



Fannie Mae Affordable Housing Preservation Loan Product

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:

Increasing RED is important to Fannie Mae's Duty to Serve (DTS) Underserved Markets mission, but as described in our DTS Plan for Affordable Housing Preservation, preserving affordable housing while incorporating notions of RED has several key challenges. To address these challenges, Fannie Mae is working to establish an initiative to incorporate RED into Fannie Mae's Statutory Activity relating to the acquisition of mortgages on Low-Income Housing Tax Credit (LIHTC)-financed properties. In 2018, our work on RED took the form of outreach and building internal capacity and knowledge. To increase awareness of RED, we engaged with stakeholders and lenders originating LIHTC loans and LIHTC sponsors and investors. Based on that outreach, we identified and approved a LIHTC product enhancement that will also increase the number of RED - eligible loans acquired by Fannie Mae.

As part of our outreach, we presented RED goals to several Delegated Underwriting and Servicing (DUS[®]) lenders at our Fannie Mae DUS Lenders Market Dynamics Subcommittee meeting in November of 2018. At that meeting, we presented the RED framework and solicited comments and feedback from the lenders on their experiences with RED. Fannie Mae continued to follow up with lenders throughout the year.

In addition to this outreach Fannie Mae held individual meetings with six sponsors of LIHTC properties to better understand the difficulties of including RED concepts in housing developments. Stakeholders ranged from large organizations to Public Housing Authorities and small mission-oriented developers. Finally, Fannie Mae met individually with a diverse set of four outside LIHTC investors to discuss opportunities and challenges in this space, as well as engaged in extensive discussion with internal staff focused on LIHTC equity investments.

After extensive research, internal stakeholder reviews, and partner outreach, we determined that an equity bridge loan (EBL) product would prove substantially impactful in the affordable preservation market. EBLs 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, and quality housing. The proposed EBL product is currently the subject of FHFA review.

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

- Meet with seven DUS lenders to increase awareness of RED and to specifically identify projects eligible for four percent and nine percent LIHTC that may meet the requirements of RED as provided in the Regulations (RED Transaction(s)).
- Meet with five sponsors to better understand the difficulties of including RED concepts in housing development.
- Meet with three LIHTC investors to discuss hurdles faced when reviewing potential investment opportunities in RED deals.



Based on the outreach conducted, identify two potential enhancements to Fannie Mae's existing products that could increase the volume of LIHTC deals that qualify as RED Transactions.

Review and approve at least one of the identified potential enhancements.

Confirm projected loan purchases for 2019 and establish a Baseline for mixed-income LIHTC Debt.

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?

RED challenges and opportunities, according to our stakeholder outreach, take very different forms depending on whether the goal is affordable housing in high opportunity areas, or mixed-income housing in areas of concentrated poverty. If the former, the challenges include community outreach and engagement, combating "Nimbyism," and higher property acquisition costs. For the latter, the challenges are more inherent to the structure of the transaction and relate to the difficulties of combining the financial calculations and considerations for market-rate housing with the financial calculations and consideration for affordable housing. Many stakeholders expressed the opinion that these mixed-income transactions will become more common, so there is a need for both stakeholder education and outreach, as well as possibly some policy changes necessary to ensure successful mixed-income affordable housing preservation. Fannie Mae will continue to engage as a thought partner on these issues not only as a LIHTC investor, but also as a purchaser of LIHTC-affiliated loans on the debt side.

In addition, the EBL product, currently under consideration by FHFA, could have a positive impact on the market by providing much-needed additional capital. The EBL development at Fannie Mae has its origins in market need and desire – our DUS Lenders Affordable Market Dynamics Subcommittee initially requested this product and has continued to support our efforts in bringing it to the market. If approved, the EBL will have an immediate impact on our customers, including residential economic diversity support.

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.

Fannie Mae will build on the relationships developed with LIHTC investors, sponsors and lenders to develop and begin work on an RED white paper. In addition to outreach to external stakeholders, Fannie Mae will also be able to learn from the 83 LIHTC debt transactions completed in 2018 to determine patterns and lessons learned related to



RED. As we work to purchase additional LIHTC loans with a RED component, we will lean on those lessons, as well as our relationships in the affordable sphere, for guidance on future endeavors and Actions under our plan. Additionally, the work we completed in 2018 on the EBL product will – should the product get approved by FHFA – lead to implementation in 2019. The EBL will support our efforts to increase our purchases of loans secured by LIHTC properties.

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?

For 2019, Fannie Mae has an ambitious target of increasing our number of RED - eligible LIHTC debt transactions to 17 percent of our total. This ambitious target will be assisted by the groundwork and relationships built in 2018. We also expect that the EBL product, if approved by FHFA, will add further RED - eligible transactions to Fannie Mae's LIHTC debt portfolio.



Fannie Mae Affordable Housing Preservation Second Quarter Report: January 1 - June 30, 2018 Loan Product

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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 began having conversations with lenders, sponsors, and LIHTC investors to understand their experiences evaluating RED deals. In addition, we finalized a proposal for a LIHTC equity bridge loan product which, if approved, we believe could increase the volume of LIHTC deals that qualify as RED transactions.

Following are the 2018 Actions under this Objective:

- Meet with seven DUS lenders to increase awareness of RED and to specifically identify projects eligible for four percent and nine percent LIHTC that may meet the requirements of RED as provided in the Regulations (RED Transaction(s)).
- Meet with five sponsors to better understand the difficulties of including RED concepts in housing development.
- Meet with three LIHTC investors to discuss hurdles faced when reviewing potential investment opportunities in RED deals.
- Based on the outreach conducted, identify two potential enhancements to Fannie Mae's existing products that could increase the volume of LIHTC deals that qualify as RED Transactions.
- Review and approve at least one of the identified potential enhancements.
- Confirm projected loan purchases for 2019 and establish a Baseline for mixed-income LIHTC Debt.

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):