MHEG
Midwest Housing Equity Group

July 17, 2023

Marcea Barringer, Supervisory Policy Analyst
Attention: Duty to Serve 2023 RFI
Federal Housing Finance Agency (FHFA), Eighth 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, Objective # 1 (FN_Rural_LIHTC_1).

Midwest Housing Equity Group, Inc. ("MHEG") appreciates the opportunity to comment on FHFA's request for public input on the proposed modification by Fannie Mae to the rural LIHTC investment objective for 2023 in its 2022-2024 Duty to Serve (DTS) Underserved Markets Plan.

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. Since inception, we have raised over $3 billion of private sector capital and helped create more than 24,000 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. 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 30 units and many 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 this comment letter for consideration as it relates to Fannie Mae's proposed DTS rural modification.

Rural America faces massive affordable housing challenges, not least of which is attracting investment capital. The LIHTC program is the largest affordable housing development program for these communities – but it needs investment capital to function properly. 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. Fannie Mae, through its DTS plan, has been a fantastic partner when it comes to housing investments in rural communities. Its strong commitment to rural LIHTC equity investments through multi-investor funds has proven critical to ensuring robust rental housing preservation, production and investment in small-town America. We need Fannie Mae's investment in multi-investor Funds to continue, 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 CRA needs there).

For that reason, we are concerned the proposed modification will significantly reduce affordable housing investment in rural communities. Considering Fannie Mae is such an important partner for LIHTC investment in rural areas, the proposed reduction from a target of 70 LIHTC investments in rural areas to between 20-40 for 2023 will cause a meaningful decrease in rural affordable housing preservation and production.

While we are disappointed in the current situation, we understand and acknowledge the Tax-Exempt Controlled Entity (TECE) issue that resulted in Fannie Mae ceasing its multi-investor fund investment activity at the end of 2022. While the 2023 modification is less than ideal, we realize that the **one-time** change is reasonable due to the material impact to Fannie's business model caused by the TECE issue. However, any additional modifications beyond this year to Fannie Mae's LIHTC rural investment goals will only exacerbate the rural housing crisis. With that said, we are hopeful that Treasury will issue the necessary guidance soon to avoid a repeat request in 2024. In this regard, a bipartisan group of 20 U.S. Senators recently sent a letter to Treasury Secretary Janet Yellen asking for the Department to clarify that Government-Sponsored Enterprises (GSE) Fannie Mae and Freddie Mac are not TECE's.

Without quick guidance from Treasury, affordable housing development and preservation in rural America will suffer. More specifically for the Midwest (the geographic area that MHEG serves), it means that capital available for our rural communities in Nebraska, Kansas, Iowa, Oklahoma, Missouri, South Dakota, Arkansas, North Dakota, and Montana will **decrease by roughly 15% annually** if the issue is not resolved quickly. For us, that's a loss of approximately **$50 million of housing capital for rural Midwest** communities **EVERY YEAR**. If this continues, the small-town housing crisis will get even worse than it is today. The impact is already being felt. For MHEG, not knowing if the GSEs can invest in our current Funds means we have to be circumspect in writing offer letters to affordable housing developers in these communities. We don't want to make commitments that we might not be able to honor. That, in turn, creates uncertainty for the developers who then don't move forward with the projects.

In short, we are thankful for Fannie Mae's partnership and considerable investments in MHEG's footprint. We understand and acknowledge the need for the modification **for 2023 only**. Moving forward, we will continue our engagement on the TECE issue to help make sure the adverse impact on rural affordable housing investment is limited to this year only.

Thank you again for the opportunity to comment on the proposed modification. 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