



Fannie Mae Affordable Housing Preservation Loan Product

ACTIVITY:

C. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

OBJECTIVE:

1. Work with the USDA and other stakeholders to adopt approach resulting in increased liquidity for preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

In 2018, Fannie Mae created a product development strategy to preserve the affordability of properties that are at risk of losing their United States Department of Agriculture (USDA) Rural Development (RD) Section 515 subsidy (RD 515). We prepared a work plan to document the critical role the RD 515 subsidy program plays in rural communities, the impact the loss of these subsidies will have, and what role Fannie Mae could play in providing financing to preserve the affordability of these homes.

In support of these efforts, we conducted outreach to several lenders in our affordable network to discuss their current footprint in rural communities, appetite for doing more business in these areas, and experience financing properties with RD 515 subsidies. Several of these lenders showed interest in doing more rural business and we identified one partner who was interested in working with us to provide long-term financing for properties in their portfolio that have expiring 515 subsidies. The strategy we developed reflects feedback not only from our lender partners but also affordable housing developers, rural Community Development Financial Institutions (CDFIs), Native American CDFIs, nonprofits, community development organizations, and Housing Finance Agencies (HFAs).

Preservation efforts can only be effective with participation from both existing owners and also entities that are interested in purchasing these properties. Through our many conversations, we learned about the great need for rural CDFI capacity building, and technical assistance for rural owners and potential investors. These tools serve as tremendous resources for the support of RD 515 preservation. Fannie Mae has identified partners in the industry that facilitate these workshops, and we have laid down the foundation to help expand these efforts beginning in 2019.

We have also partnered with the Center on Rural Innovation (CORI) to develop data visualization tools to provide us insight on social and economic conditions in Middle Appalachia and the Lower Mississippi Delta. The mapping tool provides insight into the locations properties that have been financed using 515 subsidies, when those subsidies will expire, and shows viewers what socioeconomic indicators exist in and around communities that have attracted 515 subsidies.

In addition, we examined our historic book of business to analyze the transactions Fannie Mae has done that utilize the RD 515 and RD 538 products, to develop a better understanding of our own transaction history and to determine what learnings we could glean from our prior experience that could inform our product development approach. In conjunction with Fannie Mae's Low-Income Housing Tax Credit (LIHTC) equity team, we conducted research and explored opportunities to combine LIHTC equity investments with RD subsidies.

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

- Establish a workable strategy to preserve Section 515 properties across the country by undertaking the following:
 - Meeting with 10 market stakeholders, including rural housing advocates, Section 515 property owners/developers, State HFA, and the USDA to better understand the specific issues with Section 515 properties (e.g., loss of housing stock) and to discuss possible solutions and formulate the most effective and viable strategy.
 - Engaging with a total of three DUS and special affordable lenders that have experience with Section 515 properties to get insight to ensure that any proposed strategy is viable for potential lenders.



Reviewing Fannie Mae's financing through the USDA's Section 538 program as part of designing an effective strategy to determine if the product could further enhance Fannie Mae's ability to bring liquidity to the Section 515 preservation effort.

Create a comprehensive Section 515 work-plan that will drive loan purchases and other actions during 2019 and 2020.

As part of Fannie Mae's overall LIHTC equity strategy, conduct a review of the potential use of LIHTC equity investments in conjunction with debt on the USDA Section 515 properties.

Process one Section 515 work-plan (including any potential product enhancements) through internal Fannie Mae product development procedures to secure approvals as required.

Formulate one loan purchase and two other goals for 2019 – 2020, with an aim to provide financing annually for at least 10 percent of the total Section 515 properties that could potentially exit the program during the three year term of the Plan. Based on USDA's multifamily housing property preservation tool, 122 Section 515 properties could potentially exit the program during the term of the Plan. Accordingly, the loan purchase goal for 2019 and 2020 is to purchase a total of at least 12 loans secured by Section 515 properties. The Baseline will be updated as needed as Fannie Mae's strategy is established during 2018.

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?

In 2018, we focused on developing a comprehensive understanding of the market need for long-term financing to maintain the affordability of properties with expiring USDA 515 subsidies. USDA's 515 subsidy is among the few rental housing resources targeting rural communities. According to the Housing Assistance Council, since the program's inception in 1963, the Section 515 program has financed nearly 28,000 rental properties containing over 533,000 affordable apartment units. These subsidies target renters who are among the most vulnerable households in the nation. The average income of residents in these properties is only \$13,600.

To address the critical issue of maturing mortgages that are at risk of losing their subsidy, we developed a product development strategy to drive an increase in our support to preserve the affordability of these properties. This will



position us well to not only achieve subsequent year goals, but most importantly increase private lender involvement to complement existing public preservation efforts. We are working closely with the USDA and one of our affordable lender partners with considerable expertise in financing rural transactions. Our plan is to execute this strategy beginning in early 2019.

Identifying additional lender partners that generate rural business is very impactful in addressing underserved market needs, because the existence of additional secondary market capital in rural deals eases the flow of primary market capital to rural areas.

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.

Future Actions under this Objective are to purchase loans secured by Section 515 properties at risk of exiting the program. Fannie Mae's efforts this year to engage with lenders who have experience financing properties with RD 515 subsidies, USDA Rural Development staff, and owners of multifamily properties in rural communities have allowed us to narrow in on a product development strategy that we will execute beginning in early 2019.

In addition, through our market research and outreach this year we identified another role Fannie Mae can play to further the capacity building and technical assistance efforts of affordable housing organizations already working to address this issue. We can partner with these entities by sponsoring specific events and programs they organize that provide technical assistance and training to rural owners and investors. Our support of individual programs in targeted regions may help to scale the work that these organizations have put into place so that they can be replicated across the country. Organizations embedded in the communities they serve are already taking proactive steps to provide services to rural CDFIs, and property owners and investors. Fannie Mae can utilize its resources to support these efforts, thereby creating significant impact in the market. Had it not been for the significant industry engagement we conducted in 2018, Fannie Mae would not have made the connections we need to support the market in this way.

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?

This year, Fannie Mae put considerable effort into researching the market of expiring RD 515 subsidies and creating a product development strategy. Our plan is to develop and approve a product enhancement targeting properties with expiring RD 515 subsidies in 2019. Fannie Mae has taken the time to consider the risks and limitations that could prevent our RD 515 loan product from succeeding in the market. Our goal is to create a solution that is embraced by the market, scalable for maximum impact, and benefits both rural renters and owners of properties in rural areas. Through the newly established Fannie Mae Rural Duty to Serve Advisory Council, we will continue to solicit feedback from our DUS® lenders, as well as other market stakeholders who were engaged in the initial product development process, so that we can monitor market potential for product adoption. In addition, we plan to monitor loan performance and other key performance indicators of the product to make improvements where appropriate.

We hope that demonstrating a commitment to these preservation efforts by purchasing more loans secured by properties with expiring RD515 subsidies will lead to more private capital investment in these communities.



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

ACTIVITY:

C. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

OBJECTIVE:

1. Work with the USDA and other stakeholders to adopt approach resulting in increased liquidity for preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

Fannie Mae conducted extensive outreach and research to inform our strategy for working with USDA RD and our lenders to maintain the affordability of expiring Section 515 properties. We met with key stakeholders, including rural housing advocates, state housing finance agencies, property owners, USDA, and our lenders.

As a direct result, we identified an existing DUS lender with significant experience in the Section 515 preservation space to work with us to develop our Section 515 work plan. We are also in the process of conducting a review of the USDA RD Section 538 program to see how we might incorporate the program in our Section 515 strategy.

Following are the 2018 Actions under this Objective:

- Establish a workable strategy to preserve Section 515 properties across the country by undertaking the following:
 - Meeting with 10 market stakeholders, including rural housing advocates, Section 515 property owners/developers, State HFA, and the USDA to better understand the specific issues with Section 515 properties (e.g., loss of housing stock) and to discuss possible solutions and formulate the most effective and viable strategy.
 - Engaging with a total of three DUS and special affordable lenders that have experience with Section 515 properties to get insight to ensure that any proposed strategy is viable for potential lenders.
 - Reviewing Fannie Mae's financing through the USDA's Section 538 program as part of designing an effective strategy to determine if the product could further enhance Fannie Mae's ability to bring liquidity to the Section 515 preservation effort.
- Create a comprehensive Section 515 work-plan that will drive loan purchases and other actions during 2019 and 2020.
- As part of Fannie Mae's overall LIHTC equity strategy, conduct a review of the potential use of LIHTC equity investments in conjunction with debt on the USDA Section 515 properties.
- Process one Section 515 work-plan (including any potential product enhancements) through internal Fannie Mae product development procedures to secure approvals as required.
- Formulate one loan purchase and two other goals for 2019 – 2020, with an aim to provide financing annually for at least 10 percent of the total Section 515 properties that could potentially exit the program during the three year term of the Plan. Based on USDA's multifamily housing property preservation tool, 122 Section 515 properties could potentially exit the program during the term of the Plan. Accordingly, the loan purchase goal for 2019 and 2020 is to purchase a total of at least 12 loans secured by Section 515 properties. The Baseline will be updated as needed as Fannie Mae's strategy is established during 2018.

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):