



Fannie Mae Affordable Housing Preservation Loan Product

ACTIVITY:

E. Statutory Activity: Other comparable State or local affordable housing programs.

OBJECTIVE:

1. Expand Fannie Mae's multifamily affordable housing (MAH) definition to support other comparable State or local programs to preserve affordable housing and purchase loans (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

In 2018, Fannie Mae updated our Multifamily Selling and Servicing Guide (Guide) to delegate to lenders the decision to use the Multifamily Affordable Housing (MAH) designation on multifamily transactions where at least 20 percent of the units in the property have rents that are affordable to households earning 80 percent of area median income (AMI), as long as that property is subject to a regulatory agreement, meets a noteworthy special public purpose and is underwritten according to Fannie Mae's standards. Prior to this change, lenders needed to submit a waiver to receive the preferential pricing and credit terms from a MAH designation.

To develop the proposal for enhanced delegation, we evaluated a set of multifamily transactions that required a special public purpose waiver. This analysis gave us insight into the types of comparable State and local affordable housing programs that are commonly utilized in the affordable transactions we finance. We partnered with the National Housing Trust (NHT), a leading expert on affordable housing preservation and development, to continue work on our Workforce Housing and Residential Economic Diversity (RED) initiatives in support of our Duty to Serve Objectives. The initial phase of the partnership, which includes extensive research and stakeholder outreach, will result in a greater understanding of state and local programs to further workforce housing and residential economic diversity. Fannie Mae has identified key elements of successful Workforce Housing programs and will assess the feasibility of incorporating these elements into Fannie Mae's proposed 2019 product enhancement pipeline.

We also partnered with Grounded Solutions Network (GSN) to address significant gaps in knowledge on inclusionary housing programs in order to help inform the field, future public policy and prospective research. The study builds on existing research by updating a publicly available inclusionary housing directory and conducting surveys and secondary data collection. The programs assessed as part of the NHT and GSN research are state or local affordable housing programs comparable to Section 8, Low-Income Housing Tax Credit, Department of Housing and Urban Development's Section 202, United States Department of Agriculture's Section 515, and other federal statutory programs.

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

- Review transactions that have been submitted to MAH for a "Special Purpose" waiver to utilize MAH underwriting guidelines in order to find out what other comparable State or local affordable housing programs are utilized in these transactions and to see which ones currently receive a one-time exception.
- Review five of the other comparable State or local affordable housing programs that have come into Fannie Mae for waivers that do not currently qualify for eligibility under Fannie Mae's MAH program in order to determine if the programs can be approved as acceptable MAH programs that can utilize the MAH underwriting guidelines without a special waiver.
- As part of the review above, determine which, if any, of other comparable State or local affordable housing programs incorporate RED.
- Support research that reviews programs in various jurisdictions including inclusionary zoning, shared equity, and rent restrictions in order to identify other comparable State or local affordable housing programs that have the potential



to be delegated and/or receive an expedited review. In addition, publish research results to inform the market on other comparable State or local affordable housing programs.

Based on this review and the completed research, approve appropriate expanded guidelines and/or delegation for loans to qualify in these jurisdictions as MAH transactions.

Confirm loan purchase goals for 2019.

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?

Making the change to our Guide opens an avenue for affordable lenders to deliver considerably more business to Fannie Mae without needing to apply for a waiver. Waivers decrease the speed of execution, create greater uncertainty for our affordable lender and borrower partners, and may or may not be accepted by Fannie Mae. The 20 percent of units at 80 percent AMI structure is an industry benchmark for provision of a meaningful amount of affordable housing, and is the minimum threshold required by many industry-leading state and local affordable housing programs. In 2016, 2017 and 2018, Fannie Mae quoted a significant number of deals that fell into this category and required a waiver. We believe that lifting the waiver requirement will promote additional transactions to flow to Fannie Mae and will incent lenders to finance more business that is within this affordability threshold. Fannie Mae will communicate this change during the release of the updated Guide in early 2019 and will provide thorough training to lenders on this important enhancement.

Fannie Mae has committed significant financial resources to the research projects performed by the NHT and GSN. These are multi-year, highly integrated projects that require continuous collaboration, management and outcome tracking.

Both of these research initiatives expand the existing knowledge base about RED and inclusionary housing programs, two tools in the arsenal of affordable housing programs that State and local governments use to foster affordable housing in their communities. State and local affordable housing programs are multitudinous, varied and diverse. Greater transparency will allow industry stakeholders and potential investors to have access to reliable, relevant data about existing programs. It will also support governments, nonprofits, and socially-minded organizations to leverage key program information about best in class affordable housing strategies.



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 Guide change made in 2018 strongly supports the 2019 and 2020 Actions to purchase an increased amount of loans secured by properties under a Fannie Mae-approved State or local affordable housing program, as the removal of the waiver requirement reduces a significant barrier to Fannie Mae purchasing such loans.

In 2019, Fannie Mae will continue to investigate other comparable affordable housing programs through internal research of deals that we quote, and through support of external research, as the vendor contracts with the NHT and GSN described above are multi-year. We will build upon knowledge gained in 2018 and will use that knowledge to explore additional product enhancements, expanded guidelines or increases in delegation that allow additional loans to qualify as MAH.

We regard this objective as an essential and crucial component within our affordable mission business, as so much of the affordable business Fannie Mae conducts relies heavily on State or local programs, in addition to federal statutory programs.

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 Guide change made in 2018 strongly supports the 2019 and 2020 Actions to purchase an increased amount of loans secured by properties under a Fannie Mae-approved State or local affordable housing program, as the removal of the waiver requirement reduces a significant barrier to Fannie Mae purchasing such loans. Fannie Mae will communicate the Guide change to our affordable lenders through regular touchpoints, and will provide specific training. The Guide change was also impactful because it created additional clarity for lenders about how many units needed to be affordable at which AMI tier, in order to qualify for Fannie Mae's MAH designation. While 20 percent of units affordable at 80 percent AMI is regarded as a standard rent restriction convention, the fact that Fannie Mae's Guide will now explicitly state that structure is encouraging and reassuring to lenders.

The foundational analysis gained in 2018, and the partnerships and relationships put in place for multi-year research contracts will generate considerable knowledge that Fannie Mae will use to explore additional product enhancements, expanded guidelines or increases in delegation that allow additional loans to qualify as MAH.



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

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OBJECTIVE:

1. Expand Fannie Mae's multifamily affordable housing (MAH) definition to support other comparable State or local programs to preserve affordable housing and purchase loans (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

We performed a review of transactions that were approved for Fannie Mae's MAH product line in the past through the use of a Special Public Purpose waiver. This provided us with a better understanding of how these transactions were accommodated and will facilitate our accommodation of them in the future.

There is market appetite for use of our affordable underwriting guidelines for a variety of deals that benefit renters and the communities in which they live. We are currently assessing the feasibility of guideline or pricing changes that would make the affordable product line available to these interests.

In addition, Fannie Mae partnered with Grounded Solutions Network to develop a database which maps over 800 local rental and homeownership inclusionary housing programs nationwide and includes data on state-level legislation and judicial decisions that are related to the adoption of local inclusionary housing policies.

Following are the 2018 Actions under this Objective:

- Review transactions that have been submitted to MAH for a "Special Purpose" waiver to utilize MAH underwriting guidelines in order to find out what other comparable State or local affordable housing programs are utilized in these transactions and to see which ones currently receive a one-time exception.
- Review five of the other comparable State or local affordable housing programs that have come into Fannie Mae for waivers that do not currently qualify for eligibility under Fannie Mae's MAH program in order to determine if the programs can be approved as acceptable MAH programs that can utilize the MAH underwriting guidelines without a special waiver.
- As part of the review above, determine which, if any, of other comparable State or local affordable housing programs incorporate RED.
- Support research that reviews programs in various jurisdictions including inclusionary zoning, shared equity, and rent restrictions in order to identify other comparable State or local affordable housing programs that have the potential to be delegated and/or receive an expedited review. In addition, publish research results to inform the market on other comparable State or local affordable housing programs.
- Based on this review and the completed research, approve appropriate expanded guidelines and/or delegation for loans to qualify in these jurisdictions as MAH transactions.
- Confirm loan purchase goals for 2019.

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):