MaineHousing
MAINE STATE HOUSING AUTHORITY

July 20, 2023

Proposed Modification to Fannie Mae's Plan for 2023
Rural Housing
Additional Activity: 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)

Electronic Submission

Thank you for the opportunity to comment on Fannie Mae's Proposed Modification to the Rural LIHTC Investment Objective for 2023 in its Duty to Serve Plan. The Maine State Housing Authority ("MaineHousing") is the Housing Finance Agency for the State of Maine. MaineHousing has been helping Maine people own, rent, repair, and heat their homes since 1969. We are an independent state authority created to address the problems of unsafe, unsuitable, overcrowded, and unaffordable housing. We issue tax-exempt and taxable housing bonds, serve as the State of Maine's Low Income Housing Tax Credit ("LIHTC") allocating agency, and also provide additional state and federal resources as non-paying subsidy loans for the creation of affordable multifamily rental housing.

The State of Maine is made up of mostly rural areas and the Federal Housing Finance Agency's ("FHFA") charge that the Government Sponsored Enterprises ("GSEs") take steps to bring capital to underserved markets, including rural multifamily housing, is critical to the affordable housing needs of the State of Maine. Multifamily housing developments in most of Maine are of a size and scale that do not attract more traditional proprietary investment funds, or direct investment by a sole investor. The transaction size does not justify the time and expense to underwrite such a transaction. For this reason, multi-investor funds are critical to developing affordable housing using LIHTC in rural areas. Multi-investor funds create efficiencies by reducing the time and cost per transaction for participants.

Rural areas have the additional disadvantage of often being outside financial institutions' Community Reinvestment Act ("CRA") assessment areas. CRA requirements drive much of the investment in LIHTC and without the participation of financial institutions, LIHTC syndicators must pay more to investors and therefore equity pricing for affordable housing projects drops, opening up funding gaps in these projects. As GSEs, Fannie Mae and Freddie Mac have been important players in multi-investor funds that invest in LIHTC projects. Their Duty to Serve obligations have led them to rural markets, which has helped to offset the limited financial institution participation in rural multi-investor funds. We hope that FHFA continues to do all it can to ensure GSEs continue to increase, rather than decrease, their commitment to providing LIHTC equity to rural areas.

MaineHousing has been part of industry efforts to urge the U.S. Treasury Department to issue the necessary guidance that Fannie Mae and Freddie Mac are not Tax-Exempt Controlled Entities. Knowing that this issue is still outstanding, we are not surprised that Fannie Mae has proposed a reduction in its LIHTC investment objectives.

The single largest LIHTC syndicator operating in the State of Maine is Evernorth. Evernorth is a mission-driven, nonprofit syndicator that raises capital from investors for affordable housing projects in Maine, New Hampshire, and Vermont. Without Fannie Mae's investment in Evernorth multi-investor funds, Evernorth's equity raise will be smaller and therefore they will be able to invest in less housing in northern New England.

In response to your specific questions, MaineHousing offers the following:

1. **What is the proposed modification's potential impact on the rural LIHTC investments objective in the Plan and on the rural housing market as a whole?**
   If Fannie Mae decides to no longer invest in multi-investor funds, such as Evernorth's funds, which as noted above are the single largest investor in LIHTC affordable housing projects in Maine, Evernorth estimates that the reduction in investment in the State of Maine alone will be $12 million annually. This would be a significant impact to a small state such as Maine. Many of the affordable housing projects funded by MaineHousing are in rural areas where other investors are not interested due to size, financing structure, and risk profile.

2. **What market conditions should FHFA consider related to the proposed modification?**
   The shortage of affordable housing, as FHFA knows, is a national problem. It affects rural areas as well as urban areas. FHFA has been extremely helpful in keeping rural areas on more equal footing with urban areas by enabling the GSEs to invest in rural affordable housing. We understand the current proposal is made necessary due to the unanswered question of whether Fannie Mae and Freddie Mac are Tax-Exempt Controlled Entities, but the impact of this proposal will be deeply felt in rural areas where affordable housing projects may not be financially feasible. These at-risk, underserved areas will fall further behind their urban counterparts in the availability of affordable housing.

3. **What additional information might be helpful in evaluating the proposed modification?**
   MaineHousing does not have additional information to offer.

4. **Is the proposed modification appropriate based on the information and justifications provided by Fannie Mae? If not, why not?**
   Unfortunately, we understand the genesis of the proposed modification and believe it is appropriate given the current circumstances surrounding Tax-Exempt Controlled Entities.

5. **Is there any other feedback on the proposed Plan, as modified, that FHFA should consider?**
   We strongly urge FHFA to work with the U.S. Department of Treasury to provide guidance on the underlying Tax-Exempt Controlled Entity issue and to brief Congress on the impact of this uncertainty on rural affordable housing development.

Thank you again for the opportunity to comment.

Sincerely,

Daniel E. Brennan
Director