low-Income Housing Tax Credit: Overcoming Barriers to Affordable Housing in Rural America*, Rapoza Associates, 4 (August 2013) (Rapoza).
2 *Rural America's Silent Housing Crisis*, The Atlantic (February 6, 2015).
3*The Silver Lining in Rural Housing: Lower Prices, Less Risk*, Federal Reserve Bank of St. Louis, 19 (May 10, 2016).
4 Rapoza at 3.
5 *The State of the Nation's Housing 2016,* Joint Center for Housing Studies of Harvard University, 31 (June 2016).
6 *Rental Housing in Rural America*, Housing Assistance Council, 3 (April 2013).
7 *Taking Stock: Rural People, Poverty, and Housing in the 21st Century*, Housing Assistance Council, 36 (December 2012).
8 Rapoza at 5.
9 *Housing America's Future: New Directions for National Policy*, Bipartisan Policy Center, 109 (February 2013).

Distribution of Units in Rural Areas by Type (Millions)

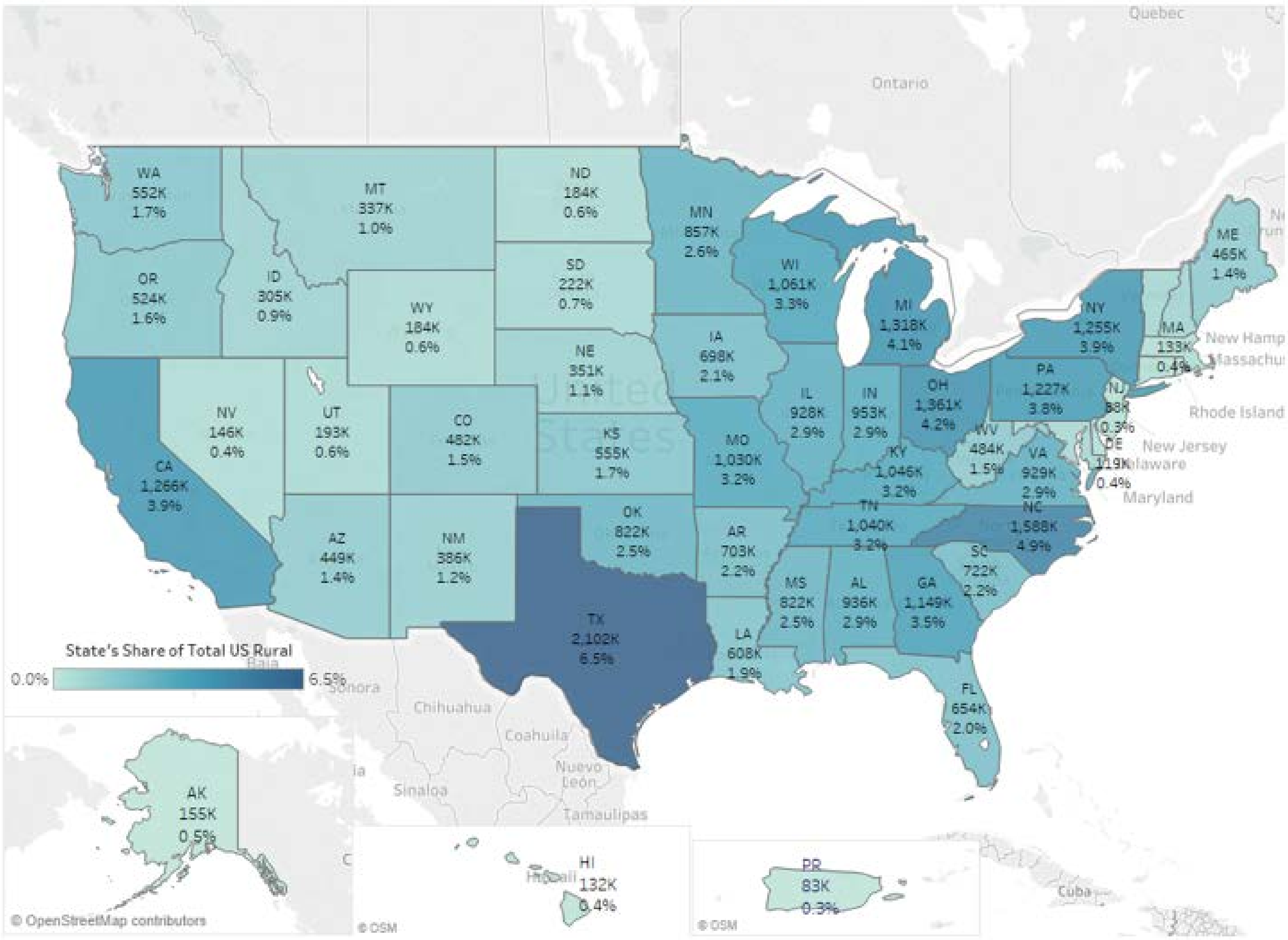


Source: 2015 American Community Survey based on five year estimates, excludes boats and RVs.

B. The Single-Family Rural Housing Market

The map below shows the distribution of rural single-family housing units (*i.e.*, one to four units and manufactured housing units) by State, based on American Community Survey 2011 – 2015 5 year estimates. Texas has the highest share of housing stock in rural areas, with 6.5 percent of the units, followed by North Carolina with 4.9 percent, Ohio with 4.2 percent, and Michigan with 4.1 percent. California and New York each has 3.9 percent share of the stock.

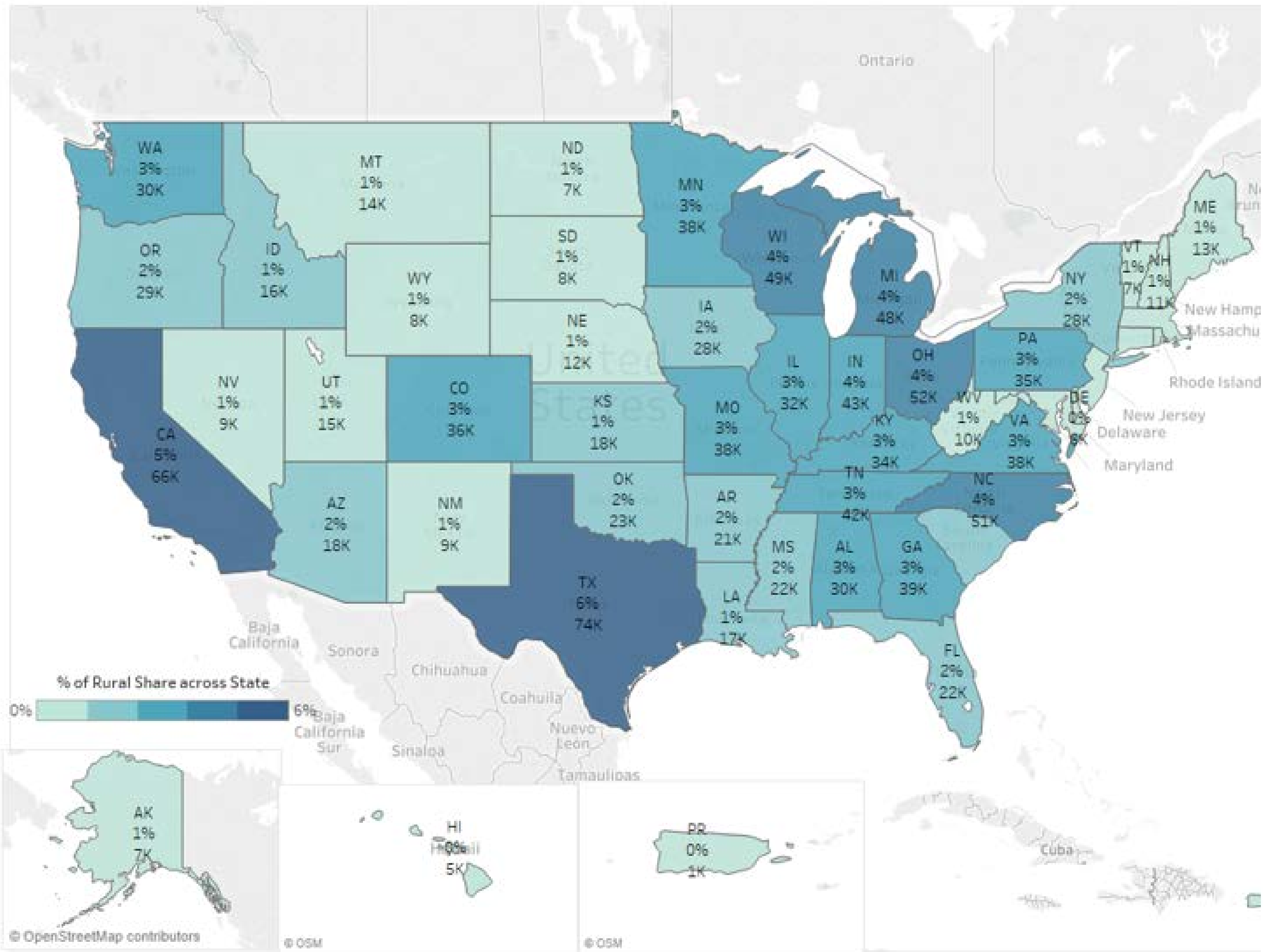
State Share of Total Single Family Housing Stock in Rural Areas
2011-2015 ACS 5-yr estimates



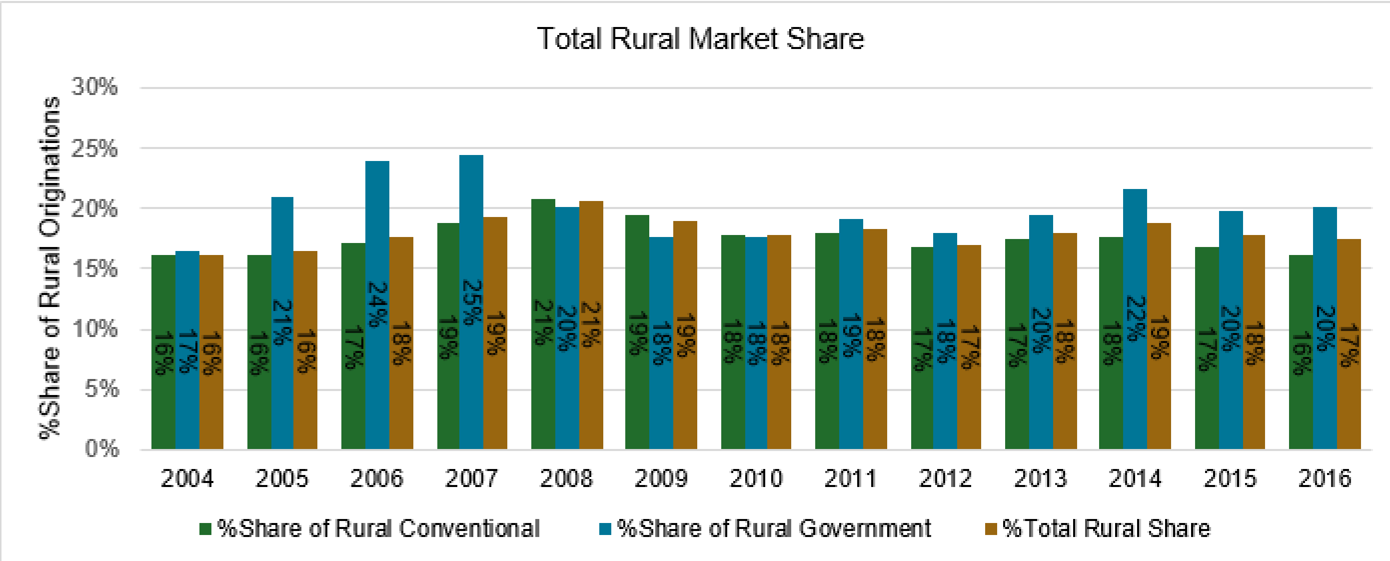
The map below shows the distribution of rural single-family (including manufactured housing) loan originations by State, based on 2016 Home Mortgage Disclosure Act (HMDA) data[10]. Texas has the highest share at six percent, followed by California, Ohio, and North Carolina.

10 Unless otherwise specified, HMDA data utilized for this analysis excludes loans for investor-owned properties, home improvement loans, and second liens.

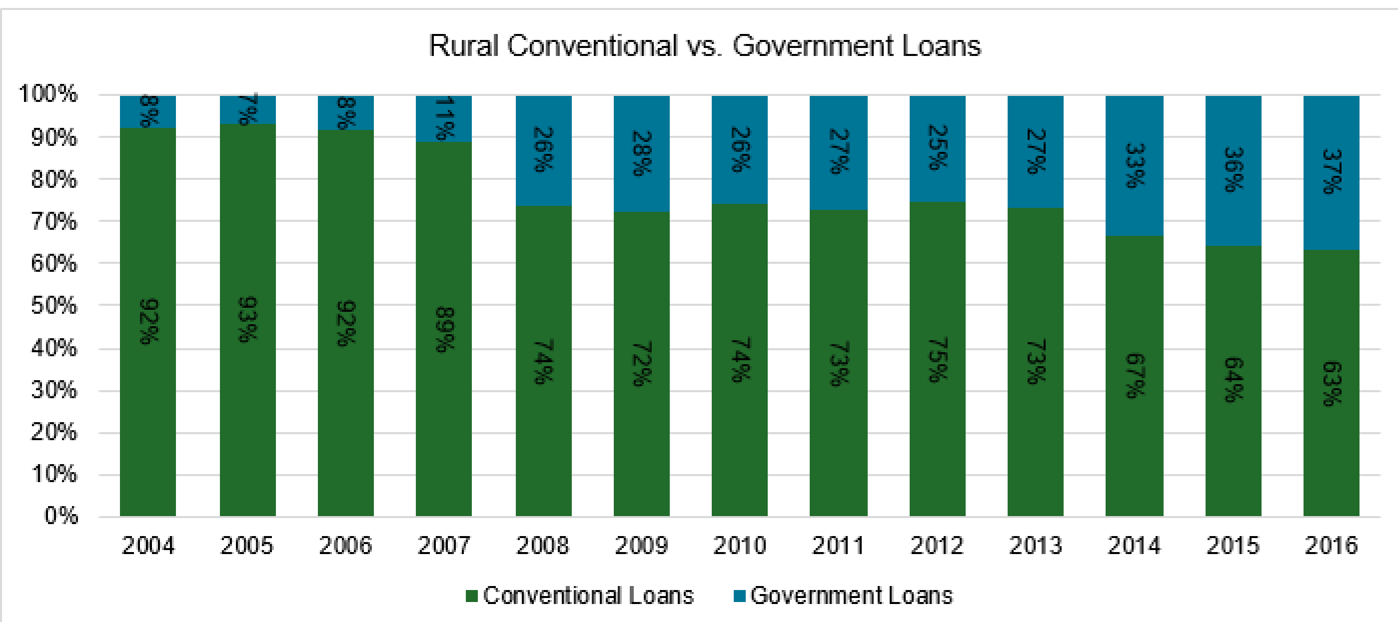
2016 State Distibution of Rural Single Family Loan Origination



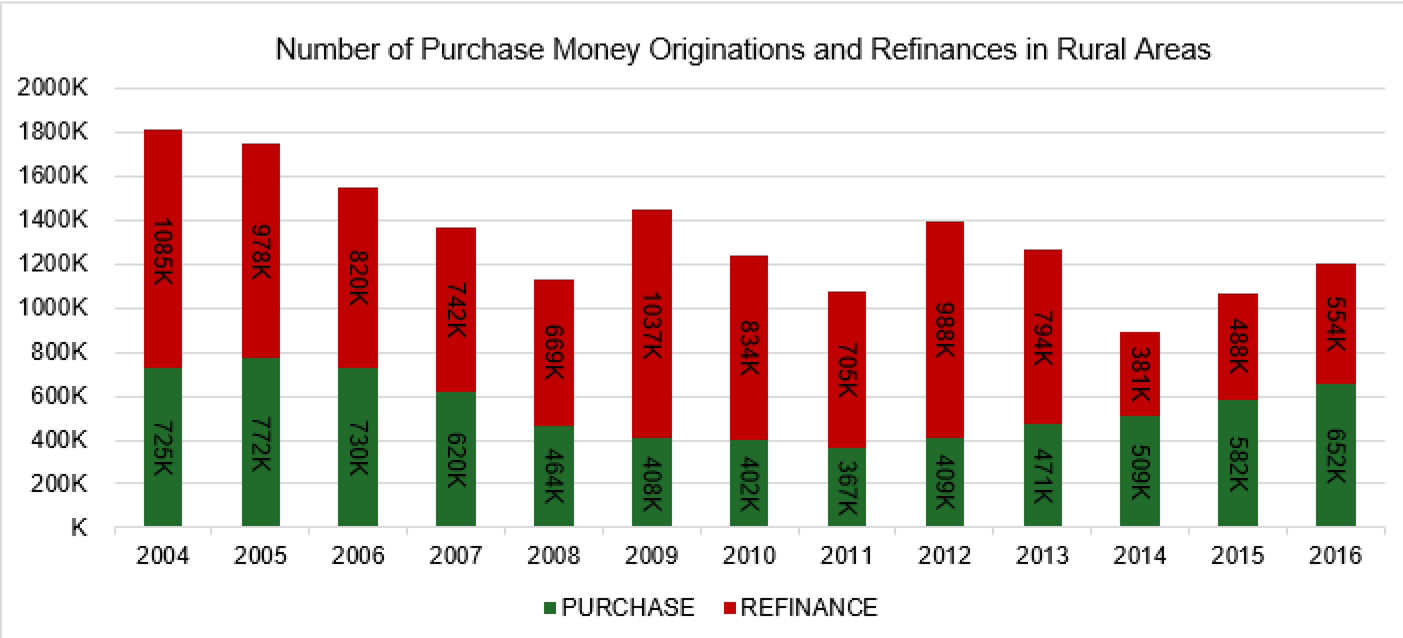
Rural loan origination accounts for approximately 20 percent of government loans, 16 percent of conventional loans, and 17 percent of total originations.



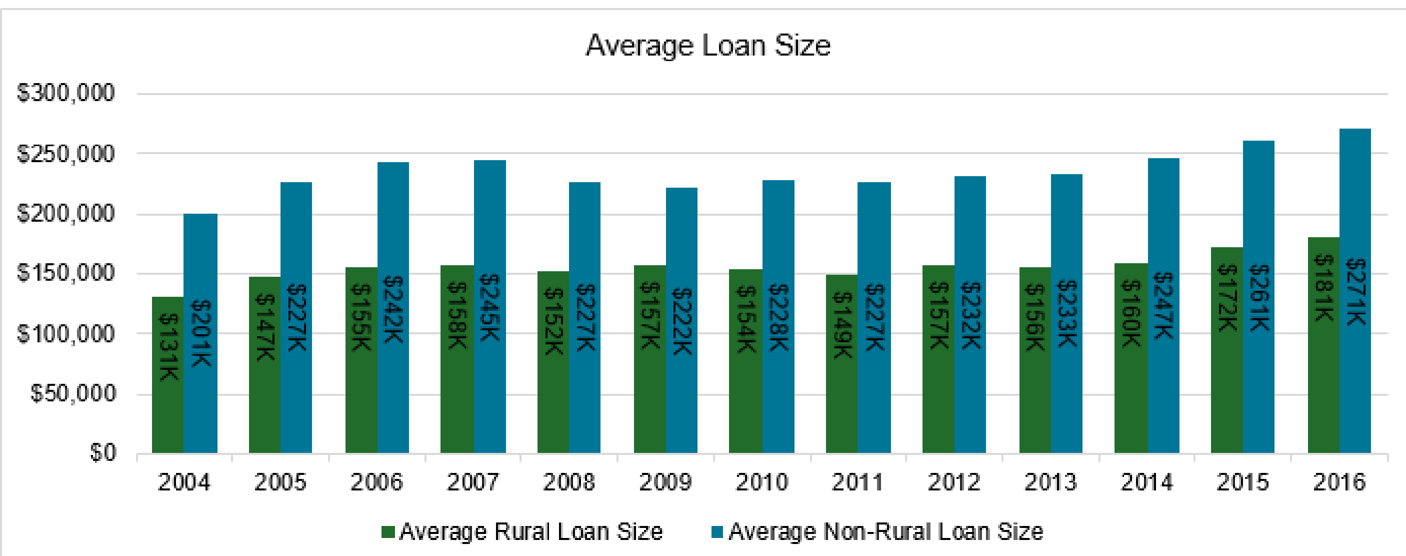
Although government loan origination has a higher share of rural loans, the market share of government loans within the Rural Housing Market is about half of that of the conventional loans in recent years.



Applying the definition of "rural area" utilized by FHFA in the Regulations and using 2016 HMDA data, the national rural home purchase and refinance originations are reflected below. In more recent years, the share of refinance originations in rural areas has been decreasing, with the greater activity in rural areas being in purchase money originations.

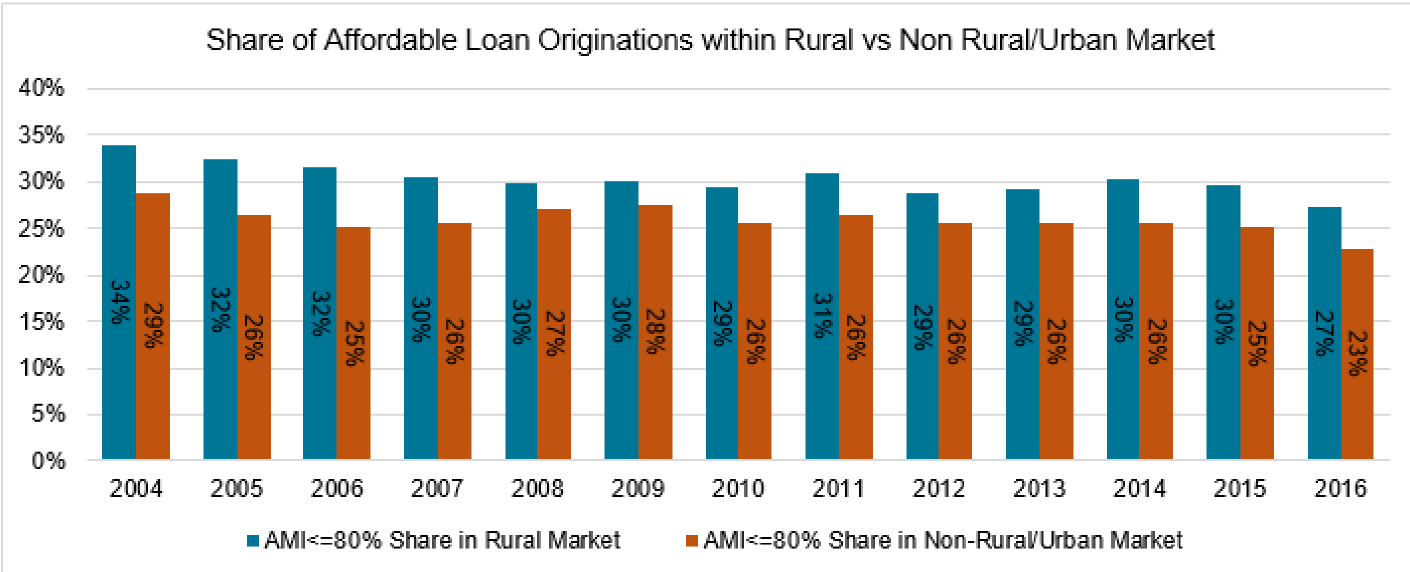


Rural loans are usually smaller than non-rural loans and the gap has been widening in recent years, with urban loan size increasing faster than rural loan size.



Rural housing is an important part of the affordable housing market. In the last 10 years, on average about 30 percent of rural loans fit the definition of affordable loans.[11] The share of affordable loans in rural markets has slightly increased since 2013 and rural markets have had a greater share of borrowers with incomes less than or equal to 80 percent of Area Median Income (AMI) than urban markets in all recent years.

11 Based on the share of loans originated to borrowers with incomes of 80 percent or less of Area Median Income.

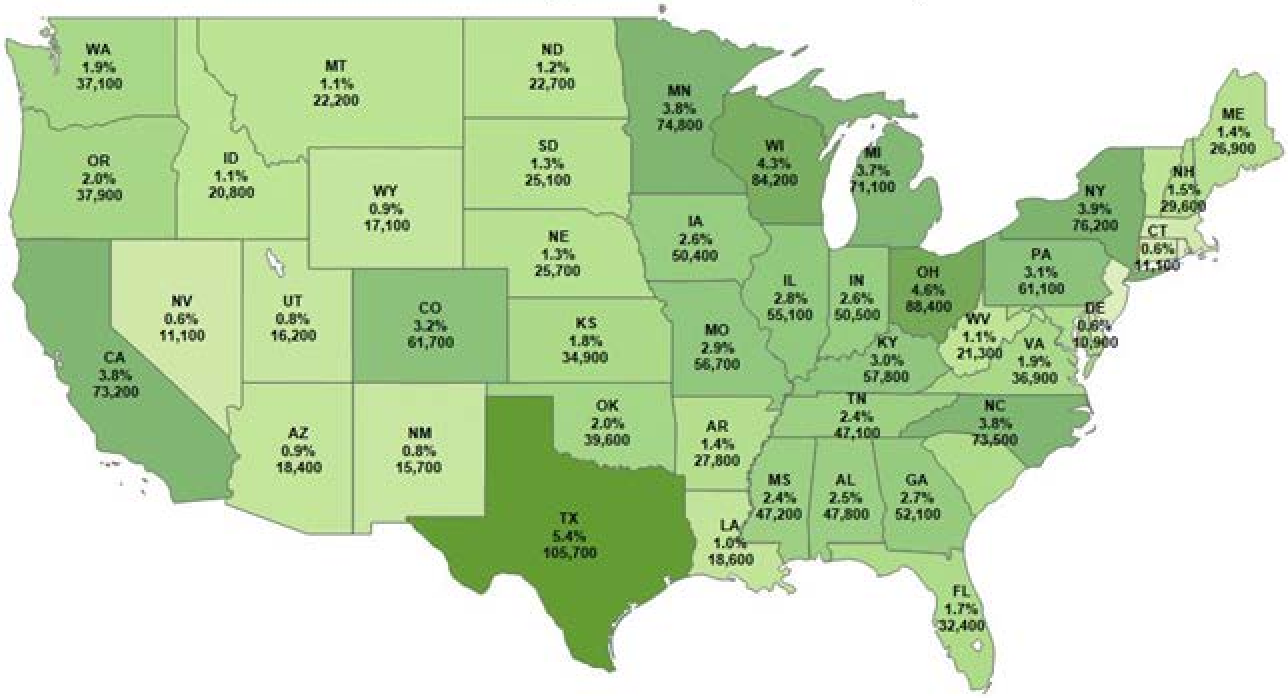


C. The Multifamily Rural Housing Market

The total number of multifamily units in rural areas is estimated at approximately 1.9 million units out of an estimated 24.1 multifamily units nationwide, applying the definition of "rural area" utilized in the Regulations and using American Community Survey data. These 1.9 million multifamily units represent six percent of housing stock in rural areas, as compared to 14 percent for manufactured housing and 80 percent for single-family rentals.

As shown on the map below, rural multifamily units are not heavily concentrated in any particular State. Thirty-two States have two percent or less of the 1.9 million estimated multifamily units in rural areas. The remaining States have between two percent and five percent. Texas has the highest share of units in rural areas with 5.4 percent of the units, followed by Ohio with 4.8 percent, and Wisconsin with 4.6 percent. California has a 3.8 percent share of the multifamily stock and New York has 3.9 percent. States with the lowest share of multifamily units in rural areas include Rhode Island with less than a 0.1 percent share of units and Delaware with a 0.6 percent share of units.

Number of Multifamily Units in Rural Areas by State

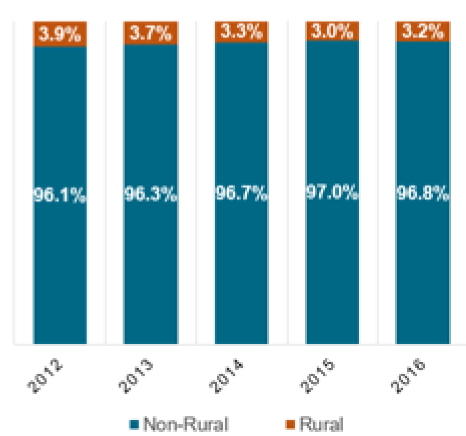


Source: 2015 American Community Survey Data, 5 year estimates.
Note: Alaska with 0.6% share and Hawaii with a 1.7% share are not shown.

<u>Financing Characteristics</u>

There are very few rural multifamily loan originations when compared to non-rural originations. Rural multifamily originations only represented 3.2 percent of all originations in 2015 according to HMDA data, down from 3.9 percent in 2012.

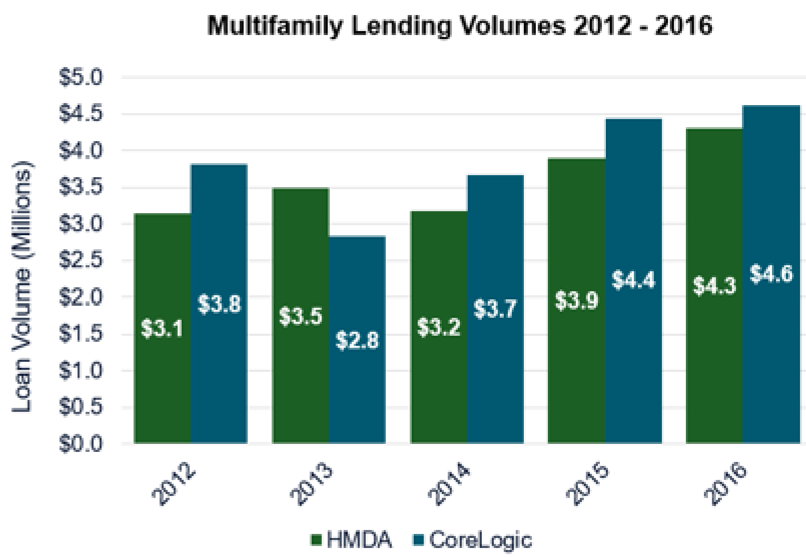
Multifamily Rural vs. Non-rural Originations



Note: Rural Loans identified via file provided by FHFA, based on first lien loans
Source: HMDA

HMDA and CoreLogic data show similar lending volumes in most years, as shown in the chart below. For instance, HMDA reported that lending on multifamily properties in rural areas totaled $4.3 billion in 2016, while CoreLogic estimates it was slightly higher at $4.6 billion.

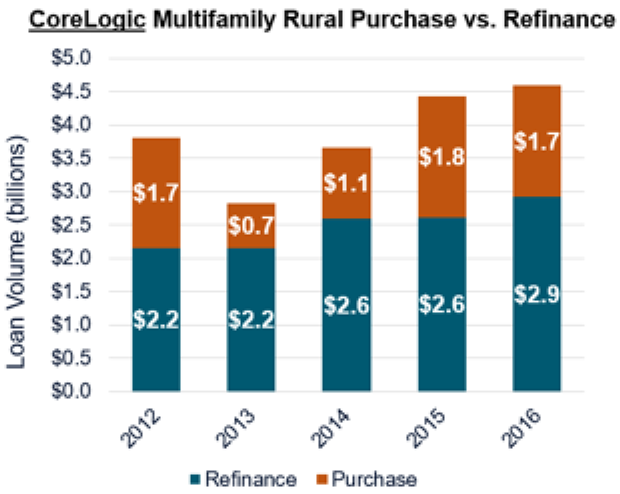
Both HMDA and CoreLogic data show that multifamily lending in rural areas has been growing modestly since 2013. HMDA data shows that lending volume grew to $4.3 billion in 2016, from $3.5 billion in 2013, while CoreLogic data shows that lending volume grew to $4.6 billion in 2016, compared to just $2.8 billion in 2013. However, both data sources show that overall multifamily lending volumes in rural areas are low, totaling less than $5 billion annually.



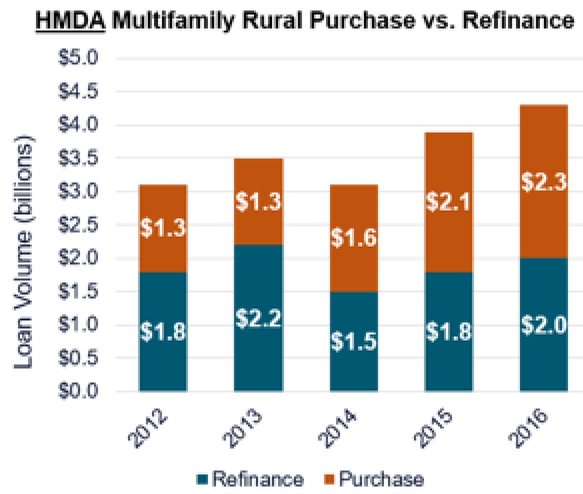
Note: Rural Loans identified via file provided by FHFA, based on first lien loans. Source: HMDA, CoreLogic

As shown on the chart below, in 2012 and 2013, both HMDA and CoreLogic showed similar trends in the volume of loans used to purchase multifamily properties compared to the volume of loans used to refinance multifamily properties, with a greater volume of refinances than purchase volume. In 2013, both CoreLogic and HMDA recorded a volume of $2.2 billion used to refinance rural multifamily properties, greater than either the $0.7 billion volume recorded by CoreLogic or the $1.3 billion recorded by HMDA to purchase rural multifamily properties.

However, in 2016, the last year for which data from CoreLogic and HMDA is available, HMDA data showed this trend reversing itself, with just $2.0 billion recorded for refinancing rural multifamily properties and $2.3 billion recorded for purchases of such properties.

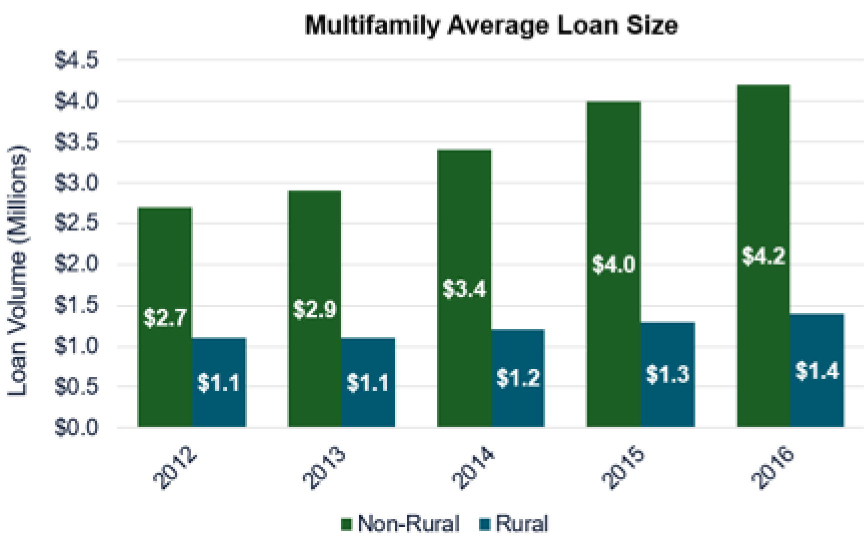


Note: Rural Loans identified via file provided by FHFA, based on first lien loans
Source: CoreLogic



Note: Rural Loans identified via file provided by FHFA, based on first lien loans
Source: HMDA

The average loan size tends to be much smaller, as shown in the chart below. In 2016, the average loan size for a rural multifamily loan was just $1.4 million, compared to $4.2 million for loans in non-rural areas. While the average multifamily loan size has grown in both rural and non-rural areas, average loan volume in rural areas grew much more slowly. The average rural multifamily loan volume grew by 27 percent from 2012 to 2016, compared to a 56 percent increase in the average multifamily loan size in non-rural areas.

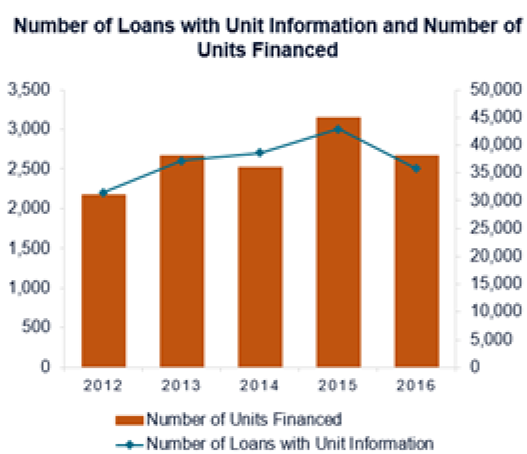


Note: Rural Loans identified via file provided by FHFA, based on first lien loans
Source: HMDA

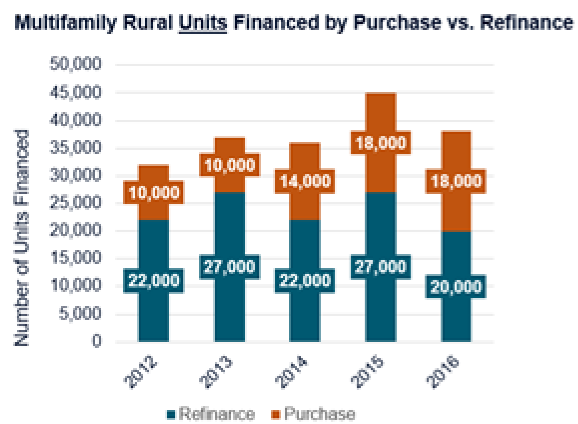
The number of rural multifamily loans for the purchase of homes has been slowly increasing. The number of Purchase Money Mortgage (PMM) multifamily loans in rural areas totaled 1,700 in 2016, compared to 1,100 in 2012.

Note: Rural Loans identified via file provided by FHFA, based on first lien loans
Source: HMDA

CoreLogic provides unit information, but it is incomplete. Based on this data, the number of multifamily units financed in rural areas totaled an estimated 38,000 in 2016, down from 45,000 in 2015, as shown in the left chart below. These estimates likely represent the minimum number of units financed given that only about half of all transactions in the CoreLogic database record unit information. Further, most of the units financed in rural areas are in refinanced properties, as shown in the right chart below. In 2016, an estimated 20,000 units were in refinanced properties compared to 18,000 units in purchased multifamily properties.

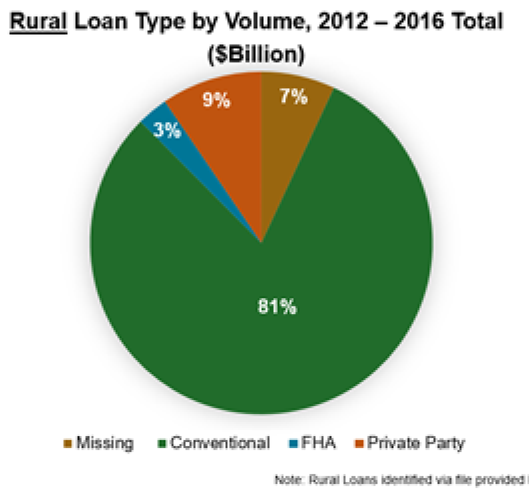


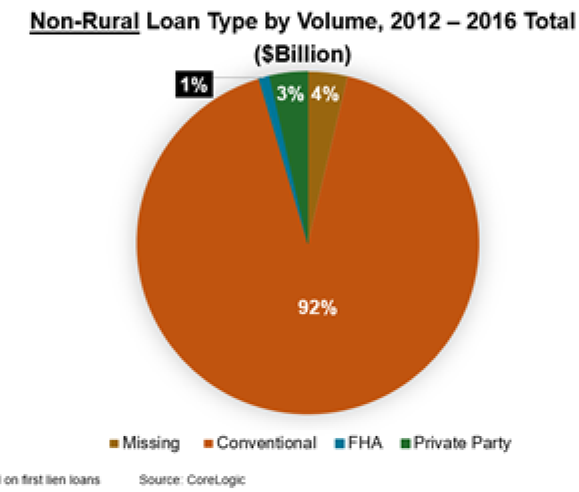
Note: Rural Loans identified via file provided by FHFA, based on first lien loans
Source: CoreLogic



Note: Rural Loans identified via file provided by FHFA, based on first lien loans
Source: CoreLogic

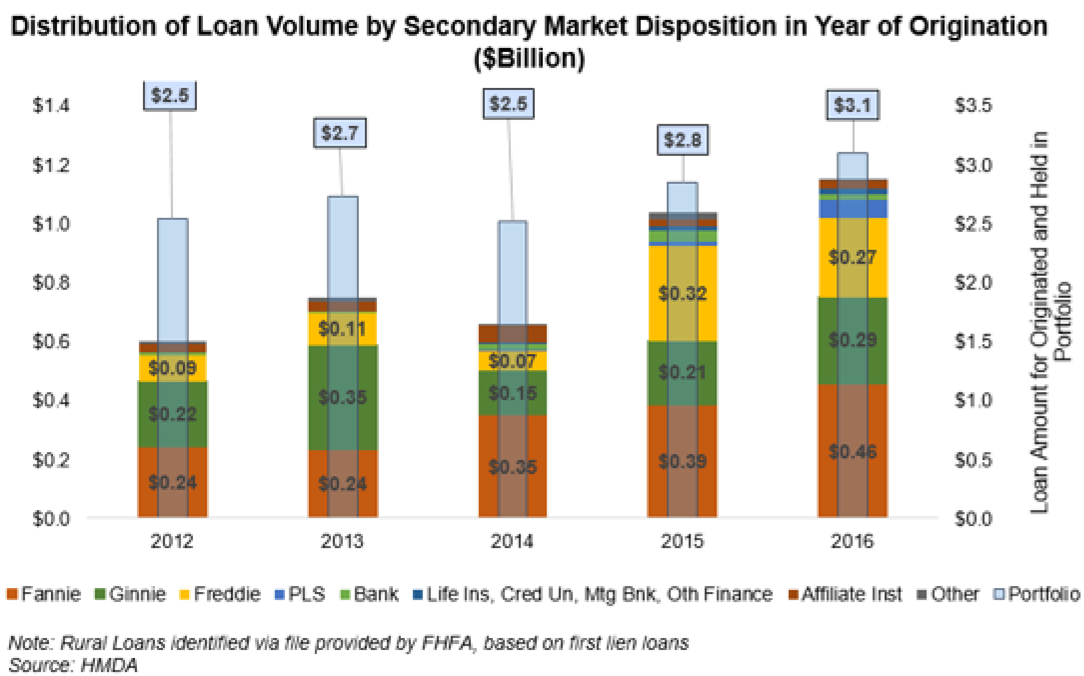
Multifamily loans in rural areas are less likely to be financed with conventional loans, as seen in the two charts below. An estimated 81 percent of multifamily loans in rural areas are financed by conventional mortgages. The Federal Housing Administration (FHA) financed another estimated three percent, and private parties financed the remaining estimated nine percent. In contrast, an estimated 92 percent of non-rural multifamily mortgages were financed with conventional mortgages, an estimated one percent were financed with FHA mortgages, and an estimated three percent were financed by private parties.





HMDA provides information on the disposition of loans into the secondary market in the year of origination. The majority of multifamily loans appear to remain in lenders' portfolios, as shown in the chart below. From 2012 to 2016, the volume of multifamily loans in rural areas remaining in lenders' portfolios ranged from $2.5 billion to $3.1 billion.

For rural loans sold into the secondary market, Fannie Mae led the market in most years. As shown in the HMDA data reflected in the chart below, in 2016, Fannie Mae financed $460 million in rural multifamily loan volume followed by Ginnie Mae with $290 million, and Freddie Mac with $270 million.



III. Statutory and Regulatory Activities Considered but not Included

Under the Regulations, the Enterprises are required to identify any Statutory or Regulatory Activities that they considered but did not address. There are no Statutory Activities for the Rural Housing Market. All Regulatory Activities identified in the Regulations have been considered and are included in this Plan.

IV. Activities and Objectives

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

Note: Fannie Mae seeks extra credit for this Activity.

1. *Objective #1: Fannie Mae will increase single-family loan purchases in high-needs rural regions (Do What We Do Best).*

Meeting the Challenges
High-needs rural regions lack conventional mortgage liquidity: • The 2015 concentration of rural conventional loans relative to non-rural conventional loans is slightly lower than in the nation overall. In rural areas, 61 percent of purchase loans and 69 percent of all loans were conventional, compared to national rates of 66 percent and 72 percent, respectively. • Lenders tend to retain loans originated in rural areas in their portfolios, particularly loans in high-needs rural regions, rather than selling them into the secondary market and replenishing their capital. Nationwide, 26.1 percent of originated loans were not sold into the secondary market. The rate was 35 percent in rural areas, 50 percent in the rural Lower Mississippi Delta, and 46.3 percent in rural Middle Appalachia. • The denial rate for loan applications in rural areas is higher than the nationwide rate of 18.5 percent. Denial rates were 21.8 percent in rural areas overall, 25.8 percent in the rural Lower Mississippi Delta, 26.1 percent for rural Middle Appalachia, and 28.8 percent for rural tracts in persistent poverty counties. To address this challenge, Fannie Mae will increase our purchase volume of single-family loans in high-needs rural regions by an additional 3,569 to 4,869 loans, which equals an estimated additional $555 million to $758 million of liquidity over the Baseline.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Purchase between 10,700 and 11,000 single-family loans in high-needs rural regions, representing a three to six percent increase over the Baseline.[12]

12 Of this group, a target of 505 loans will be manufactured housing loans, as provided under Fannie Mae's Manufactured Housing Plan. In addition, of this group, a target of between 100 and 105 loans will finance the purchase or rehabilitation of distressed properties under Fannie Mae's Affordable Housing Preservation Plan.

Year	Actions
	o **Baseline**: Given that the three year average for the purchase of these loans (10,015) is lower than the total number of loans Fannie Mae purchased in 2016, using the three year average is not appropriate and the Baseline for these purchases is being set at the 2016 level of 10,377 loans. (2014: 10,042; 2015: 9,632; 2016: 10,377).
2019	• Purchase between 11,000 and 11,500 single-family loans in high-needs rural regions, representing a six to 11 percent increase over the Baseline.[13]
2020	• Purchase between 13,000 and 13,500 single-family loans in high-needs rural regions, representing a 25 to 30 percent increase over the Baseline.[14] This includes the loan purchases referenced in Objective #2.

This is an ambitious outcome given that Fannie Mae forecasts an overall decrease in loans in 2018 and 2019 as higher interest rates are projected, resulting in the transition to a purchase market, which increases the challenge of growing loan volume over the Baseline derived from the lower interest rate and higher acquisition volumes from the 2014 – 2016 period. Fannie Mae purchases loans in high-needs rural regions and has the systems, operations, and resource tools needed to facilitate efficient loan delivery in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to acquisition of this product. Based on Fannie Mae's experience, we believe this Objective is reasonable and can be achieved within the time periods described. The ultimate opportunity available in high-needs rural regions is to purchase increased numbers of conventional loans.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Increase affordable capital through industry outreach and developing solutions to increase single-family loan purchases in high-needs rural regions (Analyze, Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
High-needs rural regions face substantial challenges that make it difficult to attract lenders, investors, and real estate developers. These challenges include: • Economic obstacles such as declining populations, unemployment, high housing cost burdens, persistent poverty, and limited access to lenders providing affordable capital.

13 Of this group, a target of: (a) 750 loans will be manufactured housing loans, as provided in Fannie Mae's Manufactured Housing Plan; (b) 95-100 loans will be for the purchase or rehabilitation of distressed properties, as provided in Fannie Mae's Affordable Housing Preservation Plan; and (c) 20 loans will be for the financing of single-family energy or water efficiency Improvements, as provided in Fannie Mae's Affordable Housing Preservation Plan.
14 Of this group, a target of: (a) 1,250 loans will be manufactured housing loans, as provided in Fannie Mae's Manufactured Housing Plan; (b) 120-125 loans will be for the purchase or renovation of distressed properties, as provided in Fannie Mae's Affordable Housing Preservation Plan; and (c) 25 loans will be for the financing of single-family energy or water efficiency Improvements, as provided in Fannie Mae's Affordable Housing Preservation Plan.

Meeting the Challenges
• Potential borrowers have lower incomes, affecting affordability, are more likely to be self-employed, increasing their risk of unstable and unreliable income, and are less likely to be a first time homebuyer, a criterion often required to receive down payment or matched savings dollars assistance. • Existence of geographic market differentiation; rural loans should not be viewed as one homogenous group. • Lack of quality housing stock; older homes may be in substandard condition and in need of rehabilitation, or could benefit from energy or water efficiency improvements. • Appraising rural properties tends to be more challenging. • Rural properties are more likely to be manufactured homes and have larger lot sizes. • Rural properties have smaller loan balances, and note rates are marginally higher than those for urban loans. • Housing demand is weak and housing is not highly promoted and does not receive an adequate amount of attention given small, dispersed populations as compared to urban areas. • Homeownership can be less expensive than renting in high-needs rural regions, however, poor credit history, financial barriers, and a lack of knowledge about homeownership limit opportunity. To address these challenges, Fannie Mae will: • Perform outreach and market research; use the information gathered to identify appropriate product enhancements that, when implemented, will increase borrower and property eligibility and simplify loan requirements, resulting in the provision of increased liquidity. • Analyze and share the information gathered by publishing and distributing findings to the public. Providing transparency to the industry will encourage new capital sources to venture into or invest in mortgage lending. This activity will provide additional affordable capital to high-needs rural regions. • Employ a test and learn approach to enhance a loan product or policy to reach more very low-, low-, and moderate-income families. Evaluate the success and develop affordable lending best practices. • Strengthen the housing demand by building partnerships with anchor institutions, housing counseling organizations, and financial capability service providers. This collaboration will provide homebuyers with the necessary knowledge to overcome credit and budget barriers, thus improving financial stability and facilitating access to affordable rental housing and homeownership opportunities. • Address the lack of housing supply by advocating for manufactured housing as an affordable option. Approximately 67 percent of all manufactured homes are located in rural communities. Across the nation manufactured housing makes up about 10.3 percent of occupied, single-family detached housing, however it is much more prevalent in high-needs rural regions. For example, manufactured housing makes up nearly 21 percent of the single-family detached housing in Middle Appalachia and approximately 17 percent in the Lower Mississippi Delta.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Facilitate one rural housing roundtable with 15 cross-functional industry representatives including lenders, mission based financial institutions, non-profit organizations, and housing counseling agencies focused on or located in a particular high-needs rural region – by Q4 end. Topics for discussion may include opportunities to expand access to credit, regional needs, challenges in access to housing, and/or

Year	Actions
	financing options, market trends, and potential solutions that addresses the housing challenges facing each high-needs rural region. • Establish a Fannie Mae Rural Housing Advisory Council with subcommittees representing industry stakeholders from each high-needs rural region, and conduct one annual meeting – by Q4 end. Responsibilities could include providing recommendations and strategic information, evaluating performance of an activity outlined in the Rural Housing Plan, serving as an advocate to promote Duty to Serve, assisting in the future development of the Plan, and gathering and presenting material when necessary. • Participate in two regionally based affordable housing conferences as a means to obtain rural housing market insight, share knowledge, gain visibility, communicate the “Duty to Serve” message, collaborate, and build and maintain relationships with important industry stakeholders – by Q4 end. Information gathered will be shared and evaluated to highlight current policies that support the market that are underutilized, and to identify the need to develop new or enhance existing products, policies, or activities outlined in the Plan. • Obtain a comprehensive understanding of one high-needs rural region and customize appropriate solutions by dedicating staff or resources – by Q2 end. In order to determine meaningful impact, Fannie Mae will perform due diligence around the target location and roles and responsibilities and create metrics to evaluate success. If expectations are exceeded, Fannie Mae may look to expand activity to other high-needs rural regions. • Expand availability of financial or housing counseling to households in a high-needs rural region – by Q3 end – by entering into a fee for service contract with two non-profit partners. Develop an outreach strategy to serve at least 100 households through these partnerships and monitor progress towards homeownership. • Identify opportunities to share detailed information around Fannie Mae technology with the U.S. Department of Housing and Urban Development and the USDA and collectively explore ways to deepen penetration into rural communities – by Q4 end. • Establish a marketing campaign focused on affordable lending products and policies that address known challenges in rural areas with a focus on high-needs rural regions – by Q2 end. Target 25 lenders and 10 additional stakeholders that could include appraisers, mortgage insurance companies, non-profit organizations, CDFI, Housing Finance Agencies (HFA), down payment assistance providers, and/or individual development account (IDA) program providers, and: o Produce and market material through social media, webinars, Fannie Mae’s Rural Housing Advisory Council, and conferences. o Create a “rural specific” segment in Fannie Mae’s appraiser newsletter that addresses issues unique to rural areas with a focus on high-needs rural regions. o Develop a training module focused on appraising in rural areas with a focus on high-needs rural regions and publish it in Fannie Mae’s existing appraiser training curriculum – by Q3 end. o Provide technical support such as educational training to stakeholders located in rural areas with a focus on high-needs rural regions to include three lenders, four non-profit housing counseling agencies, two down payment assistance and/or IDA program providers, and three appraisers to optimize homeownership opportunities for potential homebuyers. o Create and implement follow-up surveys to assess longer-term impact of service on client outcomes.
2019	• Develop and make available – by Q2 end – market research and/or rural housing data sets. Fannie Mae will define topics that (1) have meaningful impact on high-needs rural regions and (2) are chosen to work toward a solution to a problem. Some topics could include challenges of originating low balance loans or

Year	Actions
	appraising properties in high-needs rural regions. This information will be made available to the public and industry stakeholders on Fannie Mae's website, through the use of targeted email campaigns, and other highly visible mechanisms. This activity of market research promotes transparency, educates the public and housing industry stakeholders, and provides insights and solutions to potential challenges. • Because of known barriers such as lack of down payments from potential borrowers and an aging housing stock in need of updates and renovation in high-needs rural regions, to facilitate the use of Fannie Mae single-family loan products in high-needs rural regions, Fannie Mae will review credit and/or collateral policy to identify opportunities to customize, enhance, or simplify products such as HomeReady® or HomeStyle® Renovation and establish a test and learn approach issuing one negotiated variance to select lenders with experience in high-needs rural regions – by Q4 end. • Provide technical assistance such as resources to assist lenders serving the colonias to become approved sellers, and facilitate collaborative partnerships between lenders and interested stakeholders to establish availability of conventional mortgage financing in the colonias – by Q4 end. • Work to create a beyond county-based and widely accepted definition of colonias; develop identification or database and a map of colonias including surrounding impact areas to enable accurate targeting and tracking. • Create or expand homebuyer education or financial counseling – by Q2 end: o Develop or expand two partnerships targeting certain high-needs rural regions creating one documented business plan to reach and engage households in need of housing assistance. o Implement an anchor institution partnership to increase homeownership opportunities by identifying and engaging two potential anchor institution partners in high-needs rural regions. o Support two partners developing scalable models to teach those living in high-needs rural regions and document best practices to reach and engage households needing financial literacy. o Develop one test and learn service learning program model and training curriculum; analyze, assess, document, and publish quantitative data on clients served against the target outcome. o Work with the industry to promote access to appropriate types of products, resources, and financing that will help very low-, low-, and moderate-income families access appropriate financing and assistance, including third-party grants for renovations and energy and water efficiency improvements.
2020	• As a result of the outreach and product development activities outlines in 2018 and 2019, purchase between 500 and 550 single-family loans in high-needs rural regions, an approximate four percent of the total loan purchases in 2020 from Objective #1. These loans are included in the total loan purchases in Objective #1 where the Baseline has been described.

The long term activities in this Objective are challenging. Activities supporting this Objective require a different paradigm designed to reach communities in a scalable way and, therefore, the work is difficult. Achieving these goals, while maintaining safety and soundness, requires substantial effort and use of Fannie Mae resources. Fannie Mae has significant experience evaluating, developing, and enhancing loan products and policy. Accordingly, Fannie Mae believes this Objective is reasonable and can be achieved within the time periods described. Product changes will be critical to increasing access to affordable capital and reducing limitations and requirements while opening access to Fannie Mae financing to those who otherwise do not meet eligibility requirements. Any variances, which create changes in credit parameters and product guidelines, will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns. The ultimate opportunity available in this market is to finance an increased number of single-family loans in high-needs rural regions.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

3. *Objective #3: Create a work-plan and increase multifamily loan purchases in Middle Appalachia, the Lower Mississippi Delta, and the colonias (Analyze, Test and Learn, Do What We Do Best).*

Meeting the Challenges
The multifamily housing markets in Middle Appalachia, the Lower Mississippi Delta, and the colonias, respectively, face substantial challenges, including: • Economic challenges such as declining rural populations and employment, higher housing cost burdens, persistent poverty, and limited access to lenders that can provide affordable capital. • High construction costs and operating expenses. • Rents, which when affordable to low-income residents, undermine the ability of multifamily properties to support debt. • Small rural communities which lack appropriate multifamily underwriting information, including market comparables, analyses of economic health, and supply/demand indicators. • Rural loans that cannot be viewed as one homogeneous group but require geographic market differentiation. • Much of the housing is in substandard condition and needs renovation and energy or water efficiency improvements. • There is little to no standardization across the rural multifamily debt market which results in a significant barrier to reliable liquidity. • Traditional lenders cannot attain “economies of scale” in lending in these areas due to the small project sizes coupled with the lack of readily available market information. • Community Reinvestment Act (CRA) investors are not necessarily interested in these markets based on the size of and geographic distance between communities in these and other rural markets. To address these challenges, Fannie Mae will: • Work to establish a deeper understanding of the subject rural markets/submarkets through outreach and research activities in order to determine the most impactful multifamily housing strategy for these high-needs rural regions. • Upon completion of the identified outreach and research activities, create a work-plan and develop key loan products and enhancements that will provide a foundation for the future purchase of loans secured by housing in these high-needs rural regions. • Based on the outreach and research activities completed, create a multifamily work-plan and complete updates and/or product enhancements that will provide a foundation for the purchase of loans secured by housing in these high-needs rural regions in the future. Elements to be addressed in the work-plans include the following: o Collaborating with partners that have strength in and knowledge of rural markets. o Identifying opportunities for standardization of multifamily debt in rural markets. o Identifying providers of non-debt capital, including Fannie Mae, subject to FHFA’s approval of Fannie Mae’s participation in the Low Income Housing Tax Credits (LIHTC) equity market.

Meeting the Challenges
o Determining how Fannie Mae can serve as a catalyst to facilitate the provision of reliable capital based on the specific needs of each high-needs rural region. o Finding workable strategies to address economies of scale issues faced by financial institutions active in these high-needs rural regions. • Purchase multifamily loans in Middle Appalachia, the Lower Mississippi Delta, and the colonias.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• In conjunction with Fannie Mae Single-Family: o Facilitate one rural housing roundtable with cross-functional industry representation to discuss, analyze, and solve for the challenges facing high-needs rural regions. o Establish a Fannie Mae Rural Housing Advisory Council with subcommittees representing each of the high-needs rural regions to gain a deeper understanding of the market challenges affecting the high-needs rural regions and discuss how these challenges can be met. o Conduct one annual meeting of the Advisory Council and semi-annual meetings of each subcommittee to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. o Participate in two key conferences as a means to network with key industry stakeholders and to communicate the “Duty to Serve” message. • Based on research and outreach results, create one multifamily work-plan each for Middle Appalachia, the Lower Mississippi Delta, and the colonias that will address key multifamily affordable housing issues, including (1) identification of the three top multifamily housing issues that need to be addressed in these high-needs rural regions; (2) identification of two potential roles for Fannie Mae Multifamily in serving these high-needs rural regions (including an assessment of how potential LIHTC equity investments can facilitate liquidity to the market); and (3) two key actions that would enhance Fannie Mae’s ability to serve these high-needs rural regions. The work-plan will also address customizing appropriate solutions by dedicating staff or resources to one or more specific high-needs rural regions – by Q2 end – which will include the determination of a full time employee, partnership or vendor relationship, definition of roles and responsibilities, and appropriate metrics to evaluate success. • Identify three potential product enhancements the purpose of which is to facilitate the provision of liquidity to Middle Appalachia, the Lower Mississippi Delta, and the colonias, to be submitted to Fannie Mae’s internal product enhancement and development approval process during 2019. • Identify at least one strategy that could facilitate increased standardization for multifamily loans in the high-needs rural regions.
2019	Based on the work completed in 2018: • Process one product enhancement and one standardization element identified in the work-plan through the product enhancement and development approval procedure.

Year	Actions
	• Implement the two identified key actions that will enhance Fannie Mae's role in and ability to serve the multifamily market in Middle Appalachia, the Lower Mississippi Delta, and the colonias. • Confirm 2020 multifamily loan purchase goals.
2020	Based on the work performed in 2018 and 2019, increase loan purchases as follows: • Purchase nine multifamily loans in rural areas in Middle Appalachia. o **Baseline**: The three year average of Fannie Mae's multifamily loan purchases in Middle Appalachia is five loans (2014: 4; 2015: 5; 2016: 6). For purposes of the Baseline, Fannie Mae will use the higher purchase level of six loans as reflected in the 2016 purchases. o Fannie Mae's initial loan purchase goal of nine multifamily loans will be based on increasing multifamily loan purchases by 50 percent over the Baseline. • Purchase 17 multifamily loans in rural areas in the Lower Mississippi Delta. o **Baseline**: The three-year average of Fannie Mae's multifamily loan purchases in the Lower Mississippi Delta is nine loans (2014: 13; 2015: 4; 2016: 11). For purposes of the Baseline, Fannie Mae will use the higher purchase level of 11 loans as reflected in the 2016 loan purchases. o Fannie Mae's initial loan purchase goal of 17 multifamily loans will be based on increasing multifamily loan purchases by 50 percent over the Baseline. • Purchase five multifamily loans located in the colonias. o **Baseline**: Because the colonias have not been sufficiently defined and tracked by Fannie Mae, there are no previous loan purchases to be used to establish a Baseline. In addition, Fannie Mae needs to better understand the market in order to establish an acceptable Baseline. As such, the initial Baseline will be set at five multifamily loan purchases. This Baseline may be adjusted as Fannie Mae's research and outreach better defines the market. • In Q3, conduct one survey of key stakeholders in Middle Appalachia, the Lower Mississippi Delta, and the colonias to assess the impact of Fannie Mae's work-plan. • In Q4, identify and document at least four key lessons learned from the work completed during the three years of the Plan and use this information as well as the research results to prepare the 2021 – 2023 Duty to Serve Plan.

The ultimate goal in these markets is to increase liquidity to Middle Appalachia, the Lower Mississippi Delta, and the colonias. Fannie Mae will be able to draw on our past experience in various local markets across the country as we work through our outreach and research. Any product enhancement and development work will factor in appropriate safety and soundness standards. Fannie Mae has significant experience studying and analyzing submarkets, designing enhanced loan products to address their needs, and purchasing loans in the submarkets. Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Any mortgages purchased under this Objective will be supported by thorough economic, risk, and operational analysis, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

B. Regulatory Activity: Housing for high-needs rural populations (12 C.F.R. § 1282.35 (c) (2)).
Note: Fannie Mae seeks extra credit for this Activity.

1. ***Objective #1: Rebrand and market Fannie Mae's Native American Conventional Lending Initiative (NACLI) and purchase single-family loans (Analyze, Partner and Innovate, Do What We Do Best).***

Meeting the Challenges

Native American tribes are one of the most underserved, impoverished minority populations in the country. The Native American Indian Housing Council (NAIHC) estimates that the homeownership rate in Indian country is about 33 percent, substantially below the national average, and Native Americans are four times more likely than the average American family to live in substandard housing. Potential homebuyers wanting to purchase homes on Native American land are faced with substantial challenges making it difficult to attract investors and lending products. These challenges include:

- Each tribe has a unique structure of governance, culture, history, and identity.
- There are legal complexities involving Native American land (e.g., federally restricted trust land and allotted lands).
- Housing located on reservations can be in substandard condition; overcrowding is common due to a high level of unemployment, persistent poverty, and lack of affordable rental housing.
- The mortgage lending process on Native American land is confusing and can be overwhelming, compounded by a general lack of understanding of the home purchase and ownership process.
- Conventional lending is nearly non-existent, leaving Native American tribes to rely on government lending programs to finance home purchases and refinance transactions.

To address these challenges, Fannie Mae will:

- Partner with tribal leadership and Tribally Designated Housing Entities (TDHE) to establish a Memoranda of Understanding (MOU) adopting the necessary procedures to participate in Fannie Mae's NACLI loan program, resulting in the provision of increased liquidity.
- Increase lending opportunities on Native American lands by fostering collaboration between tribes and Fannie Mae approved lenders.
- Collect and analyze mortgage data and loan performance; this information will be made available on Fannie Mae's website, through the use of targeted email campaigns and other highly visible mechanisms to bring clarity to the market. Providing factual information addressing misconceptions about Native American lending, which will help provide additional liquidity to the market. Promoting Fannie Mae's presence in this market and ultimately providing critical information will support and encourage capital sources to venture into lending and investing in this market where they may not have done so previously.
- Employ a test and learn approach to enhance a loan product or policy to reach more very low-, low- and moderate-income families. Evaluate the success and aim to develop affordable lending best practices.
- Strengthen homeownership knowledge of tribal members by building partnerships with anchor institutions, housing counseling organizations, and financial capability service providers. This collaboration will provide potential homebuyers with assistance to overcome credit and budget barriers, thus improving financial stability for increasing access to affordable rental housing and homeownership opportunities.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Facilitate one rural housing roundtable with 10 cross-functional industry representatives including lenders, mission based financial institutions, non-profit organizations, tribal leadership, and TDHE. Topics of discussion may include opportunities to expand access to housing and financing, regional needs, housing market challenges, market trends, and potential solutions that address the challenges facing Native American tribes. • Engage three appraisers from two different tribal regions or States with experience in appraising properties on Native American lands to gather intelligence and knowledge about the unique challenges, and use the information to develop and share best practices. • Conventional lending is not available to Native American tribes seeking to buy or construct homes on trust lands or other restricted areas. Fannie Mae will identify and engage two lenders with the ability to actively originate loans on tribal trust land – by Q2 end. • Partner with one housing counseling agency and create one specialized Native American focused homebuyer education and financial counseling curriculum – by Q2 end. • Execute at least two MOUs with two Native American tribes – by Q3 end. • Establish a marketing campaign focused on the NACLI product, targeting 10 lenders geographically located near Native American land, and 10 other stakeholders including, TDHE, non-profit organizations, Native American CDFI, HFA, and down payment assistance and/or IDA program partners. o Market information via social media, webinars, and other mechanisms – by Q3 end. o Leveraging the specialized homebuyer education curriculum, work with counselors, educators, and other third parties to engage 25 tribal member households to monitor and document their progress towards homeownership – by Q4 end. o Provide training and/or support to three lenders, four non-profit counseling agencies, and two TDHE to optimize homeownership opportunities for Native Americans – by Q4 end.
2019	• Purchase between 15 and 40 NACLI purchase money or refinance loans.[15] o **Baseline**: The Baseline is the average of the number of NACLI loans purchased by Fannie Mae over the last three years which is one loan (2014, 0; 2015, 3; 2016, 0). • Expand lender outreach to an additional two lenders geographically located near Native American land (i.e., lenders not approached in 2018).
2020	• Purchase between 125 and 200 NACLI purchase money or refinance loans. • Enhance NACLI and the MOU with the tribe to incorporate lessons learned as a result of appraiser and lender engagement.

15 In Fannie Mae's proposed Plan dated 5/8/17, significantly higher loan purchase goals for Year 2 (75–125) and Year 3 (200–275) and baseline numbers (31) were proposed. This was a result of our original analysis being completed manually without the application of the "rural" filter and the "< 100% AMI" filter which limit the number of historical loan purchases identified. In addition, the analysis uncovered a number of loans delivered with a transposed identifier code, erroneously increasing the NACLI Baseline. These errors were corrected to establish the correct figures presented in this Plan.

Year	Actions
	• Publish one piece of guidance related to appraisals of tribal trust land. Expand lender outreach to an additional two lenders geographically located near Native American land (i.e., lenders not approached in 2018 or 2019).

The use of conventional lending products to purchase or construct homes is non-existent with this particular high-needs rural population. Fannie Mae has a long history of demonstrated commitment to finding ways to create affordable housing opportunities for Native American families living on tribal trust lands since as early as 1994 and launched our first rendition of this product in 1999. Today, NACLI is an existing refinance-only product, but it is an underutilized product in the Fannie Mae Selling Guide. The MOU is a critical piece to the NACLI product and requires updating before new loan acquisitions can be made. Under a MOU, the tribe agrees to maintain certain legal standards supporting mortgage lending—primarily laws permitting land leasing, pledging of leaseholds, mortgage foreclosures, and evictions. Without a legal framework of this type, Fannie Mae cannot safely and soundly purchase mortgages on Native American lands. The MOU also sets forth Fannie Mae's offer to purchase loans secured by Native American lands and to respect tribal sovereignty through the acknowledgment of tribal court jurisdiction. Based on these significant factors along with our prior knowledge of working with Native American tribes, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Achieving these goals, while maintaining safety and soundness, requires substantial effort and use of Fannie Mae resources. The ultimate opportunity available in this market is to finance more conventional Native American mortgages. To this end, Fannie Mae will conduct loan product work and loan purchases in a safe and sound manner. Activities supporting this Objective require a different paradigm designed to reach disparate communities in a scalable way and, therefore, the work is difficult.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Design an investment pilot program, partnering with a Native American CDFI or other mission driven lenders, to increase access to credit, capital, or financial counseling (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
CDFI and other mission driven lenders provide much needed capital, financial or homeownership counseling, and other programs to communities that typically cannot be served by traditional financial institutions. These organizations specialize in unique housing and lending programs that meet the particular market, but have a constant need for funding from various sources to support their unique programs at affordable interest rates. CDFI can supplement traditional financial institutions and have the capability to support Native American tribal members wanting to purchase homes despite some of the challenges that include: • Lack of funding to support innovative programs including financial literacy and homebuyer education. • Absence of depositories and financial institutions on or near Native American lands that provide mortgage lending. • Native Americans' limited experience with and trust of mainstream banking institutions. To address these challenges, Fannie Mae will:

Meeting the Challenges
• Look to design or invest in one pilot investment program that addresses one or more unique challenges with a CDFI experienced in working with tribal leadership and tribe members providing appropriate financial services that make homeownership more achievable.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Engage three CDFI or other mission driven lenders, identifying one to five potential innovative homeownership, lending, or investment opportunities that have the potential to meet FHFA approval and are consistent with Fannie Mae's Charter Act – by Q3 end. • Perform outreach and research, data collection, and analysis in order to: (1) improve Fannie Mae's understanding of the needs, opportunities and factors that will drive improvements and outcomes for Native American tribes; (2) establish and identify methodologies to determine a level of investment that meets those needs; and (3) establish the investment underwriting criteria – by Q3 end. • Achieve internal approval and submit proposed pilot program to FHFA for review and approval – by Q3 end. • Establish reporting mechanisms and performance measures – by Q4 end. • The completion of outreach and research, data collection, and analysis, and all actions pertaining to the internal and FHFA approval process in 2018 will inform any or all future actions in 2019 and 2020, including Fannie Mae's internal product development process.

The need to invest in CDFI or other mission driven lenders and participate in pilot programs in the underserved markets was raised during the outreach Fannie Mae conducted in 2016 and more recent public comment received in response to our proposed Underserved Markets Plan. These comments define a significant market opportunity for this action. Investment in homeownership programs in Indian country is meaningful and impactful.

Because Fannie Mae has experience with investments in years past, we believe the internal activities described in this Objective are realistic and may be achieved within the time period described. Any new investment would be subject to internal approval and FHFA approval, which would incorporate safety and soundness analysis.

Implementation of this Objective is contingent upon a determination that the Objective and related actions are compliant with Fannie Mae's Charter Act and receipt of FHFA approval.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	n/a	n/a
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

3. *Objective #3: Create and implement work-plans and purchase loans secured by multifamily housing for Native Americans and agricultural workers (Analyze, Do What We Do Best).*

Meeting the Challenges
The rental housing markets for Native Americans and for agricultural workers face a number of challenges, including: • The opportunity to finance multifamily housing for each of these high-needs rural populations is believed to be very limited given: o Economic challenges such as persistent poverty and limited access to lenders that can provide affordable capital. o Communities in the areas in which these high-needs rural populations reside often lack appropriate multifamily underwriting information, including market comparables and analyses of economic health and supply/demand indicators. o Loans in the rural areas in which these high-needs rural populations often reside, cannot be viewed as one homogeneous group but require geographic market differentiation. o Much of the housing in which these high-needs rural populations reside is in substandard condition and needs energy or water efficiency improvements. o Traditional lenders cannot reach “economies of scale” in lending in the areas in which these high-needs rural populations reside due to the small project sizes coupled with the lack of readily available market information. o CRA investors are not necessarily interested in the markets in which these high-needs rural populations reside based on the size of and geographic distance between communities. o Native American communities are sovereign States and tribal lands have significant restrictions that may create barriers to acquiring a traditional mortgage. To address these challenges, Fannie Mae will: • Work to establish a deeper understanding of the subject rural markets/submarkets through outreach and research activities in order to determine the most impactful multifamily housing strategy for these high-needs rural populations. • Upon completion of the identified outreach and research activities, create work-plans and develop key loan products and enhancements that will provide a foundation for the future purchase of loans secured by affordable housing for Native Americans and agricultural workers. • Purchase multifamily loans that support affordable housing for Native Americans and agricultural workers.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• In conjunction with Fannie Mae Single-Family efforts: o Facilitate one rural housing roundtable with cross-functional industry representation to discuss, analyze, and solve the challenges facing high-needs rural populations. o Establish a Fannie Mae Rural Housing Advisory Council with subcommittees representing each of these high-needs rural populations to gain a deeper understanding of the market

Year	Actions
	challenges affecting these high-needs rural populations and discuss how these challenges can be met. o Conduct one annual meeting of the Advisory Council to solicit guidance and information as Fannie Mae implements the activities outlined in the Plan. o Participate in two key conferences as a means to network with key industry stakeholders and to communicate the "Duty to Serve" message. • Based on research and outreach results, create one multifamily Native American work-plan and one agricultural workers work-plan that will address key multifamily affordable housing issues, including, respectively, (1) identification of Native American and agricultural worker communities; (2) identification of the three top multifamily housing issues that need to be addressed in these communities; (3) two potential roles for Fannie Mae Multifamily in serving each of these communities; and (4) two key actions (e.g., reviewing Fannie Mae's current products to determine what potential changes could be made to increase liquidity to these populations, or survey lenders to document barriers to lending to these populations) that would enhance Fannie Mae's ability to serve the multifamily market for both populations. • As part of the outreach and product development work occurring in connection with purchasing rural loans from small financial institutions, determine if any of the small financial institutions have a focus on Native American or agricultural worker housing that can be leveraged to increase liquidity to Native Americans and agricultural workers. • Identify three potential product enhancements (total) that could facilitate the provision of liquidity to Native Americans and agricultural workers to be submitted to Fannie Mae's internal product enhancement and development approval process for consideration during 2019.
2019	Based on the work completed in 2018: • Process at least one product enhancement identified in the work-plan through the internal product enhancement and development approval process that will facilitate the provision of liquidity to housing for Native Americans and agricultural workers. • Implement the two identified key actions from the work-plan that will enhance Fannie Mae's role and ability to serve the affordable housing needs of both Native Americans and agricultural workers. • Revise and document updated work-plans including proposing additional product enhancements and confirming loan purchase Baselines and goals for 2020.
2020	Based on the work completed in 2018 and 2019: • Implement product enhancement(s) approved during 2019. • Purchase one loan for multifamily housing serving Native American populations and three loans for multifamily housing serving agricultural worker populations. o **Baseline:** Over the last three years, Fannie Mae has not purchased any multifamily loans on rental housing for Native Americans or agricultural workers. Until such time as Fannie Mae completes the outreach and research described for this Objective, it cannot reasonably determine a more accurate Baseline than zero. • Conduct a survey of key stakeholders to assess the impact of each of Fannie Mae's work-plans for these high-needs rural populations – in Q3.

Year	Actions
	• Identify and document at least four key lessons learned from the work completed under each of the work-plans and use those findings, as well as the survey results, in the planning process for the 2021 – 2023 Duty to Serve Plan – in Q4.

The ultimate goal of this Objective is to determine the most impactful strategy for Fannie Mae to increase liquidity to the Native American and agricultural workers multifamily markets. Fannie Mae will be able to draw on our past experience and relationships in various local markets across the country as we work through our outreach and research. Based on our previous experience in conducting outreach and research, product development, and multifamily financing, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. Any product enhancement and development work will factor in appropriate safety and soundness standards.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

C. Regulatory Activity: Financing by small financial institutions of rural housing (12 C.F.R. § 1282.35(c) (3)).

1. *Objective #1: Through outreach and developing solutions, Fannie Mae will increase purchases of single-family loans in rural areas from small financial institutions (Do What We Do Best).*

Meeting the Challenges
One of the biggest challenges in rural areas for small financial institutions is access to the secondary market and affordable capital. To address this challenge Fannie Mae will: • Purchase an additional 4,873 to 6,623 rural single-family loans from small financial institutions over three years, which equates to an estimated additional $848 million to $1.2 billion of liquidity.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Facilitate meetings with three regional wholesale lenders and one credit union service organization or one large aggregator to discuss the creation of an alternative business model allowing small financial institutions access into the secondary market – by Q3 end. • Purchase between 18,000 and 18,250 single-family loans in rural areas from small financial institutions, representing an approximate five to six percent increase over the Baseline. o **Baseline:** The average of the total number of rural loans purchased by Fannie Mae from small financial institutions in rural areas is 13,998 loans. (2014: 10,383; 2015: 14,401; 2016: 17,209)

Year	Actions
	However, given that in 2016 the number of single-family rural loans purchased (17,209) was higher than the three-year average, the Baseline is being established at 17,209. • Assist small financial institutions in meeting rural areas loan delivery requirements by engaging 25 small financial institutions to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.
2019	• Purchase between 18,500 and 19,000 single-family loans in rural areas from small financial institutions, representing an approximate eight to 10 percent increase over the Baseline. • Expand lender outreach to an additional 25 small financial institutions (i.e., lenders not approached in 2018) to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.
2020	• Purchase between 20,000 and 21,000 single-family loans in rural areas from small financial institutions, representing an approximate 16 to 22 percent increase over the Baseline. • Expand lender outreach to an additional 25 small financial institutions (i.e., lenders not approached in 2018 or 2019) to facilitate participation in a Fannie Mae training program on loan delivery and related requirements.

Increasing the purchase volume of single-family loans in rural areas from small financial institutions provides direct liquidity to the market. Fannie Mae has a significant presence in the rural area housing loan market and maintains established relationships with small financial institutions engaged in the financing of rural housing. Fannie Mae has the systems, operations, and resource tools needed to facilitate efficient rural area housing loan delivery in a safe and sound manner. In addition, underwriting standards and credit guidelines that are simplified and consistent with safety and soundness will continue to be applied to improve acquisition of this product. Fannie Mae has significant experience purchasing loans in particular markets. Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. The ultimate opportunity available in this market is to acquire an increased number of rural area single-family loans from small financial institutions.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Purchase	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Purchase single-family rural loans through bulk transactions from small financial institutions (Analyze, Innovate and Do What We Do Best).*

Meeting the Challenges
Single-family mortgage loans originated in rural areas do not always conform to Fannie Mae's credit or collateral standards for a variety of reasons. As a result, small financial institutions tend to hold these loans in their portfolios and not deliver them into the secondary market. To address these challenges, Fannie Mae will:

Meeting the Challenges
• Conduct significant market outreach, research, and data acquisition to identify opportunities to prudently purchase portfolio rural single-family loans in bulk. Data analyses and research will also be performed to gather information to assess financial risk of these bulk transactions.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Engage five single-family small financial institution lenders to identify and analyze the loan level details of their portfolios and associated lending terms to identify opportunities to purchase loans in bulk – by Q3 end. • Assess Fannie Mae's operational and system capabilities including a servicing assessment (if necessary) to handle bulk transaction deliveries. • Pursue internal approval to purchase rural single-family loans that may be considered illiquid assets and may remain on Fannie Mae's balance sheet for the life of the loans and not be eligible for securitization – by Q4 end.
2019	Subject to internal approval and availability in the market, Fannie Mae will: • Purchase between 600 and 700 single-family rural loans through bulk transactions. o **Baseline**: Fannie Mae has not purchased single-family rural loans through bulk transactions from small financial institutions in the last three years and, therefore, cannot establish a reasonable Baseline. • Expand lenders outreach to an additional 10 small financial institution lenders (i.e., lenders not approached in 2018).
2020	Subject to internal approval, Fannie Mae will: • Purchase between an additional 700 and 800 single-family rural loans through bulk transactions. • Expand lender outreach to an additional 10 small financial institution lenders (i.e., lenders not approached in 2018 or 2019).

There is insufficient data available to determine what the current market opportunity is or the types of loans that are available for the purchase of the subject loans in bulk transactions from small financial institutions. However, if the loan purchases are made, it will provide direct liquidity to small financial institutions that lend in rural areas. Fannie Mae has the existing capability to purchase single-family loans through bulk transactions without requiring any additional Enterprise-level development. Based on this experience and the available resources, Fannie Mae believes this Objective may be achieved within the time periods described. All loan purchases made under this Objective will be supported by thorough economic, risk, and operational analyses, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

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

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

Meeting the Challenges
Providing liquidity for small loans in rural markets faces a number of challenges, including: • A lack of standardized loan guidelines and documentation among active lenders in rural areas. • Few comparable properties for underwriting purposes. • Challenging economics including population decline, unemployment, and communities that are small and geographically widespread. • Little to no economies of scale for lenders in rural markets. To address these challenges, Fannie Mae will: • Develop and implement a proactive focus on the acquisition of mortgages on small multifamily rental properties in rural areas rather than responding only to lender deliveries. • Strategically identify DUS lenders that have an interest in and focus on rural housing and actively work with these lenders to generate business to increase liquidity to the market. • Purchase small multifamily loans that preserve Section 515 properties financed by the USDA. • Review Fannie Mae's existing small multifamily loan and rural products with a focus on potential product enhancements necessary to increase liquidity for small multifamily loans in rural areas. • Purchase small multifamily loans on MHC located in rural areas and owned by non-profits, government entities, and residents.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Conduct outreach to six Fannie Mae DUS lenders that had previously indicated their interest in originating small multifamily loans in rural areas, to determine their level of interest. • In addition to reaching out to DUS lenders interested in making small multifamily loans in rural areas, conduct outreach to at least two other financial entities to determine if they have the capacity and the resources to become a Fannie Mae lender (or aggregator) with a special focus on rural areas (e.g., lenders with a rural focus that are not currently Fannie Mae lenders, Federal Home Loan Banks, and/or similar financial organizations with a rural footprint, and national CDFI with a rural focus). • Conduct and document an internal review of Fannie Mae's RD 538 program to determine if it could be used efficiently to purchase small multifamily loans in rural areas. • In conjunction with the activities under the Affordable Housing Preservation Market section of this Plan, research potential USDA 515 refinance opportunities in rural areas.

Year	Actions
	• Review and determine one to three changes to Fannie Mae's Small Loan guidelines that would be appropriate to facilitate the provision of liquidity to the market through purchases of the subject loans, taking into consideration notions of safety and soundness. • Position one existing Fannie Mae lender to start originating small multifamily rural loans in 2019 of the Plan. • In order to generate increased small multifamily rural loan purchases, educate the lenders that have expressed interest in small multifamily rural loans via Fannie Mae's outreach on any changes that have been made to the small loan product guidelines. • Utilize results from actions taken during 2018 to confirm the 2019 loan purchase goal.
2019	• Based on the work completed in 2018, purchase 60 loans on small multifamily properties in rural areas, representing a 58 percent increase over the Baseline. o **Baseline:** The three year average of the number of small multifamily loans in rural areas purchased by Fannie Mae is 34 loans, with 38 loans purchased in the peak production year of 2015 (2014: 26; 2015: 38; 2016: 37). The prior three year loan purchase results do not reflect any specific marketing approach to small multifamily rural loan purchases. Therefore, assuming Fannie Mae makes a focused effort on improving the loan product and increasing loan purchases, small multifamily loan purchases in rural areas would increase significantly. Using the 2015 peak production amount of 38 loans during the last three years as the Baseline then, the 2019 loan purchase goal will be set initially at 60 small multifamily rural loans. • Complete the on-boarding process for new lenders as needed. • Confirm the 2020 small multifamily rural loan purchase goals.
2020	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.

With an affirmative approach with specific interested lenders, Fannie Mae believes the market opportunity available in this market will accommodate significant increases in small multifamily loan purchases. Fannie Mae has significant experience working with our lenders and engaging in activities to increase lending in specific markets. Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. All product enhancements, approval of new lenders, and loan purchases will be supported by thorough economic, risk, operational, and counterparty analyses, subject to Fannie Mae's governance and approval processes, and only undertaken consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

E. Additional Activity: Invest in LIHTC properties to facilitate the provision of affordable multifamily housing in rural areas (12 C.F.R. § 1282.35 (d)).

1. *Objective #1: Invest in LIHTC properties including housing associated with other Statutory and Regulatory Activities (Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
LIHTC equity investment in rural areas has several key challenges, including: • Rural areas may be overlooked as potential investments because they typically are not included in the CRA footprints for larger financial institutions. • Affordable rural housing often depends heavily on the availability of tax credit investments due to the limited capacity of rural multifamily properties to support debt. • Because rural markets do not attract CRA investors, and those economic investors that do deploy capital to the rural market require much higher yields, the price for rural market tax credits is lower. This results in less equity being made available to the rural market. This fact, combined with the limited capacity of rural multifamily properties to support debt, can result in less investment in preservation being made in rural areas and difficulty in both producing and preserving affordable properties within and from the rural housing stock. To address these challenges, Fannie Mae will: • Re-establish our LIHTC investment capacity, including infrastructure, investment criteria, and policies and procedures. • Include LIHTC equity investments in Fannie Mae's multifamily work-plans for high-needs rural regions and for high-needs rural populations.[16] • Fill gaps in demand for capital as the private investor market presence expands and contracts over time, and support the equalization of pricing for tax credit equity currently and over time among all segments of the market, including rural housing, and other challenging projects that are by their nature routinely capital-constrained. • Work with key LIHTC market participants through the Rural Housing Advisory Council to identify opportunities in rural areas with less investor demand, including high-needs rural regions and high-needs rural populations. • Invest in LIHTC equity that will support the development/preservation of affordable multifamily housing in the high-needs rural regions and for high-needs rural populations, which have historically been areas of lower investor demand. • Invest in LIHTC equity eligible for Duty to Serve credit as an Additional Activity pursuant to 12 CFR § 1282.37(c).

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Research and analyze market opportunities with respect to potential equity investments in LIHTC housing designed to support affordable rural housing, including the following Statutory or Regulatory Activities:

16 As defined under the Regulations.

Year	Actions
	o Project-based rental assistance housing programs under Section 8 of the U.S. Housing Act of 1937, 42 U.S.C. § 1437f. o The supportive housing program for the elderly under Section 202 of the Housing Act of 1959, 12 U.S.C. § 1701q. o Debt financing of LIHTC under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42. o The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485. o Small multifamily rental properties financed by entities with assets of $10 billion or less. • Fannie Mae will include both high-needs rural regions and high-needs rural populations in our 2018 research and analysis work related to future potential LIHTC equity investments. • Fannie Mae will: o Conduct extensive research to identify rural areas with low investor demand, including high-needs rural regions and for high-needs rural populations. o Meet with at least two LIHTC syndicators that are active in the high-needs rural regions and with high-needs rural populations to better understand LIHTC equity needs and to identify potential investments in the high-needs rural regions. o In conjunction with Fannie Mae's Single-Family outreach efforts, in Q1, meet with the Rural Housing Advisory Council to gain a deeper understanding of the market challenges and identify areas with low investor demand including in high-needs rural regions and for high-needs rural populations. o Conduct outreach to at least 10 State HFA with rural housing needs, and specifically those serving high-needs rural regions and high-needs rural populations, to better understand how their Qualified Allocation Plans address the needs of underserved rural markets. o Create, establish, and document one set of reasonable investment goals to meet the challenges identified through outreach and research related specifically to rural housing. o Create and adopt one work-plan based upon data obtained through research and analysis, to leverage Fannie Mae's longstanding relationships in the LIHTC industry and commence investing in rural LIHTC properties. ▪ Fannie Mae will reach out to LIHTC stakeholders working in high-needs rural regions and with high-needs rural populations in order to include specific related actions in the work-plan. ▪ In addition, the work-plan will include a review of the initial Baseline estimated for 2019 (five LIHTC equity investments) based on the outreach and research completed, including potential investment opportunities in high-needs rural regions and with high-needs rural populations.
2019	• Fannie Mae will execute the work-plan developed in 2018 and acquire five equity investments in LIHTC projects in the rural areas that are eligible for Duty to Serve credit, as identified through 2018 outreach and research efforts while taking into account safety and soundness considerations. o **Baseline**: Fannie Mae has not made any equity investments in LIHTC properties in the last eight years. In addition, these LIHTC equity investments were made when Fannie Mae had a fully operating business with numerous employees reviewing and managing the investments. Based on this experience, Fannie Mae believes that it is reasonable to estimate that we will make five new LIHTC equity investments in 2019.

Year	Actions
	• In conjunction with Single-Family, Fannie Mae will conduct a meeting with the Rural Housing Advisory Council in Q4 to continue to identify challenges in rural areas with less investor demand, and work together to develop solutions, including the use of LIHTC. • Based on Fannie Mae's experience during 2019, Fannie Mae will review and confirm our 2020 LIHTC equity investment goals.
2020	• Fannie Mae will acquire 10 equity investments in LIHTC projects in the rural areas that are eligible for Duty to Serve credit (including but not limited to high-needs rural regions and for high-needs rural populations), as identified in 2018 – 2019 outreach and research efforts while taking into account safety and soundness considerations. • Fannie Mae will review our experience with rural LIHTC investment during the term of the Plan and identify key lessons learned that will inform the 2021 – 2023 Duty to Serve Plan. • Prepare the 2021 – 2023 Duty to Serve Plan.

While LIHTC equity investments were not identified as a Regulatory Activity, in the final Duty to Serve rule, FHFA indicated in its preamble that it ". . . has determined that, under the final rule, Enterprise equity investments in rural areas will be eligible for Duty to Serve credit, subject to approval of such investments by FHFA as conservator," which has now been received.

This Additional Activity contemplates that the LIHTC investments to be made will be eligible for Duty to Serve credit under 12 CFR § 1282.37(c). This Additional Activity is justified because it contemplates investment in housing which otherwise constitutes a Statutory or Regulatory Activity, and, therefore, is comparable. Moreover, it may be significantly more effective for Fannie Mae to invest in these properties rather than attempt to finance their associated mortgages given the often limited ability of these properties to support debt, or to attract non-LIHTC equity capital seeking a market rate of return. To the extent that this Additional Activity represents investments outside of the referenced Statutory and Regulatory Activities, it nonetheless serves the same targeted very low- and low-income families coupled with the same intent of facilitating the provision of affordable rural housing and, therefore, is comparable to other Statutory and Regulatory Activities. The fact that there is a greater share of families with incomes less than or equal to 60 percent of AMI in rural markets than in urban markets in all recent years, coupled with the fact that these families are very likely to be housing burdened, firmly supports the conclusion that existing and potential tenants will benefit from the creation or continued existence of LIHTC properties.

Fannie Mae believes this Objective can be achieved in the time periods described, based on our lengthy and successful history of investing in LIHTC and our ability and capacity to reenter the LIHTC rural equity market. LIHTC investment in rural areas will be based on market research and safety and soundness principles that also may require that Fannie Mae not undertake this Objective. It is important to note that Fannie Mae intends to include LIHTC equity as a potential tool in our discussions and product enhancement work with numerous Objectives in the Plan, including in high-needs rural regions and for high-needs rural populations; Section 515 preservation, small multifamily rental properties financed by entities with assets of $10 billion or less, and financing of Section 202 properties serve as examples. LIHTC equity can play a very important role in preserving affordable housing in many markets beyond rural ones.

The available market opportunity is best illustrated through an examination of the existing data. For example, while not all Section 515 projects receive LIHTC, using the data for the USDA 515 market as a proxy for market opportunity for rural LIHTC investments provides a reasonable approach to estimating market opportunity. According to the USDA, approximately 15,210 units of Section 515 housing will become eligible for prepayment during the timeframe of this Plan. Many Section 515 properties will need LIHTC in order to be or remain financially sound. Using a modest assumption of $15,000 per unit of needed financing, the total potential market for refinancing/recapitalization could be $228,150,000 over the three-year Plan.

Fannie Mae’s participation as an investor and guarantor in the LIHTC market is an important aspect of our affirmative obligation to facilitate the financing of affordable housing for very low- and low-income families established by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. Fannie Mae’s presence will enhance the stability of the LIHTC program by serving as a reliable source of capital for affordable housing in diverse economic cycles and markets, including rural and underserved geographies and populations. Fannie Mae, as an equity investor, will not displace private funding but will instead supplement much needed capital, while also seeking to balance the distribution of equity capital across the LIHTC market to include those segments of the market that continue to suffer from the limited liquidity identified in this Objective.

Criteria	2018	2019	2020
Evaluation Factor:	Investment	Investment	Investment
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

V. Overview of Objectives for Rural Housing

Activities and Objectives		2018 Evaluation Factor	2019 Evaluation Factor	2020 Evaluation Factor
A. Regulatory Activity: Housing in high-needs rural regions.				
1.	Fannie Mae will increase single-family loan purchases in high-needs rural regions.	Loan Purchase	Loan Purchase	Loan Purchase
2.	Increase affordable capital through industry outreach and developing solutions to increase single-family loan purchases in high-needs rural regions.	Outreach	Loan Product	Loan Purchase
3.	Create a work-plan and increase multifamily loan purchases in Middle Appalachia, the Lower Mississippi Delta, and the colonias.	Outreach	Loan Product	Loan Purchase
B. Regulatory Activity: Housing for high-needs rural populations.				
1.	Rebrand and market Fannie Mae's Native American Conventional Lending Initiative (NACLI) and purchase single-family loans.	Loan Product	Loan Purchase	Loan Purchase
2.	Design an investment pilot program, partnering with a Native American CDFI or other mission driven lenders, to increase access to credit, capital, or financial counseling.	Outreach	n/a	n/a
3.	Create and implement work-plans and purchase loans secured by multifamily housing for Native Americans and agricultural workers.	Outreach	Loan Product	Loan Purchase
C. Regulatory Activity: Financing by small institutions of rural housing.				
1.	Through outreach and developing solutions, Fannie Mae will increase purchases of single-family loans in rural areas from small financial institutions.	Loan Purchase	Loan Purchase	Loan Purchase
2.	Purchase single-family rural loans through bulk transactions from small financial institutions.	Loan Product	Loan Purchase	Loan Purchase
D. Regulatory Activity: Small multifamily rental properties in rural areas.				
1.	Identify market opportunities to purchase small multifamily rental loans in rural areas.	Loan Product	Loan Purchase	Loan Purchase
E. Additional Activity: Invest in LIHTC properties to facilitate the provision of affordable multifamily housing in rural areas.				
1.	Invest in LIHTC properties including housing associated with other Statutory and Regulatory Activities.	Investment	Investment	Investment