FHFA Supplement to 2022 Annual Reports Submitted by Fannie Mae

The following summaries were prepared by FHFA and provide additional information on selected objectives in Fannie Mae's 2022 Underserved Markets Plan. Discussions with Fannie Mae took place during virtual meetings held the weeks of June 20, 2023.

Affordable Housing Preservation Market

AHP_MF Energy_1: Increase positive environmental and social impact of green financing through development of market awareness and understanding of energy and water efficiency improvements and financing (Outreach)

In addition to its outreach and education efforts, Fannie Mae published new guidance and mortgage forms to support its green finance products, including the adoption of an electrification assessment into its Green Rewards energy audit tool and its prohibition on new fossil fuel space heating systems as an eligible Green Rewards efficiency measure. Fannie Mae reports on the environmental impacts of its Green Bond issuances annually, including the projected kilo British Thermal Units (kBtu) of source energy saved, projected gallons of water saved, and projected metric tons carbon dioxide equivalent (MTCO2e) of greenhouse gas emissions prevented.

AHP_SF Energy_1: Reduce homeowner utility costs through loan product enhancements that allow homeowners to finance or refinance energy and water improvements (Loan Product)

Fannie Mae made several enhancements to its HomeStyle Energy and HomeStyle Renovation loan products. Fannie Mae currently cannot track the exact improvements that borrowers are making. In most cases, HomeStyle Energy is used to refinance existing energy-related debt, so it is possible that some of the improvements may be resiliency- or health-related. In the long term, Fannie Mae may want to track improvements, but that is not currently in the Duty to Serve plan. Additionally, Fannie Mae notes that there are several barriers to comparing costs of energy efficiency upgrades to realized energy cost savings.

AHP_RED_1: Purchase Affordable Loans to Add Liquidity to the Market in FHFA-Determined, RED-Eligible High Opportunity Areas (Loan Purchase)

In addition to its standard loan purchase activities, Fannie Mae partnered with technology companies to add liquidity in some markets. Such projects ensure long-term affordability for the housing, with agreements in place for as long as 99 years. To date, technology companies' participation has been in the form of subordinate loans on projects, typically with hard- and soft-pay components. While repayment terms are flexible, the loans are typically structured to be fully repayable, i.e., no part of the loans is forgivable. In addition, the companies usually attach affordability restrictions to their debt in keeping with their stated goals to support affordable housing in the markets where they have a substantial presence. Some companies' funds are already fully committed and subscribed, and it is unclear when they will reopen.

AHP_RED_2: Introduce a pilot product to accept Housing Choice Vouchers (HCVs) in markets without source of income (SOI) protections. (Outreach)

For its Expanded Housing Choice (EHC) pilot, Fannie Mae worked with a number of housing industry stakeholders in Texas and North Carolina to promote the pilot and gather additional feedback on EHC opportunities. The first loans delivered through the pilot in 2022 were on properties in Texas. Fannie Mae reached broad audiences through their training and marketing programs and market conditions were cited as a challenge to pilot adoption.

AHP_RAD_1: Purchase Loans for RAD Properties (Loan Purchase)

Fannie Mae did not meet its 2022 loan purchase target for Rental Assistance Demonstration (RAD) properties. Accurately forecasting the number of RAD transactions each year remains a significant challenge for Fannie Mae. Despite market headwinds, Fannie Mae has made a concerted effort to encourage lenders to bring RAD business. Lenders have ramped up marketing strategies to source these transactions. While several hurdles exist to close and deliver RAD loans in 2023, such as city inspections of all units, Fannie Mae is working to achieve its 2023 RAD loan purchase target.

AHP_Sec. 515_1: Promote Greater Preservation of USDA Section 515 Properties through Loan Purchases (Loan Purchase)

Fannie Mae did not identify USDA's regulatory prohibition of developer fees as a major deterrent for lenders to pursue Section 515 transactions. USDA has historically restricted the use of 515 loan proceeds for developer fee. However, Fannie Mae allows developer fees to be carried on preservation transactions if the fee is financed by a third-party source where the 515 debt is being assumed and the other capital sources are financing the recapitalization. While USDA does have limits on their eligible uses for the 515 loan, other sources usually cover the use of the developer fee that allow these limits to be exceeded. Currently, the biggest hurdle to Fannie Mae completing 515 transactions are lower rates and more flexible terms offered with other executions. Fannie Mae identified these hurdles as larger challenges than USDA's prohibition on developer fees. USDA section 538 loans offer a more familiar process to both lenders and borrowers than 515 preservation transactions.

Fannie Mae created a one-pager that was distributed by USDA to their technical assistance (TA) providers and uploaded to its Multifamily website. Fannie Mae plans to expand upon the one-pager with more program details as it completes transactions and determines appropriate credit parameters.

AHP_Section 515_2: Support Technical Assistance Programs that Facilitate the Preservation of Section 515 Properties (Outreach)

In 2022, Fannie Mae supported TA to 27 organizations. These TA pipelines developed by Fannie Mae's partners may represent lending opportunities for Fannie Mae's DUS lenders. However, Fannie Mae's product will need to be competitive with the Section 538 product for these lending opportunities to come to fruition. Fannie Mae hopes to publish success stories with the industry as it determines which projects best showcase various stakeholder efforts in preserving Section 515 transactions.

Rural Housing

RH_HN Populations_1: Support Technical Assistance Programs that Enhance the Development Capacity of Organizations Serving High-Needs Rural Populations (Outreach)

Community Resources and Housing Development Corporation provided TA for farmworker housing projects, and Enterprise Community Partners provided TA for Native American housing projects. The TA providers supported projects in multiple states in 2022, and any additional actions pursued will be designed to have as wide a geographic footprint as possible.

The developmental stage of the TA recipients' projects was a determining factor in the need for and success of obtaining debt financing. Some projects in the early stages lacked the necessary capital stacks to pursue discussions about debt, while others had alternative funding sources that made minimal debt necessary. Projects securing LIHTC awards were more inclined to consider debt with competitive terms. None of the six projects benefiting from TA in 2022 pursued debt financed by Fannie Mae. On the farmworker housing side, the TA providers supported applications for USDA Section 514 loans and Section 516 grants for farmworker housing, acknowledging that low-interest rates and grants put private lenders at a disadvantage. On the other hand, Native Housing projects favored Indian Housing Block Grant (IHBG) dollars due to cultural barriers and the belief that tribal housing commitments should be fulfilled without resorting to debt.

To enhance sustainable loan delivery for tribal entities and agricultural worker organizations, Fannie Mae plans to promote loan awareness through virtual trainings and connections to DUS lenders. Future product designs should accommodate smaller loans, align with unique funding resources like IHBG or USDA grants, and prioritize relationships.

Fannie Mae and its TA providers have not yet coordinated with the HUD Rural Capacity Building (RCB) program. Fannie Mae recognizes the alignment between HUD's strategic goals and Fannie Mae 's DTS objectives and will look for opportunities to coordinate in the future.

RH_HN Populations_2: Create Additional Homeownership Opportunities for High-Needs Populations by Strengthening Native CDFIs' Lending Capacity and Skill Set to Operate in the Secondary Mortgage Market (Outreach)

Fannie Mae has MOUs with four federally recognized tribes. Fannie Mae's strategy involves focusing outreach on select tribes in the short term, demonstrating NACLI adoption in the medium term, and sharing successes with tribes nationwide in the long term. These connections are established through events like Native Housing conferences, through networks like state or regional Native American homeownership coalitions, and direct communication with interested tribes or tribal organizations. Often, initial discussions arranged by Native Housing Authorities, and occasionally through lenders. Despite Fannie Mae's many efforts, it did not sign any new MOUs in 2022; tribal governments face competing priorities, operate with limited resources, and conduct official business infrequently. Fannie Mae is considering direct engagement with tribal leaders.

Fannie Mae received feedback from Native CDFI (NCDFI) cohort members and lender partners that it should adopt HUD's approach for eligibility of manufactured housing for its 184 program. Fannie Mae expects to propose a modification to NACLI later in 2023, finding that aligning with HUD's approach could allow for it to increase its MH lending on tribal lands.

Fannie Mae meets regularly with the NCDFI cohort and will provide more intensive TA to two new NCDFIs. Fannie Mae's 2023 engagement with the cohort will determine how TA evolves in future years. NCDFIs have not expressed an interest yet in becoming a direct seller/servicer. Fannie Mae's TA provider stresses a "ladder" approach to providing conventional mortgages that begin with brokering loans, becoming a correspondent lender, and then becoming a direct seller/servicer. The NCDFI cohort is still pursuing the broker model.

RH_HN Reg_3: Improve Access to Affordable Financing for Underserved Homebuyers (Loan Product)

In its 2022 analysis, Fannie Mae found Down Payment Assistance (DPA) usage in High-Needs Rural Regions (HNRRs) tends to be higher than in non-HNRRs. Fannie Mae is exploring different methods to increase DPA uptake in HNRRs, such as working with select lenders to a special purpose credit program that benefits borrowers in HNRRs and marketing the Down Payment Resource tool to renters and prospective homebuyers with household income under $100k in rural Mississippi and Southern Texas. Fannie Mae launched the DPA search tool with DPR in 2022 to improve awareness of DPA programs across the country. Fannie Mae will monitor increased pageviews of the DPA tools on fanniemae.com to understand the impact of the DPA tool on HNRRs.

RH_HN Reg_4: Conduct Outreach in High-Needs Rural Regions to Improve Knowledge of Local Market Conditions (Outreach)

Through increased outreach focused on digital communication tools with rural lenders and housing professionals, Fannie Mae aims to increase access to credit and maximize its reach to lenders and borrowers in HNRRs. Fannie Mae contributed critical data and strategic direction to the Housing Assistance Council's (HAC) heirs' property research in 2022, since heirs' property is a prevalent issue in HNRRs. Fannie Mae supported research in 2022 in Florida and Louisiana that scored the risk of title issues at the property level and created resources to prevent land loss in predominantly black and low-income communities. These policies and resources are at the state and local level and represent the patchwork nature of heirs' property discourse. Fannie Mae believes that heirship discourse would benefit from a broader, national perspective and remains engaged in a rigorous analysis at the national level to estimate the heirs' property issue throughout the U.S.

Rural_Small MF Rental_1: Support Rural Small Multifamily Rental Property Activity (Loan Purchase)

Fannie Mae purchased 77 loans under this objective in 2022. Of these, eight loans financed were LIHTC properties.

<u>Manufactured Housing</u>

MH_Real Prop_1: Acquire Purchase Money Mortgage Loans Secured by MHRP (Loan Purchase)

Fannie Mae outlined actions it designed to expand the number of loan purchases. Lender feedback led to product updates simplifying MH requirements, such as expanding eligibility for single-wide manufactured housing units. Single-wide MH loans achieved Duty to Serve eligibility about 75% of the time, outperforming the 60% rate of the standard MH cohort.

In 2022, Fannie Mae collaborated with its existing customer base, resulting in multiple lenders delivering their first MH loans. Among these, 38% were depositories, primarily regional credit unions and banks. About two-thirds, were independent mortgage banks, including one qualifying as an "aggregator." Notably, there were no CDFIs and only one housing finance agency. The lenders spanned the Southeast, Northeast, Northwest, and Southwest regions, with particular focus on areas where MH titled as real property is prevalent.

MH_Comm Govt_1: Increase Loan Purchases of MHCs Owned by Government Entities, Nonprofit Organizations, or Residents (Loan Purchase)

Fannie Mae attributed the high concentration of Resident Owned Communities (ROCs) in California to a combination of factors, such as state-level legislation facilitating resident property acquisition through opportunity-to-purchase legislation, state-administered grant funding, and permanent loan financing.

MH_Comm Pad_1: Increase the Number of Loan Purchases of MHCs with Tenant Site Lease Protections (Loan Purchase)

Fannie Mae's loan purchase volume includes 300 to 400 communities and 150 ownership entities annually. Fannie Mae noted the difficulties in identifying multifamily borrowers. Most are single-asset entities using the names of their LLCs. A significant portion, potentially half, of borrowers could be considered "institutional investors," taking the form of publicly traded or private real estate investment trusts, large corporations, and even state pension fund administrators. Fannie Mae's successful 2022 loan purchase performance indicated a receptive market for tenant protections, especially amidst institutional investors' active participation in the manufactured housing community sector.

In 2022, Fannie Mae chose to measure its performance in UPB instead of the number of MHCs financed due to several reasons. Measuring in UPB accommodates economic considerations, avoiding challenges posed by smaller loans that are capital-intensive. This approach offers Fannie Mae visibility into MHC loan purchases relative to other obligations, effectively tracking their performance while maintaining internal alignment.

MH_MHC Renters_1: Increase the purchase of MHC loans benefiting from Manufactured Housing Rental flexibilities (Loan Purchase)

Fannie Mae has paused quoting new deals due to challenges in implementing the Manufactured Housing Rental (MHR) program, despite having confidence in meeting its DTS target for the current year. These challenges, including property titling issues, have limited the program's scalability; this was communicated to stakeholders at the Manufactured Housing Institute Congress and Expo in April. Fannie Mae reports the total units after adjusting for mission percentage based upon the percentage of TSLPs and income.