2023
Affordable Housing Preservation
Loan Purchase

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.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Purchase 30 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 50% increase from the baseline.	In 2023, Fannie Mae purchased 39 loans that qualified as RED transactions, representing approximately 5,026 units. This represents an increase of more than 30% above the target and more than 95% above the baseline of 20 loans.	

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?

RED-eligible properties help provide affordable housing for low- and very low-income residents in High Opportunity Areas. Residents located in High Opportunity Areas have better access to jobs, public transportation, and quality schools, which in turn helps improve the chances of upward mobility. Many states have a shortage of units affordable to households making 60% of Area Median Income (AMI) in High Opportunity Areas. Preserving these units helps to provide low-income households with more opportunity to achieve economic mobility. In 2023, Fannie Mae purchased 39 loans supporting RED-eligible properties across 19 states, with the top localities being Texas (11), California (7), Illinois (2), Kansas (2), Massachusetts (2), and Minnesota (2). Of the

5,026 units financed, 38.6% are affordable for very low-income residents at 50% of AMI or below and 85.6% are affordable for residents earning 80% of 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 share of Low-Income Housing Tax Credit (LIHTC)-financed properties was 44%, and 28% were backed by other state and local funds; 15% were Section 8-financed properties, of which 10% benefited from both LIHTC debt and funds from other state and local programs; and 3% included both LIHTC debt and Section 8 contracts.

One deal that highlights the impact of RED is a 90-unit property built in 2020 and located in Steamboat Springs, CO. Of the 90 units, 50% are restricted to 80% of AMI and are allocated to renters working at least 1,800 hours (approximately 75 days) a year in Routt County, providing much-needed affordable housing for the workforce of the Yampa Valley. Steamboat Springs is experiencing an extreme shortage of affordable housing, with vacancy rates in the market being reported at less than 1% while other rent-restricted properties have a waitlist of about 250 applicants. The property was developed and is managed in partnership with the Yampa Valley Housing Authority.

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

Fannie Mae exceeded the 30-loan purchase target and the 20-loan baseline for RED-eligible properties, despite winning far fewer LIHTC debt and Section 8 deals in 2023 compared to 2022. This was due to an increase in other state and local loans in High Opportunity Areas. In 2022, 7% of RED loans were financed and subsidized by other state and local programs, compared with 28% of RED loans from other state and local programs in 2023. These factors helped to exceed our target despite lower volumes in LIHTC debt and Section 8 purchases. We attribute the increase in percentage of other state and local deals to an increase in Public Facility Corporations (PFCs) located in High Opportunity Areas of Texas. In 2023, of the 11 other state and local loans that qualified for RED, 55% have a Texas PFC structure, while in 2022, only 19% of the 16 other state and local loans had a Texas PFC structure.

In June 2023, new Texas legislation took effect, which introduced more rigorous requirements for multifamily housing developments to qualify for the PFC tax exemption unless grandfathered. The new legislation mandated new minimum affordability restrictions, reporting requirements, expiration provisions, and heightened tenant protections. Due to these tightened requirements, we anticipate we will see fewer deals using the PFC structure moving into 2024, which may reduce the number of Texas PFC-structured deals located in High Opportunity Areas going forward. As a result, this may impact our ability to meet future RED loan purchase targets if our LIHTC debt and Section 8 production remains lower than in previous years.

Fannie Mae continues to monitor opportunities to collaborate with technology companies to invest in the preservation and creation of affordable housing in markets that overlap with where their headquarters and major regional offices are located. In 2023, we saw several deals with subordinate debt from the Amazon fund. Amazon is currently accepting applications for their next round of funding, although a date when funds will be awarded has not been announced

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

N/A