

**2022**  
**Affordable Housing Preservation**  
**Loan Purchase**

**STATUTORY ACTIVITY:**

B. 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 Enterprise is submitting an infeasibility request for the objective.

**SUMMARY OF RESULTS:**

Objective’s components detailed in the Plan	Corresponding actions taken	Explanation of any deviations from the Plan (if applicable)
<input type="checkbox"/> Purchase six loans that finance the preservation of Section 515 properties, which represents 15% of the properties with expiring subsidy for the year.	Fannie Mae actively promoted to its DUS® lenders a willingness to provide financing to preserve Section 515 properties and engaged regularly with USDA-Rural Development (RD) and external stakeholders. These actions led to significant lender engagement and subsequently, a pipeline of projects to review. Despite these efforts, Fannie Mae was unable to acquire any Section 515 loans in 2022.	As described in more detail in the Impact Explanation below, Fannie Mae faced several challenges to achieving its loan purchase goal, including unprecedented credit and pricing waivers, smaller average loan balances coupled with increased complexities that lead to low returns and limited lender incentives, and long lead times to complete Section 515 transactions with USDA RD.

**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 2022, Fannie Mae took several steps to make meaningful progress towards addressing this underserved market, including working to better understand and address the challenges to financing we identified in both 2022 and in 2021.

**Connecting with the Market to Understand Barriers:** One challenge of financing Section 515 transactions is the significant time and effort it requires of lenders and other stakeholders, including the difficulty lenders face initiating re-amortization or deferrals of 515 debt; USDA's lengthy review process; and our competitor, Ginnie Mae's Section 538 loan, which offers a more efficient process. To deepen our understanding of barriers in the Section 515 process, we engaged in regular meetings with the USDA-RD preservation team to discuss how to make the review process more efficient and appealing to lenders, and participated in regular meetings and trainings to better understand the rural preservation landscape. These meetings resulted in a deeper understanding of the most difficult hurdles to completing these transactions, including:

- Long lead times for originating new debt,
- Limited incentives for lenders to aggressively pursue these deals, due to smaller average loan balances and increased complexities, and
- The USDA 538 product, a popular product for refinancing 515 debt, is widely perceived to be a better execution.

**Outreach to Stakeholders Responding to Barriers:** Our understanding of these barriers guided our work in conducting outreach and gaining buy-in internally and with partners, which contributed to our ability to engage with the market and source transactions. Our actions included:

- **Distributing marketing collateral to affirm our interest:** We developed a marketing one-pager of Fannie Mae's financing capabilities to provide to USDA-RD Technical Assistance (TA) grant providers and non-profits interested in acquiring Rural Rental Housing. Our hope is that this one-pager increases awareness that Fannie Mae is committed to this work and that we are a viable financing option. The one-pager was distributed to USDA-RD's TA networks and was uploaded to the Fannie Mae Multifamily website in September where it received 41 views.
- **Increasing outreach to borrowers:** Our commitment to serving the Section 515 market is demonstrated by active engagement with lenders and success in developing a pipeline of live transactions (described in more detail below).
- **Regular engagement with DUS lenders:** We continued to engage regularly with DUS lenders to express our commitment to the rural preservation market and clarify our product offerings. During these engagements, we encouraged our lenders who do participate in the Section 515 space to officially submit transactions for consideration, which resulted in a pipeline of transactions.
- **Regular engagement with USDA-RD:** In 2022, we established monthly meetings with the USDA-RD team to discuss challenges with Section 515 and shared goals. These meetings have been invaluable in not only understanding the intricacies of the program, but also gaining a better understanding of the organizational structure of the USDA-RD preservation group and building relationships within the organization. We have also made inquiries with USDA-RD about strategies for lenders to connect to Section 515 borrowers with approaching maturities and/or eligibility to prepay.



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

In 2022, through discussions with various stakeholders, Fannie Mae heard a reiteration of challenges identified during discussions in 2021, including:

- Extremely long lead times for originating new debt on Section 515 deals, which were reported to stretch beyond a year,
- Smaller average loan balances coupled with increased complexities contributing to low returns for lenders, and
- Higher vacancy levels and weak market conditions being relatively more common in rural areas.

In reviewing the live deals, Fannie Mae determined that there are several challenges with underwriting Section 515 transactions under our credit standards. Examples of challenges that will need to be overcome include: loan and amortization terms, loan-to-value (LTV) thresholds, debt service coverage ratios (DSCR), and appraised values. Owners have a more attractive option to refinance an existing Section 515 loan through USDA's Section 538 loan product. We are analyzing the pipeline to learn how to make our credit parameters more competitive in the future and which credit waivers are most effective.

While challenging, Fannie Mae remains committed to purchasing nine loans secured by properties with Section 515 debt in 2023. Achieving these loan purchase goals will require a significant amount of effort and innovation by multiple entities. We will make every reasonable effort to provide liquidity under our current Guide with waivers and accommodations, as necessary. We will also stay current with developments in federal funding and will pursue opportunities that may arise.

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

As discussed above, Fannie Mae made progress in reviewing live transactions and determining the accommodations needed to be competitive. However, we were not positioned to finance Section 515 loans in 2022. Fannie Mae continues to have internal conversations to determine how to approach financing Section 515 loans in accordance with our underwriting and risk parameters.



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**ACTIVITY:**

B. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

**OBJECTIVE:**

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

**SUMMARY OF RESULTS:**

We remain off-track to meet our goal of purchasing six (6) loans with outstanding Section 515 debt in 2022.

As of the end of the first quarter of 2022, have not acquired any loans with outstanding Section 515 debt. While we are actively pursuing potential avenues to address this issue, we will also acknowledge that the challenges noted in last year's report remain relevant.

We are at risk of not meeting our Section 515 loan purchase goal due to the following reasons:

- There are several challenges with underwriting Section 515 transactions under our credit standards. Key challenges include loan and amortization terms, Debt Service Coverage Ratio, LTV thresholds, and appraised values.
- Lenders and other stakeholders note that barriers other than lack of liquidity, such as difficulty initiating re-amortization or deferrals of 515 debt, and USDA's lengthy review process remain the most pressing challenges.
- Lenders have stated that there are no financial incentives to pursuing these transactions, which is problematic given the disproportionate amount of time that it takes to complete these transactions.
- The Section 538 guaranteed product is an established loan product that is offered through USDA it is a competing product against the Section 515 product. In addition to its GNMA execution, it can offer a more streamlined execution for refinancing Section 515 loans since they are both USDA products.

We are taking the following steps in response to these challenges, and to prepare to meet our 2022 loan purchase goal:



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- We have finalized our subordination agreement with USDA and are hopeful that this will address previous concerns with respect to collateral and lien positions.
- We are in continuous engagement with our Multifamily Affordable Housing (MAH) team on how we can find creative solutions related to underwriting these transactions within our credit model.
- We continue to participate in regular meetings and trainings to better understand rural preservation landscape.
- Through partners active in this market, we are providing Section 515 technical assistance to 20 organizations.

We are at risk of not meeting our loan purchase goal for this year, but we remain cautiously optimistic that we are gaining some traction from the ongoing dialogue with our internal and external partners.

Following are the 2022 Actions under this Objective:

- Purchase six loans that finance the preservation of Section 515 properties, which represents 15% of the properties with expiring subsidy for the year.

**SELF-ASSESSMENT RATING OF PROGRESS:**

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

**ADDITIONAL INFORMATION (IF APPLICABLE):**



## **Affordable Housing Preservation Second Quarter Report: April 1 – June 30, 2022 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.

### **SUMMARY OF PROGRESS:**

We remain off-track to meet our goal of purchasing six (6) loans with outstanding Section 515 debt in 2022.

As of the end of the second quarter of 2022, we have not acquired any loans with outstanding Section 515 debt. While we are actively pursuing potential avenues to address this issue, we also acknowledge that the challenges noted in last year's report remain relevant.

We are at risk of not meeting our Section 515 loan purchase goal for the following reasons:

- There are several challenges with underwriting Section 515 transactions under our credit standards. Major challenges include loan and amortization terms, LTV thresholds, debt service coverage ratios (DSCR), and appraised values.
- Lenders and other stakeholders note that barriers other than lack of liquidity, such as difficulty initiating re-amortization or deferrals of 515 debt, and USDA's lengthy review process, remain the most pressing challenges.
- Lenders have stated that there are no financial incentives to pursuing these transactions, which is problematic given the disproportionate amount of time that it takes to complete them.
- Owners have a more attractive option to refinance an existing Section 515 loan, specifically, USDA's Section 538 loan product. Section 538 loans are the biggest competitors to Fannie Mae's loans and are executed by Ginnie Mae. It can be more streamlined because Section 515 loans and Section 538 loans are both USDA products.



## **FOLLOWING ARE THE 2022 ACTIONS UNDER THIS OBJECTIVE:**

- Purchase six loans that finance the preservation of Section 515 properties, which represents 15% of the properties with expiring subsidy for the year.

## **SELF-ASSESSMENT RATING OF PROGRESS:**

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

## **ADDITIONAL INFORMATION (IF APPLICABLE):**

We are taking the following steps in response to these challenges, and to prepare to meet our 2022 loan purchase goal:

- We have finalized our subordination agreement with USDA and are hopeful that this will address previous concerns with respect to collateral and lien positions.
- We are in continuous engagement with our Multifamily Affordable Housing (MAH) team on how we can find creative solutions related to underwriting these transactions within our credit model.
- With our DUS lenders, we have taken the following steps:
  - We are exploring opportunities to emphasize the importance of DTS goals with DUS partners.
- We continue to make inquiries about partner opportunities with USDA-RD, including:
  - Opportunities to provide 3<sup>rd</sup> party financing for MPR applications.
  - Strategies for lenders to connect with 515 borrowers with approaching maturities and/or eligible to prepay.



- Development of a marketing one-pager of Fannie Mae's financing capabilities to be provided to USDA-RD TA grant providers and nonprofits interested in acquiring Rural Rental Housing.
- We continue to participate in regular meetings and trainings to better understand rural preservation landscape.
- Through partners active in this market, we are providing Section 515 technical assistance to 20 organizations.

While we will not meet our loan purchase goal for this year, we remain cautiously optimistic that we are gaining some traction from the ongoing dialogue with our internal and external partners.





**Affordable Housing Preservation  
Third Quarter Report: July 1 – September 30, 2022  
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.

**SUMMARY OF PROGRESS:**

We remain off-track to meet our goal of purchasing six (6) loans with outstanding Section 515 debt in 2022.

As of the end of the third quarter of 2022, we have not acquired any loans with outstanding Section 515 debt. While we are actively pursuing potential avenues to address this issue, we also acknowledge that the challenges noted in last quarter's report remain relevant.

We are at risk of not meeting our Section 515 loan purchase goal for the following reasons:

- There are several challenges with underwriting Section 515 transactions under our credit standards. Major challenges include loan and amortization terms, LTV thresholds, debt service coverage ratios (DSCR), and appraised values.
- Lenders and other stakeholders note that barriers other than lack of liquidity, such as difficulty initiating re-amortization or deferrals of 515 debt, and USDA's lengthy review process, remain the most pressing challenges.
- Lenders have stated that there are no financial incentives to pursue these transactions, which is problematic given the disproportionate amount of time that it takes to complete them.
- Owners have a more attractive option to refinance an existing Section 515 loan, specifically, USDA's Section 538 loan product. Section 538 loans are the biggest competitors to Fannie Mae's loans and are executed by Ginnie Mae. It can be more streamlined because Section 515 loans and Section 538 loans are both USDA products.

Following are the 2022 Actions under this Objective:

- Purchase six loans that finance the preservation of Section 515 properties, which represents 15% of the properties with expiring subsidy for the year.



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Third Quarter Report: July 1 – September 30, 2022  
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**SELF-ASSESSMENT RATING OF PROGRESS:**

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

**ADDITIONAL INFORMATION (IF APPLICABLE):**

We are taking the following steps in response to these challenges, and to prepare to meet our 2022 loan purchase goal:

- We have finalized our subordination agreement with USDA and are hopeful that this will address previous concerns with respect to collateral and lien positions. We are in continuous engagement with our MAH team on how we can find creative solutions related to underwriting these transactions within our credit model.
- With our DUS lenders, we have taken the following steps:



## **Affordable Housing Preservation Third Quarter Report: July 1 – September 30, 2022 Loan Purchase**

- We are exploring opportunities to emphasize the importance of DTS goals with DUS partners.
- We continue to make inquiries about partner opportunities with USDA-RD, including:
  - Opportunities to provide 3<sup>rd</sup> party financing for MPR applications.
  - Strategies for lenders to connect with 515 borrowers with approaching maturities and/or eligible to prepay.
  - Development of a marketing one-pager of Fannie Mae’s financing capabilities to be provided to USDA-RD TA grant providers and nonprofits interested in acquiring Rural Rental Housing. This one-pager has been distributed by USDA-RD to its TA networks. We are hopeful that this will result in some additional traction for our Section 515 preservation work.
- We continue to participate in regular meetings and trainings to better understand rural preservation landscape.
- Through partners active in this market, we are providing Section 515 technical assistance to 20 organizations.

While we will not meet our loan purchase goal for this year, we remain cautiously optimistic that we are gaining some traction from the ongoing dialogue with our internal and external partners.