



## Fannie Mae Affordable Housing Preservation Loan Product

### ACTIVITY:

B. Statutory Activity: The supportive housing program for the elderly under Section 202 of the Housing Act of 1959, 12 U.S.C. § 1701q.

### OBJECTIVE:

1. Consider loan product changes, prepare work-plan, and purchase Section 202 loans (Analyze, Do What We Do Best).

### SUMMARY OF RESULTS:

In 2018, Fannie Mae made great strides in impacting the preservation of the Department of Housing and Urban Development (HUD) Section 202 market. As part of a comprehensive market analysis, we reviewed HUD data sets pertaining to Section 202 Direct Loan properties, including number, size, and location of properties, maturity date and interest rate of original loans, as well as HUD-approved rents as compared to fair market rents. In addition, we reached out to stakeholders representing a wide range of roles in the marketplace to determine how we could best contribute to the offerings in the Section 202 market. We met with staff from the HUD Office of Recapitalization and Office of Affordable Housing Programs; DUS® lenders; owners and managers of large numbers of Section 202 properties, such as Volunteers of America and Mercy Housing; and senior and affordable housing advocates, such as Leading Age and Stewards of Affordable Housing for the Future. As described in the market analysis document, the takeaway of such outreach was that there is an appetite for preserving Section 202 properties through refinance and recapitalization, and owners are looking for ways to access capital outside of the Federal Housing Administration's (FHA) Section 221(d)3 and Section 223(f) programs. After extensive internal discussion and planning, we concluded that the most impactful change would be additional flexibility when it comes to underwriting above-market rents and allowing for longer amortization terms.

From the guidance, knowledge, and feedback gleaned through discussions with Fannie Mae's Risk Management, Credit and Underwriting, and Customer Engagement staff, we determined that making changes to our Internal Credit Guidance document provided the most direct and impactful path to influence the market. We concluded that not only would the changes represent a benefit to owners looking for alternatives to FHA's programs, but also, they would not require a drawn-out implementation process; thus, owners could begin reaping the benefits sooner. The changes took effect in December of 2018, immediately following approval from Fannie Mae's Chief Credit Underwriting Officer. Fannie Mae underwriting staff have been trained on these and other internal guidance updates, and are developing talking points for lenders.

In addition to the product enhancement for Section 202, Fannie Mae also updated our Commitment and Delivery reporting system to allow for the tracking and reporting of Section 202 loans. Prior to this update, Fannie Mae relied on anecdotal and narrative descriptions to find Section 202 transactions in our book of business. The updates to track and report Section 202 loans are complete and will be implemented and available for lender use in the first quarter of 2019. Fannie Mae informed lenders of these changes and our increased focus on Section 202 loans on a lender operations call.

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

Create one Section 202 market analysis that addresses a wide variety of issues (e.g., expiring/maturing loans, loans eligible for prepayment, post 1991 construction property issues, identification of key owner operators, market conditions, Delegated Underwriting and Servicing (DUS)® lender appetite for financing and experience and geographic exposure). Fannie Mae will use this analysis to determine our most effective role and approach to preserve Section 202 properties. Fannie Mae will focus initially on Section 202 direct loan properties, but will include other types of Section 202 financing as part of our market analysis.

Review Fannie Mae's underwriting guidelines regarding above market Section 8 rents and other relevant Section 202 factors identified in the market analysis.



- Based on the market analysis and the review of the underwriting guidelines, identify and approve one product enhancement which will increase Fannie Mae's ability to purchase Section 202 loans.
- Implement product enhancement(s) by training three lenders who finance Section 202 loans to offer the product enhancement(s) and market the enhanced product to preservation stakeholders.
- Implement operational changes in Fannie Mae's systems that will provide for the tracking of Section 202 loans.
- Identify one potential portfolio refinance opportunity and determine whether it can be utilized.
- Based on the work completed during 2018, confirm 2019 Baseline and loan purchase goals.

### **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?

The HUD Section 202 market is a relatively small, niche market, but its importance cannot be overstated. Residents of Section 202 properties are low-income elderly individuals and families, and maintaining affordability for these populations is crucial. The work Fannie Mae did in 2018 to support this housing focused on laying a strong foundation for future impact. Through market analysis and extensive conversations with stakeholders, we listened and learned about the ways in which we could best impact the market. Relationship creation and maintenance was an essential component of that process; we built relationships with Section 202 building owners and managers to understand their needs when it comes to refinancing and/or acquiring Section 202 properties, and we shored up already strong relationships with the HUD. Our listening and learning not only resulted in updated underwriting guidance, as described above, but also, it resulted in strong relationships and growing trust between Fannie Mae and Section 202 borrowers. As we continue our efforts in Section 202 housing, we plan to cast our net further and bring in additional stakeholders to provide guidance and insight into this difficult but essential market.

In addition to external efforts and changes specifically dedicated to improving our Section 202 transactions, Fannie Mae made significant investments in our internal Multifamily Affordable Housing team. We are now fully staffed and have brought additional leadership on board to direct training of Fannie Mae staff, with a goal of processing transactions with greater efficiency and speed, something we know Section 202 borrowers need.



With a strong foundation in place, we are confident that 2019 will see record numbers of HUD Section 202 transactions for Fannie Mae.

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.

While the Section 202 Objective for 2018 is to be evaluated as a Loan Product Objective, for 2019 and 2020, the Objective shifts to a Loan Purchase target. This reflects our belief that the foundation laid in 2018 will directly result in increased Section 202 property loan acquisitions. The work we put into research, outreach, and the development of our credit guidance product enhancement will benefit our efforts as we transition to a Loan Purchase Objective.

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?

By updating our internal guidance to allow for longer amortization periods and underwriting based on above-market rents, Fannie Mae can offer a loan product that will compete more directly with the 221(d)3 and 223(f) loan products offered by FHA. As we learned during the outreach process, borrowers are eager for ways to access capital outside of FHA's 221(d)3 and 223(f) programs, and with our credit guidance updates, we will be adding options to the marketplace. Borrowers will have more choices when it comes to refinancing their direct loan Section 202 properties, and given our investments in staffing and training, as well as our strengthened relationships with HUD, we expect that they will more often choose to refinance their properties with Fannie Mae. Our investment in internal stakeholders has proven as essential as our investment in building external relationships. Not only will we continue to provide safe and secure financing, but also, we are now better equipped to offer deep understanding of Section 202 loans and properties and execute deals with greater expediency.



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

### **ACTIVITY:**

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### **OBJECTIVE:**

1. Consider loan product changes, prepare work-plan, and purchase Section 202 loans (Analyze, Do What We Do Best).

### **SUMMARY OF RESULTS:**

To examine how Fannie Mae can increase support of the Section 202 program, we analyzed key underwriting and credit aspects of our existing traditional Multifamily Affordable Housing (MAH) loan product that could require modifications given the nuances of the Section 202 program and the current FHA programs that are used for such transactions.

The team completed its market analysis of Section 202 covering a brief history of the program, the size of expiring/maturing Section 202 loans, a summary of historic DUS lender acquisition of Section 202 loans, and a comparison of Fannie Mae's guidelines to those of FHA. We used this analysis to prepare draft recommendations on potential product enhancements.

Following are the 2018 Actions under this Objective:

- Create one Section 202 market analysis that addresses a wide variety of issues (e.g., expiring/maturing loans, loans eligible for prepayment, post 1991 construction property issues, identification of key owner operators, market conditions, Delegated Underwriting and Servicing (DUS)® lender appetite for financing and experience and geographic exposure). Fannie Mae will use this analysis to determine our most effective role and approach to preserve Section 202 properties. Fannie Mae will focus initially on Section 202 direct loan properties, but will include other types of Section 202 financing as part of our market analysis.
- Review Fannie Mae's underwriting guidelines regarding above market Section 8 rents and other relevant Section 202 factors identified in the market analysis.
- Based on the market analysis and the review of the underwriting guidelines, identify and approve one product enhancement which will increase Fannie Mae's ability to purchase Section 202 loans.
- Implement product enhancement(s) by training three lenders who finance Section 202 loans to offer the product enhancement(s) and market the enhanced product to preservation stakeholders.
- Implement operational changes in Fannie Mae's systems that will provide for the tracking of Section 202 loans.
- Identify one potential portfolio refinance opportunity and determine whether it can be utilized.
- Based on the work completed during 2018, confirm 2019 Baseline and loan purchase goals.

### **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):**