Fannie Mae

2022
Affordable Housing Preservation
Loan Purchase

ADDITIONAL ACTIVITY:

J. Residential Economic Diversity (RED) Activity (12 C.F.R. §§ 1282.32 (d)(3) and 1282.36(c)(3)).

OBJECTIVE:

1. Purchase affordable loans to add liquidity to the market in FHFA-determined RED-eligible High Opportunity Areas.

INFEASIBILITY:

☐Check here if the 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)
☒ Purchase 26 RED-eligible loans in High Opportunity Areas secured by LIHTC, Section 8, and/or properties supported by State or Local affordable housing programs, which represents a 30% increase from the baseline.	In 2022, Fannie Mae purchased 57 loans that qualified as RED transactions, representing approximately 7,086 units. This represents an increase of 119% over the target, and 185% over the baseline of 20 loans.	N/A

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 purchased 57 loans supporting RED-eligible properties across 19 states, with the top five localities being California (11), Colorado (7), Ohio (6), New York (5), and Texas (5). Of the 57 loans, two served small properties located in a rural designated census tract while several were in various metropolitan areas including Boise, ID; Dayton, OH; Houston, TX; Knoxville, TN; New York, NY; and Pittsburgh, PA. Of the 7,086 units financed, 48% are affordable for very low-income residents at 50% of area median income (AMI) or below. Sixty-seven percent (67%) of units are affordable for low-income residents earning 60% AMI or below, and 91% are affordable for residents earning 80% AMI or below. Properties can receive funding from one or a mixture of several federal, state, or local programs to pair with financing from Fannie Mae. The largest share (46%) of loans purchased financed properties that were supported by LIHTC only; 23% were Section 8 – only; 14% benefitted from both LIHTC Debt and funds from other state and local programs; 7% were backed by other state and local funds only; 9% included both LIHTC debt and Section 8; 5% received funding from all three categories (LIHTC debt, Section 8, and other state and local); and 2% were backed by both Section 8 and other state and local funds.

Fannie Mae achieved remarkably high loan purchase volume for RED-eligible properties that far exceeded both the target (26 loans) and baseline from prior years (20 loans on average in 2018-2020). Increased deal flow had several drivers across the different product categories (LIHTC, Section 8, other state and local), and the inclusion of loans secured by Section 8 properties for the first time in 2022 accounted for 34% of the increase above baseline. LIHTC and Section 8 loans represent core affordable housing preservation products for Fannie Mae. Despite intense competition for LIHTC and Section 8 business, we grew volume through competitive pricing and consistent and robust engagement with several highly active lenders and sponsors. Rising interest rates throughout the year also drove the high volume of deal flow in 2022, as many deals were pulled forward to avoid higher rates.

Fannie Mae invested in several high-impact transactions in 2022, one of which was a 225-unit affordable garden style apartment community located in Sausalito, CA. The sponsors completed a 4% LIHTC rehab of the property, and Fannie Mae provided a loan to refinance and complete Green Rewards efficiency measures. The property is deeply affordable in an otherwise high-cost market, with 5% of units at 35% AMI, 15% of units at 50% AMI and 80% of units at 60% AMI (with 43 years remaining on affordability restrictions). Additionally, 61 of the 180 units restricted at 60% AMI are occupied by tenants holding vouchers, which increased the total very low-income qualifying units on the property from 27% to 47%.

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

Fannie Mae gathered market insight from its 2022 loan purchases and stakeholder engagement that will continue to inform its approach to RED activity. Housing inventory challenges and the interest rate environment pushed the enterprise to innovate on its solutions for affordable lending while maintaining safety and soundness priorities. In the Section 8 space, this resulted in updates to credit guidelines for properties with Housing Assistance Payments (HAP) contracts to allow for certain lender delegations in strong or eligible markets for payment "overhang" (where project-based Section 8 contract rents exceed the appraiser's concluded market rents). The LIHTC product mix will also be evaluated in 2023 for potential efficiencies where appropriate. On the state/local side, Fannie Mae continues to work alongside private investors, including tech companies, to direct funding toward these mission-based projects. Clearing structural hurdles in these deals now will set the stage for a robust pipeline of business in 2023 and beyond.

In this plan, we expanded the criteria for RED eligibility to include Section 8 properties and focused on affordable housing in High Opportunity Areas (HOAs). Though loans secured by properties within "Areas of Concentrated Poverty" (ACPs) are not within the scope of this year's purchase goal, Fannie Mae continues to support housing stability in these areas and invested in approximately 16% more loans in ACPs in 2022 than 2021. Loans backed by Section 8-only accounted for a material portion

(23%) of RED loan purchases, second only to the percentage of loans that were backed by LIHTC-only and financed an additional 1,006 affordable housing units.

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

Not Applicable

Fannie Mae
Affordable Housing Preservation
First Quarter Report: January 1 - March 31, 2022
Loan Purchase

ACTIVITY:

J. Additional Activity: Residential Economic Diversity Activity (12 C.F.R. §§ 1282.32 (d)(3) and 1282.36(c)(3)).

OBJECTIVE:

1. Purchase affordable loans to add liquidity to the market in FHFA-determined RED-eligible High Opportunity Areas.

SUMMARY OF RESULTS:

As of the end of the first quarter, we have acquired 4 RED loans. Given the current trajectory, we believe we are at risk of missing the target of 26 RED loans.

We are optimistic that we will meet our goal of 26 RED loans, but out of an abundance of caution, we have marked this as "off target" for the quarter. Fannie Mae's transaction pipeline for RED-eligible deals is robust, but deal complexity means that these transactions take longer to close. Additionally, the recalibration of our data systems has meant that more RED-eligible deals have delivered than what is present in the reporting, and we are expecting that our Q2 data reporting will show an increase in delivered deals for RED.

Following are the 2022 Actions under this Objective:

- Purchase 26 RED-eligible loans in High Opportunity Areas secured by LIHTC, Section 8, and/or properties supported by other comparable State or local affordable housing programs, which represents a 30% 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):