



Fannie Mae Affordable Housing Preservation Loan Purchase

ACTIVITY:

D. Statutory Activity: Low-income housing tax credits under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42.

OBJECTIVE:

1. Increase purchases of mortgages secured by LIHTC properties (Do What We Do Best).

SUMMARY OF RESULTS:

In 2018, Fannie Mae exceeded our target with the purchase of 84 mortgages secured by Low-Income Housing Tax Credit (LIHTC) properties. We acquired a broad range of LIHTC properties in 2018, ranging from 35 unit Kingfisher Creek to the 805 unit Vista on Gessner property in Houston, Texas. Vista on Gessner used Fannie Mae's Mortgage-Backed Security as Tax-Exempt Bond Collateral product to leverage a new LIHTC agreement and convert a market-rate property to affordable housing that will serve residents earning 30 percent of the area median income and below.

Fannie Mae also reviewed the LIHTC market to explore product enhancements that could further increase loan purchases. We conducted research and held thorough discussions on the key issues that could drive Fannie Mae product development related to LIHTC. Furthermore, team members reached out to DUS[®] lender partners and engaged with the Fannie Mae Public Housing Authorities Duty to Serve Advisory Council and its Affordable Dynamic Subcommittee about challenges in affordable preservation and the ways in which we could help increase liquidity to the market.

After extensive research, internal stakeholder reviews, and partner outreach, we determined that equity bridge loans (EBLs) would prove substantial impact in the affordable preservation market. EBLs, while new for Fannie Mae, have been utilized in the tax credit industry for decades. Fannie Mae DUS Lenders currently originate loans for properties that have been allocated tax exempt bonds and corresponding 4 percent LIHTCs to preserve and rehabilitate affordable housing. However, due to constrained affordable rents, this debt alone is not enough to fund both the acquisition and much needed rehabilitation to preserve the long-term quality and affordability of the units. With the EBL, we will be able to provide support for an affordable property throughout its preservation efforts, helping prevent the conversion of units to market-rate rents and maintaining our position as a leader in preserving safe, affordable, quality housing. The EBLs development at Fannie Mae has its origins in market need and desire – our Affordable Market Dynamics Subcommittee initially requested EBL and has continued to support our efforts in bringing it to the market. Our proposal to provide EBLs is currently under review by the Federal Housing Finance Agency (FHFA) and subject to FHFA's decision.

Following are the 2018 Actions under this Objective as published in the December 14, 2018 Duty to Serve Plan:

Identify two trends and two product enhancement needs in the LIHTC industry, and propose ways to address them in order to increase liquidity to the LIHTC debt market.

Consider specific geographies, rent cost burdens, and potential RED as part of this review.

Purchase 83 loans secured by LIHTC properties, representing approximately a 14 percent increase over the Baseline.

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)



IMPACT:

- 50-Substantial 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 laying the foundation for future impact in addressing underserved market needs?

At Fannie Mae, being a leader in the affordable preservation market is both a Duty to Serve (DTS) and overall business priority. If we secure FHFA's favorable decision for EBLs, we can successfully build upon our presence in the LIHTC debt sphere in a way that will serve both sponsors and tenants by facilitating the rehabilitation process and securing the continued affordability of much needed units for years to come.

In 2018, we increased our purchases of mortgages secured by LIHTC properties, exceeding our loan purchase target of 83 and improving over our Baseline by 14 percent. The 84 loans purchased contributed to the preservation of nearly twelve-thousand units. We intend to further increase our purchases and will improve upon our Baseline by 17 percent in 2019.

EBL is a prime example of our efforts to both lay a foundation for future loan purchases and address the current needs of the affordable preservation market. Because its origins lie in our Affordable Market Dynamics Subcommittee, as well as our extensive research and outreach efforts, we are confident that there is both a need and desire for EBLs in the marketplace. EBLs will not only fill the gap in financing between acquisition and rehabilitation and thus allow for higher quality, more sustainable affordable housing, but also will do so with substantial demand already in place. Subject to FHFA's favorable decision, we hope to launch EBLs in 2019 as a special initiative with plans to roll it out more generally after necessary analysis and possible adjustments have been completed. By utilizing a test-and-learn process, Fannie Mae is better equipped to respond to difficulties during implementation as well as the ongoing needs of the market when it comes to EBLs.

2. (Optional): How do actions under this objective support future actions detailed in the Plan for the underserved market? If there have been any changes in the planned next steps or timeline for work under or related to this objective, describe the changes and provide a brief explanation.

All Objectives and Actions under Fannie Mae's Duty to Serve Plan (the Plan) for 2018 were written with the intent that our initial efforts would be built upon in proceeding years. The 2018 Actions under the Plan, while producing immediate impact, are also meant to create a foundation for future change and impact in the affordable preservation marketplace. For instance, while our 2018 target to improve over our LIHTC loan purchase Baseline by 14 percent was ambitious, in 2019, that improvement jumps to 17 percent. LIHTC deals are complex and time-consuming, yet we both successfully met this year's target and plan to outpace it in 2019. Additionally, EBLs will increase liquidity to the market in the future. EBLs meet a long-standing need in the affordable preservation market, one that has involved internal and external guidance and input, research, and outreach. Subject to FHFA's favorable decision, with its implementation, set for 2019, EBLs will support increased Fannie Mae business in the LIHTC segment.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.

N/A

4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

In 2018, we increased our purchases of mortgages with LIHTC-secured properties. We purchased 84 loans, improving upon our Baseline by 14 percent. Because of the challenges involved in LIHTC deals, this jump over our Baseline was a substantial feat. LIHTC deals involve not only sponsors, but also syndicators and investors, and the properties often have complex layers of financing that are challenging to navigate. Obtaining adequate financial support for a LIHTC project is complicated and arduous, and constructing and executing deals involving LIHTC is similarly difficult.



However, our internal affordable deal teams are dedicated and took on challenges, meeting the high standards set in the Plan.

Subject to FHFA's favorable decision, with the introduction of EBLs, we are confident that our impact on LIHTC properties will continue to grow. EBL has been developed with the input and support of Fannie Mae stakeholders, as well as the expertise and guidance of external partners and members of our Affordable Dynamic Subcommittee. EBLs will indeed act as a bridge between sponsors' efforts to acquire and rehabilitate a property. It is difficult to obtain funds to do both while also keeping rents affordable to low- and moderate-income tenants. If able to offer EBLs, Fannie Mae will be able to do additional business in the LIHTC market and allow for the preservation of more quality, safe, affordable housing options.



Fannie Mae

Affordable Housing Preservation

Loan Purchase

First Quarter: January 1 - March 31, 2018

ACTIVITY:

D. Statutory Activity: Low-income housing tax credits under section 42 of the Internal Revenue Code of 1986, 26 U.S.C. 42.

OBJECTIVE:

1. Increase purchases of mortgages secured by LIHTC properties (Do What We Do Best).

SUMMARY OF RESULTS:

Following are the 2018 Actions under this Objective:

- Identify two trends and two product enhancement needs in the LIHTC industry, and propose ways to address them in order to increase liquidity to the LIHTC debt market.
- Consider specific geographies, rent cost burdens, and potential RED as part of this review.
- Purchase 85 loans secured by LIHTC properties, representing approximately a 13 percent increase over the Baseline.

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 Second Quarter Report: January 1 - June 30, 2018 Loan Purchase

ACTIVITY:

D. Statutory Activity: Low-income housing tax credits under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42.

OBJECTIVE:

1. Increase purchases of mortgages secured by LIHTC properties (Do What We Do Best).

SUMMARY OF RESULTS:

We have acquired 34 loans representing a UPB of nearly \$360 million. Approximately 80 percent of these transactions were four percent LIHTC deals.

In addition, the team engaged in many conversations with our DUS® lender partners, including meeting with our Affordable DUS Advisory Council, to gather feedback on how we can improve our product offering to help increase liquidity to the market and drive more acquisitions in areas meeting the requirements of Residential Economic Diversity. Based on those conversations and our identification of the most pressing trends in the industry, we have developed a proposal for a LIHTC equity bridge loan product.

Following are the 2018 Actions under this Objective:

- Identify two trends and two product enhancement needs in the LIHTC industry, and propose ways to address them in order to increase liquidity to the LIHTC debt market.
- Consider specific geographies, rent cost burdens, and potential RED as part of this review.
- Purchase 85 loans secured by LIHTC properties, representing approximately a 13 percent increase over the Baseline.

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, 2018 Loan Purchase

ACTIVITY:

D. Statutory Activity: Low-income housing tax credits under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42

OBJECTIVE:

1. Increase purchases of mortgages secured by LIHTC properties (Do What We Do Best).

SUMMARY OF RESULTS:

In Q3, we made significant progress in meeting our LIHTC loan purchase goal. Year to date, we have secured 60 loans representing a UPB of \$867 million and feel confident that we are on track to meet our 2018 loan purchase goal.

The Groves at East Tabor, located in Fairfield, California, was among our Q3 LIHTC loan acquisitions. This garden-style apartment community, made up of 128 units spread across 20 buildings, sits on a far edge of Northern California's Bay Area. The Bay Area suffers from a severe shortage of housing, particularly affordable housing, as the average housing costs are significantly higher than national averages. Comparable units in unrestricted market rate properties bring in rents more than \$400 above the restricted units at The Groves, highlighting the significant demand for affordable housing in this market and the importance of preserving units accessible to moderate- and low-income households.

Following are the 2018 Actions under this Objective:

- Identify two trends and two product enhancement needs in the LIHTC industry, and propose ways to address them in order to increase liquidity to the LIHTC debt market.
 - Consider specific geographies, rent cost burdens, and potential RED as part of this review.
- Purchase 85 loans secured by LIHTC properties, representing approximately a 13 percent increase over the Baseline.

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):