2023
Affordable Housing Preservation
Loan Purchase

ACTIVITY:
C. Low-Income Housing Tax Credits (LIHTC) under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42 (12 C.F.R. § 1282.34 (c) (8))

OBJECTIVE:
1. Increase liquidity to the LIHTC debt market by purchasing loans secured by LIHTC properties.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Purchase 205 loans, comprising an estimated 28,500 units that meet the Fannie Mae LIHTC definition, which represents an 8% increase over the baseline.	In 2023, Fannie Mae purchased 202 loans that qualified as LIHTC transactions, accounting for approximately 27,552 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?
In 2023, Fannie Mae acquired 202 loans secured by LIHTC properties, representing approximately 27,552 affordable units. Thirty-four (34) states were represented in the 2023 acquisitions. Among the top localities were Texas (42), California (29), Florida (21), Tennessee (16), and North Carolina (8). Of the loans acquired, 11% were in high-needs rural regions or supported small properties in rural-designated areas.

Confidential Commercial Information - Confidential Treatment and FOIA Exemption Requested

This housing inventory fills a critical need, as more than half of the affordable units financed (56%) are accessible to very low-income individuals and families with incomes at or below 50% of the Area Median Income (AMI). Nearly 99% are accessible to the low-income population at or below 80% of AMI, and 100% are accessible at or below 100% of AMI.

One deal highlights the potential of LIHTC as a capital source for affordable housing: An 80-unit property located in Los Angeles was part of the Housing Authority of the City of Los Angeles' multibillion-dollar plan to redevelop a 1950s public housing community originally built as housing for steel workers during World War II. Built in 2022 to LEED certification, the property amenities include a park area, garage parking, two courtyard areas, laundry rooms, large community rooms, onsite community services, and a mail room. The LIHTC regulatory agreement requires income restrictions targeting individuals and families at 30%, 40%, 50%, 60%, and 80% of AMI. In addition to LIHTC, the property is also restricted by a Rental Assistance Demonstration (RAD) Housing Assistance Payments (HAP) contract, a Projected-Based Voucher (PBV) HAP contract, and a ground lease — ensuring affordability until 2095.

2. What did the Enterprise learn from its work about the nature of underserved market needs and how to address them?
As noted in both our 2022 – 2024 Duty to Serve Plan and our 2022 annual narrative, we expected it would be a challenge to hit our 2023 and 2024 LIHTC debt loan purchase targets. As shown in the table below, the market opportunity for preservation of LIHTC properties nearing the end of their initial 15-year compliance period and entering extended use declined significantly in 2023 and will continue to decline in 2024.

LIHTC Expiration Year	Properties with Expiring LIHTC (in Extended Use)	Units w/ Expiring LIHTC (In extended Use)
2022*	1,485	128,700
2023**	1,335	109,000
2024**	1,080	89,000

Source: *National Housing Preservation Database (NHPD) properties assisted with LIHTC (Active) retrieved 8/24/2021 for properties in Extended Use. NCSHA for new LIHTC allocations for rehab/preservation.*
** While 4% floor implemented in 2020 remains in force, the 12.5% increase to the amount of credits available to states each year between 2018 and 2021 expired after 2021 so fewer properties/loans available for preservation/rehab.*
*** Fewer rehab/preservation deals available in 2023 – 2024 due to fewer properties placed in service in 2008-2009 during the Great Recession.*
Notes: *12.5% boost in state credit allocations expired at the end of 2021. We assumed 10% of properties would not be able to break even with the expiration of the boost. A 5% increase in new allocations is assumed thereafter to be conservative. However, inflationary pressures, rising interest rates making the 4% minimum floor less valuable and fact that many states have reached their private activity bond cap, make it possible that there will not be any growth in the market. The average number of units in properties financed by Fannie Mae under Duty to Serve for 2018 – 2020 was 138. This was used to translate property/loan goals to an estimate based on units.*

According to estimates provided by the National Preservation database, approximately 19% fewer properties and 24% fewer units were placed in service during the Great Recession between 2008 and 2009 compared with the number of units placed in service annually between 2003 and 2006. Additionally, new Allocations for LIHTC Rehab continue to be constrained by elevated interest rates, as well as inflationary pressures that affect project costs.

3. Optional: If applicable, why was the Enterprise unable to achieve the Plan target?
There were a few factors in 2023 that made it a challenge to acquire LIHTC loans:

Fewer LIHTC properties/units were placed in service during the Great Recession, specifically in 2008 and 2009. This reduction in properties placed in service has led to fewer properties entering their extended use period in 2023.

In 2023, overall Multifamily originations were down by approximately 21%, as reflected in our lower loan volumes. Multifamily Affordable Housing originations were down 36% for this year, an even more drastic decline than overall Multifamily.

We experienced increased competition on securing LIHTC transactions, which contributed to the decrease in volume.

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Fannie Mae

Affordable Housing Preservation
Third Quarter Report: July 1 - September 30, 2023
Loan Purchase

ACTIVITY:

C. Low-Income Housing Tax Credits (LIHTC) under Section 42

OBJECTIVE:

1. Increase liquidity to the LIHTC debt market by purchasing loans secured by LIHTC properties.

SUMMARY OF PROGRESS:

We are currently off-track to meet our goal of purchasing 205 loans secured by LIHTC properties.

As of the end of the third quarter of 2023, we have acquired 161 loans for LIHTC properties. While our pipeline includes an additional fourteen (14) loans committed and fifty-five (55) loans under application (with 2023 acquisition dates), we are concerned that we may not meet our purchase target.

There are a few factors that are contributing to the challenge to acquire LIHTC loans:

- Of the 55 loans under application, 23 loans are part of a large portfolio that may not be delivered this year due to delays in governmental approvals.
- Fewer LIHTC properties/units were placed in service during the Great Recession, specifically in 2008 and 2009. This reduction in properties placed in service has led to fewer properties entering their extended use period in 2023.
- Due to the reduction in LIHTC properties placed in service in 2008 and 2009 as noted previously, there will be fewer properties entering their extended use period in 2024.
- Overall Multifamily originations are projected to be down by approximately 40% for this year, and this decline is reflected in our lower loan volumes.

We are experiencing increased competition in securing LIHTC transactions, which has contributed to the decrease in volume. As a point of comparison, Fannie Mae acquired 210 loans in Q3 2022 versus 161 loans delivered in Q3 2023. We continue to work closely with lenders to emphasize the importance of this production and determine how we can be more competitive on these deals. We have been communicating that we are willing to lean in on pricing within a reasonable range to maintain economic returns.

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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):