



Fannie Mae 2019  
Affordable Housing Preservation  
Loan Purchase

**ACTIVITY:**

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

**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).

**SUMMARY OF RESULTS:**

Following are the 2019 Actions under this Objective per the December 20, 2019 Duty to Serve Plan:

| <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"/> At least 10 of Fannie Mae's Low-Income Housing Tax Credit (LIHTC) Debt loan purchases will be secured by LIHTC properties that qualify as RED Transactions. This represents an approximate increase of 43 percent from our baseline of 7 loans. | Fannie Mae purchased 10 LIHTC properties in 2019 that qualify as RED transactions. | N/A  |
| <input checked="" type="checkbox"/> Confirm RED LIHTC Debt purchase goals for 2020.   | Residential Economic Diversity goals for 2020 remain unchanged.                    | N/A  |

**SELF-ASSESSMENT RATING OF PROGRESS:**

- Objective met
- Objective exceeded
- Objective partially completed: 75-99% (substantial amount)
- Objective partially completed: 50-74% (limited amount)
- Objective partially completed: 25-49% (minimal amount)
- Objective partially completed: 0-24% (less than a minimal amount)
- No milestones achieved

**PARTIAL CREDIT JUSTIFICATION:**

N/A



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### IMPACT:

- 50 – Substantial Impact
- 40 – Between Meaningful and Substantial Impact
- 30 – Meaningful Impact
- 20 – Between Minimal and Meaningful Impact
- 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?**

Fannie Mae purchased ten loans that qualified as Residential Economic Diversity and Fannie Mae's LIHTC debt purchases, an increase in 43 percent from our baseline of seven loans. Importantly, Fannie Mae was able to send a clear message to lenders, LIHTC investors, and State Housing Finance Agencies that economic diversity in housing is an important factor for Fannie Mae. As lenders became more comfortable with the economic diversity definitions, we were able to see more potential projects come through the pipeline, and we expect that trend to continue during the 2020 plan year.

State Housing Finance Agencies have a high degree of influence in ensuring Low-Income Housing Tax Credit properties are sited in areas eligible for Residential Economic Diversity through their tax-credit scoring and QAP processes. For example, the Illinois Housing Development Authority, through its dedication to neighborhood revitalization activities, helps to ensure that quality low-income housing projects are sited in a way that encourages economic diversity and supports opportunities for low-income residents, whether they are in a "High Opportunity" area or an area with traditionally fewer resources and opportunities. Through Fannie Mae's LIHTC RED loan purchases, we were able to support and add liquidity to these projects.

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

Throughout this plan year, Fannie Mae learned a great deal about the challenges and lessons learned related to meeting residential economic diversity goals through Low-Income Housing Tax Credit Debt acquisitions. In 2019, all of Fannie Mae's Housing Tax Credit RED acquisitions were in areas designated by FHFA as "High Opportunity" areas. This is undoubtedly beneficial for those residents who are able to access the opportunities, such as schools, jobs, and infrastructure that high opportunity areas present, and meets the goal of adding increased economic diversity (and likely diversity of other types) to an otherwise more affluent area. The second component to the Residential Economic Development objective, however, relates to mixed-income developments in areas of concentrated poverty. For many reasons, this is a much more difficult proposition. The FHFA requirements state that, to be eligible, 20 percent of the units of a mixed-income property must be "unaffordable" at 80 percent AMI or lower. For developments in areas of concentrated poverty, it's likely that the market rate units would be naturally low, and so still affordable at 80% of AMI. Raising rents to achieve this "unaffordable" standard would be counterproductive and would result in vacancy issues. Additionally, for many reasons, attracting higher-income tenants to areas of concentrated poverty is generally unrealistic.



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To address these issues, Fannie Mae held a workshop with senior members of the Fannie Mae leadership team, along with members of the Affordable Housing Advisory Council (AHAC). AHAC members are affordable housing experts and practitioners from a variety of fields and backgrounds. The AHAC workshop yielded several important learnings described as follows:

- It's unrealistic to expect mixed-income LIHTC in all areas of concentrated poverty, so it's best to focus on specific contexts and opportunities.
- Areas of transition are important opportunities. If affordable housing can be preserved in areas undergoing transition, there is a greater likelihood of mixed-income housing and less displacement.
- Other opportunities to focus on our areas of concentrated poverty that are undergoing neighborhood revitalization as a whole, such as Choice Neighborhoods or certain RAD developments.
- Mapping tools and up-to-date information about neighborhood transitions and characteristics are important.

Fannie Mae took these messages to heart, and in 2020 we are focusing efforts around preservation in areas of transition and in enhancing our suite of mapping and other tools to best understand neighborhood conditions.

**3. (Optional): If applicable, why were all components of this objective not completed?**

N/A



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**ACTIVITY:**

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

**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).

**SUMMARY OF RESULTS:**

Following are the 2019 Actions under this Objective per the December 20, 2019 Duty to Serve Plan:

| <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 four loans that qualify as RED Transactions under the Statutory Activity of other comparable State or local affordable housing programs. | Fannie Mae purchased ten loans that qualify as Residential Economic Diversity (RED) Transactions under the Statutory Activity of other comparable state or local affordable housing programs, exceeding our target by over 200 percent. | N/A  |
| <input checked="" type="checkbox"/> Confirm loan purchase goals for 2020.   | Loan Purchase goals for 2020 remain unchanged.  | N/A  |

**SELF-ASSESSMENT RATING OF PROGRESS:**

- Objective met
- Objective exceeded
- Objective partially completed: 75-99% (substantial amount)
- Objective partially completed: 50-74% (limited amount)
- Objective partially completed: 25-49% (minimal amount)
- Objective partially completed: 0-24% (less than a minimal amount)
- No milestones achieved

**PARTIAL CREDIT JUSTIFICATION:**

N/A

**IMPACT:**

- 50 – Substantial Impact



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- 40 – Between Meaningful and Substantial Impact
- 30 – Meaningful Impact
- 20 – Between Minimal and Meaningful Impact
- 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?**

Fannie Mae acquired ten RED-eligible loans that were part of state or local affordable housing programs. Research shows that low-income children whose families move to better neighborhoods experience higher college attendance, health benefits, larger earning gains as adults, and other indicators of economic mobility compared to children who remain in high-poverty communities. Similarly, investing in areas of concentrated poverty can catalyze significant and meaningful economic revitalization that benefits the residents who live there. As we have generally seen with state and local affordable housing programs, the RED-eligible projects generally involve a high degree of creativity and innovation, and Fannie Mae is delighted to be able to partner to add a stable source of capital to these endeavors.

One such example financed in 2019 is a portfolio of several properties in Hawaii. The Hawaii Housing Finance Development Corporation (HHFDC) solicited requests for proposals from qualified owners and operators of affordable rental housing for the sale of long-term leasehold interests in a six-property portfolio spread across the state. As the state government's affordable housing finance and development agency, HHFDC recognized that Hawaii's unique geography and high housing costs made preserving existing affordable housing critical. HHFDC's sale of the portfolio required that the new owner continue to operate all six properties as affordable. At the initial closing, the lender partnered with Fannie Mae to provide five separate loans to Komohale LP via its Multifamily Affordable Special Public Purpose financing program. Thanks to a ground lease on all six properties, the portfolio continues to operate with asking rents at or below 80% area median income (AMI), with minimal rent increases at lease renewal. Additionally, HHFDC awarded state project-based Rental Assistance Program (RAP) contracts to each property, ensuring that existing tenants would be able to remain in their affordable homes for as long as they chose to stay. In addition, the proceeds HHFDC received from the sale will allow the finance development corporation to develop and preserve additional affordable properties in an extremely high-cost and rent-burdened market.

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

Fannie Mae's work in 2019 confirmed that some of the most impactful and innovative affordable housing programs are being developed at the state and local level, and that is especially true when those programs are targeting and aiming to increase economic diversity.

Access to affordable housing is a national challenge that demands local solutions. Across the country, state and local governments are developing innovative tools and strategies to address affordable housing challenges in their communities. These jurisdictions are best positioned to understand a community's specific needs — which populations need to be served, at what level of affordability, in what neighborhood, etc. The affordable housing



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needs in San Francisco, for example, are not the same as the affordable housing needs in Omaha, and therefore the tools necessary to address these needs are not the same, either. The tools and resources developed on the local level to incentivize affordable housing development and preservation, then, are often those that most acutely meet the needs of a community.

Based on research commissioned by Fannie Mae and conducted by Grounded Solutions Network, there are currently at least 900 different state and local affordable housing programs in the United States today, of which nearly 75 percent support rental housing or a mixture of rental and single-family homeownership, and that number is growing as state and local jurisdictions are looking to step in to address critical affordable housing needs in their areas. Additionally, there are over 800 unique state and local affordable housing trust funds. States and localities also frequently tailor federal programs and leverage federal funds to meet local needs and priorities. Fannie Mae's research discovered that these programs are increasingly focused on economic diversity as creating economic opportunity and vibrant communities, with economic diversity as a growing concern for state and local governments across the country. This information will help Fannie Mae tailor loan product offerings to meet the needs of these communities and local loan programs.

**3. (Optional): If applicable, why were all components of this objective not completed?**

N/A



## **Fannie Mae Affordable Housing Preservation First Quarter Report: January 1 - March 31, 2019 Loan Purchase**

### **ACTIVITY:**

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

### **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).

### **SUMMARY OF RESULTS:**

In Q1, Fannie Mae worked to refine our ability to track acquired RED LIHTC loans, as well as develop greater insight into the pipeline of potential RED-eligible LIHTC acquisitions. As part of this refinement, we worked to improve internal ability to understand and identify the RED Requirements related to Areas of High Opportunity as well as Areas of Concentrated Poverty. One RED loan acquired by Fannie Mae is Timbergate Apartments, which is a LIHTC property located in a RED-eligible High Opportunity Area near Salt Lake City, Utah. This property is located with easy access to Salt Lake City and is less than a mile from Herriman High School, an above-average school in the Jordan school district built with state-of-the art facilities in 2010.

Following are the 2019 Actions under this Objective:

- Commence work on a RED white paper on lessons learned from activities including LIHTC Debt transactions in order to educate and inform stakeholders.
- At least 17 percent of Fannie Mae's LIHTC Debt purchases will be secured by LIHTC properties that qualify as RED Transactions. This represents a two percent increase in the percentage of Fannie Mae's LIHTC Debt purchased in 2016 that qualified as RED (15 percent).
- Confirm RED LIHTC Debt purchase goals for 2020.

### **SELF-ASSESSMENT RATING OF PROGRESS:**

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

### **ADDITIONAL INFORMATION (IF APPLICABLE):**



**Fannie Mae**  
**Affordable Housing Preservation**  
**Third Quarter Report: January 1 - September 30, 2019**  
**Loan Purchase**

**ACTIVITY:**

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

**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).

**SUMMARY OF RESULTS:**

Fannie Mae has requested a modification to our RED Objectives in order to strengthen and reorganize them for more clarity. We continue to focus on acquiring LIHTC loans in RED areas and have seen some success, particularly with affordable housing in areas of high opportunity. Mixed-income housing with at least 20% of units at Market Rate and 20% of units affordable is difficult to achieve. There are significant challenges related to financing, lease-up, and ongoing management. Because of this, we struggle with financing mixed-income properties in areas of concentrated poverty under the FHFA RED definition, and continue to reach out to stakeholders, borrowers, lenders, and investors to discuss additional strategies and potential innovations needed to acquire more loans that meet these requirements.

Following are the 2019 Actions under this Objective:

- Commence work on a RED white paper on lessons learned from activities including LIHTC Debt transactions in order to educate and inform stakeholders.
- At least 17 percent of Fannie Mae's LIHTC Debt purchases will be secured by LIHTC properties that qualify as RED Transactions. This represents a two percent increase in the percentage of Fannie Mae's LIHTC Debt purchased in 2016 that qualified as RED (15 percent).
- Confirm RED LIHTC Debt purchase goals for 2020.

**SELF-ASSESSMENT RATING OF PROGRESS:**

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

**ADDITIONAL INFORMATION (IF APPLICABLE):**





**Fannie Mae  
Affordable Housing Preservation  
First Quarter Report: January 1 - March 31, 2019  
Loan Purchase**

**ACTIVITY:**

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

**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).

**SUMMARY OF RESULTS:**

As part of our overall State and Local outreach efforts, Fannie Mae continued to meet with stakeholders to understand the opportunities and challenges associated with Residential Economic Diversity (RED). We are heartened at the innovation and creativity shown at the local level for tackling entrenched and difficult economic diversity issues, and are committed to working to ensure our loan products and underwriting supports these efforts where it makes sense within the context of our overall business model.

Following are the 2019 Actions under this Objective:

- 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.
- Confirm loan purchase goals for 2020.

**SELF-ASSESSMENT RATING OF PROGRESS:**

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

**ADDITIONAL INFORMATION (IF APPLICABLE):**