Midwest Housing Equity Group

August 9, 2024

Marcea Barringer, Supervisory Policy Analyst
Attention: Duty to Serve 2025-2027 RFI
Federal Housing Finance Agency (FHFA), Ninth Floor
400 Seventh Street, SW
Washington, D.C. 20219

Re: Invest in Low-Income Housing Tax Credit ("LIHTC") properties to facilitate the provision of affordable multifamily housing in rural areas, (FN_RH_LIHTC Rural_1); (FR_RH_Rural LIHTC Equity_C).

Midwest Housing Equity Group, Inc. ("MHEG") appreciates the opportunity to comment on FHFA's request for public input on Fannie Mae's and Freddie Mac's (the "Enterprises") 2025-2027 Duty to Serve (DTS) Underserved Markets Plans.

MHEG is a Nebraska nonprofit corporation formed in 1993. Our mission is to change lives for a better tomorrow by promoting the development and sustainability of quality affordable housing. We accomplish our mission primarily through the syndication of Federal LIHTC's. More specifically, we raise private sector equity capital (mostly from banks, insurance companies and the Enterprises) to invest in affordable housing developments throughout the Midwest. Since inception, we have raised over $3.3 billion of capital and helped create more than 26,000 safe, decent and affordable rental homes in the Midwest. We have invested approximately $1.5 billion of that amount in communities of 50,000 or fewer people. We are proud to note those dollars have helped create and preserve more than 12,000 quality rental homes in rural America. Across the entire portfolio, our average development is comprised of just 38 units and several of our investments are in 6-, 10- and 12-unit properties. We are honored to play a key role in providing affordable housing across our footprint.

The need for safe, decent and affordable housing continues to grow across the nation. We are committed to helping the Midwest, particularly the rural Midwest, meet its affordable housing needs. It is against that backdrop that we respectfully offer a few comments for consideration as it relates to the Enterprises' proposed DTS rural plan.

Rural America faces massive affordable housing challenges, not least of which is attracting investment capital. While the LIHTC program is the most successful tool for the production and preservation of affordable housing, its public-private partnership model depends on raising private investment capital. Most rural communities don't need $20-$30 million transactions. It's the $2, $3, $5 and $7 million transactions that move the needle when it comes to rural investment.

We need the Enterprises' investment in rural America to increase. FHFA recently increased each Enterprise's LIHTC authority to $1 billion annually. Yet, neither Enterprise's draft DTS plan

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dedicate any of those additional dollars to rural markets. That is problematic, especially considering that banks, which comprise 85% of the LIHTC investor market, are generally not interested in these smaller communities because they don't have any Community Reinvestment Act needs there. The Enterprises were allowed back into the LIHTC market to serve as a stabilizing force. Failure to dedicate adequate investment to rural investments does just the opposite – it destabilizes the rural housing market.

Unlike the aforementioned bank investors, Fannie and Freddie do not need to meet CRA goals. As you know, they do, however, have Duty to Serve goals that require activity in rural areas, making them ideal investors for these developments. Let's make sure those goals are appropriately sized to needs that need to be filled.

We would like to provide comments on each Enterprise's DTS plan. With respect to Fannie Mae, please note that it has been a fantastic partner when it comes to housing investments in the rural Midwest. Its strong commitment to rural LIHTC equity investments through multi-investor funds (including our own) has proven critical to ensuring robust rental housing preservation, production and investment in small-town America. It has repeatedly stepped up the plate to help fill equity gaps.

However, we are concerned that its proposed DTS plan for '25, '26 and '27 will significantly reduce affordable housing investment in rural communities going forward. Considering Fannie Mae is such an important partner for LIHTC investment in rural areas, the proposed target investment baseline of **16-30 LIHTC investments in rural areas for 2025**, **23-45 for 2026**, **and 27-55 for 2027** does not align with the needs of rural America. The range is too large, the lower end is not acceptable, and the high end is lower than what was achieved under prior plans. The target baseline should exceed the baselines achieved in '21 and '22 especially considering its LIHTC authority has increased to $1 billion.

With respect to Freddie Mac's DTS rural proposal, it also does not align with the needs of rural America. A goal of **20 investments for each of '25, '26 and '27** is not nearly enough, regardless of the fact that the 20 number represents roughly what they've done annually from '18 through '23. It appears, based on Freddie Mac's mission map, that no LIHTC investments have been made in Montana, Wyoming, South Dakota, Iowa, Nebraska, Kansas, Missouri, Arkansas or Oklahoma since Freddie returned to the market in 2018. It appears to have made one investment in North Dakota in the past six years. That should be changed in the proposed DTS plan – rural LIHTC goals should be similar to Fannie's achievements in rural markets in '21 and '22 and the geographic scope needs to expand.

On occasion, the Enterprises point to "unique risks" in rural markets. Our 31-year history demonstrates this is a red herring. Of the $3.3 billion we've raised and invested over those 31 years, we've had zero foreclosures and no recapture of tax credits. Target returns have been consistently met and exceeded. It is more accurate to say that rural markets present unique opportunities, not unique risks, for the Enterprises. Stated otherwise, FHFA requiring more investment in rural markets does not negatively impact the safety and soundness of the Enterprises. We posit that it improves their safety and soundness.

We want to thank Fannie Mae again for its strong commitment to the rural Midwest since 2018. They are true partners and have made a big impact! We need that to continue and even increase. Our communities also need Freddie Mac actively participating in multi-investor or proprietary LIHTC Funds that serve rural America at a greater capacity, not less. Without FHFA ensuring a stronger investment obligation for LIHTC rural investments, affordable housing development and preservation in rural America will suffer. More specifically for the Midwest (the geographic area that we serve), it means that capital available for our rural communities in Nebraska, Kansas, Iowa, Oklahoma, Missouri, South Dakota, Arkansas, North Dakota, Montana, Wyoming and northern Texas will further decrease.

Based on FHFA's strong commitment to addressing affordable and rural housing supply challenges, we hope you will demand a more vigorous commitment to LIHTC rural investments in the Enterprises' final DTS rural plans, especially considering the increase in LIHTC authority to $1 billion each. Otherwise, rural affordable housing production will continue to struggle and be left behind. The impact is already being felt. If it continues, the small-town affordable housing crisis in rural areas will get even worse than it is today.

Thank you again for the opportunity to comment on the proposed DTS Plans. We hope our Midwest and rural perspective is helpful. As you consider our comments, please let me know if I can provide additional information.

Kindest regards,

John Wiechmann
President/CEO