



Fannie Mae 2019  
Affordable Housing Preservation  
Outreach

**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 preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, 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"/> Partner with a non-profit organization with deep experience and expertise with USDA RD subsidy programs to deliver a robust technical assistance program to mission-oriented organizations focused on acquiring properties at risk of exiting the Section 515 program. The program activities will include a convening of existing owners and nonprofits focused on preservation, with a goal to match aligned parties.	Fannie Mae partnered with a leading technical assistance provider and rural housing convener to deliver a 515 Preservation Academy and Buyer-Seller Conference, reaching several hundred stakeholders, and we have plans to continue a long-term partnership.	N/A
<input checked="" type="checkbox"/> Support research focusing on taxation barriers that limit transfers of subsidized properties to non-profits, that can be used to inform tax policy and highlight the structural challenges to preserving affordable multifamily housing in rural areas.	Fannie Mae partnered with the Housing Assistance Counsel, the leading rural housing research organization, to produce and share this research.	N/A



Fannie Mae 2019  
Affordable Housing Preservation  
Outreach

<input checked="" type="checkbox"/> Continue to execute the Section 515 work-plan developed during 2018 by developing a product enhancement that will drive the preservation of properties at risk of exiting the USDA Section 515 program through refinancing and/or loan purchases.	<p>Fannie Mae has developed the framework of a product enhancement and will work in 2020 with United States Department of Agriculture (USDA), legal counsel, and credit and underwriting to finalize the enhancement.</p>	<p>N/A</p>
<input checked="" type="checkbox"/> Conduct outreach to the three DUS and special affordable lenders identified in 2018 that have experience with Section 515 properties to obtain feedback on the product enhancement.	<p>Fannie Mae conducted outreach with five DUS and special affordable lenders that have experience with Section 515 properties to discuss our product development efforts. We learned more about the primary challenges that a product enhancement needs to address and what product features would ensure the solution could make an impact in the market.</p>	<p>N/A</p>
<input checked="" type="checkbox"/> Confirm loan purchase goals for 2020.	<p>Fannie Mae confirmed 2020 loan purchase goals by evaluating the timeline and outlook for our product development efforts against lender interest.</p>	<p>N/A</p>

**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:**



Fannie Mae 2019  
Affordable Housing Preservation  
Outreach

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?**

During 2019, Fannie Mae embarked on a multi-year partnership with Enterprise Community Partners, an organization with significant relevant expertise and an extensive rural rental network. Enterprise leads a Preservation Academy model by partnering with state and regional organizations with an interest in rural rental preservation to deliver a robust technical assistance curriculum to Section 515 owners and potential buyers, focused on a single state or region. The program includes a conference between current owners and interested buyers with an interest in keeping properties affordable (such as mission-oriented organizations) to bring together and convene the Section 515 marketplace in areas with high numbers of properties at risk of exiting the program. In 2019, the Preservation Academy and Buyer-Seller Conference focused on the state of Texas, home to nearly 700 properties, according to Enterprise. The Texas program reached approximately 250 participants across all training sessions, including owners and potential buyers. Enterprise has reported that the USDA RD Section 515 preservation pipeline in Texas grew substantially by the end of the program. This strategy's impact is comparable to that of financing, because without technical assistance, many of these properties would simply be taken out of the program and may lose their affordability and rental assistance. In addition, we are supporting a replicable, sustainable model that could be brought to scale with the right continued support and partnerships.

Fannie Mae partnered with the Housing Assistance Council to deliver research to the industry that will advance strategies for preservation of affordable rural units. The research is focused on strategies to address tax implications in Section 515 transfers, which is a significant hurdle in the market. The research is being shared in industry forums.

In addition, additional sources of conventional debt financing are still needed to make deals work. During 2019, Fannie Mae engaged with USDA RD in earnest attempts to collaborate with RD and an affordable lender in our network on a partnership to finance RD properties at risk of exiting the 515 program. We have not yet been able to agree to a subordination structure that satisfied both organizations' goals and Fannie Mae's charter, despite good faith efforts and considerable outlay of resources from Fannie Mae. Additionally, negotiating programmatic features that align with both organizations' credit risk policies is challenging and requires significant resources and subject matter expertise across Fannie Mae. These efforts are taking longer than anticipated. Staff turnover throughout Rural Development also contributed to the difficulty of reaching



## Fannie Mae 2019 Affordable Housing Preservation Outreach

agreement on any of these topics. Fannie Mae remains strongly committed to reconciling both the appropriate subordination structure and the programmatic features with RD in 2020 and beyond. Despite these obstacles, meaningful progress was made in 2019. We addressed core product features that will need to be considered in a product enhancement, including valuation, underwriting metrics, and disclosures. At the end of 2019, we began engaging outside counsel on a subordination agreement that will allow Fannie Mae to finance Section 515 properties, as planned for 2020.

This progress represents substantial impact in addressing the underserved market needs. We are laying a strong foundation for sustainable future success through our loan product development efforts and our partnerships in delivery of technical assistance programs. These are multi-year efforts that require significant resources and relationships, but that ultimately will result in real impact.

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

Per the Housing Assistance Council's 2018 report "Rental Housing for a 21st Century Rural America," there are over 13,000 Section 515 projects containing over 400,000 rental units in the USDA portfolio. USDA's rental housing effort includes properties in every state and three territories, and there is at least one USDA rural rental property in 87 percent of all U.S. counties. Approximately two-thirds of all Section 515 tenants live in units that are rent-subsidized through USDA's Section 521 Rental Assistance Program, and 80% of tenants in USDA properties receive some type of rental assistance. No new USDA direct-financed rental housing is being developed, and the existing properties are increasingly losing their affordability provisions. The impacts of this trend are problematic for rural renters and the communities in which they live. Mortgage maturity projections indicate that thousands of units will exit the program through prepayment or maturity in the coming years. While USDA Rural Development is a willing and positive partner in preserving affordability, the process for deferring USDA debt through refinance and/or property transfer is cumbersome and complicated. Often, rural property owners may not have the expertise or the resources to work with RD to stay in the program. These realities create a substantial need in the market for capacity building and technical assistance provided to Section 515 property owners and prospective buyers.

Early in 2019, Fannie Mae explored ways to address the 515 financing need through our existing product that provides financing on properties in the RD 538 program, which are also in the 515 program. However, other secondary market players are adequately serving that market. We decided not to pursue that strategy, as our intent is to grow the amount of financing available for Section 515 preservation.

We learned that portfolio deals create opportunities for scalability within our lender network and that we can drive impact in the market by incorporating the flexibility to do business with portfolios of Section 515 transactions as well as single assets. We also learned a great deal about the Section 515 program itself and what causes the specific challenges to deferral of USDA debt.

Section 515 property owners are both small organizations and large ones. They are managed on a portfolio basis and a one-off basis. Some are located in communities near urban and suburban settings, and some are not. Section 515 property owners may be mission-aligned or not and may have high levels of technical sophistication or not. Ultimately, many market stakeholders are needed to fully address the rural rental preservation crisis, because the market is heterogeneous.



Fannie Mae 2019  
Affordable Housing Preservation  
Outreach

Strong alignment and partnership with USDA RD are necessary to develop a successful loan financing solution for 515 properties at risk of exiting the program. USDA RD is involved in a number of regional and national campaigns to address the market challenges, and their collaboration is crucial. Furthermore, while additional financing is an important part of the solution, other complimentary work is needed. Technical assistance delivered to 515 owners and buyers is also crucial through partnerships and coordination with the various stakeholder groups interested in addressing this preservation crisis.

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

N/A