NCSHA

November 2, 2018

Mr. Jim Gray
Program Manager
Division of Housing Mission and Goals
Federal Housing Finance Agency
400 Seventh Street SW, Washington D.C. 20219

RE: Proposed Modifications to 2018-2020 Enterprise Duty to Serve Plans

Dear Mr. Gray,

On behalf of the state Housing Finance Agencies (HFAs) it represents, the National Council of State Housing Agencies (NCSHA)[1] appreciates the opportunity to respond to the Federal Housing Finance Agency's (FHFA) October 3 Request for Input (RFI) on proposed modifications to Fannie Mae's Underserved Markets Plan (the Plan) for years 2018-2020. NCSHA thanks FHFA for continuing to involve the public and stakeholders in the Duty-to-Serve planning process.

NCSHA strongly supports Fannie Mae's request to amend its Plan to substantially increase its goals for Low-Income Housing Tax Credit (Housing Credit) equity investments in qualified rural areas for each year of the plan. Specifically, Fannie Mae proposes to increase its Housing Credit investment target to 20 by the end of 2018, then set a target of 30 such investments each for 2019 and 2020. The proposed new investment goals are notably higher than those in Fannie Mae's current Plan, which does not include a Housing Credit investment goal for 2018, and sets goals of five Housing Credit investments in rural areas in 2019 and ten such investments in 2020.

NCSHA commends Fannie Mae for quickly re-entering the Housing Credit market and committing to increasing its investments. The Housing Credit is our nation's most effective tool for financing the development of rental housing affordable to low-income Americans. Fannie Mae's increased presence in the market comes at a critical time, as the lower corporate tax rate enacted by the Tax Cuts and Jobs Act of 2017 has put downward pressure on the price of Housing Credits. This is a particularly acute issue for Housing Credits that support developments in rural markets, which often do not have the same potential pool of investors as projects in urban areas, where financial institutions purchase Housing Credits to earn credit under the Community Reinvestment Act.

[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

Furthermore, more often, developing affordable rental housing in rural areas can be much more difficult. Because incomes in rural areas are often lower than incomes in urban or suburban communities, the rents on rural Housing Credit properties have to be set at relatively low levels to meet program income standards. This means that rent payments cover a smaller amount of a project's operating costs. It's also more difficult to scale costs through larger projects in rural areas, which are often too sparsely populated to support larger developments.

Increased Housing Credit investments for affordable housing in rural areas will help Fannie Mae address the critical shortage of affordable housing options for rural families and communities, one of the three key underserved markets the Duty to Serve rule is designed to serve. Two reports recently released by Freddie Mac demonstrate the important role the Housing Credit plays in supporting the development of affordable rental housing in rural Middle Appalachia and for Native Americans, who often live in rural areas.

NCSHA urges FHFA to approve Fannie Mae's request to earn Duty to Serve credit for increased Housing Credit investments in rural areas.

In addition, NCSHA also supports Fannie Mae's proposal to increase its loan purchase targets for single-family loans made to borrowers in rural areas that were originally originated by small financial institutions. Small community banks and credit unions often serve as a key source of home financing in rural areas, which often are not served by larger financial institutions. As Fannie Mae notes in its proposal, small financial institutions will often partner with Fannie Mae not only directly through loan sales but through aggregators as well.

One of the aggregators small rural financial institutions partner with is HFAs, who purchase loans from lenders that meet HFA program standards. Forty HFAs provide originators the opportunity to offer Fannie Mae's HFA Preferred product, which offers preferred terms and discounts to HFA program loans. These products have been a huge success in expanding HFAs' support for underserved borrowers, including those in rural areas. Fannie Mae's proposed new loan purchase targets will allow such partnerships to continue to flourish and help more deserving rural families become homeowners.

Thank you for your consideration. We would be happy to discuss these issues with you at your convenience.

Sincerely,

Garth Rieman
Director, Housing Advocacy and Strategic Initiatives