July 21, 2023

Federal Housing Finance Agency

Re: Due to Servie Modification Request – Fannie Mae Spring 2023

These comments are being submitted on behalf of the Vermont Housing Finance Agency.

Thank you for the opportunity to comment on Fannie Mae's request to amend its 2023 Duty to Serve (DTS) Plan by modifying the Low-Income Housing Tax Credit (Housing Credit) investment objective in the rural housing market. In its request, Fannie Mae states this modification would continue in future DTS plans.

Vermont Housing Finance Agency (VHFA) serves as the primary funder of affordable housing development in the second most rural state in the nation. The housing VHFA finances, primarily through the federal Low-Income Housing Tax Credit program (LIHTC), is the backbone of our state's rural communities. The LIHTC program relies heavily on projects that can attract investors based on project scale and location. The rural markets that our agency serves require small projects, between 15-45 units on average. Our state also lacks a large place-based banking industry, meaning investors in LIHTC that are motivated by the Community Reinvestment Act are limited. As a result, when Vermont compares our LIHTC credit pricing to other states, we often lag behind as a result of these factors. The use of multi-investor funds in purchasing tax credits, which Fannie Mae is critical in supporting, is a lifeline for our state's primary affordable housing development tool.

Vermont relies on a regional LIHTC syndicator for most of our transactions. That regional syndicator (Evernorth) is heavily reliant on Fannie Mae's continued participation in multi-fund investment. Further, any hardship to other investors caused by Fannie Mae's involvement in multi-funds will only adversely impact our state's already limited ability to attract investors.

The FHFA DTS regulations charge the Government-Sponsored Enterprises (GSEs) with taking steps to bring capital to underserved markets, including rural multifamily housing. Multi-investor funds are a critical tool for reaching rural markets. Fannie Mae and Freddie Mac have affirmative DTS obligations to invest in rural housing, but we note that for several years Freddie Mac has not been an LIHTC investor in Vermont. FHFA should embrace the multi-investor platform as a tool to reach rural markets. FHFA should work to assure that the GSEs increase, rather than decrease, their commitment to providing LIHTC equity to rural America.

We are aware of the recent concerns about whether Fannie Mae is a Tax-Exempt Controlled Entity (TECE). FHFA should work with the Treasury Department to issue guidance that the Enterprises are not TECEs. The entire state of Vermont would be adversely impacted by not clarifying the TECE issue. Our very most rural communities that are already facing many challenges would be disproportionately impacted.

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?**
   As stated earlier, our rural housing developers rely on Evernorth's multi-investor fund in which Fannie Mae is a key investor. If Fannie Mae stops its Evernorth investment, it will reduce Evernorth' s ability to fund new LIHTC investments throughout Vermont. This will have an impact on our rural developers that struggle to find investors at a financially feasible credit price. Additionally, lower credit pricing means an increased need for scarce capital subsidy.

2. **What market conditions should FHFA consider related to the proposed modification?**
   Vermont has one of the lowest vacancy rates in the nation in both rental and homeownership units. To meet community needs, Vermont will need 30,000-40,000 more year-round homes by 2030. This means adding 5,000 to 6,700 more homes to Vermont's primary home market each year, well above the 2,100 homes that the state has been generating. Meeting this goal will allow the state to house Vermonters experiencing homelessness, replace our aging stock that is going offline, achieve a normalized vacancy rate, and meet in-migration demand.

   Since the onset of the COVID-19 pandemic, Vermont is experiencing unprecedented increases to the cost of developing housing. Labor, material costs, and rising interest rates are further throttling the availability of resources to fund new housing.

   We also note that Fannie Mae's role is not just about capital. Housing Credit (LIHTC) properties bring significant benefits to people's lives including: 1) lower rents compared to market rents; 2) better living conditions due to housing quality and energy efficiency; and construction jobs. Furthermore, new Housing Credit housing is a community asset that in rural communities shows investment and hope.

   FHFA has structured the DTS rules to require and enable the GSEs to address rural affordable housing needs. The particular impact of the requested modification – made necessary by uncertainty around the TECE issue – will make it more difficult to finance small rural developments that are not financially feasible through proprietary investment structures.

3. **What additional information might be helpful in evaluating the proposed modification?** VHFA is hopeful that Congress will increase the Housing Credit investment cap to allow the production of more affordable housing. The loss of Fannie Mae from the multi-investor market is a challenge today that would become more of a challenge if more Housing Credits were available. It is crucial that the TECE be resolved and that Fannie Mae returns as soon as possible to investing in multi-investor funds.

4. **Is the proposed modification appropriate based on the information and justifications provided by Fannie Mae? If not, why not?** Regrettably, the proposed modification appears appropriate given the TECE issue. As Fannie Mae's request states: "Our multi-investor fund activity can serve to encourage other investors, particularly smaller investors, to participate in LIHTC investments since they

may feel more confident in a fund that includes Fannie Mae's participation." This modification will mean no investment by Fannie Mae and less investments from other investors.

5. **Is there any other feedback on the proposed Plan, as modified, that FHFA should consider?**

   FHFA should ensure that Fannie Mae returns to investing in multi-investor funds as soon as the TECE issue is resolved. Thus, rather than requiring Fannie Mae to go through the entire modification process again, FHFA should permit this modification and include in this modification a provision that rescinds the modification upon resolution of the TECE (assuming the resolution is that Fannie Mae is not a TECE). Alternatively, FHFA could make this a temporary pause of Fannie Mae's DTS plan. The pause would end if the TECE issue is concluded with Fannie Mae deemed not to be a TECE.

   Either approach will empower and require Fannie Mae to immediately begin investing in multi-investor LIHTC funds that serve rural communities. Rural housing needs Fannie Mae in the LIHTC funds. FHFA should ensure timely return of the Enterprises to rural America.

Sincerely,

Maura Collins

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Executive Director