



Fannie Mae Affordable Housing Preservation Investment

ACTIVITY:

L. Additional Activity: Workforce Equity (12 C.F.R. § 1282.34 (e)).

OBJECTIVE:

1. Establish a program to provide investment capital to non-LIHTC properties to preserve multifamily rental properties affordable to workforce families (Analyze, Do What We Do Best).

SUMMARY OF RESULTS:

In early 2018, after significant discussion with the Federal Housing Finance Agency (FHFA), Fannie Mae completed the internal approval process and submitted our workforce investment proposal to FHFA for review and approval. The proposal articulates our plan to invest in funds established by both not-for-profit and for-profit mission-driven housing organizations with a focus on the preservation of affordable housing.

While there is a relatively wide array of affordable debt products to support the creation and preservation of workforce housing, there is significant unmet need when it comes to equity capital. Market rate equity capital targeting both subsidized and naturally occurring affordable housing properties is available; however, the goal of these investors is not to maintain affordability, but to maximize rents and returns. Instead, the market needs mission-based equity capital focused on preserving affordability. In order to meet the demand for financing workforce housing, socially-driven investors, local governments, and foundations come together to create alternate funding sources to supplement traditional debt sources. Private debt and equity in affordable housing is more flexible because funding is not subject to a public budget process and has less compliance with which to contend, but investors must be willing to accept below market rate returns.

As the National Housing Trust explained in their report for Fannie Mae, Workforce Housing projects often suffer from a lack of readily available equity capital, and mission-driven organizations can lose out on deals because financing for affordable housing can be complicated and take time. A dedicated fund for workforce equity can encourage workforce housing creation and preservation in quickly changing neighborhoods. Thus, the intent of the Fannie Mae program is to maximize the percentage of affordable units and overall affordability. In addition, by investing equity into workforce housing, Fannie Mae would have a positive impact on Residential Economic Diversity, a pillar of our affordable preservation plan.

In addition to the above work, we conducted various meetings with external stakeholders who helped us develop a definition of workforce housing. From this research, we feel that "workforce housing" solutions should be implemented on a region-by-region basis to reflect local needs. Frequently, the income band used to define the group is: 60 – 120 percent of area median income, yet we believe the bottom of the band should be lower in all markets, and the upper end should be higher in specific markets. In general, workforce housing should be affordable to the specific workforce in a given region. Based on our research and discussions with stakeholders, we believe that this draft definition is flexible enough to support workforce housing for renters in both lower cost and higher-cost areas. No revisions are required at this time.

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

- Work with industry stakeholders to define workforce housing that may be used as a standard.
- Design one non-LIHTC workforce investment program, including reviewing and addressing:
 - Investment underwriting.
 - Approval process.



Maximum portfolio capacity.

Asset management.

Reporting - ongoing monitoring activities to ensure that workforce housing serves very low-, low-, and moderate-income families at affordable rents.

Performance measures – traditional financial as well as impact performance.

As further outlined in Objective #3 of our RED Activity, include a review of ways to incorporate elements of RED into the workforce equity program.

Attain preliminary internal approval for proposed program.

Submit program to FHFA for approval.

If the program receives approval from FHFA, process the approved program through Fannie Mae's internal product development process if required or, if required by FHFA, make revisions to the program and seek final FHFA approval.

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)

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 U.S. economy has been expanding for nearly ten years, making it one of the longest economic recoveries since World War II. However, housing affordability continues to be a major issue. Despite prolonged economic expansion, income growth for most workers has been stagnant, and any wage gains have gone largely to the highest earners. In addition, the housing market has been undersupplied by an estimated 100,000 units annually since the end of the recession. Since the vast majority of new units constructed are single-family, this has contributed to keeping higher-income renters who might prefer to be homeowners in the rental pool, competing for a limited supply for a longer period. Even as supply lags, there has been an increase in the demand for rentals. The increased demand is due to several factors: a decline in the homeownership rate after the housing downturn, steady job growth since the end of the recession, and an increase in young adults coming of age and forming households of their own. The subsidized market has also faced challenging conditions recently. All these factors have contributed to the need for affordable rentals for working households at all income levels and is a driver for Fannie Mae's efforts in this area. In conjunction with our proposed definition of "workforce housing," which we developed with the guidance and expertise industry stakeholders, we feel our workforce investment proposal would, upon approval



from FHFA, significantly impact the market by meeting the specific needs of a region's workforce and providing much-needed capital to mission-based organizations with the goal of maintaining affordability. The current structure of the housing market and the economic factors contributing to it have indicated a clear gap in need and availability of liquidity for workforce housing, which Fannie Mae hopes to bridge.

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 under this Objective were designed to develop and support a new product to be implemented in 2019 and beyond. Should the workforce investment proposal be approved by FHFA, we believe it will positively impact the affordable preservation market by increasing liquidity to entities that share the mission of preserving affordability for a core population of Americans. Under our plan, we intend to complete 1-5 equity investments in 2019; however, while we await FHFA feedback on the proposal, we will be unable to move forward with our 2019 Duty to Serve (DTS) Workforce Equity Objectives.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.
As described above, the factors adversely impacting the Actions under this Objective are related to approval of the proposed workforce equity proposal, not specifically market factors. We are currently waiting to hear back from FHFA on our proposal and hope to implement the program in 2019.
4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

If approved, the Workforce Equity program will increase liquidity in the housing market, with specific emphasis on equity for workforce housing programs. If approved by FHFA in early 2019, the program will be on track to complete one to five equity investments as described in the DTS Plan, with great potential for growth in years following.



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

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OBJECTIVE:

1. Establish a program to provide investment capital to non-LIHTC properties to preserve multifamily rental properties affordable to workforce families (Analyze, Do What We Do Best).

SUMMARY OF RESULTS:

Fannie Mae submitted a proposal to engage in workforce equity investment activity to FHFA for review and approval. The goal of which is to bring new capital to improving and preserving affordable housing opportunities to those of modest means and to address the growing affordability gap. In addition to designing this proposal, we conducted various meetings with external stakeholders who helped inform our thinking on how to define workforce housing so that we can work towards having a standard definition.

Following are the 2018 Actions under this Objective:

- Work with industry stakeholders to define workforce housing that may be used as a standard.
- Design one non-LIHTC workforce investment program, including reviewing and addressing:
 - Investment underwriting.
 - Approval process.
 - Maximum portfolio capacity.
 - Asset management.
 - Reporting - ongoing monitoring activities to ensure that workforce housing serves very low-, low-, and moderate-income families at affordable rents.
 - Performance measures – traditional financial as well as impact performance.
- As further outlined in Objective #3 of our RED Activity, include a review of ways to incorporate elements of RED into the workforce equity program.
- Attain preliminary internal approval for proposed program.
- Submit program to FHFA for approval.
- If the program receives approval from FHFA, process the approved program through Fannie Mae's internal product development process if required or, if required by FHFA, make revisions to the program and seek final FHFA approval.

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):