Fannie Mae

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

Effective December 14, 2018

I. Preface

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. Introduction to the Duty to Serve Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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