Fannie Mae
Rural Housing
Investment

ACTIVITY:

E. Additional Activity: Invest in LIHTC properties to facilitate the provision of affordable multifamily housing in rural areas (12 C.F.R. § 1282.35 (d)).

OBJECTIVE:

1. Invest in LIHTC properties including housing associated with other Statutory and Regulatory Activities (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

In 2018, Fannie Mae re-entered the Low Income Housing Tax Credit (LIHTC) market after ten years, providing $500 million in equity to the creation and rehabilitation of affordable housing across the country. Fannie Mae relies on a fund investment model to provide capital at the property level, through which we rely on our syndicator partners' expertise in identifying and pursuing deals that align with our investment Objectives. Fannie Mae committed equity through three proprietary funds, in which we were the sole investor, and five multi-investor funds, in which we were one of several investors.

Rural communities are a significant area of focus for Fannie Mae and our syndicator partners. This year, Fannie Mae committed $150 million of LIHTC equity to fund the construction or preservation of 76 properties in rural America. This contributed 3,462 units affordable to households earning less than or equal to 60 percent of area median income (AMI), out of a total of 3,571 units produced (97 percent). LIHTC properties are required to have minimum affordability set-asides based on AMI, and the 60 percent AMI threshold is the most common industry convention for determining property compliance with LIHTC affordability requirements. Of those 76 properties which have closed at the fund level, Fannie Mae has invested in 42 of the properties at the deal level as of year-end. While Fannie Mae expects to invest at the deal level in the remaining 34 properties in 2019, multi-investor activity is subject to adjustment until each fund is fully specified and all transactions have closed into the fund.

Of the 42 properties in which Fannie Mae invested at the deal level in 2018, four properties are in the rural Lower Mississippi Delta, three properties are in a rural persistent poverty county, and six properties are in rural Middle Appalachia, including Riverside Village in Sevierville, Tennessee, a new construction that will provide all 32 units to households earning 60 percent AMI or below. Four properties support Native American populations on tribal land, such as Lac Courte Oreilles Homes IV, the complete rehabilitation of 28 single-family homes affordable at 30 percent, 40 percent, and 60 percent of AMI within seven neighborhoods of the Lac Courte Oreilles Indian Reservation in Hayward, Wisconsin. Several of our 2018 equity investments supported senior citizens, people with disabilities, victims of domestic abuse, formerly homeless individuals, veterans, and other special populations. Often, the properties provide supportive services designed to meet the unique needs of tenants.

Aside from the investments themselves, 2018 involved putting together a dedicated LIHTC equity team, business infrastructure to support the new function, and governance and risk management standards. Outreach, too, was a pillar of our plan when it came to LIHTC equity. We built relationships with LIHTC syndicators not only to develop and invest in funds, but also to understand the market barriers and investment opportunities in rural America. Through our Fannie Mae Rural Duty to Serve Advisory Council (Rural Advisory Council) and engagement at industry conferences and meetings, we met with Housing Finance Agencies and affordable housing developers. We learned more about significant challenges in the market and where stakeholders believe Fannie Mae can be most effective in serving rural communities through equity investment in tax credits and other equity avenues.

Following are the 2018 Actions under this Objective as published in the December 14, 2018 Duty to Serve Plan:

☒ Research and analyze market opportunities with respect to potential equity investments in LIHTC housing designed to support affordable rural housing, including the following Statutory or Regulatory Activities:

☒ Project-based rental assistance housing programs under Section 8 of the U.S. Housing Act of 1937, 42 U.S.C. § 1437f.

☒ The supportive housing program for the elderly under Section 202 of the Housing Act of 1959, 12 U.S.C. § 1701q.

☒ Debt financing of LIHTC under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42.

☒ The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.

☒ Small multifamily rental properties financed by entities with assets of $10 billion or less.

☒ Fannie Mae will include both high-needs rural regions and high-needs rural populations in our 2018 research and analysis work related to future potential LIHTC equity investments.

☒ Fannie Mae will:

☒ Conduct extensive research to identify rural areas with low investor demand, including high-needs rural regions and for high-needs rural populations.

☒ Meet with at least two LIHTC syndicators that are active in the high-needs rural regions and with high-needs rural populations to better understand LIHTC equity needs and to identify potential investments in the high-needs rural regions.

☒ In conjunction with Fannie Mae's Single-Family outreach efforts, in Q1, meet with the Rural Housing Advisory Council to gain a deeper understanding of the market challenges and identify areas with low investor demand including in high-needs rural regions and for high-needs rural populations.

☒ Conduct outreach to at least 10 State HFA with rural housing needs, and specifically those serving high-needs rural regions and high-needs rural populations, to better understand how their Qualified Allocation Plans address the needs of underserved rural markets.

☒ Create, establish, and document one set of reasonable investment goals to meet the challenges identified through outreach and research related specifically to rural housing.

☒ Fannie Mae will make equity investments in 20 LIHTC projects, through either proprietary or multi-investor syndicated funds, in the rural areas that are eligible for Duty to Serve credit as identified through outreach efforts while taking into account safety and soundness concerns.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ Objective met
☒ Objective exceeded
☐ Objective partially completed: 75-99% (substantial amount)
☐ Objective partially completed: 50-74% (limited amount)
☐ Objective partially completed: 25-49% (minimal amount)
☐ Objective partially completed: 0-24% (less than a minimal amount)

IMPACT:

☒ 50-Substantial Impact
☐ 40
☐ 30-Meaningful Impact
☐ 20
☐ 10-Minimal Impact
☐ 0-No Impact

IMPACT EXPLANATION:

1. How and to what extent were actions under this objective impactful in addressing underserved market needs or laying the foundation for future impact in addressing underserved market needs?

   Affordable multifamily development in rural areas is extremely difficult without the use of LIHTC to bring in equity. Attracting tax credit investors to rural areas alone is a challenge because rural multifamily properties have limited capacity to support debt. Aging populations, high unemployment, and low incomes, especially in high needs regions and among high needs populations, contribute to this obstacle. In addition, rural communities are generally not included in Community Reinvestment Act (CRA) geographies, which limits the incentive for larger institutions to invest in rural markets. Because rural markets do not attract CRA investors, and economic investors that do deploy capital to the rural market require much higher yields, the price for rural market tax credits is lower, so less equity is made available to the rural market for creation and rehabilitation of affordable units.

   Fannie Mae, by reentering the LIHTC equity market, has substantially impacted rural communities in terms of the quantity of units produced and preserved as well as in our ability to help stabilize the market and provide a much-needed source of capital. In 2018, Fannie Mae invested over $150 million of net equity in LIHTC in rural areas through funds managed by our syndicator partners, creating or preserving 3,462 units affordable to households earnings less than or equal to 60 percent AMI, out of a total of 3,571 units produced by the transactions (97 percent). The properties in which we invested were geographically diverse, with deals in 28 states. Our widespread presence as a market-rate competitor provides confidence to the industry that in difficult times, such as an economic downturn, we will be a reliable source of equity capital in underserved rural areas. Our consistent and diverse investment program in 2018 has provided much needed stability to the market across the country.

   Fannie Mae's outreach, research, and organizational capacity build-out has laid the foundation for running a successful LIHTC equity investment program far into the future. A LIHTC program that is safe and sound, efficient, and mission-aligned works to ensure that our investment mechanisms are supported and maximize impact to underserved rural housing markets. Through outreach efforts, we gained insight into tax credit pricing, the role of QAPs, and the strong demand for LIHTC equity dollars in difficult to serve areas and for difficult to serve populations, furthering our ability to develop a solid, sustainable LIHTC program. In addition, we pursued research regarding the interaction between LIHTC and the United States Department of Housing and Urban Development, the United States Department of Agriculture, and other federal, state, and local affordable housing programs, and the potential opportunities therein.

2. (Optional): How do actions under this objective support future actions detailed in the Plan for the underserved market? If there have been any changes in the planned next steps or timeline for work under or related to this objective, describe the changes and provide a brief explanation.

   At the time of our original Plan submission and regulatory non-objection, Fannie Mae had not received conservator approval for resuming the LIHTC equity business. After receiving approval, however, Fannie Mae commenced efforts in LIHTC equity research, outreach, and investments and amended our Underserved Markets Plan to reflect investment targets in 2018.

   Fannie Mae's first year back in the LIHTC equity business was a success, both in terms of impacting affordable housing markets (including rural) and in growing the LIHTC equity business internally and externally. We established our standing in the industry and have set a precedent of stability and available capital. We will continue to pursue efforts in safe, secure investments moving forward.

Additionally, Fannie Mae created valuable relationships in the LIHTC equity investment space and effectively executed our strategy in our first year in business, meeting all conservator and regulator goals. Our LIHTC function will benefit by heeding lessons learned in 2018 and adjusting our strategy and process based on what did and did not work well throughout our year of learning and investing.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.

   N/A

4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

   Reentering the LIHTC equity investment market was not without its challenges. Not only did Fannie Mae need to set up an internal LIHTC equity team, establish processes and governance policies, and pursue external partnerships, but the rural LIHTC equity deals themselves proved difficult to navigate. However, we rose to the challenges and in 2018 were directly responsible for the creation or preservation of a substantial number of affordable units and properties in rural America.

   This year, we gained key learnings and experience concerning the process of completing complex rural deals and the financing layers necessary for creating and maintaining successful affordable properties in rural communities. As the LIHTC equity team evolves, and we continue to learn more about the market, applying these insights will drive even greater and more meaningful impact in underserved areas through additional investment opportunities. We also plan to continue utilizing our Rural Advisory Council and the syndicators with whom we work to respond and adapt to ongoing needs in the market.

   In 2018, Fannie Mae laid the foundation for a successful, sustainable LIHTC equity business that will be a core component of our multifamily affordable strategy moving forward, and we have additional investments in rural communities across America planned for 2019 and 2020.

Fannie Mae
Rural Housing
Second Quarter Report: January 1 - June 30, 2018
Investment

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OBJECTIVE:

1. Invest in LIHTC properties including housing associated with other Statutory and Regulatory Activities (Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

In Q1 2018, we met with Fannie Mae's first Rural Housing Advisory Council to communicate our renewed commitment to LIHTC equity investments in rural areas, and discussed challenges and opportunities in areas with low investor demand.

As of the end of Q2 2018, our team had closed Fannie Mae's first LIHTC equity fund in over ten years, with a focus that includes both rural and Native Americans. We undertook an extensive analysis of market opportunities and needs, especially in rural areas, conducted outreach with LIHTC syndicators to further identify areas of low investor demand, and developed plans for additional investments in our targeted rural regions.

Following are the 2018 Actions under this Objective:

- ☒ Research and analyze market opportunities with respect to potential equity investments in LIHTC housing designed to support affordable rural housing, including the following Statutory or Regulatory Activities:
  - ☒ Project-based rental assistance housing programs under Section 8 of the U.S. Housing Act of 1937, 42 U.S.C. § 1437f.
  - ☒ The supportive housing program for the elderly under Section 202 of the Housing Act of 1959, 12 U.S.C. § 1701q.
  - ☒ Debt financing of LIHTC under Section 42 of the Internal Revenue Code of 1986, 26 U.S.C. § 42.
  - ☒ The rural rental housing program under Section 515 of the Housing Act of 1949, 42 U.S.C. § 1485.
  - ☒ Small multifamily rental properties financed by entities with assets of $10 billion or less.
- ☒ Fannie Mae will include both high-needs rural regions and high-needs rural populations in our 2018 research and analysis work related to future potential LIHTC equity investments.
- ☒ Fannie Mae will:
  - ☒ Conduct extensive research to identify rural areas with low investor demand, including high-needs rural regions and for high-needs rural populations.
  - ☒ Meet with at least two LIHTC syndicators that are active in the high-needs rural regions and with high-needs rural populations to better understand LIHTC equity needs and to identify potential investments in the high-needs rural regions.
  - ☒ In conjunction with Fannie Mae's Single-Family outreach efforts, in Q1, meet with the Rural Housing Advisory Council to gain a deeper understanding of the market challenges and identify areas with low investor demand including in high-needs rural regions and for high-needs rural populations.

- ☐ Conduct outreach to at least 10 State HFA with rural housing needs, and specifically those serving high-needs rural regions and high-needs rural populations, to better understand how their Qualified Allocation Plans address the needs of underserved rural markets.
- ☐ Create, establish, and document one set of reasonable investment goals to meet the challenges identified through outreach and research related specifically to rural housing.
- ☐ Create and adopt one work-plan based upon data obtained through research and analysis, to leverage Fannie Mae's longstanding relationships in the LIHTC industry and commence investing in rural LIHTC properties.
  - ☐ Fannie Mae will reach out to LIHTC stakeholders working in high-needs rural regions and with high-needs rural populations in order to include specific related actions in the work-plan.
  - ☐ In addition, the work-plan will include a review of the initial Baseline estimated for 2019 (five LIHTC equity investments) based on the outreach and research completed, including potential investment opportunities in high-needs rural regions and with high-needs rural populations.

SELF-ASSESSMENT RATING OF PROGRESS:

☒ On-target to meet or exceed the objective
☐ Progress delayed and/or partial completion of the objective expected
☐ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):