Multifamily Mortgage Business Lender Letter 16-01

Date: February 08, 2016

To: Multifamily Lenders

From: Michele Evans, Senior Vice President and Multifamily Chief Operation Officer

Subject: Lender Letter 16-01 | Lender Requirements for Estimating and Reporting FHFA Volume Cap Applicability for 2016 Loan Deliveries

HIGHLIGHTS

In support of changes to exclusion categories in the FHFA 2016 Scorecard Volume Cap on multifamily lending, Lenders will be required to use the Multifamily Affordability Estimator v3.2 to estimate and report on the affordability and cap exclusion of all new business registered in DUS Gateway after February 15, 2016. This Lender Letter supersedes Lender Letter 15-10 and provides an overview of the updated exclusion categories and the processes and resources used for these Lender requirements.

Background

On December 17, 2015, the Federal Housing Finance Agency announced changes to the Fannie Mae volume purchase cap for 2016. The FHFA 2016 Scorecard introduced changes to the Cap excluded categories to facilitate continued liquidity in the overall multifamily finance market and established a $31 billion Cap for new multifamily lending volume. The following changes were made to the excluded categories:

New Excluded Categories

1. Loans to finance energy or water efficiency improvements through Fannie Mae Green Rewards and Green MBS programs qualify for full exclusion.

2. Loans on Properties in Rural Areas as designated in the proposed Duty to Serve Rule (exclusion based on the percentage of units affordable at 80% of Area Median Income).

Revisions to Existing Excluded Categories

1. Expanded definition of targeted affordable to exclude loans for properties encumbered by a regulatory agreement or recorded use restriction under which all or a portion of the units are restricted for occupancy by tenants with limited income and which restricts the rents that can be charged for those units. The FHFA Scorecard allows a 50% exclusion if the percentage of restricted units is less than 50% of the total units in the property. 100% of the loan amount can be excluded if the percentage of restricted units is equal to or more than 50%.

2. Revised calculation for loan exclusion amounts for multifamily properties with 5-50 units. The FHFA Scorecard allows a pro-rata exclusion amount based on the percentage of units affordable at 80% AMI in standard and High Cost Markets or 100% AMI in Very High Cost markets.
3. Reclassification of Santa Clara County, CA as a Very High Cost Market.

The Fannie Mae Guide to Estimating Affordability and Cap Exclusions serves as a guide on all of the affordable housing lending exclusions identified in the 2016 FHFA Scorecard.

Fannie Mae Multifamily remains committed to supporting affordable workforce housing while effectively managing to the 2016 Scorecard. Fannie Mae is announcing several enhancements to the deal submission and commitment processes that will help Fannie Mae and our lender partners assess the affordability and cap eligibility of potential business.

Fannie Mae is issuing Lender Letter 16-01 which outlines changes to the ongoing Lender submission requirements for 2016 production.

I. Updated Fannie Mae Tools to Support Lender Requirements

Fannie Mae has made changes to the Multifamily Affordability Estimator (MAE) and has provided updated commitment reporting requirements for loan delivery through C&D.

A. Multifamily Affordability Estimator (MAE) V3.2

Fannie Mae updated the MAE to provide the information needed to evaluate the exclusion rates for prospective loan deliveries, based on the 2016 FHFA Scorecard. This resource leverages U.S. Census affordability profiles, unit mix information, and property characteristics.

Frequently Asked Questions (FAQ's), as well as the Fannie Mae Multifamily Affordability Estimator can be found in the Multifamily Learning Center.

Lenders are required to enter the MAE v3.2 generated Scorecard Cap exclusion rates for all new deals registered in DUS Gateway as of February 15, 2016. Lenders are not required to update existing deals within DUS Gateway. Changes to DUS Gateway will be announced in the coming weeks that will facilitate the tracking of new excluded categories.

B. Multifamily C&D

The FHFA 2016 Scorecard provides an explicit exclusion from the volume cap for properties with income rent restrictions imposed by a state or local governmental authority when such rent restrictions are enforced by a regulatory agreement or recorded use restriction. Lenders will be required to disclose such rent and income restrictions through C&D. Fannie Mae already requires that Lenders enter into C&D any restrictions on rent and/or household income, even if these restrictions are at an Area Median Income (AMI) higher than applicable for MAH designation and even if the restrictions were at a level where the underwriting of the property was not affected. Attachment 1 provides examples how Lenders should submit affordability restrictions into C&D.
II. Updated Fannie Mae Legal Documentation

Transactions with income and rent restrictions enforced by a regulatory agreement or recorded use restriction must include the following documentation:

- Form 6253: Modifications to Multifamily Loan and Security Agreement (Additional Scorecard Exclusions for Affordable Housing)
- Form 6102.23: Modifications to Multifamily Loan and Security Agreement Schedule 2 Addenda - Summary of Loan Terms (Additional Scorecard Exclusions for Affordable Housing)

Summary

Fannie Mae remains firmly committed to our mission of being a reliable source of liquidity in the market while continuing to focus on supporting affordable and workforce housing. Fannie Mae and our Lender partners will continue to work together throughout all stages of the loan delivery process to effectively manage to the FHFA cap. The deal teams and pricing desk will be available to help Lenders understand changes to the FHFA Scorecard Cap.

Contact Us

Please contact your Fannie Mae Deal Team if you have any questions.

Associated Documents

- Fannie Mae Multifamily Affordability Estimator
- Fannie Mae Multifamily Affordability Estimator FAQs
- Fannie Mae’s Guide for Estimating Affordability and Cap Exclusions
Attachment 1: C&D Instructions for Properties with income and rent restrictions imposed by a state or local governmental authority when such restrictions are enforced by a regulatory agreement or recorded use restriction

In C&D on the Property Page, in the section labelled “Housing Goals Data and Affordability Restrictions” information data must be provided on the income and rent restrictions. There is a detailed Job Aid on the Fannie Mae website with information on how to enter information into this section: [https://www.fanniemae.com/content/job_aid/affordable-housing-data-guidance.pdf](https://www.fanniemae.com/content/job_aid/affordable-housing-data-guidance.pdf).

If there are less than 20% of the units in the property with rent and income restrictions that qualify as MAH, the Lender should particularly focus on the guidance on pages 13 and 14 of the job aid, which focus on “Not MAH” properties that have income and rent restrictions.

Below are three examples of completing the Housing Goals Data and Affordability Restrictions section for properties where some of the units have non-MAH level income and rent restrictions.

Example #1: A property where 30% of the units are income restricted and rent restricted to be affordable at (an Area) Median Income of 100%, and the reason for the restriction is a 15 year tax abatement from the local municipality which is enforceable by a regulatory agreement or recorded use restriction.

The information from this example should be entered into the following fields:

- Affordable Housing Type = Not MAH
- Units with Income and Rent Restrictions (%) = 30
- Tax Credit Percent = None (this is the default setting for this cell)
- Tax Exemption or Abatement = Yes
- Remaining Term of Tax Exemption/Abatement (months) = 180 (this is a required field if the Tax Exemption or Abatement field is marked “yes”)

Remaining fields should be left blank, as they are not applicable for this example.

Example #2: A property where 60% of the units are income restricted and rent restricted, with 40% of the total units affordable at a Median Income of 80% and the remainder (20% of total units) affordable at 120%. The restriction is not due to a tax exemption or abatement but is enforced by a regulatory agreement or recorded use restriction.

The information from this example should be entered into the following fields:

- Affordable Housing Type = Not MAH
- Units with Income and Rent Restrictions (%) = 60
- Percentage of Units Set Aside for Tenants with Household Income at or below 80%, 60% and 50% of the Median Income: 80% of Median Income = 40
- Tax Credit Percent = None
• Tax Exemption or Abatement = No (this is the default setting for this cell)

Remaining fields should be left blank, as they are not applicable for this example.

Example #3: This property has both MAH and non-MAH rent and income restrictions. 25% of the units are covered by a Section 8 HAP Contract under which units can be rented to households with up to 80% of Median Income and with a remaining contract term of 133 months. Another 25% of the units are income restricted and rent restricted to be affordable at a Median Income of 100%, and the reason for the restriction is a 10 year tax abatement from the local municipality which is enforced by a regulatory agreement or recorded use restriction.

• Affordable Housing Type = Proj. Based HAP (incl. Sec. 8)
• Units with Income and Rent Restrictions (%) = 50 (25% Section 8 + 25% at 100% AMI)
• Percentage of Units Set Aside for Tenants with Household Income at or below 80%, 60% and 50% of the Median Income: 80% of Median Income = 25
• Tax Credit Percent = None
• Tax Exemption or Abatement = Yes
• Remaining Term of Tax Exemption/Abatement (months) = 120
• Section 8 Occupancy (%) = 25
• HAP Remaining Term (months) = 133

Note: Some fields will be automatically grayed out if they do not apply to the Affordable Housing Type selected.

If you have any questions with regard to filling out the Housing Goals Data and Affordability Restrictions, please contact your Fannie Mae representative.