

**2023**  
**Affordable Housing Preservation**  
**Loan Product**

**ACTIVITY:**

I. Purchase or rehabilitation of certain distressed properties (12 C. F.R. § 1282.34 (d) (7)).

**OBJECTIVE:**

1. Increase the acquisition of distressed properties by owner-occupants through outreach and new product development focused on purchasing distressed properties by mission-focused nonprofits or public entities, and/or owner-occupants.

**SUMMARY OF RESULTS:**

| <i>Objective's components detailed in the Plan</i>  | <i>Corresponding actions taken</i>   | <i>Explanation of any deviations from the Plan (if applicable)</i> |
|---|--|--|
| <input checked="" type="checkbox"/> Refine and expand strategies to facilitate purchases of distressed properties by public, nonprofit organizations and shared equity program providers for subsequent sale to owner-occupant end buyers.  | Target met through 2023 actions; see subsequent implementation steps.  |  |
| <input checked="" type="checkbox"/> Use lessons learned in prior years to continue engagement and outreach efforts to promote and facilitate sales to programs that subsequently enable owner-occupant purchases of distressed properties. Included in this work will be a continuous feedback loop, engaging partners that purchase our REO to understand challenges and obstacles to affordable disposition to owner-occupant purchasers, and/or gathering feedback on the effectiveness of aligning Fannie Mae financing products with programs that reduce financing costs and/or expand access to credit for the ultimate disposition to the owner-occupant purchaser. | <p>Fannie Mae approved 33 new buyers for Community First by Fannie Mae™ (CF), expanding coverage to five states where we previously had no buyers.</p> <p>We conducted nine in-market visits to meet with CF partners, hosted four virtual roundtables, and participated in three national conferences.</p> <p>Fannie Mae launched a Featured Stories page on HomePath.com® to share impacts of our work.</p> <p>We continued our real estate owned (REO) repair strategy, investing more than \$173.9 million.</p> <p>We continued the REO Tenant Purchase-Counseling Initiative.</p> |  |
| <input checked="" type="checkbox"/> Evaluate the success of geographic-specific strategies launched in 2022 and expand to at least two additional areas.  | Fannie Mae launched a new place-based engagement in Jackson, Mississippi, and a second engagement in Philadelphia.   |  |



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| <p>Success will be determined by an increase in the percentage of REO properties made available, and/or an increase in the percentage or volume of properties sold through the Community First and First Look programs, or directly to owner-occupant purchasers.</p> | <p>The final tenant-occupied property that's part of the engagement closed.</p> <p>Fannie Mae continued to develop and sell new homes on vacant REO lots in Paradise, CA, where the original house was lost to wildfire</p> |  |
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**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 in 2023 built on many of the programs we developed over the last few years, such as our repair strategy, tenant-occupied solutions, and place-based solutions, including the expansion of CF. The results confirm that this work is making a positive impact. We incorporated these new approaches into our everyday work and believe this puts us in a good position to contribute valuable affordable supply to the market.

REO inventory levels were relatively flat year-over-year, with 8,403 REO properties as of year end 2023, compared to 8,779 year end 2022. At the same time, REO property dispositions increased significantly to 4,568, from 3,268 in 2022. CF sales were comparable with the previous year’s (127 vs. 130 in 2022), even though the volume of vacant properties eligible for the platform declined.

**Outreach led to valuable new partnerships**

Throughout 2023, Fannie Mae conducted outreach to nonprofits and public entities to increase the geographic coverage of CF buyers. This had a positive impact on our sales to CF buyers in 2023 and established a strong foundation for future outcomes if REO volume increases.

- Thirty-three (33) CF buyers were approved, adding coverage in five new states where we previously had none (Kansas, Maine, Mississippi, Nebraska, and South Carolina). Forty-eight (48) states plus Puerto Rico now have CF buyers. Expansion beyond the original NSI markets began in April of 2020.
- A new Community Land Trust (CLT) representing five CLTs, 20 new Habitat for Humanity affiliates, and one land bank program are examples of the types of partners added in 2023.





- In 2023, 515 REO sales closed in which buyers utilized the closing cost concession, with an average buyer cost credit of \$6,195 and a total credit amount of over \$3 million. We purchased 70 of these loans.
- We have purchased 132 loans using the \$500 LLPA credit in 2023.

Process and communication enhancements to the tenant-occupied solutions that we made in 2023 are having an impact. As an example, listing agents now receive detailed instructions regarding the enhanced tenant solutions to be presented to the occupant, including credit counseling paid by Fannie Mae, affordable leases, and purchase options.

- The tenant purchase transaction pipeline as of the end of 2023 is: 21 Closed; four Under Contract; and one Tenant Expressed Interest-In Progress. Ten of the closed transactions used the AMI closing credit, and 10 closed with the HomeView® certificate of credit counseling through Homeownership Preservation Foundation.
- To date, 60 affordable leases have been executed with tenant-occupants since the inception of the new program. Five tenants have initiated credit counseling services, with three tenant occupants completing the course since the credit counseling partnership launched in Q4 2022.

Fannie Mae's HomePath Housing Solutions program conducts repairs on REO properties that either come into inventory as vacant land or are in a condition beyond a reasonable state of restoration. This can be significantly impactful in areas impacted by disaster. In 2023:

- We sold 23 homes to owner-occupants and non-profit buyers in 14 states through this program.
- Fannie Mae invested more than \$17 million in vacant lot repairs.

As of December 31, 2023, there were 97 projects in the HomePath Housing Solutions repair process..

### **Placed-based approaches increase affordable housing supply and support long-term stability**

In 2023, Fannie Mae continued its place-based work initiated in 2022 and deployed new market-specific REO disposition strategies to support the acquisition and rehabilitation of Fannie Mae REO properties by mission-focused nonprofits, and/or owner-occupants.

#### ***New Jersey***

This year, [redacted] completed the fourth acquisition of occupied REO properties that began in 2022. [redacted] worked with the tenants of each home to determine the best next course of action. Two tenants purchased the homes, using down-payment assistance, and received home repairs. The other two tenants are in stable rental agreements with NJCC as they continue to work on credit repair and receive pre-homeownership counseling.

#### ***Paradise, CA***

Fannie Mae leveraged our MH Advantage® products and our repair strategy in Paradise to develop new homes on vacant REO lots where the original house was lost to wildfire. When complete, we will have developed homes on 14 of 16 REO properties. Six have been completed and sold to nonprofit or owner-occupant buyers, three are listed for sale, and five are in the final construction stage. These homes bring back affordable housing that is often lost after a disaster.

In June, we sold four of the completed homes to Community Housing Improvement Program (CHIP) to be utilized as affordable rental units. Fannie Mae provided liquidity to support the acquisition in that CHIP leveraged a *Selling Guide* variance to allow the nonprofit as the borrower for MH Advantage financing. We previously sold two vacant lots to CHIP, and the organization constructed MH Advantage units on them. CHIP has leased the six properties and reported having received more than 40 tenant applications for the properties, indicating a shortage of available inventory and a strong need for affordable rental housing as the area recovers.



## **Baltimore, MD**

We continued working with SHARE Baltimore (SHARE) on a strategy to create affordable housing and increase CLT REO acquisition. SHARE, a city-wide CLT collaborative consisting of five CLTs, became a CF buyer in 2023 to acquire property for its members. Through one point of contact, we have geographic coverage and purchasing power of all five CLTs.

SHARE is also increasing CLT access to financing, working with lenders to develop a \$20 million loan fund for property acquisition, rehab, and homebuyer mortgages. SHARE members are referring qualified buyers to HomePath and HomeView.

Through SHARE, we learned about a new community of practice for CLT collaboratives aimed at sharing lessons and solving common challenges. Through our relationship with SHARE, we will engage this group of six CLT collaboratives in support of Shared Equity Regulatory Activity Objective #1.

## **Philadelphia, PA**

We selected Philadelphia as one of the locations for a new place-based effort based on research conducted last year. We believed there would be a great opportunity to leverage a robust affordable development sector with other Fannie Mae efforts, including participation in the Mortgage Bankers Association's Convergence initiative to increase minority homeownership.

We conducted a listening tour in early 2023 with 30 stakeholders to understand the housing environment and designed a research study to better understand how our CF pricing can support affordable housing outcomes in the city. We are working with a consultant to develop an economic model informed by estimated development costs, a range of subsidies available in Philadelphia, and incomes. We are also working with experienced nonprofit and for-profit developers to ensure the model is informed by their experience developing affordable housing in the city.

## **Mississippi**

For the second place-based effort, we focused on locations where we had no CF buyers. We engaged in a contractual relationship with Home Again, a subsidiary of Hope Enterprise, Inc. based in Jackson, MS. Home Again has strong working relationships with affordable housing organizations throughout the state, and they will be leveraged as a single program provider and an REO clearinghouse for eight of those organizations. This strategy results in achieving coverage in several areas of the state through a single relationship. This project officially launched in October, and Home Again subsequently became a CF buyer.

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

Stakeholders across all markets continue to seek affordable inventory. Competition for properties is strong, and CF buyers reported appreciation that the program removes investor competition and operates through a user-friendly portal. The increasing CF price acceptance rate reflects the need.

Affordable housing developers are sensitive to high property acquisition prices, especially when paired with high mortgage interest rates, as acquisition price directly impacts the quality of a rehab and level of affordability for a buyer. In Philadelphia, where developers can access city-owned property for as little as \$1, there is a perception that Fannie Mae's CF pricing is too high.

Although Public Entity REO purchases increased in 2023, with significantly more buyers having used down payment assistance than in 2022, low-income buyers need additional support to overcome elevated interest rates.

Sparse REO inventory is a barrier to mission-driven disposition in many locations. It is difficult to secure CF buyers if there are only one or two properties a year, and these areas are often where it's difficult to find contractors. The strategy we're exploring in Mississippi, where Home Again will purchase properties through Community First on behalf of housing organizations throughout the state, may be an effective approach. Of the two place-based initiatives using this strategy, Mississippi is showing early signs of success due to robust relationships, an established presence, and financing streams.

Lastly, through the [redacted] partnership, we've learned that a tenant-occupied strategy is challenging. Occupied property sales require longer holding periods, both in our inventory for initial due diligence and in the organization's credit repair, and housing counseling activities are often necessary prior to resale to the tenant. Given our limited inventory and extended timelines, this approach is one that we are unlikely to replicate or scale.



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

N/A



## **Affordable Housing Preservation Second Quarter Report: April 1 - June 30, 2023 Loan Product**

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### **OBJECTIVE:**

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### **SUMMARY OF PROGRESS:**

Through Q2 of 2023, Fannie Mae has continued to engage in outreach activities with non-profits and public entities to increase the geographic coverage of Community First buyers and increase the number of REO sales to these entities.

- Eight new Community First buyers were approved in Q1 and Q2, including a buyer in Kansas, where we previously had no buyers.
- Additional targeted outreach began in Mississippi and Maine (2 states where we currently have no buyer coverage), with anticipated addition of at least 1 Community First partner in each state by year end.
- Market visits were conducted in Baltimore, Cleveland, and Detroit. One of the approved buyers during this period was SHARE Baltimore, which will serve as the REO buyer for the city's 5 Community Land Trusts. Through one Community First buyer, Fannie Mae gains geographic coverage and purchasing power of the 5 CLTs, all of which serve households earning 30-50% AMI.
- There have been 433 sales to Community First buyers since the program launched in 2020; 65, or 15%, of the sales took place in Q1-Q2 2023.
- Planning has begun for multiple engagements that will take place in the second half of the year: Community First team attendance at the National Association for Community and Economic Development annual conference (Q3) and the National Land Bank Summit (Q4); market visits to Florida, Puerto Rico, Philadelphia, Mississippi, and Chicago; and virtual Community First roundtables and educational forums to provide updates on system enhancements and receive partner feedback.



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Fannie Mae has also actively promoted our strategies to increase REO purchases by owner-occupants.

- Fannie Mae has invested over \$83.1 million in repair and rehabilitation of its REO properties sold through 2023-Q2.
  - 94.2% of properties repaired and sold directly to owner-occupant homebuyers.
  - Repairs made include installation of energy and water efficient appliances and products to help make the home more sustainable. Other typical repairs include foundation repairs, new roofs, and interior/exterior cosmetic updates.
  - Through 2023 Q2 73% of retail REO dispositions were repaired, and 78.9% of all retail dispositions were sold to owner-occupant home buyers.
- Fannie Mae offers a closing cost concession for up to 3% of the sales price for HomePath buyers with AMI <100%.
  - 429 files closed with the AMI concession since launch, with an average credit amount of \$6,191 and total credits of \$2,656,140.
  - 278 REO sales have closed year-to-date through June in which buyers utilized the LMI closing cost concession, with an average buyer cost credit of \$6,365 and a total credit amount of \$1,769,565 in 2023.
  - A total of 40 loans with this credit have been recaptured during that period.
- Fannie Mae offers a \$500 loan-level price adjustment (LLPA) credit to the lender to reimburse borrowers for the cost of the appraisal when a loan securing a HomePath property is sold to us.
- Since inception of the Appraisal Credit program (first loan acquired in March 2022), we have purchased 129 loans that have benefited from the appraisal credit concession.
- We've acquired 82 loans with this LLPA credit year-to-date through end of June.

We have continued to strengthen our tenant-occupied solutions.

- The current tenant purchase transaction pipeline is as follows: 16 closed; 6 Under Contract; 6 Tenant Expressed Interest-In Progress. 8 of the 16 closed properties closed with AMI closing credit and 8 of the 16 closed properties closed with HomeView certificate of credit counseling through Homeownership Preservation Foundation (also known as Greenpath).





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- 47 affordable leases have been executed with tenant occupants since the inception of the new program.
- Since the inception the team has continued to make process and communication enhancements. One example is the listing agent now receives detailed instructions regarding the enhanced tenant solutions to be presented to the occupant. This includes credit counseling paid by Fannie Mae, affordable leases, and purchase options. The team is currently engaging marketing to create enriched materials that will be distributed directly to tenant occupants to further align tenants with all options available to them.
- The credit counseling partnership launched in Q4 2022. Since then, 4 tenants have initiated credit counseling services with 1 tenant occupant completing the course and currently under contract to purchase our property.

Fannie Mae is evaluating the success of the place-based strategies launched in 2022.

- New Jersey Community Capital completed the acquisition of 4 occupied properties. Of those, 1 property was sold to the occupant family facilitated by \$30,000 in down payment assistance. 2 occupants have completed HUD Housing counseling and are undergoing credit counseling to become lender qualified, and the resident of the final property has entered into a long-term rental agreement.
- Leveraging MH Advantage (MHA) products, we set out to develop new homes on vacant REO lots in Paradise, California where the original house was lost to wildfire. When complete, Fannie Mae will have developed homes on 14 of the 16 REO properties we acquired in the area. 6 of these homes have been completed and sold to non-profit or owner occupant buyers. The remaining 8 homes have all been delivered to the lots and are in various stages of construction completion.
  - In June of 2023, Fannie Mae sold 4 of the 6 completed MHA homes to a local partner, Community Housing Improvement Program (CHIP), to be utilized as affordable rental units. CHIP was able to leverage a Selling Guide variance to allow the non-profit as the borrower for MHA financing for these homes.
  - In addition to the 4 MHA properties, Fannie Mae sold 2 vacant lots to CHIP in 2021 and the organization recently completed construction of additional MHA units on those lots. CHIP is actively marketing all 6 of the properties for rental. The organization is reporting 41 tenant applications to date. The strong demand



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indicates a shortage of available inventory and a strong need for affordable rental housing as the area recovers from the wildfires.

- Beyond Paradise CA, Fannie Mae sought and received FHFA approval to continue its REO vacant lot repair strategy nationwide in May 2022. With this strategy Fannie Mae preserves housing stock by conducting repairs on REO properties that either come into inventory as vacant land or are in a condition beyond a reasonable state of restoration. This strategy supports housing availability in communities with REO properties impacted by natural disaster, condemnation, fire, or demolition. Since May 2022, the Real Estate team completed and sold 21 new homes to owner occupant buyers, with an additional 61 projects currently in repair process (includes properties in Paradise, CA).
- Fannie Mae continues to work with partners in Baltimore where in late 2022 we launched a place-based strategy aimed at increasing our Community First buyer coverage with entities creating deeply affordable housing while also increasing the number of Community Land Trust buyers. The strategy also tests a model to increase the capacity of those program providers while preparing a pipeline of qualified buyers for Fannie Mae REO properties. Through this partnership we are also able to solicit feedback on the shared equity certification system.

We have been assessing opportunities to partner with local nonprofit organizations and municipalities to coordinate REO disposition where it would help support their affordable housing, neighborhood stabilization, and community-level priorities. This work has included conducting research, drafting engagement profiles, and outreach. In 2022 we conducted internal and external desktop research for approximately 35 locations to qualify local need (e.g., understand our REO inventory and local housing and economic context and pressures) and assess opportunities and risk (e.g., identify sufficient potential REO purchasers, aligned municipal or mission-based organization priorities, overlap with Enterprise priorities). In early 2023 we leveraged this research to conduct deep-dive assessments of high potential markets. As of Q2 2023:

- We identified Philadelphia as a target market for a place-based strategy, based in part on the opportunity to achieve locally driven priorities and connect with a robust affordable development sector, as well as the opportunity to leverage actions in our Equitable Housing Finance Plan. This year we conducted a listening tour with 30 affordable housing developers, lenders, public officials, community legal service organizations, and other local stakeholders in order to understand the distressed property environment in Philadelphia. We are synthesizing the information gathered



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from this outreach to inform a market strategy and we will re-engage the stakeholders to refine and launch a distressed properties place-based strategy in 2023.

- We identified Mississippi as a target market because we do not have a Community First buyer in the state, and it has had the largest inventory of REO of all the states without a buyer. In Q2 we engaged an affordable housing and economic improvement organization based in Jackson but with relationships throughout Mississippi to develop a place-based distressed properties strategy that will leverage a single program provider as an REO clearing house for affordable housing developers across the state. This strategy opens the possibility of going from no Community First coverage to achieving coverage in several areas of the state through a single Community First buyer relationship.

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

- On track 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):**