

Rural Housing 2022 Investment

ADDITIONAL ACTIVITY:

Invest in Low-Income Housing Tax Credit (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 in rural areas.

INFEASIBILITY:

Check here if the Enterprise is submitting an infeasibility request for the objective.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	Corresponding actions or deliverables	Any deviations from the Plan (if applicable)
Make equity investments in 78 LIHTC projects in rural areas.	Fannie Mae invested in 86 investments, exceeding the Plan's target of 78 investments in rural areas.	
Plan and execute a balanced portfolio and investment strategy that effectively manages risk.	Fannie Mae developed a plan to invest, which required dynamic strategies to manage the challenges posed by the tax-exempt controlled entity (TECE) issue.	
Work with our syndicator partners to achieve the target by investing equity in both proprietary and multi-investor funds.	Fannie Mae met with our syndicator partners to facilitate our 2022 equity investment goals.	The TECE issue became a key discussion point with our multi syndicator partners, requiring our team to pivot and address investor concerns in addition to executing our day-to-day business plan and goals.
Continue industry engagement through a presence in key networks by exploring new relationships or expanding existing relationships.	Fannie Mae continued to engage with LIHTC market stakeholders and attended the 2022 conferences for AHIC (Affordable Housing Investors Council), NCSHA (National Council of State Housing Agencies), and AHF Live (sponsored by Affordable Housing Finance magazine).	The TECE issue became a key discussion point with our multi syndicator partners, requiring our team to pivot and address investor concerns in addition to executing our day-to-day business plan and goals.
Maintain support for investments located in high-needs rural regions (HNRR) and for high-needs rural populations when opportunities arise.	Fannie Mae supported deals located in high needs rural regions (HNRRs).	



SELF-ASSESSMENT RATING OF PROGRESS:

- Target Met
- Target Exceeded
- Objective partially completed
- No milestones achieved

IMPACT:

- 50 – Very Large Impact
- 40
- 30 – Meaningful Impact
- 20
- 10 – Minimal Impact
- 0 – No Impact

IMPACT EXPLANATION:

- How and to what extent were the actions or deliverables under this objective impactful in addressing the applicable underserved market's needs, or in laying the foundation for future impact in addressing the underserved market's needs?**

The Low-Income Housing Tax Credit (LIHTC) program is a critical tool for the creation and preservation of affordable multifamily rental properties in underserved rural markets. As an equity investor in properties that receive LIHTC benefits, Fannie Mae supplies important supportive capital for affordable projects in rural markets where financing opportunities may be limited. This effort contributes to stability in the supply of affordable rental housing by further incentivizing development in areas of high need. Fannie Mae reentered the LIHTC equity market in 2018 and continues to develop the investment pipeline and portfolio through a high level of engagement with syndicator partners and key industry relationships.

In 2022, Fannie Mae delivered on this commitment by investing in 86 rural LIHTC properties, exceeding the investment target by 8 projects (10%). These projects accounted for the preservation or new construction of 4,749 affordable units. Of the total number of units our investment supported, 4,738, or over 99%, were affordable to low-income households earning at or below 80% of AMI; and 31% of the units financed were affordable to very low-income households at or below 50% of AMI. Our rural equity investments spanned across 30 states and one U.S. territory (Guam), and 27 were in the high-needs rural regions specifically identified in the Duty to Serve rule, where the need for capital is often most critical.

- What did the Enterprise learn from its work about the nature of the underserved market's needs and how to address them?**

The majority of Fannie Mae's investment activity in the LIHTC equity market (2018-present) has been through multi-investor fund investments, as opposed to proprietary fund investments. In 2022, a growing number of LIHTC equity market participants expressed a concern that Fannie Mae could be considered a tax-exempt controlled entity (TECE) under the Internal Revenue Code due to Treasury's ownership of our preferred stock. Many investors regard our potential TECE status as a threat to their anticipated economic return, creating an impediment to their participation in funds in which Fannie Mae is a member. This dynamic, which is outside of Fannie Mae's control, caused Fannie Mae to cease multi-investor fund investment activity at the end of 2022. While the TECE question remains open, Fannie Mae will be limited to investments through proprietary funds in 2023 and beyond. This limitation will prevent Fannie Mae from meeting its current Duty to Serve rural investment targets for 2023 and 2024.

Given persistent inflation through 2022, the LIHTC industry was tasked with navigating widespread cost increases for the development and preservation of multifamily properties while maintaining the affordability required to meet community



housing needs. These challenges further widened the funding gap between project cost and rent revenue streams, driving an increased need for alternative sources of funding such as LIHTC equity from Fannie Mae and funds from other affordable housing programs. By providing a reliable source of capital targeted to rural areas that have experienced underinvestment, Fannie Mae helps open the path to equitable and stable housing. As Qualified Action Plans (QAPs) often put a premium on population density, thus decreasing the share of LIHTC units allocated to rural areas, challenges to the availability of capital for affordable rural housing could continue. Despite those challenges, Fannie Mae exceeded its investment target in 2022 by keeping a consistent focus on rural LIHTC opportunities through its multi-investor fund investment activity.

3. **Optional: If applicable, why was the Enterprise unable to achieve the Plan target?**

Not Applicable