



Fannie Mae 2020
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 an 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 2020 Actions under this Objective per the January 1, 2021 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 non-profit organizations with deep experience and expertise with USDA RD subsidy programs to deliver robust technical assistance programs to owners of 515 properties and mission-oriented organizations focused on acquiring properties at risk of exiting the Section 515 program.	•Fannie Mae partnered with Enterprise Community Partners and the Housing Assistance Council to provide technical assistance for the preservation of Section 515 properties.	•N/A
<input checked="" type="checkbox"/> Program activities will include a convening of existing owners and non-profits focused on preservation, with a goal to match aligned parties.	•A virtual Buyers-Sellers Convening took place to assemble owners and mission-oriented buyers.	•N/A
<input checked="" type="checkbox"/> Perform an analysis to summarize and document the impact of 2020 technical assistance programs under this Objective and opportunities to strengthen the	•Fannie Mae prepared an impact report in coordination with our partners.	•N/A



Fannie Mae 2020
Affordable Housing Preservation
Outreach

effectiveness and scale of the programs.		
--	--	--

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?

Many Section 515 mortgages are nearing loan maturity—through 2040, nearly 10,000 properties, or 282,292 units, are at risk of exiting the program through prepayment or loan maturity. When these loans mature, existing tenants will no longer be eligible to receive the U.S. Department of Agriculture (USDA) Section 521 Rental Assistance, which is only available to a property when USDA financing is in place. Also, no new 515 units have been built in the last ten years due to lack of funding.

Many properties in the Section 515 portfolio are in need of physical maintenance. Nearly 90 percent of Section 515 properties are over 20 years old, and more than half of those properties are more than 30 years old. There is a significant need for rehabilitation of these aging properties to continue to provide safe housing for rural renters. With additional financing, these properties could supply thousands of households with affordable housing.

The process of remaining in the 515 program after the maturity date can be cumbersome, technical, and resource intensive. This laborious process is due to complex USDA requirements and inconsistent



Fannie Mae 2020 Affordable Housing Preservation Outreach

communication between owners, buyers, USDA field offices, and the USDA national office. While mission-oriented owners of 515 properties and more sophisticated owners who are comfortable with the 521 program are likely to remain in the 515 program, the majority of Section 515 properties are owned by smaller operators. These smaller operators are aging and will either sell the property to the highest bidder (likely to create market rate housing), let the property go market rate as soon as possible, or allow the property to go into disrepair due to a lack of preservation funds and RA.

Fannie Mae delivered technical assistance (TA) programs that:

- Provided technical guidance on navigating the USDA deferral and transfer process in order to remain in the 515 program.
- Facilitated engagement between USDA and owners/buyers.
- Connected 515 sellers, mission-oriented buyers that will keep properties in the program, and other key stakeholders; and
- Helped secure acquisition and or preservation financing for the 515 portfolio.

This TA work was crucial, and will help preserve thousands of units. This work is so necessary that USDA provides funding to various organizations to help 515 owners and buyers navigate the process.

In 2020, Fannie Mae worked with Enterprise Community Partners (Enterprise) to execute a Preservation Academy in Colorado. This academy was an intensive 15-week program provided by highly qualified instructors to a cohort of seven, comprised of 515 owners and mission-oriented buyers (owners own multiple properties and buyers are interested in purchasing multiple properties). In addition to offering individual TA to cohort members, the program provided TA to nine additional organizations. In the same year Fannie Mae partnered with Enterprise to hold a two-day virtual Buyers-Sellers convening with 53 owners and potential buyers in Idaho, Wyoming, Colorado, Utah, and Montana. Attendees assembled to learn more about program requirements and make connections with interested parties. This regional model is a scalable way to have maximum impact, as the rural housing stock is most efficiently viewed from a wider geographic lens. Collaboration among key partners helps make the program more successful. State and local housing authorities, federal agencies, large non-profits, and state Housing Finance Agencies (HFAs) were involved in the Preservation Academy, as was USDA. As one example of the more scalable work done, the TA program helped non-profits and housing authorities identify small portfolios of properties, and one-off properties to purchase as a large portfolio which they will keep in the 515 program. In many other examples, TA is provided to assist current owners with completing the USDA transfer and deferral applications, which often includes working directly with USDA field offices. Enterprise and Fannie Mae are planning future Academies and convenings focused in the Pacific Northwest, followed by the Southeast. Enterprise is leading the way on 515 and continues to create a highly impactful and efficient TA model that could shift the outlook on the portfolio's future if distributed nationwide and with the proper partners and funding. Our partnership with Enterprise lends it valuable credibility and reliability.

Fannie Mae also partnered with the Housing Assistance Council (HAC) to execute direct TA to three 515 owners. HAC helped the properties to secure preservation funding and guided them through the USDA transfer process.



Fannie Mae 2020
Affordable Housing Preservation
Outreach

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

Due to COVID-19, all the TA programs were virtual, which allowed additional organizations and individuals to attend. Enterprise's direct TA and convening were expanded to include five states where only one state was initially expected to attend, which created more opportunities. The program will continue to utilize a regional approach as it brings more stakeholders to the table.

Organizations seeking 515 TA vary in size, sophistication, stage in the process, and particular needs. Enterprise will build a continuous pipeline of 515 TA organizations to provide the right type of TA at the right time to optimize the allocation of resources and ensure that they are delivering the most effective and impactful type of TA.

Partnerships and collaboration among market participants are extremely valuable for preserving properties at scale. Smaller project sizes, wide geographic disbursement, and smaller property owners make scalable solutions difficult, which poses a challenge to securing preservation funds and keeping operating costs low.

USDA is far and away the most influential stakeholder in this underserved market. They fund TA, set the rules for transfer and deferral, and determine all underwriting requirements. The industry has many asks of USDA, including clearer and more timely communication, consistency between the national offices and field offices, quicker turnaround on program funding, better guidance on individual transactions, a more understandable application process, and lastly – greater data and policy transparency so that organizations like Enterprise can more efficiently target resources.

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, 2020
Loan Purchase

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 an 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:

During the first quarter of 2020, we advanced our discussions with USDA to create a financing solution for 515 properties. These steps included identifying a framework for credit parameters, engaging legal counsel on the subordination agreement, and meeting with counsel and USDA to share specific feedback on that agreement. We are on track to finalize and implement a loan product enhancement to refinance Section 515 properties at risk of exiting the program.

However, the timeline to acquire six loans was very tight going into March, due to the significant length of time it takes to close Section 515 portfolio transactions and the involvement of both public and private stakeholders.

USDA's resources have become stretched, and are expected to remain so, due to increased credit and operational risk within its portfolio as a result of COVID-19.

Following are the 2020 Actions under this Objective:

- Purchase at least six loans secured by Section 515 properties at risk of exiting the program.
- Through the feedback obtained during 2019 outreach, identify changes to the Section 515 product enhancement that will improve the product's effectiveness in the market. Obtain internal product development approval as required.
- Develop loan purchase goals for the 2021 - 2023 Duty to Serve Plan.

SELF-ASSESSMENT RATING OF PROGRESS:

- On-target to meet or exceed the objective
- Progress delayed and/or partial completion of the objective expected



**Fannie Mae
Affordable Housing Preservation
First Quarter Report: January 1 - March 31, 2020
Loan Purchase**

Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Partial completion of the objective is expected due to uncertain timelines for RD deals and unforeseen market challenges.



Fannie Mae
Affordable Housing Preservation
Second Quarter Report: April 1 - June 30, 2020
Loan Purchase

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 an 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:

During the first quarter of 2020, we advanced our discussions significantly with USDA RD to create a financing solution for 515 properties. Though, as a result of COVID-19's impact on their portfolio and operations, USDA RD was unable to devote resources to the product initiative in Q2, consequently no progress was made this quarter. We remain committed and look forward to the possibility of reengaging with USDA RD in Q3 and working towards a product solution, with a particular focus on the subordination agreement. However, completion of both a finalized 515 loan product and the acquisition of six loans appears unlikely in 2020, given the condensed timeline.

Fannie Mae will be submitting a modification to add new Actions to this Objective in 2020. Given the complexity involved in transferring and deferring USDA RD debt, in order to remain in the 515 program, we have partnered with nonprofits with RD 515 expertise to provide capacity building resources in 2020 to RD 515 owners and mission-oriented buyers, in the form of technical assistance focused on the preservation of RD properties.

Following are the 2020 Actions under this Objective:

- Purchase at least six loans secured by Section 515 properties at risk of exiting the program.
- Through the feedback obtained during 2019 outreach, identify changes to the Section 515 product enhancement that will improve the product's effectiveness in the market. Obtain internal product development approval as required.
- Develop loan purchase goals for the 2021 - 2023 Duty to Serve Plan.

SELF-ASSESSMENT RATING OF PROGRESS:

- On-target to meet or exceed the objective



Fannie Mae
Affordable Housing Preservation
Second Quarter Report: April 1 - June 30, 2020
Loan Purchase

- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Fannie Mae plans to submit a modification to add new Actions in 2020.



Fannie Mae
Affordable Housing Preservation
Third Quarter Report: July 1 - September 30, 2020
Loan Purchase

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 an 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:

Despite meaningful progress during Q1 2020 with USDA RD to create a financing solution for 515 properties, USDA RD was unable to devote resources to the product initiative in Q2 and most of Q3, as a result of COVID-19's impact on their portfolio and operations.

However, Fannie Mae and USDA RD were able to reengage at the end of Q3 and we advanced the product development efforts modestly, with progress made on the subordination agreement. We remain committed to a product solution; however, completing a finalized 515 product and acquiring six loans is very unlikely at this point in 2020.

Fannie Mae submitted a modification to add new Actions to this Objective in 2020, partnering with two nonprofits with deep experience in 515 preservation nationwide. The partnerships provide capacity building resources to 515 owners and mission-oriented buyers through direct technical assistance, regional preservation academies, and buyer-seller convenings with key players in the preservation ecosystem.

Following are the 2020 Actions under this Objective:

- Purchase at least six loans secured by Section 515 properties at risk of exiting the program.
- Through the feedback obtained during 2019 outreach, identify changes to the Section 515 product enhancement that will improve the product's effectiveness in the market. Obtain internal product development approval as required.
- Develop loan purchase goals for the 2021 - 2023 Duty to Serve Plan.

SELF-ASSESSMENT RATING OF PROGRESS:

- On-target to meet or exceed the objective



Fannie Mae®

Fannie Mae
Affordable Housing Preservation
Third Quarter Report: July 1 - September 30, 2020
Loan Purchase

- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Fannie Mae submitted a modification to add new Actions in 2020.