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.” 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.”

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. 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. 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

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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 5.6 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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• **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.

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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.
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.

<table>
<thead>
<tr>
<th>Type</th>
<th>Dec-11</th>
<th>Dec-16</th>
<th>%</th>
</tr>
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<tbody>
<tr>
<td>Short Sales</td>
<td>232,581</td>
<td>31,011</td>
<td>-86.7%</td>
</tr>
<tr>
<td>REO Properties</td>
<td>234,682</td>
<td>59,729</td>
<td>-74.5%</td>
</tr>
<tr>
<td>Distressed Properties</td>
<td>467,263</td>
<td>90,740</td>
<td>-80.6%</td>
</tr>
</tbody>
</table>

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.

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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.
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

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.\(^\text{16}\)

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)\(^\text{17}\) 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.\(^\text{18}\)

\(^{16}\) 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.

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.
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.

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:
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.

Notes: Other units include those funded by HOME Rental Assistance, FHA insurance, Sections 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 26, 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. 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.

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.

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)

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</thead>
<tbody>
<tr>
<td>1) Low Income Housing Tax Credits – FHA insured only</td>
<td>$27</td>
<td>$0</td>
<td>$5</td>
<td>$4</td>
<td>$36</td>
</tr>
<tr>
<td>2) HUD Section 8 Rental Assistance Program – FHA Insured only</td>
<td>77</td>
<td>91</td>
<td>82</td>
<td>86</td>
<td>71</td>
</tr>
<tr>
<td>3) HUD Section 236 Interest Rate Subsidy Program</td>
<td>55</td>
<td>30</td>
<td>30</td>
<td>5</td>
<td>0</td>
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<td>4) HUD Section 221(d)(4) FHA Insurance Program</td>
<td>3</td>
<td>27</td>
<td>26</td>
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<td>5) HUD Section 202 Direct Loan Program</td>
<td>32</td>
<td>32</td>
<td>122</td>
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</tr>
<tr>
<td>6) USDA 515 Rural Housing Programs</td>
<td>80</td>
<td>79</td>
<td>64</td>
<td>116</td>
<td>100</td>
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<tr>
<td><strong>Sum FHA/RD Maturing Loan Volumes</strong></td>
<td><strong>$274</strong></td>
<td><strong>$259</strong></td>
<td><strong>$329</strong></td>
<td><strong>$465</strong></td>
<td><strong>$549</strong></td>
</tr>
</tbody>
</table>

**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 23, 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.
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. 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.

---

Annual Potential Savings from Multifamily Buildings by State

at 15% electricity and 30% natural gas efficiency improvement

Savings as percentage of residential consumption (end use Btus, both electric and natural gas)

- Greater than 2%
- 1.25 to 2%
- .75 to 1.25%
- .5 to .75%
- Less than .5%
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. 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 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.

SMART Factors

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

<table>
<thead>
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<th>Year</th>
<th>Actions</th>
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| 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 number of units with expiring Section 8 subsidies.  
  - **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... |

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.
### Fannie Mae's Duty to Serve Plan

#### Year 2018
- 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.

#### Year 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.

#### Year 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.

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.

### 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.

### Statutory Activity

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

### Evaluation Factor

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<th>Criteria</th>
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<td>Income Levels:</td>
<td>Very Low-Income Levels for all Years</td>
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**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

- 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.

<table>
<thead>
<tr>
<th>Year</th>
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| 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)<sup>®</sup> 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... |
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.

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<th>Criteria</th>
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<tr>
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<td>Loan Product</td>
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<td>Income Levels:</td>
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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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
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</table>
| 2018 | - Establish a workable strategy to preserve Section 515 properties across the country by undertaking the following:  
  - 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.  
  - 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.  
  - 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, |
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.
  - **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.

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.

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<th>Criteria</th>
<th>2018</th>
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<tr>
<td><strong>Evaluation Factor:</strong></td>
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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.

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<thead>
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<th>Year</th>
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| 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.  
  - 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.  
  - 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.  

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.

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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.

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<th>Year</th>
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| 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
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- 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.

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.

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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.

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</table>
| 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.  
  o 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\(^2\)) 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
--- | ---
2018 | • Continue to monitor the results of the pilot, and identify what changes, if any, might be required based upon performance to date.
2019 | • 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.

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.

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<th>Criteria</th>
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<tr>
<td>Evaluation Factor:</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
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<tr>
<td>Income Levels:</td>
<td>Very Low-, Low-, and Moderate-Income Levels for all Years</td>
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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.

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<thead>
<tr>
<th>Year</th>
<th>Actions</th>
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</table>
| 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. |
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<th>Year</th>
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</table>
| 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.  

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.

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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.

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</table>
| 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 Developing 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.

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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.

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<th>Year</th>
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| 2018 | - Purchase 622 loans that meet the FHFA Criteria, representing an approximate 10 percent increase over the Baseline.  
  - **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.  

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

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#### 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:
  - 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.
  - 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® Energy26 and HomeStyle Renovation27 products.

- 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.
- 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:
  - 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.
  - 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.

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<tr>
<th>Year</th>
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<tbody>
<tr>
<td>2018</td>
<td>• 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.</td>
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<td>• 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.</td>
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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.
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<td>• 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.</td>
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<td>• 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.</td>
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<td>• 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:</td>
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<td>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.</td>
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<td>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.</td>
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<td>o Analyze our portfolio of loans where borrowers have financed energy or home renovation projects to understand geographic and demographic characteristics and performance.</td>
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<td>o Publish findings related to one of these research outcomes.</td>
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<td>• 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.</td>
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<tr>
<td>2019</td>
<td>Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests:</td>
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|      | • 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
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| 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 |
Duty to Serve Underserved Markets Plan
for the Affordable Housing Preservation Market Effective 1.1.2018


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<td>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.</td>
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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.

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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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
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</table>
| 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... |

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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.
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.

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\(^{30}\) (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.
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.

<table>
<thead>
<tr>
<th>Year</th>
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| 2018 | • Purchase between 250 and 300 shared equity loans, representing a 20 to 44 percent increase over the Baseline.  
  - **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.

Duty to Serve Underserved Markets Plan  
for the Affordable Housing Preservation Market Effective 1.1.2018  

AHP44
### 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.

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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.

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<th>Year</th>
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| 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
<table>
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<tr>
<th>Year</th>
<th>Actions</th>
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<tbody>
<tr>
<td>2018</td>
<td>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.</td>
</tr>
</tbody>
</table>

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 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.
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.

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<tr>
<th>Year</th>
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<td>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.</td>
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<tr>
<th>Criteria</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
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<tbody>
<tr>
<td>Evaluation Factor:</td>
<td>Outreach</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td>Income Levels:</td>
<td>Very Low-, Low-, and Moderate-Income Levels for all Years</td>
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</tr>
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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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
</tr>
</thead>
</table>
| **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.

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<tr>
<th>Criteria</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td>Evaluation Factor:</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
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<tr>
<td>Income Levels:</td>
<td>Very Low-, Low-, and Moderate-Income Levels for all Years</td>
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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.

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<th>Year</th>
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</table>
| 2018 | - Demonstrate industry leadership by:  
  - 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.  
  - 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®, 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. |

34 HomePath is Fannie Mae’s online platform for selling our REO inventory. See www.HomePath.com
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<td>such relationships will be a significant commitment of time and will provide substantial learnings on how to expand engagement in following years.</td>
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<td>• 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.</td>
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<td>• 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.</td>
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<td>• 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.</td>
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<td>• 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:</td>
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<td>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.</td>
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<tr>
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<td>▪ One or more participating lenders will be chosen based on level of interest, capacity, potential volume of loan delivery, and market focus.</td>
</tr>
<tr>
<td></td>
<td>▪ 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.</td>
</tr>
<tr>
<td></td>
<td>o If feasible and depending on review, learnings, and analysis, publish one policy update by Q4 end.</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
<tr>
<td>2019</td>
<td>Based on lessons learned in 2018 and to further increase knowledge through market outreach, research, analysis, and tests:</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
</tbody>
</table>
|      | • 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 and 2019) – 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
Duty to Serve Underserved Markets Plan
for the Affordable Housing Preservation Market Effective 1.1.2018

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.

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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
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<tbody>
<tr>
<td></td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Enhance and continue to execute the consumer outreach program, incorporating learnings from outreach efforts into updated materials.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation Factor:</td>
<td>Outreach</td>
<td>Loan Product</td>
<td>Loan Product</td>
</tr>
<tr>
<td>Income Levels:</td>
<td>Very Low-, Low-, and Moderate-Income Levels for all Years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
</tr>
</thead>
</table>
| 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.
analysis of projected loan purchases absent any initiatives under the Plan in order to determine yearly Baselines.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>High-Needs Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>14,002</td>
<td>155</td>
</tr>
<tr>
<td>2018</td>
<td>10,490</td>
<td>96</td>
</tr>
<tr>
<td>2019</td>
<td>9,939</td>
<td>86</td>
</tr>
<tr>
<td>2020</td>
<td>12,156</td>
<td>106</td>
</tr>
</tbody>
</table>

2019

- Purchase between 10,900 and 11,430 loans originated for the purchase or rehabilitation of a distressed property, 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, 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 may be achieved within the time periods described.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation Factor:</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td>Income Levels:</td>
<td>Very Low-, Low-, and Moderate-Income Levels for all Years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
</tr>
</thead>
</table>
| 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: |
<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>o Investment underwriting.</td>
</tr>
<tr>
<td></td>
<td>o Approval process.</td>
</tr>
<tr>
<td></td>
<td>o Maximum portfolio capacity.</td>
</tr>
<tr>
<td></td>
<td>o Asset management.</td>
</tr>
<tr>
<td></td>
<td>o Reporting – ongoing monitoring activities to ensure that the workforce housing serves very low-, low-, and moderate-income families at affordable rents.</td>
</tr>
<tr>
<td></td>
<td>o Performance measures – traditional financial as well as impact performance.</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
<tr>
<td></td>
<td>• Attain preliminary internal approval for proposed program.</td>
</tr>
<tr>
<td></td>
<td>• Submit program to FHFA for approval.</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
<tr>
<td>2019</td>
<td>• Build out internal team to implement the program.</td>
</tr>
<tr>
<td></td>
<td>• Identify and approve one to five potential investments.</td>
</tr>
<tr>
<td></td>
<td>• Close one to five investments that have been approved internally and where approval has been received from FHFA.</td>
</tr>
<tr>
<td></td>
<td>o <strong>Baseline</strong>: 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.</td>
</tr>
<tr>
<td>2020</td>
<td>• Incorporate “lessons learned” from 2018 and 2019 activities.</td>
</tr>
<tr>
<td></td>
<td>• Close 10 investments.</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation Factor:</td>
<td>Investment</td>
<td>Investment</td>
<td>Investment</td>
</tr>
<tr>
<td>Income Levels:</td>
<td>Very Low-, Low-, and Moderate-Income Levels for all Years</td>
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</table>

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

Note: 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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>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)).</td>
</tr>
<tr>
<td></td>
<td>Meet with five sponsors to better understand the difficulties of including RED concepts in housing development.</td>
</tr>
<tr>
<td></td>
<td>Meet with three LIHTC investors to discuss hurdles faced when reviewing potential investment opportunities in RED deals.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Review and approve at least one of the identified potential enhancements.</td>
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<tr>
<td></td>
<td>Confirm projected loan purchases for 2019 and establish a Baseline for mixed-income LIHTC Debt.</td>
</tr>
<tr>
<td>2019</td>
<td>Commence work on a RED white paper on lessons learned from activities including LIHTC Debt transactions in order to educate and inform stakeholders.</td>
</tr>
<tr>
<td></td>
<td>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).</td>
</tr>
<tr>
<td>Year</td>
<td>Actions</td>
</tr>
<tr>
<td>------</td>
<td>---------</td>
</tr>
<tr>
<td></td>
<td>• <strong>Baseline:</strong> 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.</td>
</tr>
<tr>
<td>2020</td>
<td>• Confirm RED LIHTC Debt purchase goals for 2020.</td>
</tr>
<tr>
<td></td>
<td>• At least 20 percent of Fannie Mae’s estimated LIHTC Debt purchases will be secured by LIHTC properties that qualify as RED Transactions.</td>
</tr>
<tr>
<td></td>
<td>• Review initiative for lessons learned to be included in the white paper.</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
</tr>
<tr>
<td></td>
<td>• Prepare for the 2021 – 2023 Duty to Serve Plan.</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
</tr>
</thead>
</table>
| 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. |
<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
</tr>
</thead>
</table>
| 2019 | • Based on the research and outreach conducted during 2018, adjust the Baseline if necessary for future RED loan purchases in 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.  

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.
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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actions</th>
</tr>
</thead>
</table>
| 2018 | - As part of the design of any approved RED program, plan to proactively identify opportunities to finance RED Workforce Equity Transactions:  
  - 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”.  
  - 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 |
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.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation Factor:</td>
<td>Loan Product</td>
<td>Loan Product</td>
<td>Investment</td>
</tr>
<tr>
<td>Income Levels:</td>
<td>Very Low-, Low- and Moderate-Income Levels for all Years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
V. Overview of Activities and Objectives for Affordable Housing Preservation

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Statutory Activity: Section 8 housing programs.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Purchase loans secured by properties served by the Section 8 program.</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td><strong>B. Statutory Activity: Section 202 housing programs.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Consider loan product changes, prepare work-plan, and purchase Section 202 loans.</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td><strong>C. Statutory Activity: Section 515 housing programs.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td><strong>D. Statutory Activity: Low-Income Housing Tax Credits (LIHTC).</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Increase purchases of mortgages secured by LIHTC properties.</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td><strong>E. Statutory Activity: Other comparable State or local affordable housing programs.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td><strong>F. Regulatory Activity: Financing of small multifamily rental properties.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Adopt an effective approach to purchase small multifamily loans from financial entities with $10 billion or less in assets and purchase loans.</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td><strong>G. Regulatory Activity: Energy or water efficiency improvements on multifamily rental properties that meet the FHFA Criteria.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Engage stakeholders and conduct research to increase awareness and understanding of energy or water efficiency improvements and financing needs.</td>
<td>Outreach</td>
<td>Loan Product</td>
<td>Loan Product</td>
</tr>
<tr>
<td>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.</td>
<td>Outreach</td>
<td>Outreach</td>
<td>Outreach</td>
</tr>
<tr>
<td>3. Purchase multifamily loans that finance energy or water efficiency improvements that meet the FHFA Criteria.</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
</tbody>
</table>
### H. Regulatory Activity: Energy or water efficiency improvements on single-family, first lien properties that meet the FHFA Criteria.

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Action 1</th>
<th>Action 2</th>
<th>Action 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Increase liquidity for energy or water efficiency improvements through outreach, research, and developing solutions.</td>
<td>Outreach</td>
<td>Loan Product</td>
<td>Loan Product</td>
</tr>
<tr>
<td>2</td>
<td>Increase liquidity for energy or water efficiency improvements that meet the FHFA Criteria by facilitating the adoption of enhanced industry standards and purchasing loans.</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
</tbody>
</table>

### I. Regulatory Activity: Shared equity programs for affordable housing preservation.

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Action 1</th>
<th>Action 2</th>
<th>Action 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Increase the purchase of mortgage loans that finance shared equity programs.</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td>2</td>
<td>Increase liquidity for shared equity homeownership through outreach, research, and enhancing loan product solutions.</td>
<td>Outreach</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
</tr>
</tbody>
</table>

### J. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program.

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Action 1</th>
<th>Action 2</th>
<th>Action 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Conduct outreach, review potential loan product enhancements, and purchase loans secured by RAD properties.</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
</tbody>
</table>

### K. Regulatory Activity: Purchase or rehabilitation of certain distressed properties.

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Action 1</th>
<th>Action 2</th>
<th>Action 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Increase affordable capital through industry outreach and developing loan financing solutions.</td>
<td>Outreach</td>
<td>Loan Product</td>
<td>Loan Product</td>
</tr>
<tr>
<td>2</td>
<td>Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties.</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
</tbody>
</table>

### L. Additional Activity: Workforce Equity.

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Action 1</th>
<th>Action 2</th>
<th>Action 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Establish a program to provide investment capital to non-LIHTC properties to preserve multifamily rental properties affordable to workforce families.</td>
<td>Investment</td>
<td>Investment</td>
<td>Investment</td>
</tr>
</tbody>
</table>

### M. Additional Activity: Residential Economic Diversity Activity.

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Action 1</th>
<th>Action 2</th>
<th>Action 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>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.</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td>2</td>
<td>Establish a RED initiative to increase loan purchases relating to the Statutory Activity for other comparable State or local affordable housing programs.</td>
<td>Loan Product</td>
<td>Loan Purchase</td>
<td>Loan Purchase</td>
</tr>
<tr>
<td>3</td>
<td>Establish an initiative to make investments that promote RED in conjunction with Fannie Mae's Additional Activity for Workforce Equity Investments.</td>
<td>Loan Product</td>
<td>Loan Product</td>
<td>Investment</td>
</tr>
</tbody>
</table>