Fannie Mae

Fannie Mae 2020
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 2020 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)*
☒ Finance three Section 202 loans, representing a 200 percent increase over the historical baseline.	•In 2020 Fannie Mae financed five Section 202 loans, a 67 percent increase over loan purchases in 2019, and a larger number of Section 202 loans than in any year since Fannie Mae began tracking of this metric.	•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

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☐ 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 2018, Fannie Mae approved an internal credit guidance update that allowed for the option of longer amortization periods for HUD's Section 202 ("202") program properties completing significant rehab activities, as well as the ability to underwrite Housing Assistance Payment (HAP) contracts that are above-market. We implemented these changes after an extensive market analysis and discussion with 202 lenders and borrowers, regarding the unique needs of 202 properties. 202 properties are often small and undercapitalized. They are locked into above-market (though subsidized) rents due to a combination of the particular budget-based subsidy formulas provided by HUD, property location, and additional supportive services.

In 2020, Fannie Mae financed five 202 loans, more loans than ever financed in one year since Fannie Mae began tracking these properties. The five loans span three different states and are of modest size, averaging $4.1 million UPB and 60 units each. Notably, two of the five loans had "HAP Overhang," or Section 8 subsidized rents higher than local fair market rents. One of the five loans requested a longer-than-usual amortization period, meaning the borrower was able to take advantage of the Fannie Mae internal guidance implemented in 2018, and successfully received Fannie Mae financing. Because Fannie Mae financed more 202 loans in 2020 than ever before, and the loans financed utilized the product changes and flexibilities implemented in 2018, it's reasonable to state that Fannie Mae's efforts in this area, both programmatic and via outreach to lenders and borrowers, have paid off.

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

As noted above, the underwriting flexibility that allowed for certain low-risk 202 loans, coupled with borrower and lender outreach over the past three years, proved useful to borrowers seeking to refinance or acquire Section 202 properties. Fannie Mae certainly added liquidity to the market through these five 202 acquisitions. Exceeding the three-loan target, required an outsized effort from Fannie Mae in terms of seeking out and winning this business. In future years, Fannie Mae plans to continue financing 202 loans; and implement the revised 202 underwriting guidance to offer borrowers' flexibility. However, we are unlikely in the short term to continue to pursue Section 202 loan purchase goals for Duty to Serve credit. Given limited bandwidth for outreach and lender communication, it may be more efficient and productive to focus on products and transactions where there is potential for significant growth. While we could continue to grow the 202 acquisitions year over year, it would likely come at the cost of reducing acquisitions from the Federal Housing Administration (FHA) or by our other GSE counterpart, rather than increasing the total available financing for 202 loans. Additionally, the level of effort required to sustain this growth we believe would be better spent on affordable products where we are likely to see billions of dollars in business each year, preserving thousands of units, versus roughly 300 units total in 2020.

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

N/A

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OBJECTIVE:

1. Consider loan product changes, prepare work-plan, and purchase Section 202 loans (Analyze, Do What We Do Best).

SUMMARY OF RESULTS:

We have had one delivery of a Section 202 loan as of the end of the first quarter, and Fannie Mae has a strong Section 202 pipeline, including one 202 Project Rental Assistance Contract (PRAC) property. Once the PRAC is finalized, it will become one of the first 202 PRAC properties to access third party financing through the RAD conversion process. We believe our efforts at outreach and stakeholder engagement, as well as our work internally to update 202 guidance, have paid off. Under normal circumstances, we would expect to be on track to meet this target by year end.

However, because Section 202 properties include complicated deal structures and involve approvals from multiple parties, they are subject to delays even in the best of circumstances. Given the developing COVID-19 crisis, we are realistic about the possibility that these deals in the pipeline will not deliver before year-end. Further, because Section 202 properties serve an elderly population, we expect to encounter additional delays and sensitivities related to inspections and in-unit rehab or other work.

Following are the 2020 Actions under this Objective:

☐ Finance three Section 202 loans, representing a 200 percent increase over the historical baseline.

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):

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Partial completion of the objective is expected due to unforeseen market challenges.