

2024 Affordable Housing Preservation Loan Purchase

ACTIVITY:

B. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485 (C.F.R. § 1282.34 (c) (7)).

OBJECTIVE:

1. Promote greater preservation of USDA Section 515 properties through loan purchases.

INFEASIBILITY:

☐ Check here if the Enterprise is submitting an infeasibility request for the objective.

SUMMARY OF RESULTS:

<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"/> Purchase 13 loans that finance the preservation of Section 515 properties, which represents 15% of the properties with expiring subsidy for the year.	In 2024, Fannie Mae acquired 20 Section 515 loans, surpassing our target by 54% and providing financing for 690 units in rural areas. This deeply impactful accomplishment is due to the acquisition of a portfolio of 19 loans secured by Section 515 properties, an incredibly unique opportunity.	

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?

The USDA Section 515 direct loan program provides critical financing for affordable rental housing in rural areas. USDA rural properties currently account for over 374,000 rental units across the United States.¹ Most households occupying 515 units are seniors and people with disabilities, and the average income of Section 515 renters is \$13,600.² A lack of new USDA direct-financed rental housing has placed increased emphasis on preserving existing properties in the RD portfolio, which may represent some of the only affordable housing units in a given area. By statute, when a Section 515 mortgage matures or is terminated, the property is no longer eligible to receive Section 521 Rental Assistance (RA), a project-based tenant rent subsidy applicable to approximately 65% of units financed with a 515 loan. The expiration of this RA could put low-income residents, some of whom may be living on a fixed income, at risk for displacement and result in the loss of key affordable supply in rural areas. Based on the history of the program, there is concern that there may be a large-scale exit of properties from Section 515 in the near future if mortgages mature and affordability is not preserved through new financing. It is estimated that between 2023 and 2033, approximately 137,000 affordable housing units will be lost due to maturing section 515 mortgages. Because many Section 515 properties are in communities where market conditions make it uniquely challenging to build new affordable housing, it is critical to preserve units in the existing portfolio.

In late 2023 and early 2024, Fannie Mae put forth a very high level of effort to purchase a total of 20 loans that provided financing for 690 units in Section 515 properties, including a portfolio of 19 loans which is considered an extremely unique opportunity. With these loan purchases we exceeded our ambitious goal of 13 loans by 54%, as well as our 2023 loan purchase volume by 400%. While the properties backing these loans are small (averaging less than 35 units each) they represent significant preservation of affordable housing in rural communities in South Carolina and California.

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

To position ourselves for success in meeting our 2025 loan purchase goals for Section 515, we are incorporating key learnings from our lending activities this year into our strategy going forward. We learned that deal sourcing for such a niche type of lending can be most effective when partnering with lenders who specialize in the product. This is particularly true for lenders that have Section 515 properties in their portfolio approaching maturity and in need of preservation. It is also critical to vet deals early in the opportunity identification process given the lengthy execution timeline for Section 515 deals and the complexity of each transaction. Specific to RUC deals, additional education for conventional lenders about these RUCs and identifying them as eligible for this loan purchase goal would also support our future success. We also expect that there will be more market opportunities as property owners apply for standalone 521 rental assistance and seek to obtain new financing for rehabilitation and preservation. We continue to monitor for new developments under USDA's current pilot program to understand market changes and how we can be responsive to the needs of these critically affordable properties.

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

N/A

¹ Properties provided via file to Fannie Mae from the Public and Affordable Housing Research Corporation based on data from the National Housing Preservation Database.

² Leslie R. Strauss, "USDA Rural Rental Housing Programs," *National Low Income Housing Coalition* (2022), https://nlihc.org/sites/default/files/2022-03/2022AG_4-15_USDA-Rural-Rental-Housing-Programs.pdf.