



Fannie Mae 2021
Affordable Housing Preservation
Loan Purchase

ACTIVITY:

C. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

OBJECTIVE:

1. Work with the USDA and other stakeholders to adopt an approach resulting in increased preservation of Section 515 properties and purchase Section 515 loans (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]:

<i>Objective's components detailed in the Plan</i>	<i>Corresponding actions taken</i>	<i>Explanation of any deviations from the Plan (if applicable)</i>
<input checked="" type="checkbox"/> Develop a loan product enhancement in partnership with USDA RD in order to purchase six loans that finance the preservation of USDA Section 515 properties, which represents approximately 120 units, approximately 19 percent of the number of USDA Section 515 loans set to expire in 2021. The loan product enhancement will provide a valuable capital source to lenders interested in financing the preservation of Section 515 properties and sets the foundation for greater future loan purchases and additional debt providers.	In October, Fannie Mae and USDA Rural Development finalized a subordination agreement that would allow Fannie Mae to finance new debt on Section 515 properties while still maintaining Section 521 rental assistance. Although the subordination agreement was completed, Fannie Mae was unable to acquire any Section 515 loans in 2021.	As described in more detail in the Impact Explanation below, Fannie Mae faced several challenges to achieving its loan purchase goal, including long lead times to complete Section 515 transactions with USDA Rural Development, lack of actionable leads amongst DUS lenders, and significant practical challenges related to potential transactions with non-DUS lenders.
<input checked="" type="checkbox"/> Execute focused outreach with existing lenders active in rural areas to share Fannie Mae's Section 515 product offering and preservation goals. Provide training and resources to interested lenders. Monitor loan performance	Fannie Mae communicated product offerings in support of Section 515 preservation goals to multiple DUS lenders and to additional lenders that are not part of the DUS lender network.	N/A



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and analyze effectiveness of the loan product enhancement.	In addition, we participated in Enterprise Community Partners’ October 2021 webinar titled “Understanding Rural Preservation”, in which we joined a panel discussion to describe our role in the Section 515 preservation market to over 200 participants, including developers, property owners, and lenders.	
<input checked="" type="checkbox"/> Maintain product flexibility to pursue tax credit transactions, blended funding transactions, and deals that include small multifamily properties.	Fannie Mae expressed willingness to pursue blended transactions with lenders, but none of these engagements resulted in 2021 loan purchases.	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?

From 2018 to 2021, Fannie Mae partnered with USDA Rural Development (RD) to develop an agreement on subordination terms for Fannie Mae to finance Section 515 properties in the secondary market. We agreed to terms in the first half of 2021 and finalized the agreement in October. The terms will enable us to pursue loan structures that include Fannie Mae senior debt paired with RD Section 515 debt in a subordinate position.



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Fannie Mae began actively pursuing transactions in late 2021. While we met with two lenders outside of the DUS network to explore potential transactions, we ultimately determined doing so would present significant operational challenges and would not deliver a loan in 2021. As a result, we focused much of our effort on communicating our ability and interest in financing Section 515 preservation transactions to our DUS lender network. Although we spoke with multiple DUS lenders, we did not purchase any loans in 2021. While DUS lenders expressed several challenges, noted in below, they also expressed interest in pursuing future transactions.

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

Through discussions with various stakeholders, Fannie Mae identified a number of challenges that resulted in our inability to finance Section 515 preservation transactions in 2021, despite having a subordination agreement in place:

- Multiple stakeholders noted extremely long lead times for originating new debt on Section 515 deals, which were reported to stretch a year or longer.
- In Q2 2021, USDA noted that lenders had already been identified for potential Section 515 preservation deals in its pipeline by the time our agreement was finalized. In future years, earlier engagement will be key.
- Smaller average loan balances coupled with long lead times and increased complexities contribute to low returns for lenders, and thus limited incentives for lenders to aggressively pursue Section 515 preservation deals – unless coupled with an RD 538 guaranty in a Ginnie Mae execution, where originators can generate significantly higher premiums than a Fannie Mae execution allows.
- The potential Section 515 sponsor profile varies significantly in terms of size of portfolio, experience, and financial condition, and many sponsors do not meet Fannie Mae lending criteria.
- The average age of the RD portfolio is 33 years. Many of the properties are in need of capital improvement but have insufficient reserve balances to execute such improvements. The properties are unable to support sufficient levels of additional debt to make the significant investment to meet Fannie Mae property condition criteria without additional subsidies through the LIHTC program and RD.
- Higher vacancy levels and weak market conditions are relatively more common in rural areas.
- Many Section 515 properties nearing maturity simply need a re-amortization of their current Section 515 loan through USDA RD and would not benefit from additional financing.

While challenging, Fannie Mae remains committed to purchasing six loans secured by properties with Section 515 debt in 2022. Achieving these loan purchase goals will require a significant amount of effort and innovation by multiple entities. We will make every reasonable effort to provide liquidity under our current Guide with



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waivers and accommodations, as necessary. We will also stay current with developments in federal funding and will pursue opportunities that may arise.

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

For the reasons mentioned above, DUS lenders were not positioned to deliver Section 515 loans in 2021. Furthermore, finalizing the subordination agreement late in the year made purchases in 2021 unrealistic. Having it in place to start 2022 will be critical for future goals.



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Affordable Housing Preservation
Second Quarter Report: April 1 - June 30, 2021
Loan Purchase

ACTIVITY:

C. Statutory Activity: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

OBJECTIVE:

1. Work with the USDA and other stakeholders to adopt an approach resulting in increased preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

We have finalized a subordination agreement with the United States Department of Agriculture (USDA), allowing the enterprise to purchase rural loans with Section 515 debt. This subordination agreement was the product of a fruitful, several-year effort, to engage with USDA Rural Development Staff to ensure our ability to purchase 515 loans while maintaining much needed rental assistance for residents at those properties. (The RD 515 debt must remain outstanding to retain their project based rental assistance (Section 521).

In quarters three and four, we will use the subordination agreement as a basis for the development of a comprehensive loan product enhancement capable of efficiently providing liquidity to expiring and refinanced properties with 515 loans. We will also continue our outreach efforts to ensure our product enhancements meet the needs of lenders and borrowers in the rural space.

The most promising loan transactions have received an RD 515 debt deferral option. However, this 20-year deferral interacts poorly with standard Fannie Mae fully amortizing acquired loans with a 30-year loan term. In addition, our servicing and selling guide does not currently allow subordinate debt to balloon inside our loan term. We will continue to work with our credit teams and USDA to explore allowing shorter loan terms (with longer amortization) and/or secure written confirmation that USDA's debt could be again restructured at the 20-year mark.

Given this complexity and multiple funding streams required for many rural properties with Section 515 assistance, it's likely that we will not meet our loan purchase target for this objective in 2021. Still, we feel confident that we continue to make meaningful progress toward this goal.



**Fannie Mae
Affordable Housing Preservation
Second Quarter Report: April 1 - June 30, 2021
Loan Purchase**

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

- Maintain product flexibility to pursue tax credit transactions, blended funding transactions, and deals that include small multifamily properties.
- Execute focused outreach with existing lenders active in rural areas to share Fannie Mae's Section 515 product offering and preservation goals. Provide training and resources to interested lenders. Monitor loan performance and analyze effectiveness of the loan product enhancement.
- Develop a loan product enhancement in partnership with USDA RD in order to purchase six loans that finance the preservation of USDA Section 515 properties, which represents approximately 120 units, approximately 19 percent of the number of USDA Section 515 loans set to expire in 2021. The loan product enhancement will provide a valuable capital source to lenders interested in financing the preservation of Section 515 properties and sets the foundation for greater future loan purchases and additional debt providers.

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):



**Fannie Mae
Duty to Serve
Third Quarter Report: July 1 - September 30, 2021
Loan Purchase**

ACTIVITY: The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

OBJECTIVE: Work with the USDA and other stakeholders to adopt an approach resulting in increased preservation of Section 515 properties and purchase Section 515 loans (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

We remain off-track to meet our goal of purchasing six loans with outstanding Section 515 debt in 2021. Challenges noted in the Q2 report remain relevant. In particular, lenders and other stakeholders note that barriers other than lack of liquidity, such as difficulty initiating re-amortization or deferrals of 515 debt, remain the most pressing challenges.

In response to these challenges, and to prepare to meet our 2022 loan purchase goal, we have:

- Expressed our interest and clarified our product offerings to DUS lenders active in rural preservation lending,
- Engaged with non-lender stakeholders, including property owners, to understand their perspectives on the market and to seek opportunities for lending,
- Participated in meetings and events with market participants, including representatives from USDA, and
- Through partners active in this market, provided Section 515 technical assistance to more than 20 organizations.

In spite of these efforts, we have few opportunities to pursue for purchase. Notably, USDA indicated that their 515 pipeline closed by mid-year and that all deals already in the pipeline had an identified lender. Further, because we did not have a negotiated subordination agreement until the second quarter of 2021 and with long lead times to originate loans due to the layered funding often required, we expect to purchase loans beginning in 2022, at the soonest.

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



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Duty to Serve**

**Third Quarter Report: July 1 - September 30, 2021
Loan Purchase**

ADDITIONAL INFORMATION (IF APPLICABLE):