2022
Affordable Housing Preservation
Loan Purchase

STATUTORY ACTIVITY:

D. Other comparable State or Local affordable housing programs (C.F.R. § 1282.34 (c) (9)).

OBJECTIVE:

1. Purchase loans secured by properties under State or Local affordable housing programs.

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 64 loans secured by properties under Fannie Mae-approved State or Local affordable housing program, which represents a 5% increase over the baseline.	In 2022, Fannie Mae purchased 108 loans secured by properties under our approved State or Local affordable housing programs, with 17,012 units, representing a 77% increase over the baseline of 61 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?

Fannie Mae continued its support for State and Local efforts to preserve affordable housing by matching competitively priced mortgages with state and local capital and operating subsidies. In 2022, Fannie Mae purchased 108 loans secured by properties in 25 states that qualified for various state or local affordable housing programs. This exceeded the target of 64 loans by 69% and loan purchases in the prior year of 78 (38% increase). Our financing supported affordable housing in several metropolitan areas with rapidly increasing housing costs, such as Los Angeles, Houston, and Orlando. The largest proportion of properties financed with State/Local affordable housing programs was in California (28%), across 22 different localities, with concentrations in Los Angeles County and Sacramento County. Several California properties qualified for State and Local eligibility through the California Welfare Real Estate Tax Exemption, which applies to low-income housing. Properties in Texas also represented a significant share, with most properties located in large metropolitan cities including Houston, Dallas, and Austin. Though densely populated areas can provide ample opportunity for the creation of affordable multifamily housing, properties in smaller localities represent equally critical affordable housing supply but may struggle to attract investment. To address this market need, Fannie Mae worked strategically with key lender partners to purchase loans secured by properties in these smaller cities and towns, ensuring a broad and geographically diverse reach of investment.

One deal that highlights the impact of Other State and Local is a two-property loan of 669 units located in Los Angeles, CA, that benefits from a California Welfare Real Estate Tax Exemption. The property restricts 70% of units at 80% area median income; post-closing, the borrower intends to complete an estimated renovation of $29,000 per unit.

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

State and local affordable housing programs are effective at drawing investment to areas of diminishing affordability through strategic incentives designed to make projects more cost effective. This type of capital is often paired with federal programs such as LIHTC and Section 8. For example, in 2022, 74% of loan purchases where the properties qualified for State/Local programs were also LIHTC properties and 25% held Section 8 contracts. Of the 18 loans purchased that did not have federal subsidies, the majority were in large metropolitan cities including Austin, Atlanta, Houston, and Los Angeles. State/Local programs were crucial in bringing affordability to these projects that otherwise would not have a subsidy component. In exchange for subsidies and tax benefits for the investor, state and local housing authorities can guarantee a set amount of housing units specifically dedicated to low-income individuals and families in areas where market rental rates are out of reach. Like federal programs, state and local programs can encounter political roadblocks, budget scarcity, and the pressures of rising inflation and economic volatility. Construction and rehabilitation cost increases were a persistent theme in 2022: while available tax credits or abatements may provide some relief, these supply chain challenges have constrained the impact of affordable housing program dollars year over year. Fannie Mae remains engaged with these stakeholders in the interest of finding solutions: In 2022, direct discussions were held with several state Housing Finance Agencies and local housing authorities on affordable housing product development.

Public Facility Corporations (PFCs) in Texas were identified as an area of opportunity for Other State and Local loan acquisitions. Private apartment developers have used this structure in multifamily housing by transferring land to a PFC set up by a local government entity – such as a public housing authority, county, or city – which then leases the land and any building on the land back to a limited partnership controlled by the developer. The statute generally requires properties in a PFC structure to set aside at least 50% of units for individuals and families at 80% of area median income (AMI) with some housing authorities mixing in portions of 60% AMI. Additionally, most deals also include rent restrictions at 30% AMI. While the use of the PFC started in Houston, we have recently seen it expand to Austin, Dallas, and other cities. An uptick in PFC structures has been attributed to the growth of Environmental, Social and Governance (ESG)-oriented funds and shifts in investor mindset. Programs such as PFCs may encounter pushback from various advocacy groups resulting in changes that could affect investor interest in the program. Changes to PFCs have already been observed to some degree at the local level and changes arising from the next Texas legislative session may impact the volume of PFCs going forward.

We also learned that many state and local programs were significantly impacted by the Pandemic. Pandemic-era relief for state and local housing affordability was mainly short-term in nature, while underlying affordable housing issues exacerbated by the health crisis are long-term in nature. State and local funding overall is still recovering from associated budgetary impacts and as temporary relief funds roll off, the true revenue impact to these programs will become clearer. In

2022, states and localities were tasked with preserving affordability programs during a period of rapidly rising inflation and economic uncertainty under a potential recession. Acquisitions in 2022 primarily fell under tax abatements or exemptions as opposed to subordinate loans or operating subsidies. Sustainable funding for these programs is key to maintaining the investment pipeline, but Fannie Mae also plays an important role in supporting these affordable projects by targeting loan purchases in the secondary market through competitive pricing and terms that maintain strong investment incentives. In projects without a state or local agreement in place, affordability restrictions can still be self-imposed. An example of how Fannie Mae incentivizes this is through the Sponsor-Initiated Affordability (SIA) product, which launched in early 2021 and offers underwriting flexibility and pricing advantages for multifamily properties with income and rent restrictions much like State/Local affordability programs. Fannie Mae also worked alongside private investors, such as tech companies, to fund these mission-based projects, including working through structural hurdles in 2022 to set the stage for productive new business in 2023 and beyond. Solutions such as these in the affordable housing finance toolkit successfully drive investment activity despite macroeconomic headwinds, resulting in increased loan purchases under the State/Local loan purchase objective in 2022 that were well above both the target and purchase levels in 2021.

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

Not Applicable

Fannie Mae

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

Loan Purchase

ACTIVITY:

D. Statutory Activity: Other comparable State or local affordable housing programs (C.F.R. § 1282.34 (c) (9).

OBJECTIVE:

1. Purchase loans secured by properties under State or Local affordable housing programs.

SUMMARY OF RESULTS:

Through March 31, 2022, we have acquired 25 loans secured by properties under Fannie Mae-approved State or Local affordable housing program and are On Track to meet our target by year end.

Following are the 2022 Actions under this Objective:

- 64 loans secured by properties under Fannie Mae-approved State or Local affordable housing program, which represents a 5% 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):