CAHEC
Strengthening Communities

July 21, 2023

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Federal Housing Financed Agency
400 7th Street SW
Washington, DC 20219

RE: Fannie Mae Proposed Modification to 2022-2024 Duty to Serve Plans

I am writing to strongly encourage your consideration of the below observations with regard to the Federal Housing Financed Agency's (FHFA) consideration of Fannie Mae's (FnMa) Proposed Modification to 2022-2024 Duty to Serve Plans.

My remarks are on behalf of CAHEC, the nonprofit organization for which I have been President & CEO since 2002. As background, CAHEC was established in 1992 to assist in financing the development of affordable rental housing in North Carolina. Our leadership in affordable housing advocacy, collaboration with community organizations, and knowledge of local markets continues to foster high quality and strategic investments, especially in underserved markets.

Today, CAHEC is a leading community investment company focusing on syndication (raised $3.1 billion of equity towards the financing of 813 communities), preservation (rehabilitated 188 communities), general partnerships (owns 235 communities), property management (oversees 353 communities), and charitable initiatives (granted $17.3 million to residents and communities) in 13 mid-Atlantic and southern states.

Approximately 88% ($2.7 billion of $3.1 billion) of CAHEC's equity under management is sourced from Duty to Serve [DTS] and Community Reinvestment Act [CRA] based financial institutions. While these investors vary in asset size (i.e., our bank investors range from $1 billion to over $3.3 trillion) and geographic footprint (Appalachia and Mississippi Delta to the largest urban markets), their common beacon is adherence to the spirit and requirements of their target service areas (i.e., DTS for FnMa[GSE] and Community Reinvestment Act [CRA] for banks). It is this mandate - combined with their community development lending and investing (CDLI) activities [via the Low Income Housing Tax Credit (LIHTC), New Markets Tax Credit (NMTC), and Community Development Finance Institution (CDFI) programs] - which has driven community investment finance in our marketplace.

CAHEC's vision is *thriving communities with affordable housing and equitable opportunities for all*. To that end is our resolute commitment to rural markets:

- syndications - 55% (446/813) of communities
- preservation - 84% (157/188) of rehabilitations
- general partnerships – 85% (199/235) of communities [CAHEC Properties is our nation's 3rd largest owner of USDA Rural Development ("RD") communities]
- property management - 75% (264/353) of communities (CAHEC Management is our nation's largest manager of RD communities]

For context (of the above), FHFA's current DTS regulation defines "rural area" as: (1) a census tract outside of a metropolitan statistical area, as designated by the Office of Management and Budget; or (2) a census tract in a metropolitan statistical area, as designated by the Office of Management and Budget, that is outside of the metropolitan statistical area's Urbanized Areas as designated by the U.S. Department of Agriculture's Rural-Urban Commuting Area Code #1, and outside of tracts with a housing density of over 64 housing units per square mile for USDA's RUCA Code #2.

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I share these facts with the understanding that much of our (and similarly focused community investment and development organizations) community impact in underserved (including rural) markets would not be possible without investment from organizations whose DTS and CRA (namely, "greater statewide or regional area") mandate drive investment in those communities.

MARKET OBSERVATIONS

Equity Pricing: Within CAHEC's geography is a disparity in LIHTC pricing (approximately $0.08) for communities in high versus low CRA markets. Our concern is that a modification of FnMa's appetite could have the unintended consequence of exacerbating that pricing disparity. Specifically, decreased reliance on FnMa's equity capital in multi-investor funds (MIF) would, in turn, require (in order to satisfy ongoing demand for equity from LIHTC developers) increased reliance from non-CRA investors (i.e., insurance companies and non-financial instructions) who are less driven by community impact and more by ROI. This could have the greatest negative impact on mission-oriented organizations and those who traditionally favor community development in rural, lower income areas.

Equity Funds: The arena of larger investors (i.e., wishing to subscribe a minimum $20 million) often wish to "size their investment" as a percentage (i.e., 25%) of an overall MIF size. Hence, if a MIF is smaller (i.e., $150 million versus $200 million), then their subscriptions are proportionally smaller. In the case of FnMa, their withdrawal from MIFs has a dual effect. First, MIFs who traditionally had FnMa as an investor are now trending smaller (per the above scenario). Second, a MIF's ability to invest in underserved markets is also at risk due to reduction in DTS appetite and higher reliance on non-CRA investors (as stated in **Equity Pricing**, above).

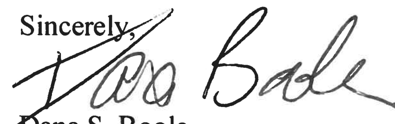
Investor Appetite: Underserved markets, particularly rural, often have the least demand among investors. For example, non CRA investors (for multiple and understandable reasons) prefer larger, new construction communities versus smaller, often rehabilitated, communities found in rural markets. Consequently, these same communities in underserved markets often yield lower pricing and therefore warrant additional sources of gap financing to cover increased development costs which, for example in North Carolina, increased 30-35% from 2020-2023.

CAHEC/FnMa Snapshot: Over the last three years (2020-2022), FnMa subscribed $50 million of equity across three CAHEC-sponsored MIFs (totaling $400 million) who collectively invested in 63 communities (21 of which were located in rural areas). Those 21 communities received $105 million of equity (26% of the three CAHEC-sponsored MIFs total equity) and were located in Alabama, Kentucky, North Carolina, South Carolina, Virginia and West Virginia. In short, 48% of required (the $105 million) equity was originated from FnMa and the balance was CRA equity. If not for FnMa, half those 21 communities (representing 500 units) would have had to identify alternative equity.

CONCLUSION

FnMa's request to modify their 2022-2024 DTS Plans has, and will continue to have, a material impact on the financing – and ultimate development – of affordable rental housing in underserved markets. The modification request, most probably made necessary by uncertainty around the Tax-Exempt Controlled Entity (TECE) issue - while understandable - has unintended consequences. While affordable housing advocates have been working diligently to educate and encourage legislators to assist in expediting guidance from Treasury on a resolution to the TECE issue, we realize that time has been working against those tasked with addressing the needs of low-income residents in underserved – especially rural – markets.

Sincerely,



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