

2022
Affordable Housing Preservation
Loan Purchase

REGULATORY ACTIVITY:

E. HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

OBJECTIVE:

1. Purchase loans for RAD properties.

INFEASIBILITY:

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

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	Corresponding actions taken	Explanation of any deviations from the Plan (if applicable)
<input checked="" type="checkbox"/> Finance 1,000 RAD units.	Fannie Mae purchased loans secured by five properties, with approximately 572 units, representing 57% of the 1,000-unit target.	Please note that Fannie Mae modified the RAD objective to be based on number of units versus number of loans. Finance 1,000 RAD units.

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?

Our 2022 RAD loan purchases represented 572 units in a wide geographic scope. Each of the five loans that we purchased were in different states and cities: Philadelphia, PA; Fort Worth and Houston, TX; Chattanooga, TN; and Tampa, FL. In our time supporting RAD transactions, Fannie Mae has learned valuable lessons about working with state and federal stakeholders, subsidy layering, and property inspections. Our 2022 activity included \$29 million in construction financing, supporting property rehabilitation that is a vital cornerstone of the RAD program.

Three of the loans, representing 300 units, are age-restricted properties serving renters over 62 years old at or below 60% of area median income (AMI). One property was scheduled for demolition before the city and a developer entered into an agreement to renovate the property at an estimated cost of \$20,000 per unit. The property will provide homes for seniors who either lived in public housing onsite before the renovation or those on a closed waitlist of 20,000 people. The second age-restricted property, representing 63 units, opted into Fannie Mae's Enhanced Resident Services™ which provides lower pricing to finance affordable properties with services that support the health and stability of their residents. The property will undergo a renovation estimated at \$88,000 per unit while keeping residents in-place. The third age-restricted property, representing 87 units, was originally built in 1929 as a hospital, but was converted to low-income seniors' apartments in 1996 with substantial improvements made to the property over the last two years. The property has an Elderly Housing Use Agreement which requires a Service Coordinator to provide services which support the physical and mental health and wellness of its residents.

In addition to the three age-restricted properties, Fannie Mae purchased two other RAD loans. One property, representing 160 units, was built in 2016 and located in a High Opportunity Area. The city replaced obsolete public housing stock with a newly constructed property in a better location 15 miles north of the city. Another loan covered four properties built between 1974 and 1977, representing 111 units. The properties underwent a renovation estimated at \$54,000 per unit and included upgrades to kitchens, baths, flooring, HVAC, plumbing, and new energy efficient appliances.

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

Regardless of size or market, it remains challenging for Fannie Mae to accurately forecast the number of RAD transactions per year. This is due to the length of RAD transactions (which can be 18 or more months), an inability to forecast public housing financing needs, and variations in funding for Public Housing Authorities (PHAs). PHAs have expressed challenges with resource constraints, delayed project approval timelines, and hampered capacity to move projects forward due to COVID-related issues at their properties. Overall, RAD transactions are extremely complex in nature, and have multiple stakeholders, layers of subsidies, and financing sources. We continue to learn how to navigate the various federal and local policies that play key roles in how quickly these deals are executed.

In 2022, we also came to understand that counting the number of RAD loans would be a less meaningful measurement than counting the number of rental assistance units that have been converted to RAD because of our financing. While several of our other Multifamily DTS targets are based on counting loans, RAD executions are somewhat unique in nature. It is very common for single loan executions to contain multiple properties. By counting loans only, we are not capturing the full impact of this objective. Therefore, basing this objective on units rather than loans would be most meaningful.

To remain consistent, we proposed to model our baseline number on the average number of RAD units that have been financed over the past four years (2018-2021). In addition, we took into consideration Fannie Mae's relatively small share in the RAD market. Aside from the outlier transactions during the 2018-2021 period, other factors have contributed to this lower number, including delays due to COVID, resource constraints on Public Housing Authorities (PHAs), and increases in interest rates and construction costs. Based on these collective factors, we have set our target at 1,000 units, with 10% increases on a year-over-year basis through 2024. In 2022, we delivered 572 units, which falls short of our target of 1,000 units for this year.

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

In the third quarter of 2022, Fannie Mae was notified that we had lost a deal, representing 557 units, which would have allowed us to meet our target. The deal was lost to Freddie Mac due to their ability to lock the Treasury Index during a time of interest rate volatility. Without having additional deals in the pipeline, we were unable to meet the 1,000-unit target for 2022.



Of the five loans that delivered in 2022, two were initially registered with Fannie Mae in 2019, two were initially registered in 2021, and one was registered in 2022 – illustrating the amount of lead time required to close RAD deals.

As we move into 2023, Fannie Mae is optimistic we will meet our target based on our current RAD pipeline. We anticipate 333 units delivering in in the first quarter, based on two Forward Commitments which closed in 2019. In addition, we note that there are approximately 50,000 units still waiting to convert to RAD, so there is an opportunity for us to do more RAD transactions if some of the challenges discussed are tempered.



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ACTIVITY:

E. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

OBJECTIVE:

1. Purchase loans for RAD properties.

SUMMARY OF PROGRESS:

We remain off-track to meet our goal of purchasing twelve (12) loans secured by RAD properties.

As of the end of the first quarter of 2022, we have acquired one (1) RAD loan. However, our pipeline is gaining momentum and we currently have three (3) committed loans and two (2) loans under application. In addition, our Multifamily Affordable Housing (MAH) team has stated that they are starting to see RAD submissions coming into the pipeline.

While we are optimistic that loan acquisitions will increase in the coming months based on the current pipeline trend, we will still that note that that we are at risk of missing our target of acquiring twelve (12) RAD loans.

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

- COVID-related timing factors have had a direct impact on lenders' RAD pipelines. The average implementation timeline on RAD transactions is 18-24 months. Therefore, the deals that have closed in the past two (2) years were awarded and began the budgeting, predevelopment, and approval process well before COVID.
- PHAs have also had resource constraints, delayed project-approval timelines, hampered capacity to move projects forward due to COVID-related issues at their properties.
- Increases in interest rates and construction costs have also led to a slowdown in the RAD pipeline. These increases have resulted in PHAs having to reassess budgets, secure additional sources of gap financing, and revisit project timelines.



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- RAD transactions are highly complex in nature and have multiple stakeholders, layers of subsidies, and financing sources. This can cause them to be even more sensitive to delays.

We are taking the following steps to address the lack of RAD deals in our pipeline:

- The MAH team is actively selling RAD deals to our Lenders on our regular pipeline calls.

Following are the 2022 Actions under this Objective:

- Purchase 12 loans for RAD properties, which represents a 9% increase over the baseline.

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:

E. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

OBJECTIVE:

1. Purchase loans for RAD properties.

SUMMARY OF PROGRESS:

We remain off-track to meet our goal of purchasing twelve (12) loans secured by RAD properties.

As of the end of the second quarter of 2022, we have acquired three (3) RAD loans, with one (1) additional loan under application. Our Multifamily Affordable Housing (MAH) team has stated that they are starting to see RAD submissions coming into the pipeline.

FOLLOWING ARE THE 2022 ACTIONS UNDER THIS OBJECTIVE:

- Purchase 12 loans for RAD properties, which represents a 9% increase over the baseline.

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):

While we are optimistic that loan acquisitions will increase in the coming months based on the current pipeline trend, we will still note we are at risk of missing our target of acquiring twelve (12) RAD loans. The following outlines in detail some of the reasons that inhibits Fannie Mae's ability to meet this objective:

- COVID-related timing factors have had a direct impact on lenders' RAD pipelines. The average implementation timeline on RAD transactions is 18-24 months. Therefore, the deals that have closed in the past two (2) years were awarded and began the budgeting, predevelopment, and approval process well before COVID.



- Public Housing Agencies (PHAs) have expressed challenges with resource constraints, delayed project-approval timelines, and hampered capacity to move projects forward due to COVID-related issues at their properties.
- Increases in interest rates and construction costs have also led to a slowdown in the RAD pipeline. These increases have resulted in PHAs having to reassess budgets, secure additional sources of gap financing, and revisit project timelines.
- RAD transactions are highly complex in nature and have multiple stakeholders, layers of subsidies, and financing sources. This can cause them to be even more sensitive to delays.
- RAD transactions are receiving highly competitive pricing and terms from multiple debt sources, making them difficult to acquire.

We are taking the following steps to address the lack of RAD deals in our pipeline:

- The MAH team is actively encouraging Lenders to pursue RAD deals and seeking feedback on our regular pipeline calls.
- There are a few other large RAD projects in the pipeline, but these will all have forward commitments and will likely be delivered only in 2023 and 2024.
- We are reviewing our available RAD marketing material and identifying opportunities to further market our interest in RAD deals.



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

ACTIVITY:

E. Regulatory Activity: HUD Rental Assistance Demonstration (RAD) program (12 C.F.R. § 1282.34 (d) (6)).

OBJECTIVE:

1. Purchase loans for RAD properties.

SUMMARY OF PROGRESS:

We remain off-track to meet our goal of purchasing twelve (12) loans secured by RAD properties. As of the end of the third quarter of 2022, we have acquired four (4) RAD loans.

Following are the 2022 Actions under this Objective:

- Purchase 12 loans for RAD properties, which represents a 9% increase over the baseline.

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):

While we are optimistic that loan acquisitions will increase in the coming months based on the current pipeline trend, we still note we are at risk of missing our target of acquiring twelve (12) RAD loans. The following outlines in detail some of the reasons that inhibits Fannie Mae's ability to meet this objective:

- COVID-related timing factors have had a direct impact on lenders' RAD pipelines. The average implementation timeline on RAD transactions is 18-24 months. Therefore, the deals that have closed in the past two (2) years were awarded and began the budgeting, predevelopment, and approval process well before COVID.



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

- Public Housing Agencies (PHAs) have expressed challenges with resource constraints, delayed project-approval timelines, and hampered capacity to move projects forward due to COVID-related issues at their properties.
- Increases in interest rates and construction costs have also led to a slowdown in the RAD pipeline. These increases have resulted in PHAs having to reassess budgets, secure additional sources of gap financing, and revisit project timelines.
- RAD transactions are highly complex in nature and have multiple stakeholders, layers of subsidies, and financing sources. This can cause them to be even more sensitive to delays.
- RAD transactions are receiving highly competitive pricing and terms from multiple debt sources, making them difficult to acquire.

We are taking the following steps to address the lack of RAD deals in our pipeline:

- We have submitted a modification request for this objective for FHFA's review and consideration. Since the start of this plan cycle, we have determined that counting the number of RAD loans would not be as meaningful as counting the number of rental assistance units that have been converted to RAD. It is very common for single loan executions to contain multiple properties. By counting loans only, we are not capturing the true impact of this objective. Therefore, we feel that basing this objective on units rather than loans would be most meaningful.
- The MAH team is actively encouraging Lenders to pursue RAD deals and seeking feedback on our regular pipeline calls.
- There are a few other large RAD projects in the pipeline, but these will all have forward commitments and will likely be delivered in 2023 and 2024.