



## Fannie Mae Affordable Housing Preservation Outreach

### ACTIVITY:

G. Regulatory Activity: Finance improvements on multifamily properties: which reduce energy or water consumption by tenant or property by at least 15 percent; and where the savings generated over the improvement's expected life will exceed its cost.

### OBJECTIVE:

1. Engage stakeholders and conduct research to increase awareness and understanding of energy or water efficiency improvements and financing needs (Analyze, Test and Learn).

### SUMMARY OF RESULTS:

Fannie Mae has continued to lead in awareness of the intersection between energy or water efficiency improvements and financing needs. Throughout 2018, We engaged in outreach and participated in several industry conferences to increase our own understanding of the financing needs for energy and water efficiency improvements, as well as raise the level of awareness in the industry.

In the fourth quarter of 2018, we launched the Fannie Mae Energy Duty to Serve Advisory Council (Energy Advisory Council), where we gathered experts and key partners from across the energy and affordable housing finance sectors for a full day kick-off meeting. The meeting provided valuable insight and created linkages between formerly unconnected stakeholders. We look forward to continuing to learn from and share with the Energy Advisory Council in the coming years.

We also conducted outreach aimed at borrowers, specifically multifamily owners and operators, to increase knowledge about the opportunities available through our Green Financing and Healthy Housing Rewards™ products. Outreach training topics included Green Loan Case Studies, Green Financing Deep Retrofits, Multifamily Lending, Green Rewards, and several others. We conducted outreach across the country as well as via virtual webinars, to reach a broad audience.

We contracted with consulting firm MKThink to review our current product offerings and find ways they might overlap with existing incentives provided by utility and state energy offices. This review was completed in Q4 of 2018 with the creation of a comprehensive internal white paper entitled "Duty to Serve: Utilizing Local Energy Efficiency Programs with Green Rewards." Not only does this information propel our internal learning efforts, but in 2019 we will share it with our borrowers to broaden its reach and impact. We plan to use the findings to develop borrower-facing guidance on how state and utility incentives can be leveraged by borrowers to qualify for Green Rewards more cost-effectively.

We also contracted with expert energy and water consultant Bright Power to develop and test a methodology to measure and verify actual energy savings on improvements at Green Rewards properties. Fannie Mae and Bright Power representatives conducted field testing at five multifamily properties to test the methodology.

Finally, we have submitted for Federal Housing Finance Agency (FHFA) approval a proposed enhancement to our Green Rewards product, which we expect will drive an increase in our loan purchases meeting FHFA requirements. The addition of a Solar Rewards feature will enable Fannie Mae and our lenders to better understand and manage the risk associated with these systems. Importantly, the electricity cost savings from solar PV systems (which convert solar energy into electricity) can also be directed to benefit tenants. Increased tenant savings enhances the overall affordability of housing by reducing utility costs. This product is also available to manufactured housing communities that cannot currently take advantage of the Green Rewards program.

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

- Participate in two key industry conferences and host one energy advisory council meeting with cross-functional industry representation to gain a better understanding of the current market barriers and challenges.
- Develop and implement a research plan to clarify the market's understanding of the evolving technical landscape.



- Establish and participate in an outreach program to increase multifamily owners'/operators' awareness of and access to energy and water efficiency savings and financing programs.
- Conduct a review of Fannie Mae's current product offerings to find ways to potentially overlap with the existing incentives provided by utility and State energy offices.
- Approve one product enhancement that could result in loan purchases meeting the FHFA Criteria.
- Establish and test a methodology to confirm actual energy savings on improvements.

### **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)

### **PARTIAL CREDIT JUSTIFICATION:**

N/A

### **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?

Each of the Actions under this Objective worked to address underserved market needs as well as lay the foundation for future impact. The outreach effort aimed at Multifamily borrowers had a dual impact: First, it provided concrete necessary knowledge for lender and borrowers related to the nuts and bolts of green financing products at Fannie Mae, and second, it contributed to the larger conversation aimed at increasing the number of high-performance buildings. Additionally, we believe the development of a Solar Rewards product enhancement will not only benefit property owners, but could also reduce financial burdens for renters through lower utility costs, thereby broadening the scope and impact of the product's positive impact. We believe it also will increase loan purchases in the affordable preservation market. Furthermore, based on the white paper developed in 2018, Fannie Mae will publish borrower-facing guidance on how state and utility incentives can be leveraged by borrowers to qualify for Green Rewards more cost-effectively. Lastly, we will continue to utilize our Energy Advisory Council for insight into market needs and how Fannie Mae can make additional impact.

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.

The Actions from this Objective build off each other from year to year. Activities from the research plan will directly inform the 2019-2020 deliverables related to drafting, publishing, and distributing a white paper to educate key stakeholders on best practices in energy efficiency financing and affordable housing preservation. We will also use



our work to identify overlaps between Green Rewards and utility energy efficiency incentives. We believe by doing so, we will better understand how projects can leverage utility incentives to realize more energy savings and work to ensure savings that accrue to tenants where possible.

Additionally, our work to pilot Measurement and Verification (M&V) in 2018 will inform our 2019 deliverable to test and confirm actual energy savings on loans purchased through Fannie Mae's green finance programs. M&V allows us to evaluate impact, ensuring measures are installed correctly and lead to savings that benefit tenants.

Finally, this Objective was modified in 2018 to include the approval of a product enhancement, the Solar Rewards enhancement to the Green Rewards product. Originally approval of a product enhancement was slated for 2019, but Fannie Mae was able to complete this work a year early.

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?

The Fannie Mae Green Financing Business provides mortgage financing to apartment buildings and cooperatives to finance energy and water efficiency property improvements. We've used our position as a market leader to pilot smart, innovative solutions that encourage sustainable lending and affordable rental housing, and we offer investors solutions that provide attractive capital market executions and options for investing in U.S. mortgage credit. The outreach and education to borrowers ensures that there will be a strong market for our Green Mortgage Loan products, and that affordable housing practitioners will have the capacity needed to take advantage of them. Additionally, our work to launch a new Solar Rewards product enhancement fills a much-needed niche in the green lending space, which will also lead to increased loan purchases for the affordable housing preservation market.



## **Fannie Mae Affordable Housing Preservation Second Quarter Report: January 1 - June 30, 2018 Outreach**

### **ACTIVITY:**

G. Regulatory Activity: Finance improvements on multifamily properties: (a) which reduce energy or water consumption by tenant or property by at least 15 percent; and (b) where the savings generated over the improvement's expected life will exceed its cost (FHFA Criteria) (12 C.F.R. § 1282.34 (d)(2)).

### **OBJECTIVE:**

1. Engage stakeholders and conduct research to increase awareness and understanding of energy or water efficiency improvements and financing needs (Analyze, Test and Learn).

### **SUMMARY OF RESULTS:**

Fannie Mae has engaged in outreach and participated in a number of industry conferences in order to increase our awareness and understanding of the financing needs for energy and water efficiency improvements. In addition, we have developed a proposed enhancement to our Green Rewards product, which if approved, will drive an increase in our loan purchases meeting FHFA requirements.

Today solar photovoltaic (PV) systems are a qualifying Energy and Water Efficiency Measure under our existing Green Rewards program, however as a renewable energy system with a useful life of 25 years or more, solar PV systems require a more rigorous assessment than is currently performed for other Green Rewards projects. The proposed addition of a Solar Rewards feature, and the accompanying required assessments and reporting, will enable Fannie Mae and our lenders to better understand and manage the risk associated with these systems.

Importantly, the electricity cost savings from solar PV systems can also be directed to benefit tenants. In particular, this applies to states that allow a single solar installation to serve multiple electric meters and/or master metered properties that apply electrical savings from solar PV systems to tenants via sub-meter, Ratio Utility Billing Systems, or flat-fee billing. Increased tenant savings enhances the overall affordability of the unit, thereby reducing household utility burdens.

In addition, this product would be made available to manufactured housing communities which cannot currently take advantage of the Green Rewards program.

Following are the 2018 Actions under this Objective:

- Participate in two key industry conferences and host one energy advisory council meeting with cross-functional industry representation to gain a better understanding of the current market barriers and challenges.
- Develop and implement a research plan to clarify the market's understanding of the evolving technical landscape.
- Establish and participate in an outreach program to increase multifamily owners'/operators' awareness of and access to energy and water efficiency savings and financing programs.
- Conduct a review of Fannie Mae's current product offerings to find ways to potentially overlap with the existing incentives provided by utility and State energy offices.
- Identify two potential product enhancements that, if approved, could result in loan purchases meeting the FHFA Criteria.
- Establish and test a methodology to confirm actual energy savings on Improvements.



**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):**