CINNAIRE.COM

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Federal Housing Finance Agency
400 7th Street SW
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Washington, D.C. 20219

To Whom It May Concern:

Thank you for the opportunity to comment on Fannie Mae's request to amend its 2023 Duty to Serve Plan to modify the Low-Income Housing Tax Credit (LIHTC) investment objective in the rural housing market for the 2023 Plan year. Cinnaire is a nonprofit, mission-driven affordable housing tax credit syndicator with a 30-year history of raising equity capital through the federal Low-Income Housing Tax Credit (Housing Credit) for impactful affordable housing developments. To date, Cinnaire has raised more than $5.7 billion in total investments, supporting the creation or preservation of more than 55,000 affordable housing units.

Our mission and history are deeply tied to the urgent need to bring capital to markets that are not served by the mainstream financial sector, including rural communities that face unique barriers to the creation and preservation of affordable housing. As noted by Fannie Mae in its Duty to Serve Underserved Markets Plan, these communities struggle to attract capital to finance affordable housing for low-income households and face challenging economic characteristics. Rural affordable housing developments also tend to be smaller, which increases the difficulty of originating and underwriting projects. On top of these challenges, the lack of investor demand driven by financial institutions' Community Reinvestment Act (CRA) obligations leads to lower equity pricing for LIHTCs, resulting in larger financing gaps.

FHFA's Duty to Serve regulation – which charges the Enterprises with taking steps to bring capital to underserved rural markets, including multifamily housing – has been critical to helping us meet the needs of our rural markets. In particular, the Duty to Serve requirements have driven Fannie Mae's investments in Cinnaire's multi-investor funds, which have been essential to filling financing gaps and making affordable housing developments financially feasible in the rural communities we serve. To date, Fannie Mae has invested more than $355 million in Cinnaire's funds, supporting projects in Michigan, Indiana, Illinois, Wisconsin, and Minnesota. On average, over the past 10 years, Fannie Mae's investments have increased the number of affordable rural housing units in our multi-investor funds from 15% to 28% of total units. As a mission-driven tax credit syndicator with deep knowledge of these rural communities, Cinnaire has also been a reliable and consistent partner to Fannie Mae, helping it meet its Duty to Serve obligations in an efficient and effective manner.

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Fannie Mae's withdrawal from our multi-investor funds due to uncertainty around the interpretation of the Tax-Exempt Controlled Entity (TECE) issue has had a material, negative impact on our funds and, most importantly, affordable housing development in the rural markets we serve. In addition to reducing the size of our funds, the lack of Fannie Mae as an investor has lowered tax credit pricing and undermined the feasibility of rural affordable housing developments at a time when they are acutely needed. We describe the cascading impacts below.

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. Along with fellow members of the National Association of State and Local Equity Funds (NASLEF) and other stakeholders concerned about the impact of this issue, 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.

Below we provide answers to FHFA's 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?

The loss of Fannie Mae in the multi-investor market has begun to pose additional challenges for rural affordable housing developments already facing significant headwinds. Below, we describe the impact of Fannie Mae's withdrawal from our multi-investor funds to date, which we expect to continue as a result of the lack of resolution to the Tax-Exempt Controlled Entity issue:

- **Reduction in equity in Cinnaire's recent multi-investor fund.** Fannie Mae's inability to invest in our most recent fund reduced its size and impact. In addition to losing Fannie Mae's equity, we estimate that the impact is much greater since other investors put a limit on the share of the fund they will take and reduce the size of their investments to maintain those limits. With Fannie Mae's participation, investors with a share limit could have increased their investments. For example, if Fannie Mae invested $30 million (the average invested in years 2018 through 2022), it is possible that other investors with a 20% share limit would have significantly increased their contributions (from $42 million in a $211 million fund to $48 million in a $241 million fund). That increase could have supported about 343 additional affordable housing units.

- **Lower tax credit pricing resulting in less equity in rural projects**. Non-CRA projects typically receive about four cents per credit less than CRA driven pricing. Fannie Mae provides lower cost capital for non-CRA projects. In our last fund that Fannie Mae invested in, rural projects received an average of $0.87 per credit. In our current multi-investor fund, in which Fannie Mae is not investing, rural projects

are pricing at an average of $0.84 cents per credit. If Fannie Mae invested in the fund and we were able to increase pricing by 3 cents on rural deals without CRA interest, we would be able to invest about $1.04 million additional equity into rural projects, freeing up more developer capital to support affordable housing developments.

- **Reduced capacity to make rural projects work.** Fannie Mae's investments in our multi-investor funds have been critical for rural projects in our footprint, helping them overcome the many challenges that make them less feasible. Fannie Mae's presence in our multi-investor funds has been highly impactful, especially as developments encounter higher interest rates and construction costs. Without Fannie Mae's investment in our funds, we have less capacity to support these developments, making them much less likely to come to fruition in communities struggling to create and preserve scarce affordable housing developments.

2. What market conditions should FHFA consider related to the proposed modification?

As FHFA 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 NASLEF 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 Enterprises 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. We strongly encourage an upward revision of Fannie Mae's goals once this issue is resolved.

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.

Conclusion
Thank you for your ongoing commitment to supporting affordable housing development and the opportunity to provide comment on the proposed modification. Given the impacts cited above, we believe it is critical to find a path forward for Fannie Mae to resume its participation in multi-investor funds, especially those with a mission of serving rural communities and a deep understanding of local markets. Resolving this issue in the coming months will prevent ongoing disruptions in Fannie Mae's ability to serve rural markets as Congress intended.

Sincerely,

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