



Fannie Mae Affordable Housing Preservation Loan Product

ACTIVITY:

M. Additional Activity: Residential Economic Diversity Activity (12 C.F.R. §§ 1282.32 (d)(3) and 1282.36(c)(3)).

OBJECTIVE:

3. Establish an initiative to make investments that promote RED in conjunction with Fannie Mae's Additional Activity for Workforce Equity Investments (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

In 2018, Fannie Mae partnered with the National Housing Trust (NHT) and requested that they undertake a thorough review of Residential Economic Diversity (RED) programs, including State and local RED programs, as well as workforce housing programs that demonstrated elements of success. Per the final NHT report, some of the elements of success determined are as follows:

- 1) Fast access to capital: Traditional affordable financing can take months, if not years, to gather. Market-rate developers, on the other hand, can access private capital that allows them to move from offer to closing relatively quickly. Having access to capital quickly would allow affordable/workforce housing developers to better compete for desirable properties and locations.
- 2) Preservation of existing "Naturally Occurring Affordable Housing:" NHT found in discussions with workforce housing practitioners that they overwhelmingly agreed that the only meaningful way to provide access to workforce housing is by acquiring naturally occurring affordable housing and ensure that all or a portion of the units can remain affordable for low- and moderate- income renters.
- 3) Partner with existing state and local preservation programs: Innovative financing tools and resources and programs offered by local jurisdictions are vital to successfully acquiring market rate properties with the intent of keeping them affordable. Fannie Mae can ensure our products work with existing and proposed state and local preservation and workforce housing efforts.

With the information from the NHT report, Fannie Mae is better positioned to make any necessary product enhancements or alterations to our underwriting guidelines to increase purchases of loans that qualify as RED. NHT's report will also inform our work on a white paper set for publication in 2020.

Workforce Equity Investments are an important element of Fannie Mae's affordable preservation mission, and their integration with RED allows us to pursue both goals through outreach and research-based initiatives. As we look toward making loan purchases in 2019, the work we completed in 2018 will serve as a guidepost for not only deals themselves, but also additional actions and initiatives to support them. In February of 2018, we submitted for Federal Housing Finance Agency (FHFA) approval a Workforce Equity Proposal, into which we had poured extensive time and effort. The proposal is currently under consideration by FHFA.

Following are the 2018 Actions under this Objective as published in the December 14, 2018 Duty to Serve Plan:

As part of the design of any approved RED program, plan to proactively identify opportunities to finance RED Workforce Equity Transactions:

Research successful RED Workforce housing projects to determine at least three elements required for success that could be incorporated into Fannie Mae's Workforce Equity "product".

Identify potential projects that use Fannie Mae capital that qualify as "workforce" housing and include RED characteristics; research successful RED projects to determine elements required for success.



SELF-ASSESSMENT RATING OF PROGRESS:

- Objective met
- Objective exceeded
- Objective partially completed: 75-99% (substantial amount)
- Objective partially completed: 50-74% (limited amount)
- Objective partially completed: 25-49% (minimal amount)
- Objective partially completed: 0-24% (less than a minimal amount)

PARTIAL CREDIT JUSTIFICATION:

N/A

IMPACT:

- 50-Substantial 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 laying the foundation for future impact in addressing underserved market needs?

The work Fannie Mae completed in 2018 is meant to create a foundation upon which we can build during future years. One example of this is our partnership with the NHT and the other stakeholders with whom we built substantive relationships. We will continue to utilize those relationships for guidance and expertise as we begin work on our white paper and they will help inform possible product enhancements and changes to underwriting standards. Additionally, the stakeholders with whom we engage will keep Fannie Mae current on the needs of the market; thus, we will be able to meet them more thoughtfully and efficiently.

The Workforce Equity Proposal was also a substantial and important part of our year. The proposal articulates our plan to invest in funds established by both not-for-profit and for-profit mission-driven housing organizations with a focus on the preservation of affordable housing. In addition, by investing equity into workforce housing, Fannie Mae would have a positive impact on RED and thus bring together two pillars of our Duty to Serve (DTS) Affordable Housing Preservation Plan.

2. (Optional): How do actions under this objective support future actions detailed in the Plan for the underserved market? If there have been any changes in the planned next steps or timeline for work under or related to this objective, describe the changes and provide a brief explanation.

In future years under the DTS Plan, Fannie Mae will build on the research conducted, knowledge gained, and partnerships built in 2018. Specifically, we will work to turn these lessons learned into the white paper, discussing an overview of Fannie Mae lessons learned on RED including on workforce housing development.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.

N/A

4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

Fannie Mae's Workforce Equity proposal is currently under consideration by FHFA. If the proposal is approved, Fannie Mae will work to complete five Workforce Equity investments in 2019, with at least one Workforce Equity investment in a RED - eligible property. Fannie Mae's research into workforce equity and workforce RED, along



with our partnerships with NHT have put us on firm footing to reach these investment targets in 2019, given approval of the Workforce Equity proposal.



**Fannie Mae
Affordable Housing Preservation
Second Quarter Report: January 1 - June 30, 2018
Loan Product**

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OBJECTIVE:

3. Establish an initiative to make investments that promote RED in conjunction with Fannie Mae's Additional Activity for Workforce Equity Investments (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

As part of our strategy development on workforce equity, we began to identify tools that could help increase RED in workforce equity projects that use Fannie Mae capital. We began to research successful RED workforce housing projects to see what, if any, commonalities they share.

Following are the 2018 Actions under this Objective:

- As part of the design of any approved RED program, plan to proactively identify opportunities to finance RED Workforce Equity Transactions:
 - Research successful RED Workforce housing projects to determine at least three elements required for success that could be incorporated into Fannie Mae's Workforce Equity "product".
 - Identify potential projects that use Fannie Mae capital that qualify as "workforce" housing and include RED characteristics; research successful RED projects to determine elements required for success.

SELF-ASSESSMENT RATING OF PROGRESS:

- On-target to meet or exceed the objective
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):