



Fannie Mae 2019  
Affordable Housing Preservation  
Loan Product

**ACTIVITY:**

J. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

**OBJECTIVE:**

1. Conduct outreach, review potential loan product enhancements, and purchase loans secured by RAD properties (Analyze, Test and Learn, Do What We Do Best).

**SUMMARY OF RESULTS:**

Following are the 2019 Actions under this Objective per the December 20, 2019 Duty to Serve Plan:

<i>Objective's components detailed in the Plan</i>	<i>Corresponding actions taken</i>	<i>Explanation of any deviations from the Plan (if applicable)</i>
<input checked="" type="checkbox"/> Work in conjunction with at least one State or Local Housing Finance Authority to develop and implement a framework for financing future RAD conversions in their respective market. This will allow Fannie Mae and its housing authority partner to come to agreement on common elements of RAD transactions in advance, which will reduce transaction times and increase certainty of execution.	Fannie Mae worked with one large State Housing Finance Agency and has approved a draft loss-sharing agreement, which includes a framework on financing RAD transactions. We now have multiple RAD transactions in our pipeline for 2020, and we expect the work on the RAD framework to ensure smooth and fast delivery of RAD loans. We look forward to publicizing and replicating the agreements when appropriate.	N/A
<input checked="" type="checkbox"/> Continue to conduct outreach to determine challenges and possible solutions to increase RAD business through PHA Advisory Council meetings, stakeholder outreach at RAD convenings and conferences, and individual meetings and discussions with HUD and State and Local Housing Authorities.	Fannie Mae had extensive engagement with the Public Housing Advisory Council through quarterly phone and in-person meetings. We attended several RAD conferences and convenings and met to discuss RAD-related issues with HUD staff, along with several State Housing Finance Agencies.	N/A



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<input type="checkbox"/> Purchase loans secured by 10 RAD properties, representing a 233 percent increase over the Baseline.	Fannie Mae purchased loans secured by five RAD properties, representing a 67 percent increase over the baseline.	Although Fannie Mae fell short of the RAD loan purchase target, we feel confident that we are laying the groundwork for a successful 2020 and beyond. In addition to the five acquired properties, we financed three RAD loans through our unfunded forward commitment products. The unfunded forward product allows Housing Authorities to lock in low rates and complete much needed repairs and rehabilitation, but does not officially deliver to Fannie Mae until future years, when construction is complete.
<input checked="" type="checkbox"/> Review and adjust 2020 loan purchase goals as needed based on work completed in 2019.	Loan purchase goals for 2020 remain unchanged.	N/A

**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)
- No milestones achieved

**PARTIAL CREDIT JUSTIFICATION:**

Per Housing Access: Not Applicable to Loan Purchase Objectives and will not be included in the Narrative Report to FHFA

**IMPACT:**

- 50 – Substantial Impact
- 40 – Between Meaningful and Substantial Impact
- 30 – Meaningful Impact
- 20 – Between Minimal and Meaningful Impact



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- 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 in laying the foundation for future impact in addressing underserved market needs?**

Fannie Mae’s efforts and actions in the RAD market have been impactful in laying the groundwork for continued future success, particularly as more Housing Authorities, including smaller Housing Authorities with less development experience, enter the conversion space. In 2019, Fannie Mae participated in several RAD-focused conferences, met with Housing Authorities, lenders, the United States Department of Housing and Urban Development (HUD), and other external stakeholders.

RAD loans acquired in 2019 include Pathways at Lakeside, a public housing conversion in the heart of downtown Austin. This project is a success story because it preserves and renovates 164 units in a prime location in a city with large affordability challenges. Pathways at Lakeside entered into a new 20-year HAP agreement (to be renewed at the end of 20 years). Currently, the Section 8 rents for tenants are nearly 40 percent lower than comparable market rates. With stagnant operating payments from HUD, the ability to refinance and put the property on solid financial footing is critical to the 53-year-old-property’s ability to provide affordable housing for decades.

Another RAD conversion completed in 2019 was the conversion of Twin Parks West, a property with 311 units in the Bronx, New York. Conversion will allow this property to remain permanently affordable and complete renovations of the apartments (bathrooms, kitchens, floors, electrical upgrades, new windows, an overhaul of existing heating and hot water systems, public hallways refurbishment, façade and sidewalk repairs, and new security cameras), and develop a renovated community space.

Because of our efforts to develop agreements and working frameworks with State Housing Finance Agencies, as of January 2020, Fannie Mae has in its pipeline several additional RAD property conversions and feels well positioned to ensure liquidity in the RAD conversion market. In addition, due to our outreach efforts on Section 202, we are prepared to be a significant source of liquidity in the RAD conversions that take place in the 202 Project Rental Assistance Contracts (PRAC) universe, which were just approved with final guidance in September of 2019.

**2. What did the Enterprise learn from its work about the nature of underserved market needs and how to address them?**

No two RAD conversions are alike, and Housing Authorities vary enormously in their size, capacity, and level of experience with development and finance issues. In addition, Housing Authorities exist within the context of federal, state, and sometimes local regulation and subsidy. This means each RAD transaction requires a high degree of review and analysis, as well as innovation, creativity, and collaboration with multiple stakeholders. In addition, as HUD relaxes and adjusts rules pertaining to Section 18 dispositions and continues to encourage the combination of disposition activities with RAD conversion activities, Fannie Mae has had to become expert in both activities and how they interact with each other. For the past several years, Fannie Mae has been building



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its capacity and honing its skills in each of these areas to more thoroughly review a RAD conversion on its merits as well as gain efficiencies where possible.

In 2017, the cap for RAD conversions was raised to 455,000 units, out of a total of roughly 1.2 million public housing units. As of January 2020, roughly 129,000 RAD units have officially converted, but another 200,000 units are currently somewhere in the conversion process. According to data from HUD, of the units somewhere in the conversion process, there are 350 separate projects from small or medium housing authorities. Fannie Mae has learned that to provide liquidity to this market segment effectively and at scale, we will need to strengthen educational outreach to such stakeholders and work with lenders and RAD program consultants as well as others who have the ability to reach multiple RAD stakeholders efficiently.

**3. (Optional): If applicable, why were all components of this objective not completed?**

Although Fannie Mae fell short of the RAD loan purchase target, we feel confident that we are laying the groundwork for a successful 2020 and beyond. In addition to the five acquired properties, we financed more than five RAD properties through our unfunded forward commitment products. The unfunded forward product allows Housing Authorities to lock in low rates and complete much-needed repairs and rehabilitation but does not officially deliver to Fannie Mae until future years, when construction is complete.



## **Fannie Mae Affordable Housing Preservation First Quarter Report: January 1 - March 31, 2019 Loan Purchase**

### **ACTIVITY:**

J. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

### **OBJECTIVE:**

1. Conduct outreach, review potential loan product enhancements, and purchase loans secured by RAD properties (Analyze, Test and Learn, Do What We Do Best).

### **SUMMARY OF RESULTS:**

Fannie Mae acquired the Chestnut Park Apartment loan, a Component 2 RAD conversion with a UPB of over \$32 Million. Chestnut Park Apartments is a 489 unit property in Springfield, MA that used the Fannie Mae M. TEBS (Mortgage-Backed Security as Tax-exempt Bond Collateral) along with state and federal tax credits, to ensure the preservation and renovation of the property, which had formerly been subsidized through the Section 236 program.

Fannie Mae has also done significant work to build internal capacity and expertise related to RAD conversions. We held a 1.5-day RAD training for affordable credit teams, pricing, customer engagement, and legal staff. In addition, we met with the U.S. Department of Housing and Urban Development (HUD) recapitalization office to discuss Fannie Mae products and further build relationships between HUD and Fannie Mae in order to better support the RAD program and RAD borrowers and lenders. Finally, Fannie Mae Duty to Serve staff have attended regional and national RAD-related convenings to discuss and learn from the needs of PHAs and other affordable housing providers considering RAD conversions.

Following are the 2019 Actions under this Objective:

- Continue to conduct outreach to determine challenges and possible solutions to increase RAD business through quarterly PHA Advisory Council meetings.
- Purchase loans secured by 10 RAD properties, representing a 233 percent increase over the Baseline.
- Review and adjust 2020 loan purchase goals as needed based on work completed in 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):**



## **Fannie Mae Affordable Housing Preservation Second Quarter Report: January 1 - June 30, 2019 Loan Purchase**

### **ACTIVITY:**

J. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

### **OBJECTIVE:**

1. Conduct outreach, review potential loan product enhancements, and purchase loans secured by RAD properties (Analyze, Test and Learn, Do What We Do Best).

### **SUMMARY OF RESULTS:**

We began the year behind on our RAD purchase targets, in part due to the partial federal government shutdown. To help us meet our target of 10 RAD properties, so far this year we have made significant efforts to improve Fannie Mae's capacity for executing RAD deals through RAD specific staff training and capacity building, as well as engaging in extensive stakeholder outreach via conferences, meetings, and our Public Housing Authorities (PHA) Advisory Council.

Building on extensive outreach efforts in Q1, our second quarter outreach efforts include convening the PHA advisory council to better understand PHA issues and concerns, and the appearance of industry news articles in publications such as Affordable Housing Finance and Commercial Property Executive, highlighting Fannie Mae's interest and expertise in RAD.

Following are the 2019 Actions under this Objective:

- Continue to conduct outreach to determine challenges and possible solutions to increase RAD business through quarterly PHA Advisory Council meetings.
- Purchase loans secured by 10 RAD properties, representing a 233 percent increase over the Baseline.
- Review and adjust 2020 loan purchase goals as needed based on work completed in 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):**



## **Fannie Mae Affordable Housing Preservation Third Quarter Report: January 1 - September 30, 2019 Loan Purchase**

### **ACTIVITY:**

J. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

### **OBJECTIVE:**

1. Conduct outreach, review potential loan product enhancements, and purchase loans secured by RAD properties (Analyze, Test and Learn, Do What We Do Best).

### **SUMMARY OF RESULTS:**

Fannie Mae continues to lay the groundwork for a robust RAD pipeline. Because RAD transactions are highly individualized and complicated with many stakeholders and funding sources, the process from loan registration to acquisition can be extremely long, and time consuming. Fannie Mae is working to streamline that process by working with select State Housing Finance Agencies to develop RAD framework agreements in advance of RAD transactions reaching the financing stage. If successful, these agreements will serve to shorten the time to closing and clarify important details in advance so parties will have more clarity of the process.

Many Housing Authorities are finding that Fannie Mae's MBS Tax-Exempt Bond (M.TEB) execution is a good fit for RAD conversions that include bonds paired with 4% Housing Credits, and in Q3 we closed multiple RAD transactions of this type. These transactions are unfunded forward commitments and allow for PHAs to undertake much needed capital repair and rehabilitation of the units. While these forward commitments will be acquired as permanent loans by Fannie Mae in 2-3 years, by definition they will not count toward our RAD loan purchase goal in 2019. Given the extended transaction timeline of RAD deals, and the popularity of the M.TEB forward commitment product, Fannie Mae will likely seek partial credit for this objective.

Following are the 2019 Actions under this Objective:

- Continue to conduct outreach to determine challenges and possible solutions to increase RAD business through quarterly PHA Advisory Council meetings.
- Purchase loans secured by 10 RAD properties, representing a 233 percent increase over the Baseline.
- Review and adjust 2020 loan purchase goals as needed based on work completed in 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):**