

2023
Affordable Housing Preservation
Outreach

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:

2. Support technical assistance programs that facilitate the preservation of Section 515 properties.

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"/> Partner with nonprofit organizations to deliver TA to 20 organizations working to preserve the affordability of Section 515 properties.	Fannie Mae partnered with both Enterprise Community Partners (Enterprise) and the Housing Assistance Council (HAC) to provide technical assistance (TA) to support a total of 38 organizations pursuing potential Section 515 preservation activities.	
<input checked="" type="checkbox"/> Provide TA in the transfer analysis, negotiation, underwriting, and application process.	Both Enterprise and HAC built upon the foundation of their 2022 work to perform Section 515 TA on behalf of Fannie Mae in 2023. Enterprise continued with its Preservation Academy, and HAC continued to provide targeted TA through its lending team.	
<input checked="" type="checkbox"/> Work with organizations to identify and secure funding from other sources.	Enterprise and HAC worked with nonprofit organizations on identifying and securing funding from other sources. TA efforts focused not only on navigating the U.S. Department of Agriculture (USDA) Rural Development (RD) process, but also structuring financing for rural preservation properties.	
<input checked="" type="checkbox"/> Assess the results of TA performed in 2022 and incorporate opportunities and strategies to strengthen the program's effectiveness and increase its scale in 2023.	There were many lessons learned from the TA that were provided through Enterprise and HAC. Please see below for a more detailed discussion of lessons learned and strategies to strengthen the program's effectiveness in 2023.	



SUMMARY OF RESULTS CONTINUED:

<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"/> Plan the 2023 TA program and identify organizations for TA delivery (owners of 515 properties at risk of exiting the program and mission-oriented entities seeking to preserve 515 properties).	The 2023 TA program achieved these goals by incorporating a preservation academy series of no-cost training and peer learning sessions designed to help rural housing providers navigate the USDA RD process.	
<input checked="" type="checkbox"/> Execute the 2023 TA program.	Our partners provided TA to 38 recipients (exceeding our goal of 20) through extensive outreach to various organizations, including various nonprofits, Public Housing Authorities (PHAs), and developers.	
<input checked="" type="checkbox"/> Analyze results of the 2023 TA program at the property level to determine success of the program and inform future work.	Fannie Mae partnered with both Enterprise and HAC to provide TA to support a total of 38 organizations pursuing potential Section 515 preservation activities.	

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?

The USDA Section 515 direct loan program is a critical source of rental housing finance in the rural regions of the United States. At present, more than 14,000 USDA rental properties provide more than 415,000 affordable homes to families and individuals across the United States. New USDA direct-financed rental housing has not been developed in several years, and existing properties are increasingly losing their affordability provisions. The effects of this trend are problematic for rural renters and communities. Approximately 65% of units financed with a Section 515 loan also receive Section 521 Rental Assistance (RA), a project-based tenant rent subsidy. By statute, when a Section 515 mortgage matures or is terminated, the property is no longer eligible to



receive Section 521 RA, adversely impacting residents and creating an elevated risk of loss of affordable units in the Section 515 portfolio.

The path for owners to refinance or transfer Section 515 loans through the USDA, thereby retaining RA eligibility, can be complex and difficult to navigate. TA is crucial to successfully preserving Section 515 properties, as it can support owners and potential buyers in navigating the process, delivering best practices and expert knowledge to organizations interested in preservation. In 2023, Fannie Mae supported two partners, Enterprise and HAC, in providing direct, tailored TA to a total of 38 organizations. This exceeded our goal of 20 organizations and spanned 1,069 units, including three transfer applications that preserved 88 units for very low-income residents. Through our engagement with Enterprise and HAC, Fannie Mae was able to learn more about the complexities and unique challenges that rural communities face and how we can better understand our role in this underserved market. This will play a crucial role in how we tailor our TA engagements in future years.

Below is a summary of Enterprise's and HAC's TA activities in 2023. This summary further demonstrates how the actions and deliverables were impactful in providing crucial support to its TA recipients.

Enterprise

In 2023, Enterprise continued to utilize a comprehensive approach to providing TA, supporting organizations through navigating the USDA Section 515 program. Enterprise developed and hosted the 2023 National Preservation Academy between May and October of 2023 that focused on the preservation of USDA Section 515 properties. The series of no-cost training and peer learning sessions, designed to help rural housing providers and nonprofits acquire and/or preserve USDA RD, featured 12 total sessions and over 40 hours of content delivery between the virtual and in-person sessions. There were 298 registrations, and 176 participants took part in the open sessions. In addition, the Enterprise Tribal Nations and Rural Communities team hosted a national in-person session in Salt Lake City, UT. At the event, capital experts from across the county had the opportunity to meet with small working groups to discuss the complexities and nuances of their projects.

Enterprise also provided direct, tailored TA to current and former National Preservation Academy cohort participants with a focus on preservation projects and met the requirements of its statement of work (SOW). In addition, Enterprise was awarded a contract with USDA RD in 2023, enabling them to provide further TA in the Northeast, Southeast, West, and Midwest and broadening our geographic reach. In total, Enterprise met with 28 groups, working on TA for 30 separate projects in 2023. Enterprise's direct TA resulted in two successful transfer applications for 80 units, and three active transfer applications for 110 units.

HAC

In 2023, HAC continued its targeted approach to TA via its lending team. In 2022, recognizing the need for TA to be provided by experts who are familiar with the technical details of the USDA RD process and who work closely with the Section 515 product, we partnered with HAC's lending team for the first time to provide TA. This change has produced many positive outcomes. HAC has been conducting outreach to organizations in areas where prepayment applications are in process and identifying properties that are more likely to be owned by "mom and pop" owners and nonprofits interested in acquiring Section 515s. Most of HAC's TA engagements are with organizations at the preliminary stages of the transfer process, or pre-site control. The TA recipients identified properties they would like to acquire, and HAC worked closely with them to deliver purchase offers.

HAC also held a large rural conference in 2023 where they offered two in-depth sessions on Section 515. Going forward, they plan to schedule workshops or convenings later in their TA work to share lessons learned and effective models, after projects have progressed further. HAC will also explore peer-to-peer learning opportunities where they can match organizations that can learn from each other.

HAC fulfilled its SOW requirements for 2023. To date, HAC has provided technical assistance on 24 properties. As of December 31, 2023, HAC had 14 active TA engagements for properties totaling 515 units. HAC's TA work resulted in one successful transfer application and two transfer applications that are in the review process and hope to close in 2024. The transfer application that was approved resulted in the preservation of eight family units. The average household income at this property is \$9,417 per year, which underscores the importance of preserving its affordability.



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

As part of our partnerships with Enterprise and HAC, these organizations provide reports on lessons learned that include common participant needs, TA strategies that were most effective, changes that would increase program impact, and more. Some key lessons learned from 2023 are described below.

Most common needs:

The most common need for TA recipients is guidance related to development financing, navigation of the application materials, and determining achievable timelines. Due to capacity issues, nonprofits and PHAs can become extremely overwhelmed and frustrated as they begin the transfer process. Enterprise and HAC can support these organizations as they develop pro formas, identify funding sources, and navigate the process of transferring ownership with the USDA RD. Many organizations are overwhelmed with the work needed for preservation/recapitalization and get frustrated by the transfer application process. In recent years, key contacts at USDA RD have changed, which has resulted in inconsistent information being disseminated to partners. Many of the groups that Enterprise and HAC are currently engaged with tried to complete a transfer on their own and subsequently realized that they required additional support to navigate the process. Having TA engagement at the beginning of the transfer process is crucial to shepherding a project through the transfer process. Having a sound path with solid benchmarks for identifying available financing, engaging in long lead due diligence reports, and establishing clear communication with the USDA is key in achieving a successful closing.

Most common challenges:

The most common challenge TA recipients face is gaining an understanding into the overall transfer process. From the handbooks and USDA guidance, the process is not transparent and clear. This leads to uncertainty on the timeline, approval path, and feasibility of a transfer. In addition, it takes a significant amount of time and effort to complete the transfer process. This is due to a lack of resources at the USDA RD, complexities that are related to finding potential buyers, and underwriting challenges.

One of the biggest challenges Enterprise and HAC as TA providers face is receiving adequate information from the USDA RD on the properties that are at risk of leaving the program. They continue to work with the USDA RD to find ways to identify properties that can be preserved through the transfer process. Both Enterprise and HAC are working with the USDA RD to determine how to communicate more proactively to help identify more preservation opportunities.

Enterprise and HAC continue to report that their partnership with Fannie Mae has been crucial in allowing them to expand upon their efforts to provide meaningful TA to the rural community. Fannie Mae's support helped these organizations increase their capacity and resources to provide in-depth, tailored, on-the-ground TA that is much needed for borrowers to navigate a complex, but vital, affordable housing preservation tool.

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

N/A