Fannie Mae

Fannie Mae 2021
Affordable Housing Preservation
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:

Following are the 2021 Actions under this Objective per the **[January 1, 2021, Duty to Serve Plan]**:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Purchase loans secured by 11 RAD properties, which represents approximately 1,210 units, an increase of 57 percent over the Baseline.	Fannie Mae purchased loans secured by 12 properties, with approximately 712 units, representing a 9% increase over target.	N/A
☐ Develop a strategy that identifies how Fannie Mae can help simplify the process for PHAs to convert housing to long-term subsidized contracts.		After careful consideration the Duty to Serve team determined that Fannie Mae is neither the best stakeholder to simplify the conversion process for PHAs, nor adequately positioned enough to achieve impact in this space. Since there may be a potential increase in capital funding for PHAs as part of the Build Back Better Act, we pivoted to developing a strategy on how Fannie Mae can support this increase in funding.
☐ Identify targeted list of PHAs, lenders, and developers with a track record of success conducting RAD deals to serve as champions and advisors for peer groups.		Similar to the above explanation, we are pivoting to a new objective of identifying PHAs, Lenders, Borrowers, and Developers to interview about the impact of increased capital funding for PHAs and its potential impact on RAD conversions. This will inform our

		strategy research into how Fannie Mae can support activities under this potential funding increase.

SELF-ASSESSMENT RATING OF PROGRESS:

☒ Target met
☐ Target exceeded
☐ Target partially completed
☐ No milestones achieved

IMPACT:

☐ 50 – Very Large 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 in laying the foundation for future impact in addressing underserved market needs?

In contrast to our 2020 RAD loan purchases, our 2021 loan purchases represented both a wider geographic scope and a wider market representation. Of our 12 properties, only two were in urban areas (Branch Village in Camden, NJ and Franklin-Highbridge in New York City). Three were in suburban metro areas (Espinoza in Clark County, NV, Sedona Village in Ft. Worth, TX and Skyline in Winston-Salem, NC). Seven properties were in tertiary markets, including five Tennessee properties located in Middle Appalachia. This is notable as smaller housing authorities face unique challenges in the form of limited capacity, high capital needs, and limited financial reserves, requiring a greater degree of support. In its time supporting RAD transactions, Fannie Mae has learned valuable lessons about working with state and federal stakeholders, subsidy layering, and property inspections. We have successfully transferred lessons learned from larger, urban market transactions to smaller, suburban and tertiary markets that have become vital to supporting smaller Public Housing Authorities as they access much-needed financing for capital repairs and financial stability.

This is notable, as Fannie Mae's historic RAD footprint has included more deals in urban metropolitan areas with larger portfolios. Adapting our lessons learned and incorporating best practices greatly supported the Kingsport portfolio transaction. While this transaction was in a smaller market, it was equally complex, with five properties with varying capital and rehabilitation needs. Each property was built in a different decade, spanning from the 1930s to the 1980s, with one property (Charlemont) having been built initially as a hospital in 1935 and retrofitted for multifamily use. Subsequently each property required extensive renovation, including upgrades to Interiors and exteriors, kitchen and bathroom improvements, new flooring and finishes, upgrades to HVAC systems, energy conservation measures, and new appliances, with hard construction costs at $52,150/unit.

Fannie Mae's successful execution of this transaction has had a dramatic impact for this portfolio, and we endeavor to continue having this impact in all markets, large and small, in the future.

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

Regardless of size or market, it remains challenging for Fannie Mae to accurately forecast the number of RAD transactions per year. This is due to the length of RAD transactions, which can be 18+ months, an inability to forecast public housing financing needs, and variations in funding for Public Housing Authorities. The availability of capital funding for public housing properties can and does fluctuate and may potentially increase in future years with the passage of the Build Back Better bill, of which $80 billion is set aside to support public housing. If there is more capital funding available to Public Housing Authorities, there may be less appetite to engage in a RAD conversion. This challenge is why we pivoted our implementation step this year, and we will conduct research with our Public Housing, lender, and borrower stakeholders to determine potential impact.

3. If applicable, why was the Enterprise unable to achieve the Plan target?

N/A