Fannie Mae 2021
Affordable Housing Preservation
Loan Product

ACTIVITY:

F. Regulatory Activity: Financing of small multifamily rental properties (12 C.F.R. § 1282.34 (d) (1)).

OBJECTIVE:

1. Adopt an effective approach to purchase small multifamily loans from financial entities with $10 billion or less in assets and purchase loans (Test and Learn, Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

Following are the 2021 Actions under this Objective per the **[January 1, 2021 Duty to Serve Plan]**:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Execute a comprehensive assessment of Fannie Mae's ability to serve this market, including business strategies for more effective and efficient allocation of resources to yield greater production. The assessment will include the following:	Fannie Mae executed a comprehensive assessment of our ability to provide liquidity to the "small" multifamily market, defined as small loans made on buildings with 5-50 units by lenders with under $10 billion in assets.	N/A
☒ Market and market share analysis.	Fannie Mae undertook a market and market-share analysis to assess the current status of the small multifamily market.	N/A
☒ Evaluation of current capacity, strengths, and limitations within our business model and lender network.	We consulted with several internal and external stakeholders to determine current and future capacity to serve the small multifamily market.	N/A
☒ Engagement with Small Loan deal teams and Credit subject matter experts, and eligible DUS lenders.	We relied heavily on engagement with the small-loan deal team, including the small-loan credit team, to reach out to DUS® lenders for insight into the small multifamily market.	N/A

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☒ Impact assessment of potential strategies to increase loan purchases in the future, including consideration of network expansion, additional lender engagement efforts, and product changes.	We used insights from our internal and external assessments and research to inform future activities that could be used to support the small multifamily market.	N/A

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?

Fannie Mae's assessment of this market confirmed the need to support small (5-50 unit) properties and provide liquidity to this market. The COVID-19 pandemic brought this need into focus, as small properties faced greater exposure to rent and revenue fluctuations. Small properties also comprise a significant portion of Class B and Class C naturally occurring affordable housing (NOAH) properties. This means that support for small multifamily can directly affect the supply and preservation of affordable rental housing.

Fannie Mae's research indicates that we can continue to have a valuable impact in this space, in particular through financing NOAH properties and those in rural census tracts.

Fannie Mae has determined that the most efficient way to serve the small multifamily market is primarily through our DUS® lenders, which tend to be larger financial institutions. This is not to say that we won't work with small financial institutions (SFIs) or community development financial institutions (CDFIs). Indeed, we purchased nearly as many qualifying Duty to Serve loans from CDFI partners in 2021 as we did in 2020.

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

Fannie Mae shifted its approach from portfolio investment to majority securitization in 2009. Today, we generally do not hold loans on our books. This business model relies on strong, active relationships with DUS® lenders. Thus, loans may be originated by a non-Fannie Mae CDFI or SFI, but typically will be sold to us by a DUS® lender as a broker/correspondent transaction with the DUS® lender serving as a counterparty to Fannie Mae. This is not a refined process and can be more costly for an SFI, which may have to pay additional fees to the conduit institution.

Our Multifamily Affordable Housing (MAH) deal teams have noted that in their conversations with SFIs and CDFIs, these institutions have had trouble operationalizing our loan products, interpreting our needs from a credit standpoint, and meeting required standardization with underwriting and loan document processing.

As described above, these factors do not rule out our ability to provide liquidity to this market. We will continue to prioritize mutually beneficial transactions with CDFIs and SFIs. We will also expand our focus on small properties in 2022-2024. Our Duty to Serve focus on small properties is best captured within the Duty to Serve rural plan, where we have added a small rural target.

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

N/A

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OBJECTIVE:

1. Adopt an effective approach to purchase small multifamily loans from financial entities with $10 billion or less in assets and purchase loans (Test and Learn, Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

We are on track to complete a comprehensive assessment of our ability to serve the small rental property market via loan purchases from small financial institutions. Current activities include a review of internal and external data sources, including the Rental Housing Finance Survey, the American Community Survey/American Housing Survey, commercially available data from CoStar, and several additional quantitative and qualitative research sources made available through engagement with external stakeholders.

At the same time, we are reviewing our internal systems to evaluate our strengths and limitations with current and possible future business models.

These discussions are ongoing with our credit and underwriting, customer engagement, product development, small loan, legal, and risk management teams, and in conjunction with our senior leadership team.

Following are the 2021 Actions under this Objective as published in the December 14, 2018 Duty to Serve Plan:

- ☐ Impact assessment of potential strategies to increase loan purchases in the future, including consideration of network expansion, additional lender engagement efforts, and product changes.
- ☐ Engagement with Small Loan deal teams and Credit subject matter experts, and eligible DUS lenders.
- ☐ Evaluation of current capacity, strengths, and limitations within our business model and lender network.
- ☐ Market and market share analysis.

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☐ Execute a comprehensive assessment of Fannie Mae?s ability to serve this market, including business strategies for more effective and efficient allocation of resources to yield greater production. The assessment will include the following:

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):