

2023
Affordable Housing Preservation
Loan Purchase

ACTIVITY:

B. The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485 (12 C.F.R. § 1282.34 (c) (7))

OBJECTIVE:

1. Promote greater preservation of USDA Section 515 properties through loan purchases.

SUMMARY OF RESULTS:

<i>Objective's components detailed in the Plan</i>	<i>Corresponding actions taken</i>	<i>Explanation of any deviations from the Plan (if applicable)</i>
<input checked="" type="checkbox"/> Purchase nine loans that finance the preservation of Section 515 properties, which represents 15% of the properties with expiring subsidy for the year.	Fannie Mae actively promoted to its DUS® lenders an option to provide conventional financing to preserve Section 515 properties. We engaged regularly with United States Department of Agriculture (USDA) Rural Development (RD) and external stakeholders. These actions led to significant lender engagement and subsequently, the acquisition of four Section 515 loans in 2023 marking the first Section 515 loans Fannie Mae has purchased since the inception of Duty to Serve in 2018. We are proud of this accomplishment, and it demonstrates that the public and private sectors can successfully partner to impact this market.	While progress was made with four loans being acquired, we fell short of the target of acquiring nine loans. As described in more detail in the Impact Explanation below, we faced several challenges in achieving our loan purchase goal, including unprecedented credit and pricing waivers and smaller average loan balances, coupled with increased complexities that led to lower returns, limited lender incentives, and long lead times to complete a Section 515 transactions with USDA RD

SELF-ASSESSMENT RATING OF PROGRESS:

- Target met
- Target exceeded
- Target partially completed
- No milestones achieved

IMPACT:

- 50 – Very Large Impact
- 40
- 30 – Meaningful Impact
- 20
- 10 – Minimal Impact
- 0 – No Impact



IMPACT EXPLANATION:

1. How and to what extent were actions under this objective impactful in addressing underserved market needs, or in laying the foundation for future impact in addressing underserved market needs?

As in previous years, Fannie Mae spent a significant amount of time in 2023 gaining a deeper understanding of the complex landscape of rural housing preservation. We took several steps and made meaningful progress in this underserved market, which led to noteworthy results. These include:

Overcoming a challenging market landscape. In 2023, we spent a considerable time and resources to better understand the challenges that are present in the rural housing landscape. The Section 515 program is the largest federal affordable rental housing program for rural communities. The primary concern for Section 515 is the potential for a large-scale exit of properties from the program. By 2036, approximately 25,000 units will be at risk of exiting the program if they are not preserved through new financing. Many Section 515 properties are in communities where it is not feasible to build new affordable housing, making it even more important to preserve units in the existing portfolio. The average age of properties in the RD portfolio is 28 years old, so RD properties often require rehabilitation to remain viable. In 2023, we provided \$24 million in financing for 248 units located in rural areas in California and Arkansas. Our financing contributed to the preservation and rehabilitation of these units.

Working through deal complexity. There are several challenges with financing Section 515 transactions. The most noteworthy challenges include long lead times for originating new debt, limited incentives for lenders to pursue these transactions, and competition from a USDA 538 product widely perceived to be a better execution than conventional financing. In addition, these transactions can be challenging to underwrite. Section 515 loan transactions often fail to meet our credit parameters for debt service coverage, loan-to-value ratios, and pricing.

In addition, we made the business case and obtained approval from FHFA to receive Duty to Serve credit for supporting the financing of rental projects that are subject to Restrictive Use Covenants (RUCs). The USDA records RUCs on properties that are initially financed through the Section 515 program. Under RUCs, the owner and any successors in interest agree to use the property for the purpose of housing program-eligible renters at affordable rent levels. This preserves the affordable rental housing units within the project, consistent with the objectives of the Statutory Activity for Section 515 rural rental housing. In 2023, three of the four transactions financed were properties with RUCs in place.

Conducting stakeholder engagement and outreach. Our regular engagement with lenders and leadership at USDA RD led to a deeper understanding of the challenges associated with Section 515 transactions. We continue to engage our Multifamily Affordable Housing team and our DUS lenders to express our interest and clarify our product offerings. These engagements have led to more lenders expressing interest in working with our Multifamily team on potential transactions. We are optimistic that these continued engagements will lead to the development of a transaction pipeline in 2024. In addition, we continue to have regular meetings with the USDA's Rural Development Preservation team to discuss market challenges and how Fannie Mae can increase its impact in this underserved market. Our continued engagement with the USDA was crucial in advocating for our support of RUC-only transactions. This support created opportunities for Fannie Mae to play a larger role in the rural preservation market.

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

While we are actively pursuing potential avenues to increase our loan purchases, we also acknowledge that the challenges we have noted in the past are still prevalent in sourcing these transactions. These challenges include:

The lead time for originating new debt is long, with transactions (origination to closing) typically taking over a year to materialize. This is due to various underwriting complexities and levels of federal approvals.

Lenders are not incentivized to aggressively pursue these deals due to smaller average loan balances and increased complexities.

In 2023, we took the following steps to address some of these challenges by:

Engaging with our DUS lenders to demonstrate our interest in these transactions and educate them on our product offerings.

Partnering with our Multifamily Affordable Housing team to find creative underwriting solutions within our credit model for these transactions. As a result, Fannie Mae was able to deliver four Section 515 transactions in 2023.



Meeting with the Preservation team at the USDA to discuss how to make the review process more efficient and appealing to lenders.

3. Optional: If applicable, why was the Enterprise unable to achieve the Plan target?

We believe that we are well-positioned to meet our target in 2024 and will engage with internal and external stakeholders to discuss how to approach Section 515 loans consistent with our underwriting and risk parameters.



**Affordable Housing Preservation
First Quarter Report: January 1 - March 31, 2023
Loan Purchase**

ACTIVITY:

B. The rural rental housing program under Section 515

OBJECTIVE:

1. Promote greater preservation of USDA Section 515 properties through loan purchases.

SUMMARY OF PROGRESS:

We remain off-track to meet our goal of purchasing nine (9) loans with outstanding Section 515 debt in 2022.

However, our pipeline is gaining momentum, and as of the end of the first quarter of 2023, we had three Section 515 loan applications. This is significant, in that historically, Fannie Mae has not had a Section 515 loan under application.

SELF-ASSESSMENT RATING OF PROGRESS:

- On track to meet or exceed the target
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

While we are actively pursuing potential avenues to address this issue, we also acknowledge that the challenges we have noted in the past are still relevant:

- Long lead times for originating new debt.
- Limited incentives for lenders to aggressively pursue these deals, due to smaller average loan balances and increased complexities.



**Affordable Housing Preservation
First Quarter Report: January 1 - March 31, 2023
Loan Purchase**

We are taking the following steps in response to these challenges, and to prepare to meet our 2023 loan purchase goal:

- We have started to engage regularly with our DUS lenders and continue to express our interest and clarify our product offerings to DUS lenders active in rural preservation lending.
- We are in continuous engagement with our Multifamily Affordable Housing (MAH) team on how we can find creative solutions related to underwriting these transactions within our credit model.
- We continue to have regular meetings with the Preservation team at USDA to discuss how to make the review process more efficient and appealing to lenders.



**Affordable Housing Preservation
Second Quarter Report: April 1 - June 30, 2023
Loan Purchase**

ACTIVITY:

B. The rural rental housing program under Section 515

OBJECTIVE:

1. Promote greater preservation of USDA Section 515 properties through loan purchases.

SUMMARY OF PROGRESS:

Based on current level of acquisitions, we remain off-track to meet our goal of purchasing nine (9) loans with outstanding Section 515 debt in 2023.

However, as of the end of the second quarter of 2023, we had one (1) Section 515 loans that were delivered (one is a Restricted-Use Covenant deal and the other is a subordination agreement deal). Also, we currently have a portfolio of twenty-three (23) Section 515 loans under application. These loans are currently scheduled to close in Q4 and be delivered by year-end 2023. This is significant, because it will be Fannie Mae's first sizable Section 515 loan portfolio to be delivered since the Duty to Serve Plan's inception if we are able to close the transaction in Q4. The risk of meeting this goal will be driven primarily by whether closing and loan acquisitions can occur by year-end.

SELF-ASSESSMENT RATING OF PROGRESS:

- On track to meet or exceed the target
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

While we are actively pursuing potential avenues to meet this objective, we also acknowledge that the challenges we have noted in the past are still prevalent in sourcing these transactions:

- Long lead times for originating new debt.



Affordable Housing Preservation Second Quarter Report: April 1 - June 30, 2023 Loan Purchase

- Limited incentives for lenders to aggressively pursue these deals, due to smaller average loan balances and increased complexities.
- In general, these deals require lower returns than our Multifamily Affordable Housing target.

We are taking the following steps in response to these challenges:

- We engage regularly with our DUS lenders to express our interest and educate them on our product offerings.
- We regularly engage with our Multifamily Affordable Housing (MAH) team to find creative underwriting solutions within our credit model for these transactions. Our strong pipeline reflects the success of these efforts.
- We continue to have regular meetings with the Preservation team at USDA to discuss how to make the review process more efficient and appealing to lenders.



**Affordable Housing Preservation
Third Quarter Report: July 1 - September 30, 2023
Loan Purchase**

ACTIVITY:

B. The rural rental housing program under Section 515

OBJECTIVE:

1. Promote greater preservation of USDA Section 515 properties through loan purchases.

SUMMARY OF PROGRESS:

Based on the current level of acquisitions, we remain off-track to meet our goal of purchasing nine loans with outstanding Section 515 debt in 2023.

However, as of the end of the third quarter of 2023, we have had one Section 515 loan that has delivered (a subordination agreement deal). In addition, we have a total of eight RUC transactions in our pipeline –two transactions that are under application and six quoted that are scheduled to be delivered in 2023. Additionally, we have a portfolio of 23 Section 515 loans that is under application which will likely be delivered in 2024. We are optimistic that we will meet our Section 515 loan purchase objective if the RUC transactions close in Q4 of 2023. The risk of meeting this goal will be driven primarily by whether closing and loan acquisitions can occur by year-end.

SELF-ASSESSMENT RATING OF PROGRESS:

- On track to meet or exceed the target
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

While we are actively pursuing potential avenues to meet this objective, we also acknowledge that the challenges we have noted in the past are still prevalent in sourcing these transactions:

- Long lead times for originating new debt.



**Affordable Housing Preservation
Third Quarter Report: July 1 - September 30, 2023
Loan Purchase**

- Limited incentives for lenders to aggressively pursue these deals, due to smaller average loan balances and increased complexities.
- In general, these deals require lower returns than our Multifamily Affordable Housing target.

We are taking the following steps in response to these challenges:

- We engage regularly with our DUS lenders to express our interest and educate them on our product offerings.
- We regularly engage with our Multifamily Affordable Housing (MAH) team to find creative underwriting solutions within our credit model for these transactions. Our strong pipeline reflects the success of these efforts.
- We continue to have regular meetings with the Preservation team at USDA to discuss how to make the review process more efficient and appealing to lenders.