Fannie Mae

Fannie Mae 2019
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:

Following are the 2019 Actions under this Objective per the December 20, 2019 Duty to Serve Plan:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Fannie Mae will make equity investments in 30 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 2018 outreach and research efforts while taking into account safety and soundness considerations. This goal was determined based on an evaluation of Fannie Mae's current portfolio, current and expected deal pipeline, and with consideration of investment targets and the regulatory investment limit. Since we were approved to invest in LIHTC equity, the progress made in developing relationships with our syndication partners and towards building an intrinsic rural focus within our LIHTC equity business are indicators that we will have a substantial impact in 2019.	Fannie Mae made equity investments in 98 LIHTC projects in eligible rural areas in 2019, through either proprietary or multi-investor syndicated funds.	We exceeded this Action's target considerably. Many of the rural LIHTC projects are located in high-needs rural regions or serve high-needs rural populations.

Fannie Mae 2019
Rural Housing
Investment

☒ Fannie Mae will conduct at least one meeting with the Rural Housing Advisory Council, as well as conduct a rural roundtable, to continue to identify challenges in rural areas with less investor demand, and work together to develop solutions, including the use of LIHTC.	Fannie Mae met with the Rural Housing Advisory Council in June 2019 and October 2019. We also participated in a rural roundtable with the Persistent Poverty Working Group in September 2019, which included a bus tour of housing challenges and successes in Appalachia. We collaborated with partners to identify challenges, listen, and work together to develop solutions.	We engaged often with stakeholders in the rural LIHTC market throughout 2019 to learn more about specific challenges and to explore which solutions could impact the market.
☒ Based on Fannie Mae's experience during 2019, Fannie Mae will review and confirm our 2020 LIHTC equity investment goals.	Fannie Mae reviewed our current and expected tax credit funds, deal pipeline, portfolio mix, and investment strategy, and confirmed our LIHTC equity investment goal for 2020.	N/A

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)
☐ No milestones achieved

PARTIAL CREDIT JUSTIFICATION:

N/A

IMPACT:

☒ 50 – Substantial Impact
☐ 40 – Between Meaningful and Substantial Impact
☐ 30 – Meaningful Impact
☐ 20 – Between Minimal and Meaningful Impact
☐ 10 – Minimal Impact
☐ 0 – No Impact

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IMPACT EXPLANATION:

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

Recent research shows that rural renters face significant challenges in accessing affordable housing. One in four rural renters is severely cost burdened. Rural communities not only suffer from the lack of affordable housing, the housing they do have is often older and in poor condition, exacerbating the need for recapitalization or new construction to replace obsolete housing. Add to this the economic challenges faced by these areas and addressing their affordable housing needs becomes that much more difficult. The Low-Income Housing Tax Credit (LIHTC) is often the only source of high-quality affordable housing production and preservation in rural areas throughout the United States. According to the Urban Institute, between 1987 and 2015, LIHTC has preserved roughly 200,000 USDA Section 515 units aimed at low-income families, seniors, and people with disabilities. For 51 rural counties in 21 states, LIHTC investments have financed 12 percent or more of all county rental units. Nearly half the units in the USDA's Section 515 housing portfolio are LIHTC-financed. The percentage of Section 515 units with LIHTC financing rises to approximately 73 percent when looking at 515 units created after 1988.

In 2018, Fannie re-entered the LIHTC equity market and has dedicated considerable resources to building syndicator relationships, training staff, and developing a high-quality investment platform and strategy. This strategy includes a focus on LIHTC equity investment in rural and other underserved populations. For context, the total LIHTC equity market is about $15 billion per year. Fannie Mae's total $500 million investment cap comprises roughly 3 percent of that.

When it comes to rural renters specifically, between 1999 and 2013, about 17 percent of all LIHTC projects placed in service were in non-metro (rural) counties. In 2019, Fannie Mae invested in 98 rural LIHTC projects, about 40 percent of the total number of LIHTC projects in which we invested during the year. 98 projects account for the preservation or new construction of 4,263 units affordable to households earning 60 pecent of the area median income or below, which is about 98 percent of the total units in those rural projects.

Fannie Mae's rural LIHTC investments provided financing to two properties in the Lower Mississippi Delta, ten properties in Appalachia, and nine properties in counties of persistent poverty. Our rural LIHTC investments contributed to one project that support Native American populations on tribal land and two projects that support agricultural worker populations. Finally, our investments helped recapitalize properties in the USDA RD 515 program, ensuring long-term affordability.

Through our significant industry engagement and outreach in 2019, it is clear that equity is sorely needed in underserved rural markets. Many properties, especially in the high-need rural regions and populations, are not able to support conventional debt of any kind. Many investors focus primarily on investing in tax credits generated from CRA markets, which are primarily non-rural, leaving a critical need for rural investment — a need that Fannie Mae is working hard to fill. As such, we believe substantial and meaningful progress has been made under this Objective.

2. What did the Enterprise learn from its work about the nature of underserved market needs and how to address them?

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Rural Housing
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There is substantial appetite for LIHTC equity investment from developers of affordable housing in rural markets. Balancing Fannie Mae's desire to provide equity financing to rural markets with our safety and soundness requirements for LIHTC equity investment means that investing in rural markets (which generally have weaker rental housing performance) is a challenge.

The small populations in rural markets create shallower multifamily rental markets. These lower populations are often caused by fewer employment opportunities, which in turn often slows down wage and income growth. In slow income growth markets, the longer-term projections of rental revenue growth for rural projects can be low or negative. The standard income growth projection for most multifamily rental projects in the U.S. is 2 percent per year. We see income growth in rural markets regularly below that 2 percent target. Therefore, becoming comfortable with the long-term viability of these 15- to 18-year LIHTC investments is more difficult.

Given the risks noted above, well-capitalized and experienced LIHTC developers are less active in rural markets. Therefore, ensuring the soundness of the developers' capacity to structure, build, and manage rural LIHTC duty to serve transactions requires pooling additional resources (e.g., securing personal guaranties from the developers, requiring construction completion guaranties from the general contractor, and sometimes requiring that LIHTC syndicators structure capital investments more conservatively). This pooling of resources balances the project's need for capital with its construction and lease-up performance and also adds to the complexity and extends the time frame to get the investments in these rural transactions closed.

Capital from USDA Rural Development (RD) is often an additional major source of financing for LIHTC rural transactions. Similar to HUD, USDA's RD housing programs take longer to process transactions, which makes managing timelines and certainty of closing more difficult.

The challenges above lead to less investor interest overall in rural markets, compared to metro markets.

These challenges often add up to longer timelines to analyze, structure, and underwrite transactions. Fannie Mae is building these longer timelines into our portfolio planning and investment decisions.

3. (Optional): If applicable, why were all components of this objective not completed?
N/A