2023
Affordable Housing Preservation
Loan Purchase

ACTIVITY:

A. The project-based and tenant-based rental assistance housing programs under Section 8 of the U.S. Housing Act of 1937, 42 U.S.C. § 1437f (12 C.F.R. § 1282.34 (c) (1))

OBJECTIVE:

1. Provide a steady source of capital and liquidity through the purchase of loans secured by Project-Based Section 8 properties.

INFEASIBILITY:

☒ Check here if the Enterprise is submitting an infeasibility request for the objective.

As noted in our 2022 Project-Based Section 8 annual narrative, we expected a high level of competition for Section 8 deals in 2023, both in pricing and structural accommodations. Rising levels of inflation and the higher interest rate environment put pressure on project costs and therefore net rental proceeds, so there was a notable increase in requests for more flexible loan terms, including interest-only components. This presented challenges in securing Section 8 transactions while maintaining our credit standards.

In addition, overall Multifamily originations in 2023 were down by approximately 21% and Multifamily Affordable Housing originations had an even more drastic decline of 36%, as reflected in lower loan acquisition volumes. Many borrowers were waiting to rate lock due to interest rate volatility, making it difficult to forecast when these deals may close, and several deals that were under application struggled to meet underwriting parameters.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☐ Purchase 159 Section 8 loans.	In 2023, Fannie Mae purchased 105 loans that qualified as Section 8 transactions, accounting for approximately 13,908 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?

Section 8 Project-Based Rental Assistance (PBRA) programs establish contracts with private owners to rent some or all units in their multifamily housing developments to low-income families. This provides a critical source of affordable housing, but thousands of Section 8 PBRA units are at risk of losing their affordability status in the coming years. As Housing Assistance Payments (HAP) contracts expire, units may be converted to market-rate units or condominiums. In addition, the housing stock associated with these programs is aging; without affordable, reliable financing, housing quality may deteriorate and become unsafe for residents. Through the purchase of loans secured by Section 8 PBRA properties, Fannie Mae has provided liquidity and stability in the supply of available units, which is helping PBRA units maintain their deep subsidy and physical sustainability.

Fannie Mae provided support for the Section 8 market in 2023 by purchasing 105 loans backed by properties with Project-Based Section 8, which supported over 14,000 units for low-income individuals and families. This fell short of our goal of 159 loan purchases and represents a decrease of 53% from the prior year when we acquired 223 loans. In 2022, we were able to significantly exceed our purchase target due to one portfolio, which included 64 properties representing 6,393 units.

While we fell short of our loan target in 2023, our Section 8 platform spanned across 31 states, which we believe demonstrates the geographic reach of our impact. These projects ranged in size from 12 to 1,700 units, which highlights the various property types we financed. One transaction was a 100% Section 8 age-restricted property, which comprised 161 age-restricted units supporting seniors 62 years and older. This property was built in 1976 and is in the greater Denver area. The property is in an ideal location, with convenient access to local businesses and amenities that provide seniors with an affordable, safe, and comfortable living environment.

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

Our work in 2023 provided three key takeaways: 1) unprecedented market challenges; 2) projected future opportunities; and 3) opportunities for lender engagement that will help inform our approach to meeting this objective in 2024.

- **Unprecedented market challenges:** As we predicted in 2022, we experienced a high level of competition for Section 8 deals in 2023. To overcome these challenges, we made pricing concessions and structural accommodations on deals. As a result, there was a notable increase in requests for more flexible loan terms, including interest rate components.
- **Difficulty in projecting future opportunities:** The nature of Section 8 HAP contracts presents challenges in forecasting new business. Section 8 contract maturities may not necessarily match up with financing terms, or loan terms may not be commensurate with Section 8 contract terms. In addition, Section 8 contracts can renew without a financing event. Lastly, Section 8 funding is subject to Congressional appropriation and can remain stagnant, making it challenging to increase our Section 8 footprint. In 2023, $13.5 billion of funding was appropriated for the renewal of current rental assistance contracts, which is consistent with maintenance levels of funding in 2022.
- **Lender engagement:** We continue to work closely with lenders to emphasize the importance of Section 8 production and determine how we can be more competitive. We communicated our willingness to price within a reasonable range to maintain economic returns.

Given the challenging environment we faced in 2023, we are focusing on ways we can improve our performance in 2024. Going forward, we will continue to measure our success by our ability to balance a competitive product offering while ensuring safety and soundness.

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

Please see infeasibility request, where we have outlined our reasons as to why Fannie Mae was unable to achieve the Plan target.

Affordable Housing Preservation
Second Quarter Report: April 1 - June 30, 2023
Loan Purchase

ACTIVITY:

A. The project-based and tenant-based rental assistance housing programs under Section 8

OBJECTIVE:

1. Provide a steady source of capital and liquidity through the purchase of loans secured by Project-Based Section 8 properties.

SUMMARY OF PROGRESS:

We are currently off-track to meet our goal of purchasing 159 loans secured by Project-Based Section 8 properties.

As of the end of the second quarter of 2023, we have acquired 48 loans for Project-Based Section 8 properties. While our pipeline includes an additional nine loans committed and 59 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 Project-Based Section 8 loans:

- As noted in our 2022 Project-Based Section 8 annual narrative, we expected a high level of competition for Section 8 deals in 2023, both in pricing and structural accommodations. Because rising levels of inflation and the higher rate environment put pressure on project cost and therefore net rental proceeds, there has been a notable increase in requests for more flexible loan terms, including interest-only components.
- In the first half of 2023, our win rate of Section 8 deals was 44%, only slightly below our 49% win rate in the first half of 2022. However, we have quoted 28% fewer deals in 2023 than we quoted in 2022.
- Some borrowers are waiting to rate lock due to interest rate volatility, making it difficult to forecast when these deals may close. We continue to see deals accumulate under application with few deals moving to a committed status week over week. In Q2 2022, we had 35 deals under application while in 2023, we have 59 deals under application.
- We have also seen a number of deals that are under application struggling to pencil out given the recent run-up in Treasuries, jeopardizing rate lock and deal viability. If volatility persists, this problem will continue.

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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. Lenders are responding with requests to sharpen pricing or to lean in on credit terms.

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):

Fannie Mae

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

ACTIVITY:

A. The project-based and tenant-based rental assistance housing programs under Section 8

OBJECTIVE:

1. Provide a steady source of capital and liquidity through the purchase of loans secured by Project-Based Section 8 properties.

SUMMARY OF PROGRESS:

We are currently off-track to meet our goal of purchasing 159 loans secured by Project-Based Section 8 properties.

As of the end of the third quarter of 2023, we have acquired 71 loans for Project-Based Section 8 properties. While our pipeline includes an additional nine (9) loans committed and 43 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 Project-Based Section 8 loans:

- As noted in our 2022 Project-Based Section 8 annual narrative, we expected a high level of competition for Section 8 deals in 2023, both in pricing and structural accommodations. Because rising levels of inflation and the higher rate environment put pressure on project costs and therefore net rental proceeds, there has been a notable increase in requests for more flexible loan terms, including interest-only components.
- Overall Multifamily originations are projected to be down by approximately 40% for this year, and this decline is reflected in our lower loan volumes. By the end of Q3, our pipeline of Project-Based Section 8 loans was approximately 50% lower than during the same time period in 2022.
- Some borrowers are waiting to rate lock due to interest rate volatility, making it difficult to forecast when these deals may close. We continue to see deals accumulate under application with few deals moving to a committed status week over week.
- Interest rate volatility also means that deals that are marginally viable may not be able to rate lock at all.

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If interest rate volatility persists, these challenges will continue.

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.

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):