FHFA Supplement to 2021 Annual Reports Submitted by Fannie Mae

The following summaries were prepared by FHFA and provide additional information on selected objectives in Fannie Mae's 2021 Underserved Markets Plan. Discussions with Fannie Mae took place during virtual meetings held the weeks of June 20 and 27, 2022.

Affordable Housing Preservation Market

AHP_Distressed_2: Increase the purchase of mortgage loans that finance the purchase or rehabilitation of certain distressed properties. (Outreach)

Through its Community First platform, Fannie Mae makes its distressed property inventory available for purchase by mission-oriented non-profits, government entities, their partners, and some community-minded developers before the properties are considered for repairs or marketed through traditional retail/MLS channels. Properties sold via Community First are typically repaired and made available to owner-occupant buyers or used to support affordable rental strategies. In prior outreach, community land trusts (CLTs) highlighted identification of properties for acquisition as a major challenge. Fannie Mae's efforts under this objective help address this issue. Nine CLTs joined the Community First platform in 2021, comprising more than one-third of the 25 partners approved in 2021 and increasing the total number of approved CLT buyers to 16. There were no sales to a shared equity program in 2021, although these programs expressed interest in 60 percent of the properties offered in their covered geographies.

AHP_MF Energy_1: Engage stakeholders and conduct research to increase awareness and understanding of energy or water efficiency improvements and financing needs. (Outreach)

The Measurement and Verification Insights dashboard is an internal tool that Fannie Mae uses to compare baseline to ongoing water and energy cost and consumption for Green Rewards properties where Fannie Mae has actual whole property data both at-issuance and ongoing disclosure. The dashboard allows Fannie Mae to validate the impact of Energy and Water Measures installations and demonstrate savings attributable to the Green Rewards program. The sample size is currently very small, but Fannie Mae will use the dashboard to gain additional insights as the Green Rewards program matures.

Fannie Mae provides general feedback to lenders who originate green loans and the consultants who prepare High Performance Building (HPB) reports through regular update calls. Fannie Mae also uses a loan-level audit protocol to validate that loans were made in accordance with established Fannie Mae processes, procedures, and requirements, and incorporates feedback from the audit into Fannie Mae's Lender Assessment process. In 2021, Fannie Mae initiated a standardized process for providing individualized feedback file to HPB consultants and lenders on a bi-annual basis, using the results from its audits.

AHP_MF Energy_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. (Outreach)

The Technical Solar Assessment (TSA) provides a roadmap for solar photovoltaic (PV) recommendations on multifamily properties to ensure evaluation of critical elements impacting the cost, performance, and viability of a solar PV system, and reduce the risk of issues that could impact project installation or performance. Every deal that elects to install solar through Green Rewards must complete a TSA, and nine lenders did a total of 36 solar deals in 2020 and 2021. A modified version of the TSA has been adapted by Fannie Mae's multifamily credit organization for the evaluation of multifamily deals with existing solar PV systems. In 2021, Fannie Mae focused on refining the standard and related guidance based on feedback from HPB consultants and lenders and findings from reviewing Green Rewards Solar deals.

Fannie Mae also discussed the Commercial Green Utility Data Standard, which it initially proposed to C-MISMO in 2019 with the goal of developing a data standard that could be used across the commercial real estate industry to capture historical energy and water cost and consumption data. The data set would enable different players in the market to communicate more efficiently about utility data and encourage more utility companies to provide whole-property energy data.

AHP_RED_4: Outreach and stakeholder engagement on the importance of Residential Economic Diversity (RED) in community-level, household, and individual outcomes. (Outreach)

Fannie Mae described the "MBS exchange" enhancement to its multifamily tax-exempt bond (M.TEB) product. In a MBS exchange execution, at the closing of the initial financing, a borrower obtains a construction loan or other short-term loan; a governmental issuer issues bonds (which are cash-collateralized during the initial/construction period); a Fannie Mae DUS lender commits to provide a mortgage loan that will refinance the initial loan after construction completion and/or stabilization; and Fannie Mae commits to purchase the mortgage loan and to issue an MBS. After stabilization and Fannie Mae's issuance of a MBS, investors' interests in the governmental issuer's bonds are *exchanged* for interests in the MBS, and at the same time the governmental issuer's bonds are redeemed (*i.e.*, paid off with the cash collateral). In contrast, with a forward M.TEB execution, the MBS serves as collateral for the bonds, which remain outstanding for the life of the mortgage loan.

A MBS exchange structure can be used in transactions that involve both taxable bonds and tax-exempt bonds. As such, it is a flexible tool for scenarios in which a capital markets execution involving Fannie Mae MBS is the most advantageous financing structure for the project but tax-exempt financing is not available or limited (e.g., limited volume cap, 9% LIHTC, or non-LIHTC). This structure can support affordability because the sponsor's borrowing costs for both the initial and mortgage loans are established through a market-driven process at the time of pricing the governmental issuer's bonds.

AHP_Sec. 515_1: Work with USDA and other stakeholders to adopt an approach resulting in increased liquidity for preservation of Section 515 properties and purchase Section 515 loans. (Loan Purchase)

Fannie Mae finalized and fully executed a subordination agreement with USDA but does not yet have a dedicated 515 product. It did not have any 515 transactions in 2021 and is working to identify ways to underwrite these transactions within its credit model. Fannie Mae has explored being more flexible on loan terms and amortization, and possibly offering pricing incentives. Other flexibilities that are under consideration include approving vacancy rates in accordance with USDA Rural Development minimum vacancy standards and waiving re-stabilization reserves. Fannie Mae continues to express interest and clarify product offerings to DUS lenders active in rural preservation lending. It also meets regularly with the Preservation team at USDA to discuss how to make the review process more efficient and appealing to lenders.

AHP_Sec. 515_2: Sponsor technical assistance programs that support and facilitate the preservation of Section 515 properties (Outreach)

Fannie Mae provided more information on its longer-term plans to work with Enterprise Community Partners to provide regional TA, including supporting Enterprise in a similar capacity in the Southeast in 2022. Both Enterprise and the Housing Assistance Council (HAC) will continue to assist past TA participants as long as there is an active Statement of Work with Fannie Mae in place. Groups that have participated in Enterprise's Preservation Academy often come back with deal-related needs after an Academy is complete. HAC is also planning to reach out to prior TA participants to confirm the status of their projects and determine assistance needs. In 2021, Fannie Mae was the sole funder for HAC's TA, while Enterprise's Preservation Academy was supported by Fannie Mae in partnership with OHCS (Oregon Housing and Community Services), the Collins Foundation, and JPMorgan Chase.

AHP_SF Energy_1: Increase liquidity for energy or water efficiency improvements through outreach, research and developing solutions (Outreach)

In 2021, Fannie Mae hosted an energy industry roundtable to address pain points related to its HomeStyle Energy product, including around product awareness, engagement, and process from the perspective of borrowers, real estate agents, and lenders. Additional feedback received through lender outreach indicated that obtaining an energy report during the mortgage process was challenging for borrowers, and the cost of the report could be a barrier for low-income borrowers. Based on this feedback, Fannie Mae is trying to simplify HomeStyle Energy by making permanent a flexibility currently provided in a variance which allows for an exception to the home energy report requirement for ENERGYSTAR-certified products.

2021 was the second year Fannie Mae partnered with a utility to offer no-cost smart thermostats to low-income homeowners. Most utilities welcomed the idea of working with Fannie Mae to connect low-income homeowners with a smart thermostat and promote other income-qualified energy-savings programs. However, homeowners continued to be reluctant to accept an offer or were not interested in a no-cost smart thermostat.

Manufactured Housing

MH_Comm Govt_1: Increase liquidity to governmental entity, non-profit organization or resident-owned MHC (collectively "Non-Traditional Owners") through research, data analysis, loan product review and enhancement, implementing a pilot for resident-owned MHC and publishing Fannie Mae's experiences (Loan Purchase)

Fannie Mae quoted four DTS-qualifying transactions in 2021 (more than any previous year) and won two of those deals, only one of which was delivered in 2021. This type of MHC business tends to have a protracted timeline from quote to loan closing and delivery, so Fannie Mae's loan purchases in a given year reflect multiple years of effort. 2021 deliveries would be deals that were sourced in 2020, when lenders dealt with reduced capacity to pursue novel, low-balance deals due to the extremely low rate environment and high volume of refinance business. In addition, the first transaction under the ROC Pilot program with National Cooperative Bank (NCB) was delivered in June 2022.

Beginning in 2021, Fannie Mae started to broaden the scope of lender engagement around its MHC product suite by conducting product trainings with lenders other than NCB. This led to Capital One bringing Fannie Mae its first resident-owned cooperative loan, which was delivered in the first quarter of 2022. However, long-standing challenges with this segment of the market are likely to persist, including the small size of the overall market and a business model which may not always lend itself to new debt financing.

Rural Housing

Rural HN Populations_1: Rebrand and market Fannie Mae's Native American Conventional Lending Initiative (NACLI) (Outreach)

Fannie Mae reiterated its focus on providing liquidity on tribal trust land by scaling up NACLI adoption among tribes and lenders. Fannie Mae's strategies to grow NACLI include (1) building a pipeline of mortgage-ready buyers by supporting HUD-approved housing counseling for potential Native borrowers; (2) working with tribal-affiliated lenders through the Native Community Development Financial Institution cohort to increase the potential pipeline of loans, onboard new NACLI lenders to deliver loans, and recruit Fannie Mae seller servicers to originate loans and/or serve as aggregators to provide a secondary market outlet for these loans; and (3) supporting tribal partners as they seek to improve the leasing and mortgage approval process. Fannie Mae is also working with tribes that have a demonstrated capacity for and plan to develop new housing, and is supporting Native housing coalitions in South Dakota and Montana that include financing and homebuilding stakeholders.

Rural_HN Populations_3: Create and implement work-plans and advance strategies that support development of affordable multifamily housing for Native Americans and agricultural workers (Outreach)

In response to a question about funding for technical assistance (TA) under this objective, Fannie Mae indicated that it was a contributing funder of efforts by Enterprise Community Partners and the sole funder of work with Community Resources and Housing Development Corporation (CRHDC). While Enterprise and CRHDC develop and tailor TA materials to specific audiences, Fannie Mae is an active partner, communicating regularly to discuss progress and next steps. Fannie Mae also provided more detail on direct TA Enterprise provided to the Oneida tribe and 1822 Land and Development, an Oneida Tribe-owned business. The TA supported an application for Low Income Housing Tax Credits (LIHTC) to develop 1822's first LIHTC project. The 36-unit project on the Oneida Reservation in Wisconsin would launch 1822 into becoming the first Native-owned LIHTC developer working on and off reservations.

Rural_LIHTC (Rural)_1: Invest in LIHTC properties including housing associated with other Statutory and Regulatory Activities (Investment)

Fannie Mae's LIHTC investment strategy includes multi-investor and proprietary funds. The multi-fund activity has delivered the vast majority of Fannie Mae's DTS-eligible rural properties since 2018. Fannie Mae's multi-investor activity allows it to deploy more capital to more deals, leveraging the impact of investment activity. In addition, Fannie Mae's multi-investments allow it to partner with and support nonprofit mission-focused regional (NASLEF) syndicators that only offer multi-investor funds. Fannie Mae's participation in multi-investor activity can also give other investors the confidence they need to participate in LIHTC investments.

Rural_Small Fin Inst_3: Gain an understanding of the challenges and opportunities for small financial institutions in rural areas through outreach (Outreach)

187 servicers took part in at least one of the four trainings or a roundtable on forbearance. Training participants were active servicers of small financial institution (SFI) loans, some with a footprint in rural regions. To select participants, Fannie Mae looked at a variety of performance metrics to include servicers with loans that were 60+ delinquent yet not in forbearance, in active forbearance, or that had exited forbearance remaining delinquent. By the latter part of 2021, Fannie Mae began emphasizing less temporary, more sustainable strategies than forbearance, such as preparing servicers for foreclosure moratorium expiration and continued post forbearance outcome solutions.