Fannie Mae

2023
Affordable Housing Preservation
Loan Purchase

ACTIVITY:

D. Other comparable State or Local affordable housing programs (12 C.F.R. § 1282.34 (c) (9))

OBJECTIVE:

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

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Purchase 66 loans secured by properties under Fannie Mae-approved State or Local affordable housing program, which represents an 8% increase over the baseline.	In 2023, Fannie Mae purchased 67 loans secured by properties under our approved State or Local affordable housing programs, with 9,694 units, representing a 9.8% increase over the baseline of 61 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?

In 2023, Fannie Mae purchased 67 loans secured by multifamily properties in 13 states that qualified for various State or Local affordable housing programs. This exceeded the target of 66 loans by one loan. Our financing supported affordable housing in several metropolitan areas with rapidly increasing housing costs, such as Miami, FL, Portland, OR, Seattle, WA, Austin, TX, Los Angeles, CA, and New York, NY. The largest share of properties financed with State/Local affordable housing programs was in California (37%), across 19 different localities, with concentrations in Los Angeles and San Jose. Properties in Texas also represented a significant share, with most properties located in large metropolitan cities, including Austin and Houston.

One deal highlights the impact of Other State and Local loan acquisitions: A 331-unit property located in San Jose, CA, that benefits from a California Welfare Real Estate Tax Exemption for restricting 100% of units at 80% of Area Median Income (AMI). The property was built in 1970 but has undergone recent renovations, including investing $14,800 per-unit to update interiors, upgrade the fitness center and swimming pool, and make exterior improvements to the building envelope. As part of the acquisition plan, the owner will continue to make property upgrades, including water and energy efficiency improvements, adding washers and dryers to units, and updating the community building and leasing office.

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

In 2022, 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 that has been set up by a local government entity — i.e., 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 PFCs typically required borrowers to set aside at least 50% of units for individuals and families at 80% of AMI, with some restrictions mixing in portions of 60% of AMI. Additionally, most deals also included rent restrictions at 30% of AMI.

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, including 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. However, the PFC tax exemption is only one subset of the available State and Local programs in Texas. This, coupled with an increase in Other State and Local programs across the country, leaves us optimistic that this change will not impact our overall Other State and Local pipeline.

Despite our optimism on the limited impact of the tightened PFC requirements that will take effect in 2024, we continue to be concerned about the effect of a reduced LIHTC debt and Section 8 pipeline on Other State and Local, as this type of capital is often paired with federal programs. In 2022, 74% of loan purchases where the properties qualified for State/Local programs were also LIHTC properties, and 25% held Section 8 contracts, helping us exceed our 2022 Other State and Local loan purchase target by 42 loans. In 2023, 52% of loan purchases where the properties qualified for State/Local programs were also LIHTC properties, and 18% held Section 8 contracts, making it more challenging to meet our 2023 loan purchase target of 66 loans. We anticipate that a slower LIHTC debt and Section 8 pipeline in 2024 will continue to pose a challenge in securing Other State and Local mortgage loans.

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

N/A