July 24, 2026

Ms. Leda Bloomfield
Senior Associate Director
Office of Affordable Housing and Community Investment
Federal Housing Finance Agency
400 Seventh Street, S.W., Eighth Floor
Washington, D.C. 20219

RE: Duty to Serve Proposed Rule (RIN 2590-AB64)

Dear Ms. Bloomfield,

The Local Initiatives Support Corporation (LISC) and the National Equity Fund (NEF) appreciate the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) request for information on the Duty to Serve proposed rule.

LISC is a national nonprofit housing and community development organization and certified community development financial institution (CDFI) dedicated to working with residents and partners to forge resilient and inclusive communities of opportunity across America – great places to live, work, visit, do business and raise families. LISC mobilizes corporate, government and philanthropic support to provide local community development organizations, nonprofits, and small businesses with loans, grants, and equity investments, as well as technical and management assistance. Our organization has a nationwide footprint with offices in 34 cities throughout the country, and a rural network encompassing 150 partners that serve 49 different states and Puerto Rico. In 2025, LISC and its affiliates raised and deployed approximately $3 billion in grants, loans and equity capital into distressed urban and rural communities.

NEF, an affiliate of LISC's, is a leading nonprofit, multifamily, affordable, real estate investment manager with a mission to create and deliver innovative, collaborative financial solutions to expand the creation and preservation of affordable housing. Through its Low-Income Housing Tax Credit (LIHTC) syndication platform and its lending and investing platforms, NEF generates opportunities rooted in its vision that increased access to affordable housing empowers every individual and family to reach their full potential. Since being founded in 1987, NEF has invested nearly $30 billion, representing approximately 275,000 new or preserved affordable homes for individuals, families, and communities in need across the country. NEF has partnered extensively with both Fannie Mae and Freddie Mac.

I) General Comments

We strongly support the efforts of Congress and FHFA to expand the mission and regulation of the Government Sponsored Enterprises (GSEs) beyond the affordable housing goals that have been in place since 1992. LISC provided comments on the previous DTS rulemaking, three year plans, and requests for plan modifications. We applaud the thoughtful and creative work which has been done to date, particularly with affordable housing preservation programs.

We believe that the Duty to Serve effort should focus primarily on supporting and expanding transactions that improve affordable housing opportunities in underserved geographies and for low-income populations. The efforts of the GSEs pursuant to their Duty to Serve should be evaluated by the extent to which they facilitate *more* transactions to create or preserve these types of housing opportunities, particularly for households at the lowest end of the income spectrum or in the most underserved places.

The proposed rule maintains certain components of the current DTS rule and framework, while also making adjustments that generally provide the Enterprises more flexibility in setting their own activity targets. For instance, the proposal would maintain the three-year strategic planning process which requires public comment and keep the focus on the three DTS underserved markets named in statute – manufactured housing, rural housing, and affordable housing preservation.

The proposal also makes changes, by amending the definition of High-Needs Rural Regions (HNRRs) and including it in the overall Rural definition. In addition, it would change the rating scale; remove the regulatory activities in the prior rule; remove the minimum number of activities and evaluation guidance; and alter how affordability is determined.

We are concerned that the rule's overall focus on removing required activities (and associated regulatory definitions) and replacing them with a framework where the GSEs self-identify what they want to work on may result in less focus on the hardest to serve markets. For instance, FHFA proposes to have HNRRs be a component of the overall Rural definition, although not require the GSEs to serve HNRRs, even though they have the largest market gaps. The lack of a requirement that there should be targeted efforts may result in the GSEs serving less challenging rural markets. This runs counter to the statutory focus on having the GSEs help create new housing markets.

We encourage FHFA to retain HNRRs as a regulatory requirement, so the GSEs are required to reach our nation's most underserved markets. In addition, we believe the current regulation should still include definitions for "community development financial institutions", "small multifamily rental properties", and other current activities since the GSEs may be reluctant to propose any initiatives towards certain underserved markets without regulatory certainty.

We appreciate that FHFA's proposed rule maintains evaluation of GSE DTS performance. Continued oversight and evaluation are essential to ensuring that the Enterprises remain focused on meaningfully serving underserved markets.

The proposed changes though to the evaluation framework could lead to reduced transparency over how GSE performance will be assessed. The current framework includes evaluation guidance that provides stakeholders and the Enterprises with greater clarity regarding scoring methodologies, performance expectations, and how specific activities contribute to overall evaluations. Conversely, the proposed rule would eliminate this guidance and instead establish seven broad evaluation areas with a one-to-five scoring system for each underserved market.

We recognize the potential value of a streamlined evaluation approach, but stakeholders require greater clarity regarding how performance will be measured and how Enterprise efforts will be evaluated across underserved markets. FHFA's planned policy statement may provide additional direction, but it should not result in a less transparent or predictable evaluation process than currently exists.

<u>II) Specific Comments</u>
Our specific comments focus primarily on affordable housing preservation, which is a critical component of our broader strategy for community revitalization and economic mobility. LISC supports affordable housing preservation activities through technical assistance activities in our national footprint and through our financing activities and those of NEF. Please see our responses below to some of the questions posed in the proposed rule.

Question 9. FHFA proposes to remove the restriction that permitted LIHTC equity investments only in rural areas, to expand eligibility for LIHTC equity investments to all underserved markets. Should the Enterprises also be permitted to invest in New Markets Tax Credits, to provide additional liquidity to increase housing supply?

<u>1) Low-Income Housing Tax Credits</u>
The GSEs provide critical equity and debt financing for LIHTC projects. Investment activities are currently a small portion of DTS activities although since 2017, FHFA has allowed each GSE to invest annually in LIHTC projects. Last year, FHFA increased the LIHTC investment cap for each GSE from $1 billion to $2 billion. At least half of each GSE's cap volume is directed towards hard to serve markets, with 20 percent of that amount for rural communities. The GSEs receive DTS credit for their Housing Credit equity investments in rural projects.

We thank FHFA for raising the investment caps last year and recommends that they are increased again by the end of the year and then adjusted by at least an annual inflationary factor going forward. A portion of this extra investment authority should continue to be dedicated to underserved LIHTC markets. These investments provide critical support for projects not generally located in Community Reinvestment Act markets. It's important for FHFA to allow an increased GSE investment cap since Congress recently increased the size of LIHTC market although we have the same investor base, resulting in downward pricing pressures. Additional increases will help ensure the investor market is large enough to absorb the additional credits that were made available in the 2025 tax bill, and to help stabilize pricing.

We support allowing the GSEs to receive DTS credit for their LIHTC equity investments directed towards affordable housing preservation projects. This focus on preservation is consistent with the underlying DTS statute, which directs the GSE to focus on preservation, in addition to rural and manufactured housing. Our nation's preservation challenges are greatly increasing, and according to the National Housing Preservation Database, there are 440,159 federally assisted rental homes facing the risk of losing their affordability through 2030 and over 1 million rental homes during the next 10 years.[1] This doesn't include the roughly 900,000 units of public housing, most of which has large preservation needs.

According to National Council of State Housing Finance Agencies Factbook, the 4% LIHTC (the nation's primary source of capital to preserve federally assisted housing) preserved 411,285 rental homes over 2005-24, which includes public housing. So the preservation need for federally assisted rental housing (excluding public housing) in the next five years is more than what the 4% LIHTC preserved over twenty years. Furthermore, as inflation and cost increases have significantly impacted affordable rental housing finance, it will be more expensive and difficult to preserve that at-risk housing in the near term than it was in the past twenty years.

The allowance of LIHTC equity for preservation projects <u>should be in addition</u> to the current set-aside for their Housing Credit investments in rural projects. We recommend that FHFA include a preservation set-aside in future GSE LIHTC investment cap increases and then incorporate project commitment targets in the GSE's Underserved Market Plans.

[1] https://public.tableau.com/app/profile/pahrc/viz/PreservationRiskDashboard/USPreservation

2) New Markets Tax Credits

The proposed rule asks if the GSEs should be able to invest in New Markets Tax Credits (NMTC) utilized for housing. Currently, only LIHTC equity investments for FHFA defined rural projects receive DTS investment credit.

We recommend that the Enterprises be allowed to earn DTS credit for investments in New Markets Tax Credit projects that support the development of affordable housing and homeownership opportunities in underserved markets, with projects in rural communities receiving DTS credit. NMTCs can be utilized to invest in for-sale housing, and while it's a small use of the overall allocation authority awarded, there's growing momentum to scale it due to our nation's shortage of affordable homeownership opportunities. We also recommend that the GSEs be able to invest in NMTCs utilized for mixed-use housing, under existing Internal Revenue Service guidelines. Allowing the GSEs to invest in NMTCs that support housing will broaden the investor base, which should help with pricing on these projects.

Finally, the FHFA should design the final rule with enough prospective flexibility to allow the GSEs to invest in additional affordable housing tax credit programs that Congress may pass in the future. Congress has repeatedly recognized that robust federal investment is required to jumpstart the development of single-family starter homes. For example, the Neighborhood Homes Investment Act (NHIA), tax credit legislation that could boost home construction by 500,000 homes over 10 years, maintains the largest bicameral, bipartisan support of any supply-side housing legislation currently under consideration. When enacted, the GSEs would be invaluable foundational partners in building out this new starter home market. Because LIHTC took years of active institutional involvement to become standardized and attract a diverse pool of investors, early GSE involvement in emerging programs—even in modest initial investment amounts—will bring tremendous value, ensuring new supply comes online quickly for low-and-moderate-income homebuyers.

12. Are there impacts FHFA should consider if, in the future, the Agency aligns the median income calculation of the Enterprises housing goals and other income eligibility qualifying programs to match the DTS methodology?

FHFA proposes to change the methodology for determining DTS affordability. The current rule compares the borrower/renter income (or calculation of affordable rents) by: 1) the income for the metro if in a metro area; or 2) the county median income or state nonmetro income, whichever is higher, outside of a metro area. FHFA proposes allowing borrower/renter income in metro areas to also be compared to the median income for the state or national median income, whichever is highest.

Housing markets are very localized, and FHFA should not allow a statewide or national comparison since it could result in higher incomes being counted for DTS and potentially in the future for the Affordable Housing Goals.

For nonmetro areas, FHFA proposes allowing a national nonmetro median income, in addition to the current county median income or state nonmetro income comparison.

The current rule allows a statewide comparison since income distribution is more clumped in smaller communities, although allowing a national nonmetro median income will have the same impact as in metro areas, where higher income households will receive DTS credit (and potentially Affordable Housing Goals in the future), running contrary to the law's focus on underserved populations. If FHFA wants to allow a national nonmetro median income comparison, it should be restricted to High Needs Rural Regions, where incomes are very depressed.

We thank the FHFA for the opportunity to provide suggestions and encourage FHFA and the GSEs to continue their commitment to this sector by increasing their role in preserving affordable housing and creating new markets where there are gaps. Please contact Mark Kudlowitz (mkudlowitz@lisc.org), LISC Senior Director of Policy, if you need additional clarification or follow up on any of the recommendations provided in this letter.

Sincerely,

Matt Josephs
Senior Vice President for Policy