Fannie Mae's Role in Serving Unmet Housing Needs

by Martin D. Levine

THE EVOLUTION OF SECONDARY MORTGAGE MARKET INSTITUTIONS IN THE UNITED STATES

Throughout their more-than-60-year existence, the secondary mortgage market institutions in the United States have played an important and ever-changing role in financing housing for low- and moderate-income families, and others who have not always had full access to the mortgage finance system. During this period, the secondary market organizations have evolved from a single entity that was a part of our national government to a series of institutions that include private corporations which retain certain ties to the government. The manner in which the private corporations have addressed underserved households and communities has changed over time—reflecting changes in private mortgage markets, in the nature of the regulation to which the corporations and other housing finance entities are subjected, and in the nature and magnitude of direct government support for housing.

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The Federal National Mortgage Association (more commonly known as Fannie Mae) is the largest and oldest secondary mortgage market organization in the United States. Through standard mortgage market activities and a growing number of specialized initiatives, it extends the benefits of the nation's mortgage finance system to families who would otherwise not be reached.

Fannie Mae was created in 1938 by an Act of the United States Congress to provide a secondary market for long-term, fixed-rate home mortgages that were only then being offered by private lending institutions and that were insured by the United States through another newly formed agency of the federal government. The combination of government insurance on the mortgages and an outlet for the sale of the loans with a government guarantee encouraged a sharp increase in lending on the security of homes, and helped fuel a dramatic increase in the homeownership rate in the United States during the following 30 years. The insurance premiums charged to home buyers covered the cost of defaults that occurred, and the combination of federal mortgage insurance and the activities of Fannie Mae did not result in any financial losses to the government. During this period the federal government also provided a modest level of funding each year to construct and operate publicly owned rental housing projects that housed families of modest means. For the most part, however, the government did not make direct expenditures to subsidize home purchases, nor were the private companies that originated mortgages subject to substantial regulation requiring that they direct any share of their financing activities to serve the needs of underserved communities.

With the federal government having demonstrated the financial viability of home mortgage lending, a private system of mortgage origination, insurance and financing eventually developed to serve markets that were not reached by the government programs. Partly in recognition of this phenomenon, in 1968 the U. S. Congress rechartered Fannie Mae as a private shareholder-owned corporation to carry out secondary market functions on behalf of originators of home mortgages that did not carry government guarantees. At the same time a Government National Mortgage Association (Ginnie Mae) was created with the United States Department of Housing and Development to securitize government-guaranteed loans.

This change in Fannie Mae's status coincided with the beginning of a period of rapid change in other aspects of the federal government's role in housing. During the 20 years following the rechartering of Fannie Mae, the govern-

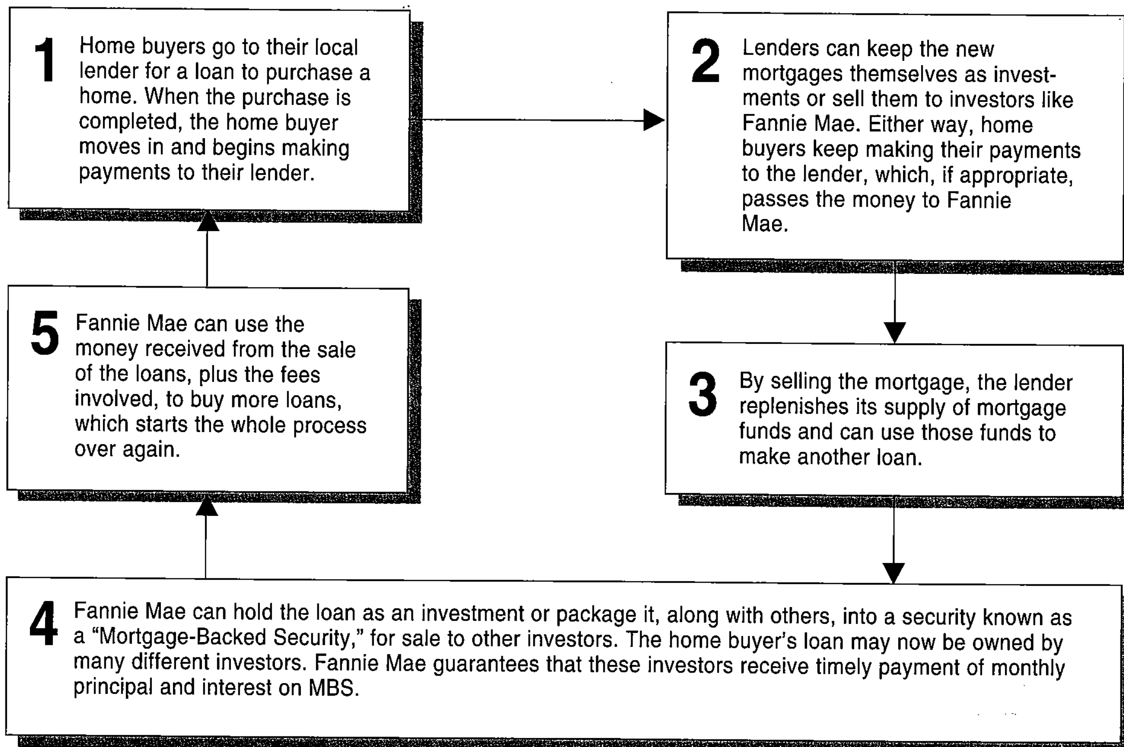
ment created a competitor corporation to Fannie Mae in the form of the Federal Home Loan Mortgage Corporation (Freddie Mac). Also during this period the government began to employ its own mortgage insurance programs more aggressively to reach families who would not otherwise have qualified for home loans—in some cases coupling substantially relaxed underwriting standards with mortgage interest subsidies. By late in the decade of the 1970s, with the passage of the Community Reinvestment Act, the government began to require that federally chartered depository institutions serve the financing needs of all the communities from which they draw deposits—including the home mortgage needs of areas with concentrations of low- and moderate-income families.

The period since the early 1980s has been characterized by a gradual decline in the federal role in providing direct assistance for either homeownership or rental housing, and an increase in federal regulation of private lending and secondary market institutions to reach families who are on the margins of being able to afford decent housing. Both these circumstances have helped spawn the development of a growing and increasingly sophisticated network of local nonprofit housing development organizations, increased activity among state and local governments in the area of housing, and increased expertise among private institutions to use their own resources to finance housing for low- and moderate-income families.

FANNIE MAE'S ROLE IN THE HOUSING FINANCE SYSTEM

Today Fannie Mae occupies a central role in the American housing finance system and plays an increasingly critical role in financing affordable housing as well. As the largest secondary mortgage market institution, it serves as a link between home buyers and sources of mortgage funding covering all parts of the United States, as well as to a growing

Figure 1. How the Secondary Mortgage Market in the United States Facilitates Lending



number of other countries whose investors purchase either Fannie Mae debt obligations used to fund mortgage purchases, or securities that are guaranteed by Fannie Mae and are backed by pools of mortgages. This system permits a continuous flow of funds to support residential finance (see Figure 1).

Although Fannie Mae operates as a private corporation reliant on its own resources, and though its debt and securities carry no government guarantee, it retains certain ties to the federal government, including its right to request borrowings directly from the U.S. Treasury under certain circumstances. It also carries special obligations under its charter—to provide a reliable source of mortgage finance to all markets at all points in the business cycle, and to make special efforts to extend the bene-fits of its franchise to low- and moderate-income families. As recently as 1992, this latter obligation was greatly strengthened in legislation that called upon Fannie Mae—as well as Freddie Mac—to achieve certain goals defined in terms of the share of the loans they finance that should serve lower income families and households living in underserved communities.

Fannie Mae continues to satisfy its evolving mission at no cost to the federal government, while providing a growing range of services to the nation's housing finance system. By 1994 Fannie Mae had come to finance about 20 percent of all home loans written in the United States, financing homes for some 2.3 million families and achieving all of its affordable housing goals. It does so while helping to lower mortgage interest rates throughout the housing finance system. Fannie Mae's remaining ties to the federal government and its financial strength enable the company to attract capital on favorable terms, resulting in mortgage interest rates that are generally estimated to be between 0.25 percent and 0.50 percent lower than would be the case if Fannie Mae and its companion secondary market corporation were not operating as they now do.

Service to Low- and Moderate-Income Families and Activities to Address Unmet Housing Needs

Fannie Mae's primary impact on the housing needs of low- and moderate-income families and underserved communities in the United States is through its standard mortgage loan programs. In 1994 45.7 percent of the housing units whose mortgages Fannie Mae financed were either occupied by families with incomes less than the median for the area in which they lived, or in the case of rental units, carried rents affordable to such households. In the same year, 31.5 percent of the dwellings Fannie Mae financed were located in the 545 central cities of the nation's largest metropolitan areas. The vast majority of these households financed their homes using Fannie Mae's standard mortgage products offered through a nationwide network of lenders who are eligible to offer such mortgages.

The service that Fannie Mae provides through its standard mortgage programs is supplemented by a growing range of products and services targeted specifically on lower income families, those living in communities in which needy households are concentrated, and households with special housing needs, such as the elderly. The mortgage products designed to reach these families include both specialized homeownership and rental housing loans with underwriting characteristics that provide special flexibilities to allow more families to qualify for home loans, or make it easier for developers of rental housing projects serving lower income families to acquire financing. In most instances the specialized mortgages carry credit enhancements—features designed to offset potentially adverse effects of the flexible underwriting on loan performance, and assure high-quality financial instruments that serve the interests of both the borrower and the investor.

The majority of Fannie Mae's specialized low- and moderate-income mortgage products are offered through the same network of lenders that provides the company's more standard products. Increasingly, however, Fannie Mae is working directly with other organizations, such as state and local governments, housing finance agencies and community-based non-profit groups. These entities may either originate loans themselves or work with originating lenders by providing subsidy funds or other services that make it possible for housing to be developed and financed that is affordable to families who might not otherwise be able to obtain decent housing. In addition, in the last few years Fannie Mae has expanded its service to the lower income sector of the market to include outreach and education provided directly to targeted households.

Fannie Mae offers these specialized products and services for two complementary reasons. First, these activities are consistent with the company's mission, as it defines it for itself, as well as with Fannie Mae's interpretation of its obligations under the legislation by which it is chartered. Second, it allows the company to reach some of those segments of the U.S. population that are growing most rapidly, and that will represent an increasingly large share of home buyers in the future, including native-born minorities and new immigrants to the United States.

In March 1994 Fannie Mae defined for itself a goal to greatly increase its service to these and other populations in need. James A. Johnson, the company's Chairman and Chief Executive Officer, pledged that for the seven years from 1994 through the year 2000 Fannie Mae would provide $1 trillion to finance 10 million homes for families with incomes less than their area median, minority households, recent immigrants, those living in rural areas and other underserved communities, and individuals with special needs. This will represent an increase of about one-fifth in the amount of such financings that Fannie Mae would otherwise have provided. In achieving its goal, Fannie Mae has pledged to help transform the housing finance system to make

it more open to those who had not previously been well served.

The remainder of this article describes some of the special efforts that Fannie Mae is making to realize its commitment. These activities—described at greater length in the Fannie Mae report, *Showing America A New Way Home*—build on targeted affordable housing efforts that date from the late 1980s. (See Table 1 for a summary of Fannie Mae's service to various groups in 1994, and its activity under targeted affordable housing programs.)

In conducting this business, one of the central challenges for Fannie Mae has been to make available products and services that are by their very nature often unique to the markets in which they are being offered; or will be made available on only a very small scale through a corporate structure and an institutional customer base that is oriented principally to providing widely replicable mortgage products in large volumes nationwide. Over the past five to seven years Fannie Mae has addressed this issue by supplementing both its central office and regional office staffs with organizational units dedicated exclusively to designing and delivering these unique products. The dedicated staff for rental housing finance and specialized homeownership products now comprise about one in ten of all the company's employees. Within the last year, as well, Fannie Mae has begun to open in a number of America's largest cities small offices dedicated to facilitating such specialized lending.

Table 1. Fannie Mae Service to Various Populations in 1994

	Households	*Loan Amount (in millions of $)*
Families and Individuals Served[1]		
Low- and Moderate-Income Households	828,400	$46,854
Central Cities	618,300	$42,950
Low- and Moderate-Income Census Tracts	157,500	$13,308
Minority Households	248,700[2]	$25,583
Minority Census Tracts	153,800	$15,302
Targeted Financing Products		
Community Lending Products	89,200	$7,637
Rural Housing Products	3,800	$242
Reverse Mortgages for Older Individuals	4,050	$421
Other Targeted Products	600	$23
Mortgage Revenue Bonds	23,300	$1,224[3]
All Rental Units	223,800	$4,773
Low-Income Tax Credit Commitments	20,000	$500[4]

[1] Households which satisfy more than one criterion appear in all categories to which they apply
[2] Does not include minority households in rental units
[3] Principal amount of Mortgage Revenue Bonds purchased in 1994
[4] Represents total equity committed since 1987

Homeownership Mortgage Products

Fannie Mae's targeted home loan products include mortgages for which eligibility is defined by a family's income or where the family lives, as well as products directed to particular demographic groups:

Community Lending. Fannie Mae offers a menu of single-family mortgage products that are available to low- and moderate-income home buyers and people who live in communities that have not always had full access to mortgage credit. These community lending loans are provided through a broad cross-section of all lenders that are qualified to do business with Fannie Mae. For the most part these mortgages are limited to families with incomes no greater than the median for all families in the areas in which they live; to households living in the nation's largest cities; and to households living in neighborhoods in which either the median family income is less than 80 percent of the area median, or a majority of the residents are members of racial and ethnic minorities.

These mortgages—which go under the names of the Community Home Buyer's Program and FannieNeighbors—permit a borrower to put as little as 5 percent of the purchase price towards the down payment on a home, borrowing the remaining 95 percent. In some instances as little as 3 percent is required for the down payment. Typically borrowers under these programs are allowed to apply a somewhat larger share of their incomes towards their mortgage payments—33 percent of income towards mortgage-related expenses and 38 percent of income towards the combination of mortgage payments and other recurring credit obligations. This contrasts with 28 percent and 36 percent, respectively, for more standard mortgage products. Also, a community lending borrower may not be

required to have a financial reserve at loan closing equal to two months' mortgage payments, as is generally required for other loans. Offsetting these credit flexibilities, all borrowers under these programs are required to undergo some form of pre-purchase counseling to familiarize themselves with the financial obligations of homeownership, as well as its benefits. In addition, all mortgages written under community lending programs are partially insured by private mortgage insurers, which re-underwrite each loan before it may be sold to Fannie Mae.

Community lending loans have grown from a series of very small pilot efforts in the late 1980s, yielding a cumulative four-year total of about $130 million, to a widely available family of products that produced more than $7 billion in loan deliveries in 1994 alone. As of the middle of 1995 Fannie Mae had more than $19 billion in such loans outstanding, financing homes for nearly 250,000 families.

Rehabilitation Loans. Fannie Mae offers another series of loan products that are designed to finance the repair or rehabilitation of single-family homes. The availability of such loans is of particular importance in older urban areas and other communities in which the decay of aging housing denies families decent shelter and can contribute to broader neighborhood decline.

Fannie Mae's standard rehabilitation mortgage loan product is available to individual homeowners and home buyers, as well as builders, developers and local government agencies, purchasing existing dwellings for renovation. Eligible properties include single-family homes, individual units in cooperatively owned structures and condominium units. In some instances these mortgages may be used as well to finance repairs on two- to four-unit properties. Lenders that offer rehabilitation loans must be separately approved to do so and must retain the financial risk if the rehabilitation is not completed within 12 months, or if the loan is in default for four consecutive months during the rehabilitation period. Loan terms may include a range of fixed-rate and adjustable-rate structures.

Other Fannie Mae home repair loans are designed specifically to serve families of modest means and those purchasing or rehabilitating less costly homes. Community Home Improvement Mortgage Loans provide 15- and 30-year fixed-rate loans to borrowers with incomes no greater than 100 percent of the median for the area in which they live, and to families regardless of income who live in central cities and in eligible low-income or minority neighborhoods. Properties are generally limited to single-family homes and to units in condominiums and planned unit developments that meet certain criteria. Community Home Improvement Mortgage Loans may carry loan-to-value ratios as great as 95 percent based on the as-completed value. The cost of the improvements generally may not exceed 30 percent of a property's as-completed value. Borrowers may qualify for such loans using some of the flexibilities available under Fannie Mae's Community Home Buyers program, including housing-expenses-to-income ratios of 33 percent, and total-obligations-to-income ratios of 38 percent. All Community Home Improvement Loan borrowers must participate in a homeownership and personal finance education generally offered either by the lender or by a community organization.

Other home repair loan products available through Fannie Mae finance the rehabilitation of modest-priced homes and carry U.S. government insurance through the Federal Housing Administration (FHA). FHA Section 203(k) rehabilitation loans may be used to finance a range of remodeling and home repairs, from a minimum of $5,000 up to major renovation. The maximum loan amount is set by the FHA and varies with average home prices for the market in which the property is located, up to a current maximum of about $152,000. Properties may be primary residences or income-producing properties that contain one to four units and have been completed for at least one year. The maximum loan-to-value ratio for owner-occupied properties may go as high as 95 percent. The loan-to-value ratio for investment properties may not exceed 85 percent. Owner-occupants may choose either fixed-rate or adjustable-rate 30-year loans; only fixed-rate loans are available to investor/borrowers.

The most recent addition to Fannie Mae's menu of rehabilitation loans is the FHA-insured Title I Home Improvement Loan. Title I loans are designed to help credit-worthy homeowners who may have little equity in homes they already own finance modest improvements. These loans fund the repairs alone, generally operating as a second mortgage in conjunction with a pre-existing first mortgage. Fannie Mae will purchase Title I loans with fixed terms of from 5 to 20 years, up to a maximum amount of $25,000 per loan. Eligible properties include one- to four-unit structures. Underwriting guidelines are established by the FHA. They do not prescribe a maximum housing-expenses-to-income ratio but limit the total-obligations-to-income ratio to 45 percent.

Although these products represent a growing business for Fannie Mae and allow the company to assist with important housing needs, the company's share of the housing rehabilitation market is much lower than its share of the home purchase and rehabilitation financing markets. Taken together, Fannie Mae purchased about $38 million in housing rehabilitation mortgages in 1994.

Rural Housing. Other Fannie Mae products serve families who live in America's rural communities. These include loans that allow low- and moderate-income families to purchase homes with no money paid toward their down payments. Such 100 percent mortgages carry guarantees provided by an agency of the United States Department of Agriculture. The loans are available through a network of more than 200 lenders to families who live in qualifying jurisdictions and who have income

no greater than 115 percent of their area median. As of the middle of 1995, Fannie Mae had purchased more than 9,000 mortgages under this program, with a total original principal value in excess of $570,000.

Elderly Housing. Other Fannie Mae mortgages are designed to serve the unique housing needs of elderly citizens—the fastest growing segment of the U.S. population. Within 10 years, people over the age of 65 will represent one-fifth of all Americans.

The largest Fannie Mae senior housing product is the Home Equity Conversion Mortgage (HECM), often referred to as a form of "reverse mortgage." This mortgage, insured by the Federal Housing Administration, permits people who are 62 years of age or older and who own their homes debt-free or nearly clear of debt, to tap into the equity in their homes. Borrowers mortgage their homes, borrowing against their properties and receiving whatever combination of a monthly annuity and periodic payments that occur at times and in amounts of their choosing under a line of credit. The amount that any elderly homeowner may borrow is based on a formula that factors in the age of the borrower, the interest rate, and the value of the home, up to maximum amounts that vary with the cost of housing in the market in which the property is located. There is no obligation to repay the mortgage until the borrower either moves from the home or dies, in which case the obligation falls to his or her estate. In no case can the repayment obligation exceed either an amount that is fixed at the time the mortgage is written, or the value of the home if it is sold to realize the obligation.

Since Fannie Mae began to offer HECM loans about five years ago, the company has provided such mortgages to more than 10,000 older homeowners, with a maximum value of more than $1.1 billion. The typical borrower is a single, elderly woman over 70 years of age who is "house rich, but cash poor," with an income as low as $10,000. The decision to take out such a loan is often triggered either by an unexpected medical expense or by an increase in housing expenses, such as the need to effect a major repair. Building on its experience with HECMs, by next year Fannie Mae expects to be offering a revised version of the reverse mortgage which will not be insured by the federal government and will permit borrowers to borrow somewhat larger sums.

Employer-Assisted Housing. Fannie Mae offers a series of specialized mortgage products that finance homes for individuals whose employers participate financially to reduce the costs borne by the employee/home buyer. Provided under the name Magnet loans, these products offer private and public employers several ways in which they can assist their workers, including direct grants to pay part of a home buyer's down payment or closing costs; fully repayable loans to cover some of the same expenses; forgivable or deferred payment loans; and monthly assistance payments to pay a portion of workers' mortgage payments.

Magnet loans are designed to be used by private employers who are seeking to provide an employee benefits package to distinguish them from other corporations, by public employers that might be seeking to encourage their workers to reside in the jurisdiction for which they work, and by public and private employers alike whose workers might find it difficult to afford to reside near their places of employment. In other instances, such as in the case of hospitals located in physically decaying sections of some of America's cities, Magnet loans have been appealing as a means of providing an incentive for families to move into and revitalize specific neighborhoods. Fannie Mae offers Magnet loans to its own employees. The company has also worked with the city governments of Washington, D.C., and Baltimore, Maryland, to design employer-assisted housing programs that those cities provide to some of their workers.

Public Finance Products. In providing mortgage products and services to low- and moderate-income families on the most attractive possible terms, Fannie Mae works as well with a network of state and local housing finance agencies. These institutions—instrumentalities of state, county and city governments—permit jurisdictions to raise capital on favorable terms and direct it towards the financing of home loans for low- and moderate-income families and first-time home buyers. Collectively, they comprise the public finance sector of housing in the United States.

Housing finance agencies (HFAs) issue long-term bonds, the proceeds of which can be used to fund mortgage loans which, in turn, collateralize the agencies' borrowings. The unique advantage of these agencies lies in the exemption from federal taxation that the interest on a certain class of their bonds enjoy. Interest on these bonds is also generally exempt from state or local taxation for bond holders who reside in the jurisdiction in which the issuing agency is located. The annual volume of bond issues that are exempt from federal taxation is set by federal statute and is allocated among the individual states according to population.

Fannie Mae serves as a direct financial partner to HFAs in two ways. First, the company purchases mortgage revenue bonds directly from the issuing agencies. By selling the bonds to Fannie Mae, the agency can avoid expenses that would otherwise be associated with sales to individual purchasers, generally through investment banking and brokerage firms that aggregate the bonds into pools. Direct sales of bonds to Fannie Mae can also permit issuing agencies to structure their financings in ways that apply the proceeds of classes of their bonds to particularly pressing housing priorities they are seeking to serve. Second, Fannie Mae can securitize and guarantee the pools of mortgages that are financed by bonds that may be purchased by others. Because of Fannie Mae's strong credit standing, this securitization-and-guarantee service allows the bonds to be issued at lower interest rates than would otherwise have been possible—a savings that can be passed along to home buyers.

In the last five years, Fannie Mae has purchased almost $6 billion of mortgage revenue bonds outright and has provided credit support for more than $2 billion of additional financings by housing finance agencies.

Rental Housing Finance

Rental housing is often the most affordable housing resource available in the United States for low- and moderate-income families in the United States. After rapid expansion during the 1960s and 1970s in federal government programs to fund the development of new privately and publicly owned rental housing, for the past 15 years there has been an increasing reliance on the private sector to address this need.

During this period Fannie Mae has played a growing role in financing rental housing. The company offers debt financing for housing projects, virtually all of which are affordable to low- and moderate-income families, as well as equity funding for projects that are available exclusively to low-income and very low-income households.

Rental Housing Debt Financings. Fannie Mae's rental housing debt financings fall into three primary categories: the purchase or securitization of individual permanent multifamily mortgages that are originated by a network of approved lenders under programs of the company's design; the securitization of existing portfolios of rental housing loans that were originated earlier and continue to be held by outside investors; and public finance activities.

The company's rental housing debt financing programs include a Delegated Underwriting and Servicing (DUS) product line, as well as the prior approval of individual mortgages on multifamily properties. Under each approach, Fannie Mae purchases first-lien mortgages financing the acquisition or refinance of existing or recently completed multifamily properties, or properties needing moderate rehabilitation. Under the DUS program, specially approved lenders operating within guidelines established by Fannie Mae underwrite, close and sell mortgages without prior review. In turn, this limited group of highly experienced multifamily housing lenders shares with Fannie Mae any losses in the event of a default. Mortgages include fixed-rate and adjustable-rate loans with a range of short to medium terms. Under the prior approval program, by contrast, Fannie Mae staff underwrite and approve individual mortgages before they are bought by the company. In this case, Fannie Mae retains the entire risk of financial loss.

In addition to financing existing rental housing properties, Fannie Mae issues forward commitments for up to 24 months to buy or securitize permanent financings provided by Fannie Mae-approved multifamily lenders. These forward commitments assist borrowers in obtaining loans for the construction or substantial rehabilitation of rental housing. Such commitments are available to help finance the development or repair of housing projects that are designated to serve low- and moderate-income families.

Since 1994 Fannie Mae has also been engaged in a pilot effort to finance multifamily rental properties that provide extended services for the elderly. Offered through Delegated Underwriting and Servicing lenders, this initiative offers moderate- to long-term mortgages for projects that combine permanent housing with services such as meals, housekeeping, laundry and transportation, which older individuals may require in order to maintain independence. In the first year, three commitments were issued under this pilot to finance about 530 units of housing for the elderly.

Fannie Mae also conducts substantial rental housing business in negotiated transactions with many types of lenders and institutional investors, often involving the securitization of entire portfolios of loans. By providing liquidity to these lenders/investors, Fannie Mae permits them to fund additional mortgages. In 1994 Fannie Mae securitized almost $2 billion in multifamily mortgages through such transactions. In the last 10 years, such financings have totaled more than $14 billion.

Fannie Mae also works with housing finance agencies to purchase bonds and provide credit support for the financing of multifamily rental housing. Often Fannie Mae helps finance bonds issued to refund older, higher interest bonds, enabling state and local agencies to free up significant amounts of cashflow to be reinvested in new affordable housing. In many transactions refunding the tax-exempt bonds significantly reduces the amount of federal funds needed to subsidize very low-income projects. By helping to lower the bond rate, Fannie Mae's participation frees up funds for investment in additional affordable housing; reduces the amount of federal dollars needed to subsidize the projects; and preserves decent, safe and sound units as low-income housing. In 1994, Fannie Mae closed $553 million of multifamily public finance business, which included 28 separate transactions and involved many different states and local issuers.

Through all these activities taken together, Fannie Mae maintains a position as the largest corporate investor in the multifamily market, with a total of $29 billion of mortgages either owned outright or guaranteed by the company as of the end of 1994.

Rental Housing Equity Investments. Fannie Mae is also among the nation's largest corporate equity investors in low-income rental housing projects that make use of one of the few remaining federal assistance programs to promote the development of such housing.

As part of a wide-reaching rewrite of the federal revenue code in 1986, which included the elimination of a number of real estate-related tax benefits, the U.S. Congress created a pro-

gram that provides both individuals and corporations with the opportunity to realize credits against their tax obligations for investments in rental housing projects that are set aside in whole or in part for occupancy by low-income families and individuals. Each year a finite amount of such credits becomes available and is allocated among the nation's state housing finance agencies. Private for-profit and non-profit developers of low-income rental housing then apply to the allocating agencies for the authority to attach such credits to their projects. The developers, in turn, make the right to use such credits available to equity investors in qualifying projects. Such investors earn their return in large part through the exercise of the credits. The equity raised through this means reduces by as much as one-half the amount of debt that projects would otherwise have to carry—permitting the dwelling units to be made available at lower rents than would otherwise be possible. As a condition for remaining eligible for the credits, qualifying projects must set aside a minimum share of their units for families with incomes no greater than either 60 percent or 80 percent of their area median—and make those units available at controlled rents for a minimum of 15 years.

Since making its first equity investment in a low-income housing project in 1987, Fannie Mae has committed to provide more than $550 million to finance more than 20,000 affordable rental housing units in 30 states and Washington, D.C. These include 136 investments in individual projects, as well as participation in 41 equity funds that serve residents of specific cities or states, or people with particular housing needs. Among the specialized funds are equity pools to finance very small projects, capital pools to fund rural housing projects, and a unique equity fund that assists in the development of housing projects that provide supportive social services in conjunction with permanent shelter for individuals and families with special needs, including the formerly homeless.

In determining whether to undertake any particular low-income housing equity investment, Fannie Mae considers such factors as the experience of the project developer in constructing and managing such housing, the appropriateness of the proposed housing to the market and the families it is expected to serve, the likelihood that the local market will support the proposed rents, and an assessment of whether or not the rents will sustain the project financially.

CONCLUSION

The housing finance system of the United States has changed greatly over the past several decades, reflecting evolving institutions and changes in the policies of the federal government. In recent years in particular, increased reliance has been placed on the private sector, in partnership with the state and local governments and non-profit organizations, to finance housing for lower income families and other underserved populations. In this environment, the role of Fannie Mae has evolved as well. The company has grown to become the largest single source of home financing in the United States and the major source, as well, for financing for permanent shelter for families for whom affordable shelter is not within easy reach.