



Fannie Mae 2019  
Affordable Housing Preservation  
Loan Purchase

**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:**

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"/> Finance two Section 202 loans, representing a 100 percent increase over the historical baseline.	Fannie Mae financed two Section 202 loans in 2019, meeting our target.	N/A
<input checked="" type="checkbox"/> Continue to conduct outreach to key stakeholders in Section 202 to update and adjust strategy as needed.	Fannie Mae reached out to multiple lenders to discuss Section 202 financing and properties, met with senior leaders at the United States Department of Housing and Urban Development (HUD) and the Federal Housing Administration (FHA) and spoke directly to borrowers and owners. In September, HUD released final guidance related to the Rental Assistance Demonstration (RAD) program that will allow Section 202 Project Rental Assistance Contracts (PRAC) properties to access outside capital through the RAD program, and we engaged leadership in the RAD program as well as external stakeholders and advocates to discuss opportunities for Section	N/A



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	202 financing through the RAD program.	
<input checked="" type="checkbox"/> Confirm 2020 loan purchase goals.	The target for Section 202 financing for 2020 will remain at three loans.	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:**

N/A

**IMPACT:**

- 50 – Substantial Impact
- 40 – Between Meaningful and Substantial Impact
- 30 – Meaningful Impact
- 20 – Between Minimal and Meaningful Impact
- 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 actions under this objective will lay the foundation for future impact in addressing the needs of underserved markets by ensuring Fannie Mae has a complete understanding of the needs of Section 202 property owners and lenders. The extensive effort made to understand the unique needs of the Section 202 property and customer has provided meaningful insight that not only gives Fannie Mae a greater understanding of this market, but provides some useful corollaries to understanding certain rural markets, such as Rural Development’s Section 515 program. From our discussions with Section 202 owners and experienced Section 202 lenders, and our conversations with Senior HUD officials, Fannie Mae has gained a strong understanding of how to finance particularly small loans (as many Section 202 properties are around 50 units) as well as work with single-property owners who may have less experience in the more complicated aspects of mortgage finance. We



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look forward to incorporating what we have learned through this outreach into future loan purchases for Section 202 as well as for small loans or single-property owners generally.

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

Although we met our modest loan purchase target for Section 202, ultimately, we learned that liquidity in the Section 202 market is not the fundamental problem inhibiting financing. When we undertook a market analysis in 2018, we determined that lenders and owners were choosing FHA financing over Fannie Mae financing due to increased flexibilities in underwriting and amortization terms. Based on that analysis, and extensive outreach to individual borrowers and experienced Section 202 lenders, we adjusted our own underwriting guidance to allow more flexibility where warranted. Unfortunately, that adjustment does not appear to have had a major impact on the loans we were able to purchase in 2019. Our customers continue to tell us that they choose Fannie Mae financing when they have an especially complicated transaction, such as a combination of Section 202 with Tax Credits, or when they need the transaction to move quickly. For many other simpler situations, FHA loan offerings may be sufficient.

We are proud to be able to add liquidity and play a role in the Section 202 financing market where it is needed, and we are especially looking forward to financing Section 202 PRAC properties that have newly become eligible for financing through the Rental Assistance Demonstration program.

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

N/A



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

### **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 the first quarter of 2019, Fannie Mae reviewed our assumptions relating to the historic baseline, and discovered that over the course of the last several years we have financed only 2-3 Section 202 properties, fewer than our original calculations had let us to believe. To address and overcome this gap, Fannie Mae continued extensive lender and U.S. Department of Housing and Urban Development (HUD) outreach. Fannie Mae leadership met with HUD staff to discuss recently proposed guidance to allow for certain HUD 202 properties (PRACs) to complete RAD conversions. These meetings further discussions about challenges and opportunities related to Section 202 properties, including the small property sizes and ownership structure. Fannie Mae also met with lenders who finance significant numbers of Section 202 properties to discuss current market opportunities. We are also finalizing the rollout of a new tracking mechanisms for Section 202 loans which will be launched in Q2.

Following are the 2019 Actions under this Objective:

- Finance 1,300 Section 202 units, representing 4.1 percent of Fannie Mae's Section 8 unit goal in 2019.
- Continue to conduct outreach to key stakeholders in Section 202 to update and adjust strategy as needed.
- Confirm 2020 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):**

See narrative, we will propose a modification based on a revised baseline.



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

### **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:**

Fannie Mae has put significant effort into understanding the Section 202 market and how we can add liquidity to this space. Last year's market analysis led to changes to our underwriting guidelines, including the ability to underwrite above-market rents and allowing for longer amortization periods on qualified Section 202 deals, which we've worked to communicate to lenders via regular pipeline calls.

Before 2018, Fannie Mae did not have systems in place for tracking Section 202 loans. As a result, in estimating our historic Section 202 production volume, we erroneously assumed that 4% of our Section 8 loan purchases would be Section 202 loans, which would match the percentage reflected in the marketplace. After reviewing the data, we confirmed that a majority of Section 202 refinances were completed with FHA financing. Based on a review of the National Preservation Database and a comparison to Fannie Mae's book of business, we determined our baseline to be far lower than we had originally estimated. This lower baseline will significantly impact our final loan purchase performance for 2019 and 2020.

Our efforts and attention to this market, however, are paying off. At the end of the second quarter, Fannie Mae has Section 202 loans in the pipeline (though not yet delivered), which could represent a significant increase from our baseline.

Following are the 2019 Actions under this Objective:

- Finance 1,300 Section 202 units, representing 4.1 percent of Fannie Mae's Section 8 unit goal in 2019.
- Continue to conduct outreach to key stakeholders in Section 202 to update and adjust strategy as needed.
- Confirm 2020 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):**



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

### **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 Q3 Fannie Mae requested a modification to the Section 202 Objective based on more accurate information about historic acquisition volumes. We continue to see a small number of Section 202 loans in our pipeline and are working to acquire them before year end. In September, HUD released the much-anticipated newly revised guidance for the RAD program which included, for the first time, the ability for Section 202 properties with PRAC subsidies to convert via the RAD conversion process. While no RAD for PRAC applications have been submitted to HUD as of today, we may see some transactions in 2020 and have met with HUD and potential borrowers to discuss this possibility.

Following are the 2019 Actions under this Objective:

- Finance 1,300 Section 202 units, representing 4.1 percent of Fannie Mae's Section 8 unit goal in 2019.
- Continue to conduct outreach to key stakeholders in Section 202 to update and adjust strategy as needed.
- Confirm 2020 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):**