Comment Submitted on Behalf of the
National Association of State and Local Equity Funds

Thank you for this opportunity to comment on the request by Fannie Mae to amend its 2023 Duty to Serve Plan to modify the Low-Income Housing Tax Credit ("Housing Credit") investment objective in the rural housing market for the 2023 Plan year. As mission-driven Housing Tax Credit syndicators, the National Association of State and Local Equity Fund's ("NASLEF") ten members operating in 38 states use the Housing Credit program to raise capital from investors for impactful affordable housing projects, especially in harder-to-serve markets such as rural areas. Collectively NASLEF members represent about 10% of the national Housing Credit equity market, and have raised and invested almost $18 billion in affordable housing and over $1 billion in other community and economic developments. While our members also provide equity financing to for-profit Housing Credit developments, we concentrate in particular on nonprofit affordable housing and work to encourage the long-term affordability of Housing Credit projects. We have a long history of meeting unmet capital needs for affordable housing in rural communities.

The FHFA Duty to Serve regulation charges the Enterprises with taking steps to bring capital to underserved markets, including rural multifamily housing. Both Enterprises have cited the unique challenges facing affordable housing development and preservation in rural communities and have made significant efforts to address the financing gaps that result. In its Duty to Serve Underserved Markets Plan, for example, Fannie Mae describes the uniquely challenging nature of attracting capital to finance affordable housing for low-income households in rural markets. In addition to the challenging economic characteristics of rural communities, rural multifamily housing developments tend to be smaller which increases the difficulty of originating and underwriting financing of such properties.

As organizations which work to raise capital for affordable housing in underserved rural areas, we regularly encounter these dynamics. In addition, rural areas remain at a disadvantage due to a lack of investor demand driven by financial institutions' Community Reinvestment Act (CRA) obligations. CRA responsibilities for financial institutions drive the vast majority of investment and lending to Housing Credits properties. However, rural communities often fall out of financial institutions' CRA assessment areas, leading to lower equity pricing that further compounds the gaps faced by rural communities.

Five of our Funds partner with Fannie Mae through its annual investments in their multi-investor funds. Fannie Mae's investment in these funds have been critical to helping us serve the most difficult to develop, small rural housing properties in our states. In turn, our members have been critical to Fannie Mae's ability to fulfil its Duty to Serve obligations for investment in small rural markets.

As Fannie Mae has had to alter its investment strategy to address uncertainties around the interpretation of the Tax-Exempt Controlled Entity issue, it is our Funds that have been most

directly impacted by the withdrawal of Fannie Mae from the multi-investor equity markets. And it is affordable rural housing development in our states that will be most affected.

While we strongly regret the decision of Fannie Mae to seek a modification of its Duty to Serve Housing Credit investment objective in rural housing markets for the 2023 Plan year, we recognize that this decision was unavoidable. We have been working for months to urge the Treasury Department to issue guidance that the Enterprises are not Tax-Exempt Controlled Entities. As this issue has remained outstanding, we are not surprised by the decision of Fannie Mae to modify its LIHTC investment objectives. Certainly, our members, which have used Fannie Mae funds to invest in affordable rural housing in about a dozen states, have been experiencing the withdrawal of funding for all of this calendar year.

Without Fannie Mae's investment, the size of the investment funds that we have raised have had to be smaller, and the number of properties that we finance in rural areas has declined. Fannie Mae's request to reduce its target for Housing Credit investments from 70 to between 20 and 40 in 2023 makes sense to us but we believe the actual impact will be broader since there are cascading effects on the total funds that we can raise when a major investor such as Fannie Mae pulls out of the multi-investor market. This both means proposed property developments that can't get financing, and properties that have to pay considerably more for their equity capital, which requires both a search for additional sources of gap financing and higher rents to cover increased debt costs.

Below we provide answers to your specific questions.

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?**
   We are already experiencing significant impacts from Fannie Mae's withdrawal from the multi-investor markets. This has reduced the volume of equity capital our funds are able to raise and prevented us from financing certain rural housing developments. Where we are still able to find equity financing for such projects, returns to investors must be higher which means the amount of Housing Credit equity going in to the property is lower. This necessitates a number of maneuvers to finance the development, such as finding additional gap funding, placing larger debt on the property, and targeting renters further up the income scale so higher rents can be charged.

2. **What market conditions should FHFA consider related to the proposed modification?**
   As FHFA well knows, this nation faces severe shortages of affordable housing, including in rural areas. The agency has artfully structured the Duty to Serve rules to enable the Enterprises to address rural affordable housing needs. The particular impact of the requested modification – made necessary by uncertainty around the Tax-Exempt Controlled Entity issue – will be to make it more difficult to finance small rural developments which are not financially feasible through proprietary investment structures.

3. **What additional information might be helpful in evaluating the proposed modification?** We believe the impact of the Tax-Exempt Controlled Entity issue is broader than Fannie Mae. Before this tax issue arose, some of our Funds received interest from Freddie Mac about the possibility of investing in their multi-investor funds to help it meet Duty to Serve obligations. Furthermore, there is interest within the Housing Credit industry in raising the annual Enterprise Housing Credit investment cap above $850 million. This issue has become more important in light of the turmoil among regional banks and the further consolidation of banking organizations. Given the withdrawal from the multi-investor market, we question the ability of the Enterprise's to meet a higher investment cap while maintaining robust Duty to Serve commitments.

4. **Is the proposed modification appropriate based on the information and justifications provided by Fannie Mae? If not, why not?** Regrettably, we believe the proposed modification is appropriate.

5. **Is there any other feedback on the proposed Plan, as modified, that FHFA should consider?** We have no further feedback other than to urge FHFA to continue to push the Department of the Treasury to issue guidance on this issue and to brief Congress on the impact this uncertainty is having on rural affordable housing development.