July 21, 2023

Comments re: Request for Input on Fannie Mae's Proposed Modification to the Rural LIHTC Investments Objective for 2023 in its Duty to Serve Plan

Fahe writes respectfully in response to the request from the Federal Housing Finance Agency (FHFA) for information regarding "Fannie Mae's Proposed Modification to the Rural LIHTC Investments Objective for 2023 in its Duty to Serve Plan", and thanks the Agency for the opportunity to comment.

Fahe is a Network of 50+ nonprofit organizations building the American Dream in Appalachia. Since 1980 Fahe has invested over $1.32B generating $1.69B in finance. Channeled through our Members and community partners, this investment directly changes the lives of 778,114 people in some of the hardest-to-reach places in Appalachia. Founded as a group of nonprofit housing organizations, this work remains a core part of our identity.

Fahe is alarmed by the proposed retraction from the rural LIHTC market in Fannie Mae's 2023 Duty to Serve Underserved Markets Plan. Whatever the reason for the proposal, we believe that a retraction from this market is counter to the GSE's Duty to Serve. The interpretation of "tax exempt controlled entities" needs to be resolved by Treasury and FHFA to allow the original Underserved Markets Plan to be executed as originally designed. Failing that, or in the immediate term during the resolution, Fannie Mae should use the full total of originally-planned investment dollars for the 2024 rural LIHTC investments for sole-investor ("proprietary") investments in rural markets. Finally, in the forthcoming planning of the next Duty to Serve plan, all GSE's should significantly increase their commitment to rural LIHTC equity investments.

Rural LIHTC projects are of a smaller scale, in terms of both units and dollars, than those found in urban areas. This is true particularly in persistent poverty regions, where increased poverty rates and poor housing quality severely constrict the availability of affordable housing. Fannie Mae cites a 40-unit average project in rural areas, but an examination of Appalachia indicates that in distressed counties the very few projects that exist vary between 12- and 36-unit projects (e.g. Perry and Letcher Co.'s, KY).

Smaller projects are difficult to complete for all parties involved: syndicators, investors, and developers all have issues with the scale. That does not mean however, that the difficulty inherent in the project lowers the need for their completion in our communities. Quite the contrary, the difficulty is one of the driving factors behind our communities being underserved in the first place.

Another is our almost complete lack of Community Revitalization Act (CRA) investment. The deeply rural places in question here are often under- or un-banked, and current CRA rules allow large national banks to discount our Region as investment areas. The smaller regional and local banks do not have much need for tax-credits, and those few who have committed to tax-credit deals in the past have exhausted their limited capacity over the past few years.

Since there is no investment of any scale being driven via CRA, the GSE's and their Duty to Serve obligations become of outsized importance. Rural areas, and persistent poverty regions in particular, rely on GSE equity investments to make even our small scale of projects possible.

The difficulty of small projects, and the increased work-to-return ratio, should only encourage GSE investors like Fannie to make investments in those areas and to those projects which are the most difficult. The difficulty is what is driving, and what defines, the underserved nature of our markets.

Recommendations

Primarily, FHFA should work with Treasury to get clarity on the "tax exempt controlled entities" determination, which will allow Fannie to re-enter the multi-investor market in rural areas as soon as possible. The status quo, while far from operating on the requisite scale, is better than any alternative that would see a retraction from the rural LIHTC market by GSEs.

Simultaneously, immediately, FHFA should direct Fannie to shift all of its originally-proposed 2024 rural LIHTC equity to proprietary investments in rural areas. The increased workload on Fannie to locate and operationalize these smaller, more difficult, projects is entirely in line with its Duty to Serve. There is an acute, demonstrated, need for new units in these communities and the added structural barriers in the way of attracting equity to these projects is reason enough for GSEs with a Duty to Serve to step into the gap.

Finally, as GSEs begin the planning for the next round of Duty to Serve, FHFA should encourage them to investigate this gap and step into it on a more appropriate scale. That is, to significantly increase their planned investments into rural LIHTC projects in 2024-2026, including both proprietary and multi-investor equity formats. Proprietary investments, while phrased in this comment as a stop-gap solution, are a necessary tool in the GSE toolbox; they are often the only way to capitalize LIHTC in CRA-starved underserved markets. Proprietary investments, in addition to the multi-investor format, should be increased – and the former should be targeted to those areas that require this focus.

Conclusions

We thank the Agency and the GSEs for their continued partnership, and leadership, in the effort to provide investments in the communities which need them most. Duty to Serve programming and funding are absolutely critical tools for affordable housing development and community/economic development in Appalachia. We stand ready to assist in whatever way we can in our shared mission to better serve our communities.