

2023 Rural Housing Investment

ACTIVITY:

E. Invest in Low-Income Housing Tax Credit (LIHTC) properties to facilitate the provision of affordable multifamily housing in rural areas (12 C.F.R. § 1282.35 (d))

OBJECTIVE:

1. Invest in LIHTC properties in rural areas.

SUMMARY OF RESULTS:

<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"/> Make equity investments in 20 - 40 LIHTC projects in rural areas.	Fannie Mae made 33 LIHTC equity investments.	
<input checked="" type="checkbox"/> Given the change in market conditions due to the TECE issue, we have directionally shifted from a multi-investor fund and proprietary fund strategy to fund only strategy.	During 2023, Fannie Mae finalized a plan to address the challenges posed by the tax-exempt controlled entity (TECE) issue raised in 2022. Fannie Mae anticipates implementing the plan in the first half of 2024.	
<input checked="" type="checkbox"/> Strengthen syndicator partnerships to achieve the goal by investing equity in proprietary funds.	We met with our syndicator partners to facilitate our 2023 equity investment goals.	
<input checked="" type="checkbox"/> Continue industry engagement through a presence in key networks and explore new relationships or expand existing relationships, if feasible.	We continued to engage with LIHTC market stakeholders and attended the 2023 conferences for Affordable Housing Investors Council (AHIC), National Council of State Housing Agencies (NCSHA), and AHF Live (sponsored by <i>Affordable Housing Finance</i> magazine).	
<input checked="" type="checkbox"/> Maintain support for investments located in high-needs rural regions and high-needs rural populations if opportunities arise.	We continue our support of affordable housing projects located in high-needs rural regions (HNRRs). However, the TECE issue reduced our HNRR investments in 2023.	



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?

At the end of 2022, Fannie Mae ceased multi-investor fund investment commitments due to a concern by a number of LIHTC equity market participants that Fannie Mae could be considered a TECE under the Internal Revenue Code due to Treasury's ownership of our preferred stock. Other investors saw this potential interpretation as a regulatory threat to their anticipated economic return, causing them to be unwilling to invest in multi-investor funds in which Fannie Mae is a member.

Despite this challenge, throughout 2023 we remained dedicated to rural investments. However, without the multi-investor fund channel, we were limited to rural investments through new proprietary funds and equity investments acquired by multi-funds that we committed to prior to 2023. That limitation prevented us from meeting the original 2023 plan year investment goal. As a result, we submitted a 2023 plan year modification request to reduce the initially projected rural investment target to a range of 20 to 40 investments.

We achieved the modified 2023 plan target with investments in 33 rural LIHTC properties. These investments were impactful in addressing the rural underserved market's needs by supporting the creation or preservation of 1,342 DTS-eligible affordable LIHTC units. Of these units, 100%, were affordable to low-income households earning at or below 80% of AMI; and 38.2% of the units were affordable to very low-income households at or below 50% of AMI. These rural properties are in 19 states, and four are in HNRRs specifically identified in the Duty to Serve rule where the need for capital is often most critical. Given the impact of the TECE issue, we were unable to support rural projects in as many areas as we have historically.

Not satisfied with meeting our modified 2023 plan year goal, Fannie Mae expended significant time and resources throughout 2023 working to lay the foundation for future impact by developing a strategy to address the TECE issue. We anticipate beginning implementation of the strategy in the first half of 2024. We believe our desire, creative energy, and the commitment of time and resources we employed to reenter the multi-investor fund market underscores our commitment to the rural housing underserved market.

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

From our work on developing a strategy to resolve the TECE issue and through engaging with external stakeholders, we learned how critical our participation in multi-investor funds is in promoting affordable housing in rural markets. As we implement our strategy this year, it will take time to again ramp up our multi-fund investment activity since all activity ceased at the end of 2022. Based on actual and historical projections, the cessation has already substantially reduced the original number of rural investments we expected for the 2024 plan year. This outcome reemphasizes the impact multi-funds have on our ability to distribute more capital to more properties.



In December 2023, FHFA announced that Fannie Mae will be allowed to invest up to \$1 billion in the LIHTC market in 2024. FHFA is requiring that our investments above \$500 million in a year be in transactions they have identified as having difficulty attracting investors. Further, FHFA is now requiring that we make LIHTC investments only in projects that waive the qualified contract provision. In response to this new guidance, we will adjust our investment policies to ensure our LIHTC equity investments comply with these parameters. As we work to reenter multi-fund investments and deploy more capital to rural areas, we will learn how the new requirement is received by the LIHTC equity market.

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

N/A