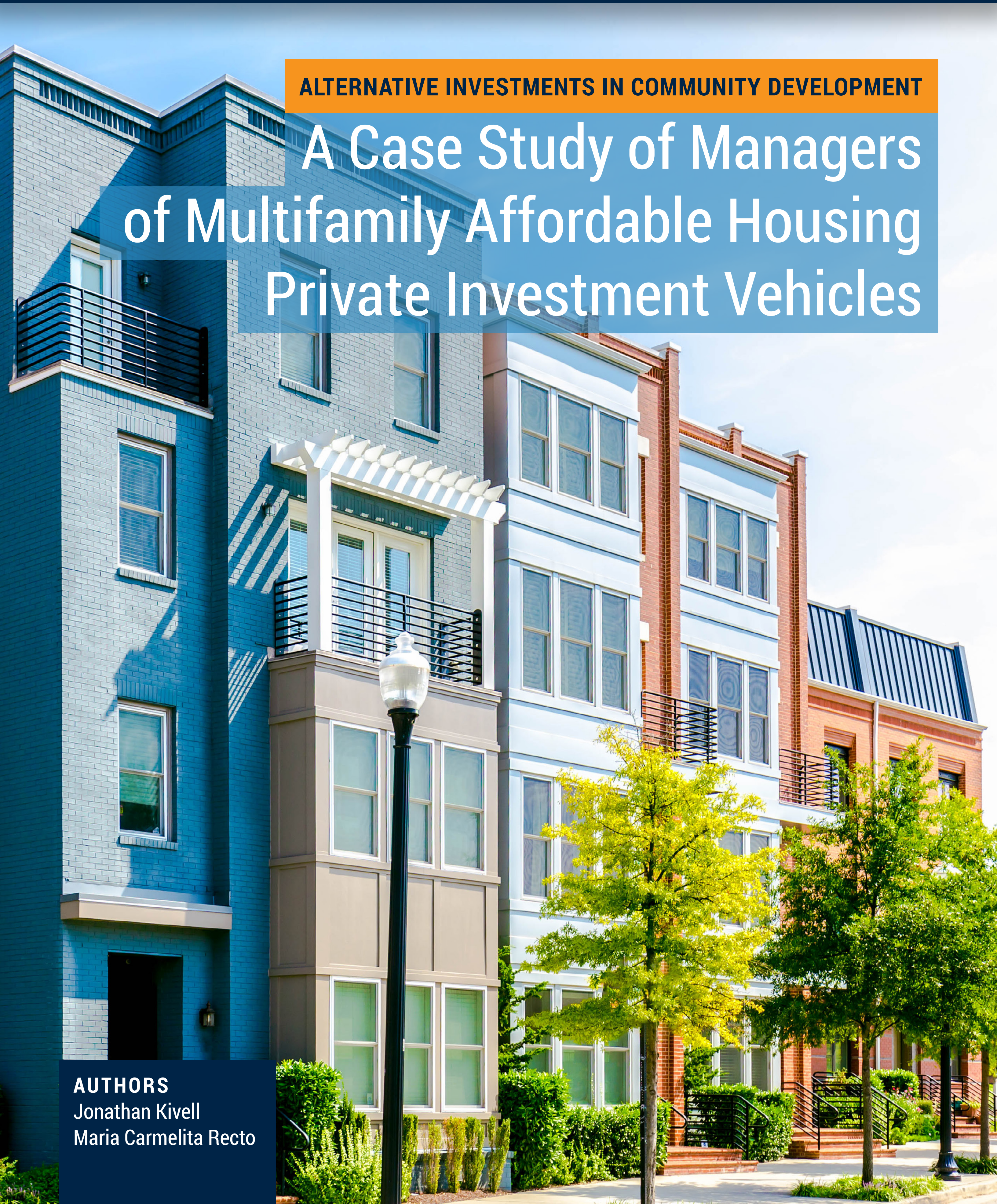
FEDERAL RESERVE BANK *of* NEW YORK

ALTERNATIVE INVESTMENTS IN COMMUNITY DEVELOPMENT

A Case Study of Managers of Multifamily Affordable Housing Private Investment Vehicles



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DISCLAIMER

The views expressed in this report are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System. Any errors or omissions are the responsibility of the authors.

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KEY TAKEAWAYS

- The New York Fed's Community Development team sought to examine one part of the affordable housing market that has garnered increasing attention from private investors. This report aggregates data[1] from a survey of a nonrepresentative sample of managers of private investment vehicles in multifamily affordable rental housing.

- The median respondent to the survey has raised $300MM in equity for its affordable housing private investment vehicles since 2017 (from investors including both bank and nonbank investors); the median respondent has invested $169MM since 2017. Respondents are more likely to manage a closed-end vehicle, will likely report their portfolio impact metrics, and are more likely to be geographically focused on transactions in the southwestern US.

- Properties financed by respondents to the survey predominantly serve households earning between 50% and 80% of AMI. In comparison, LIHTC properties most often serve households earning 60% of AMI or below.[2,3] Of the remaining portions of their portfolios, respondents are more likely to own and manage properties serving households between 80% and 120% of AMI rather than very-low-income households.

- Survey respondents primarily invest in preserving existing affordable units rather than financing the development of new properties. The majority of respondents indicate that they anticipate raising more equity in the next 12-24 months than they have since 2017.

- Multifamily affordable housing is an example of the convergence of Community Reinvestment Act (CRA)-motivated banks and various types of impact investors. Banks, pension and endowment funds, and high-net-worth individuals together account for 74% of investors' equity capital raised by respondents. Bank investors represent 34% of the total equity capital raised by respondents and nonbank investors (including pensions, endowments, and high-net-worth individuals) represent 66%. Most respondents provide investors with impact metrics that align with investors' impact goals in order to attract capital.

1 Data was self-reported by respondents. Any calculations were based on data as reported.

2 CohnReznick, "2021 CRedit Study: LIHTC Industry Data and Analysis," November 15, 2021.

3 The Internal Revenue Service and the US Treasury recently released final regulations that allow for a group of individual units that have an average imputed income limitation of 60% or less of area median income. See Michael Francescani and Beth Mullen, "Final Average Income Test Regulations Clarify Key Terms, Eliminate 'Cliff Test'," CohnReznick, October 11, 2022.

INTRODUCTION

Housing is often a household's biggest expense, and it has an important connection to both inflation and employment, the twin subjects of the Federal Reserve's monetary policy mandate. The New York Fed's Community Development team sought to examine one part of the affordable housing market that has garnered increasing attention from private investors. We aim to improve our understanding of how changes in this part of the market can have an impact on the pricing and availability of housing for low- and moderate-income families.

In recent years, bank[4] and nonbank[5] investors have shown growing interest in identifying and financing solutions to issues affecting low- and moderate-income communities. Within the housing space, individual and institutional investors have increasingly focused on affordable housing private investment vehicles.[6] Growth in the number, size, and sophistication of managers of private investment vehicles focused on multifamily affordable rental housing has coincided with heightened demand for units, demand that continues to overwhelm[7] the supply of subsidized properties that are nearing the end of their affordability requirements[8] and unsubsidized properties that are more economically vulnerable to disrepair.[9] These investment vehicles often target renters whose incomes are at or below 60% of area median income (AMI). They have also ramped up their efforts to raise capital to invest in properties serving higher-earning but increasingly rent-burdened[10] households earning up to 120% of AMI that are ineligible for some forms of subsidized housing.

These private investment vehicles[11] have made investments in properties financed with Low Income Housing Tax Credits (LIHTC)[12] that are near the end of their respective compliance or extended use periods, project-based rental assistance Section 8 properties, naturally occurring affordable housing units, and other rent-subsidized buildings.[13] These properties represent a substantial portion of the country's affordable housing stock. However, not many studies have

4 Boston Consulting Group, "With 20% of Retail Banks Planning to Significantly Increase Spending on ESG, Sustainability Is the Next Frontier for Competitive Advantage," press release, September 27, 2022.

5 US SIF: The Forum for Sustainable and Responsible Investment, "Report on US Sustainable and Impact Investing Trends 2020."

6 Shimon Shkury, "Why Mission-Driven Affordable Housing Is Setting the Standard for NYC's Recovery," Forbes, March 25, 2021.

7 National Low Income Housing Coalition, "The Gap: A Shortage of Affordable Rental Homes."

8 National Housing Preservation Database, "2022 Preservation Profiles."

9 Steve King, et al., "Preserving the Largest and Most At-Risk Supply of Affordable Housing," McKinsey & Company, February 23, 2021.

10 Whitney Airgood-Obrycki and Alexander Hermann, "Affordability Gaps Widened for Renters in the First Year of the Pandemic," Joint Center for Housing Studies, Harvard University, July 20, 2022.

11 The authors note that there are technical distinctions between the terms "investment vehicles" and "private capital." These terms may be used interchangeably at times in this report in describing respondents that completed the survey. For purposes of this report, these terms refer to an investment structure for which an investment manager raises private capital and invests that capital on behalf of investors in multifamily housing.

12 Fannie Mae, "Investors Show Strong Interest in LIHTC Assets," June 16, 2022.

13 While the authors acknowledge that there are more nuanced descriptions of the multifamily affordable housing stock in the US, we focus the discussion in this report on subsidized properties with income restrictions and unsubsidized properties with no restrictions.

been done on these entities' footprint in the market. Although past analyses[14] have studied what could happen to some LIHTC-subsidized properties after their respective compliance periods end, the role of private capital as a potential means for financing properties and preserving various levels of rent affordability has not been fully explored.

BACKGROUND ON MULTIFAMILY AFFORDABLE HOUSING

The affordable housing industry has leveraged various federal, state, and local programs for the development of new and the rehabilitation of existing affordable housing units. The LIHTC and Section 8 programs have subsidized 81% of the 327,565[15] affordable rental units whose affordability restrictions will expire in the next 5 years. Therefore, these units comprise a significant subset of subsidized housing at risk of losing affordability. LIHTC is the federal government's primary tool for incentivizing equity investment in the construction and preservation of affordable housing. In 2021, about $22 billion of investor equity[16] was closed in LIHTC funds. In addition, Congress appropriated about $14 billion[17] in FY 2022 to the Project-Based Rental Assistance (PBRA) program to fully fund renewal of expiring contracts. PBRA is a separate program from Section 8 Housing Choice Vouchers, a tenant-based subsidy program that was appropriated about $27 billion in 2022.

The stock of naturally occurring affordable housing (NOAH) has also been a pipeline for investment. While no formal definition exists, NOAH units are typically older with minimal amenities and they do not receive public assistance or have income restrictions. Absent a standard definition, estimates for the number of NOAH units nationwide vary. One analysis[18] from commercial real estate services and investment firm CBRE, which also uses the term "workforce housing units," estimates that 12 million multifamily units in the US serve households earning between 60% and 120% of AMI. While this estimate undercounts[19] the number of units because of data limitations, it provides insight into NOAH as a significant investment opportunity to acquire "stable, income-producing assets."[20]

14 Jill Khadduri, et al., "What Happens to Low-Income Housing Tax Credit Properties at Year 15 and Beyond?" HUD Office of Policy Development and Research, August 22, 2012.

15 Authors' calculations based on reported figures. See National Housing Preservation Database, "2022 Preservation Profiles."

16 CohnReznick Housing Tax Credit Monitor, "2021 Housing Credit Equity Volume Survey," March 2022.

17 National Association of Counties, "Legislative Analysis for Counties: The Consolidated Appropriations Act of 2022,"March 17, 2022.

18 CBRE, "The Case for Workforce Housing: A Market Perspective," November 2018.

19 The CBRE report acknowledges undercounting the estimated number of units, since it only counts properties in its database with more than 50 units located in metros with a population of 1+ million.

20 National Low Income Housing Coalition, "Naturally Occurring Affordable Housing Benefits Moderate Income Households, But Not the Poor," November 7, 2016.

A FOCUS ON PRIVATE INVESTMENT VEHICLES IN MULTIFAMILY RENTAL AFFORDABLE HOUSING

The New York Fed Community Development team seeks to better understand this part of the affordable housing market. When private investment vehicles identify and acquire multifamily properties, what does that mean for tenants? As ownership changes for subsidized properties and private institutional owners manage those assets (either through direct ownership or as a limited partner with a local general partner), we aim to understand the impact on rents and property operations. Additionally, as private investment vehicles look to exit their investments in multifamily affordable rental housing properties, what commitments will the new buyers of the properties make in terms of maintaining affordability levels for those units? To begin addressing these questions, our team first sought to understand the market for affordable housing private investment vehicles.

The authors acknowledge that there are differing views of the impact on tenants of institutional ownership of both single-family and multifamily affordable rental housing properties.[21,22,23] In examining this part of the affordable housing market through this case study, the authors do not endorse or reject any approach or strategies. The goal of this case study is to improve the collective understanding of these investment vehicles.

21 HUD Office of Policy Development and Research, "PD&R Quarterly Update: Institutional Investors in Housing," January 10, 2023.

22 Testimony of Dr. Jenny Schuetz, Senior Follow, Brookings Institution at the hearing "Where Have All the Houses Gone? Private Equity, Single Family Rentals, and America's Neighborhoods," for the 117th Congress, June 28, 2022.

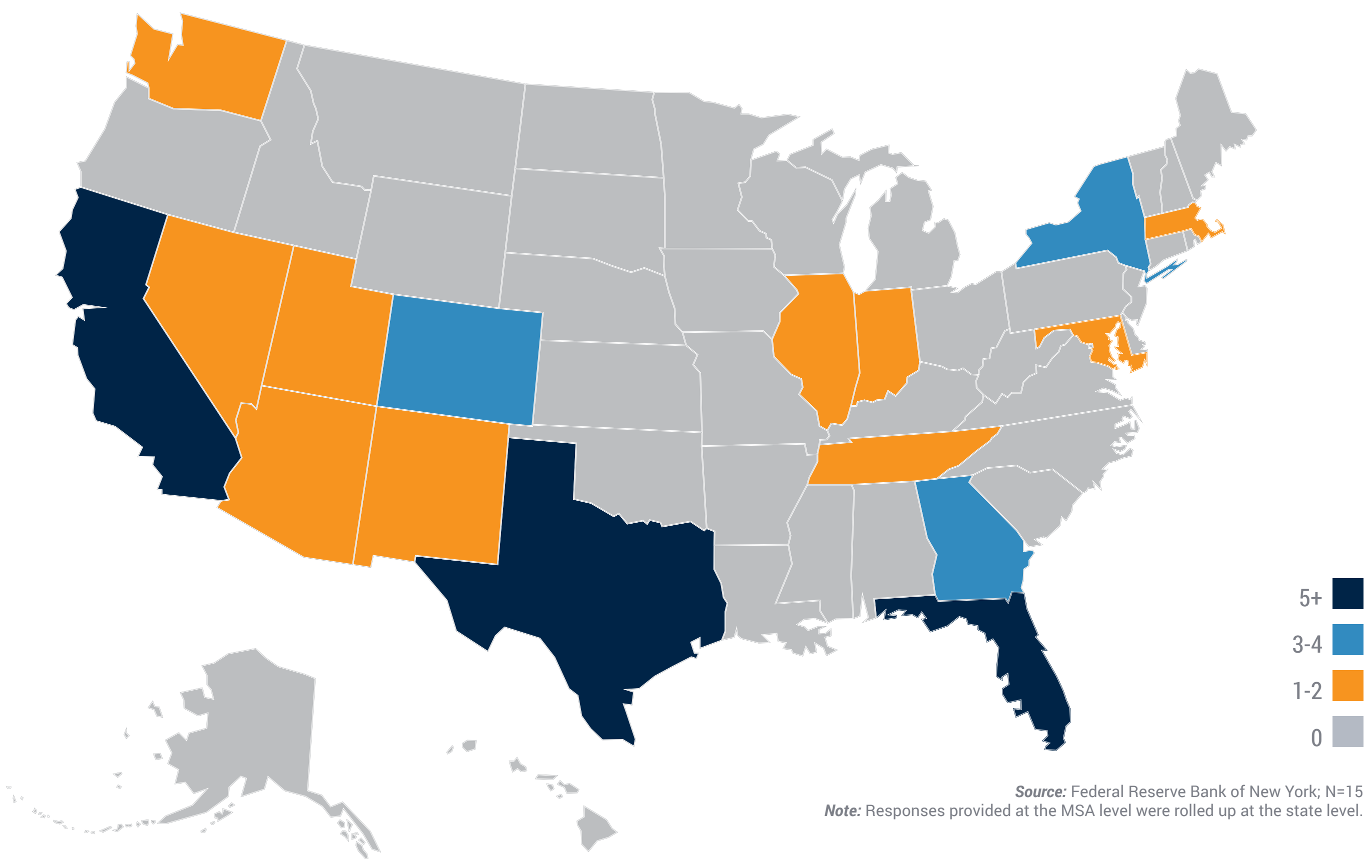
23 Shelby R. King, "ESG … and T? Tenant Protections Fly Under the Impact Investing Radar," Shelterforce, September 23, 2022.

ANALYSIS

OVERVIEW OF SAMPLE SET OF INVESTMENT MANAGERS AND VEHICLES

For this case study, the New York Fed Community Development team surveyed a small sample of managers of private investment vehicles between April and August of 2022. Participation in the survey was voluntary, and we received responses from 15 managers of affordable multifamily investment vehicles from across the country.[24] Although we are unaware of the full size of the market (both in terms of capital raised/deployed and firms executing various strategies in multifamily affordable housing), our sample includes firms with a wide dispersion of equity raised. Since 2017,[25] the median equity capital raised by respondents is $300MM, and they have invested a median of $169MM. Respondents have a median of 5,619 affordable housing units in their portfolios, most of which have tenant income restrictions. As shown in **Map 1**, respondents have a notable market presence in the southwestern US.

Map 1: Southwest US is the respondents' most active area of investment
Total number of times a geographic area was mentioned as a top five investment area



Source: Federal Reserve Bank of New York; N=15
Note: Responses provided at the MSA level were rolled up at the state level.

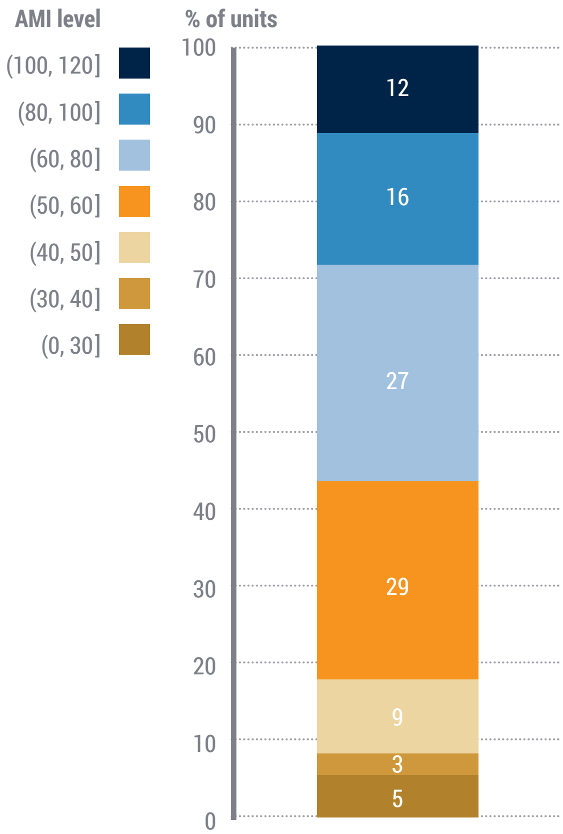
24 To preserve the anonymity of respondents, we do not disclose organization names and some other data points in this report.

25 Authors gathered totals from the beginning of 2017 to the respondents' respective survey completion dates to roughly account for differences in their capital-raising cycles.

As shown in **Figure 1** , 56% of affordable housing units financed by the respondents serve households earning between 50 to 80% of area median income.[26] Notably, respondents' portfolios have a smaller share of units allocated for very-low-income tenants (whose incomes are below 50% of AMI) compared to households earning more than 80% of AMI at 17% and 28%, respectively.

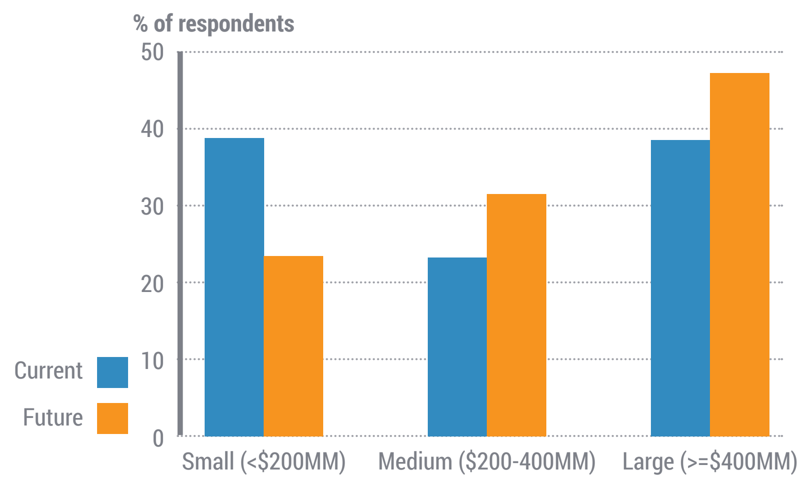
The survey also asked about respondents' plans to raise capital over the next 12 to 24 months, with a median projected at $381MM. As shown in **Figure 2**, more respondents plan to raise mid-sized and large investment vehicles.[27] This growth suggests optimism about increased investor attention to this part of the market.

Figure 1: Respondents are primarily serving 50-80% of AMI areas
Average share of units allocated to AMI levels



Source: Federal Reserve Bank of New York; N=14
Note: AMI stands for area median income, which is based on household income level relative to an area.

Figure 2: Most respondents plan to raise more funds
Percent of respondents with capital in each defined bucket



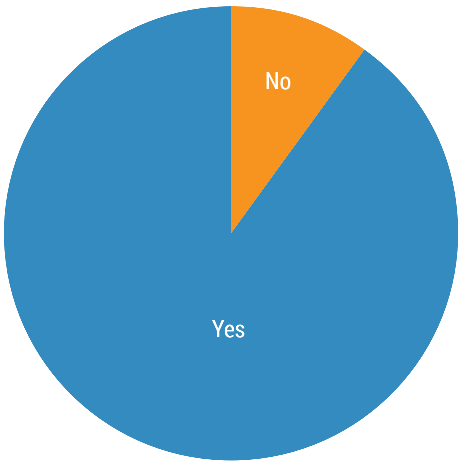
Source: Federal Reserve Bank of New York; N=13
Note: Only respondents with nonzero responses for this question were included.

26 In the survey, AMI levels were noted as "<=30; <=40; <=50;..." based on feedback from industry practitioners during the development of the questionnaire. The authors assume these categories to be discrete and equivalent to ranges, i.e., "0-30; 31-40; 41-50..."

27 In this report, we define small vehicles as those with under $200MM in equity capital, mid-sized vehicles as those with $200-400MM, and large vehicles as those with more than $400MM. This is based on our sample set of vehicles with a median of $300MM in total capital raised.

Figure 3 reflects respondents' answers when asked about impact measurement and reporting. Most respondents in the sample incorporate impact metrics into their investor reports.

Figure 3: Majority of respondents include impact metrics in investor reports
Total number of respondents that report impact metrics



Source: Federal Reserve Bank of New York; N=14

PRESERVATION OUTSTRIPS NEW DEVELOPMENT AS FOCUS OF INVESTMENTS

Preserving existing affordable housing units remains the respondents' primary investment purpose based on the dollar size of their current and planned investments, as shown in **Table 1**. Respondents have invested to-date a median of $227MM for preservation compared to $27MM for new development.

As respondents consider plans for future investments, the majority expressed interest in investing for both new development and preservation, or solely for new development, versus

Table 1: New development may see biggest increase in future investment
Median investment in new development and preservation

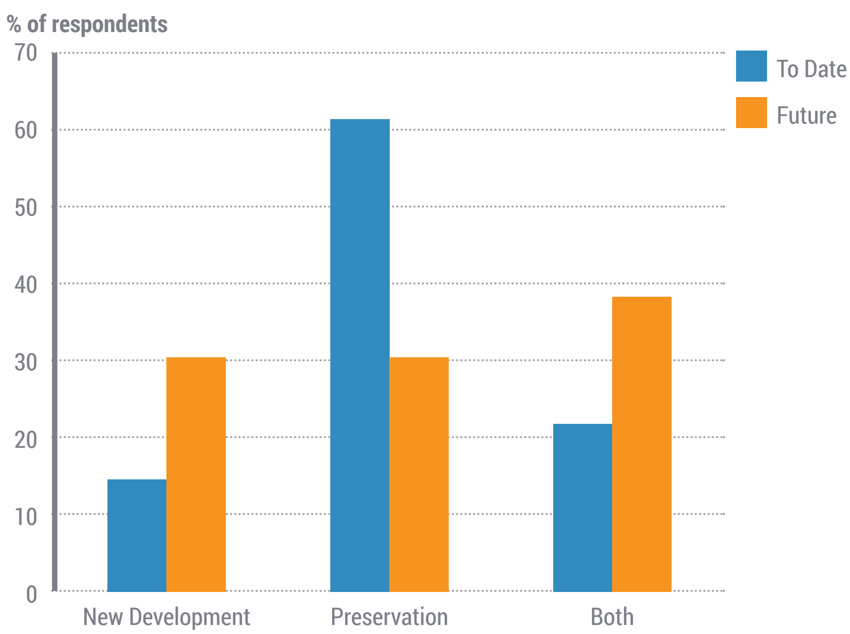
Investment Purpose	Current	Future
New Development	$27MM (11%)	$150MM (25%)
Preservation	$227MM (89%)	$450MM (75%)

Source: Federal Reserve Bank of New York; N=15
Note: Median is conditional on respondent reporting a nonzero amount

the historical focus on preservation only. As shown in **Figure 4**, when respondents were asked to compare their current and planned investments, the proportion that indicated investing solely in preservation decreased from 62% to 31%. Figure 4 also shows a substantial increase in the percentages of respondents that indicated they were investing in both new development and preservation, and those that indicated investing solely in new development. Respondents indicated plans to increase the size of investments for new development to a median of $150MM from $27MM as noted in Table 1. However, this amount is notably less than the median planned investment for preservation at $450MM.

This finding is particularly relevant for LIHTC transactions, which both finance new and preserve existing affordable rental housing units. At or near the expiration of LIHTC properties' compliance periods, the owners of those properties can resyndicate LIHTC.[28] These properties are still subject to the LIHTC extended use period and may also be subject to Land Use Restriction Agreements[29] relating to affordability levels and AMI. If property owners do not resyndicate LIHTC, they may opt to sell the properties outright to privately managed investment vehicles or to other developers that receive financing from these vehicles. Therefore, it is possible that the growth of private capital in the purchase and sale of properties at the end of their LIHTC compliance periods is emerging as a more frequent alternative to tax credit resyndication.

Figure 4: Respondents plan to shift toward new development
Percent of respondents investing in new development and/or preservation



Source: Federal Reserve Bank of New York; N=13

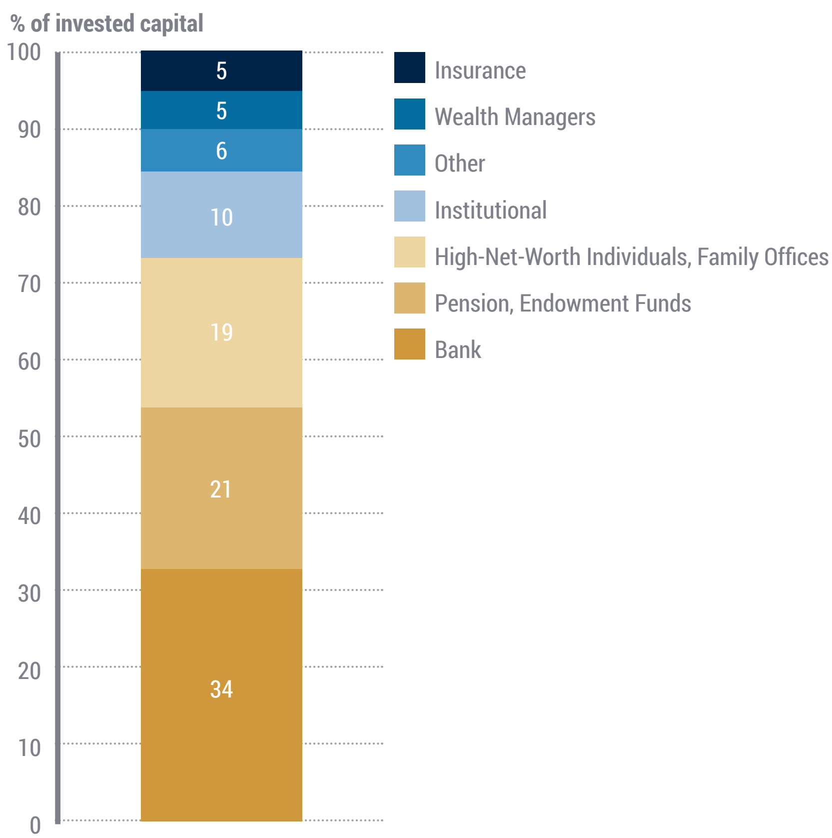
28 Resyndication may bring in a new investor and force recapitalization and rehabilitation of the property. This would also restart the property's affordability period. See Jill Khadduri, et al., "What Happens to Low-Income Housing Tax Credit Properties at Year 15 and Beyond?" HUD Office of Policy Development and Research, August 22, 2012.

29 Ibid.

CONVERGENCE OF DIFFERENT INVESTOR GROUPS IN MULTIFAMILY AFFORDABLE RENTAL HOUSING

The survey asked respondents about their investor mix.[30] As shown in **Figure 5**, banks, pension and endowment funds, and high-net-worth individuals are leading investor groups, which together account for 74% of capital raised by respondents as reported. This mix indicates a convergence of CRA-motivated capital and ESG-driven impact investors. Impact investors seek to generate both financial and social returns,[31] and they have been continuously expanding their portfolios over the last two decades.[32] The convergence represents an opportunity to unlock more capital for preserving affordable housing stock. Relatedly, nonbank investors represent 66% of equity capital raised by respondents, as reflected in Figure 5. This is noteworthy because it is nearly twice the total raised from bank investors, which may have regulatory motivations in addition to financial and social return criteria.

Figure 5: Banks, pension funds, and high-net-worth individuals are leading investors
Average share of investment from specified investor types



Source: Federal Reserve Bank of New York; N=15

30 Data on investor mix was self-reported by the respondents. Calculations were based on data as reported.

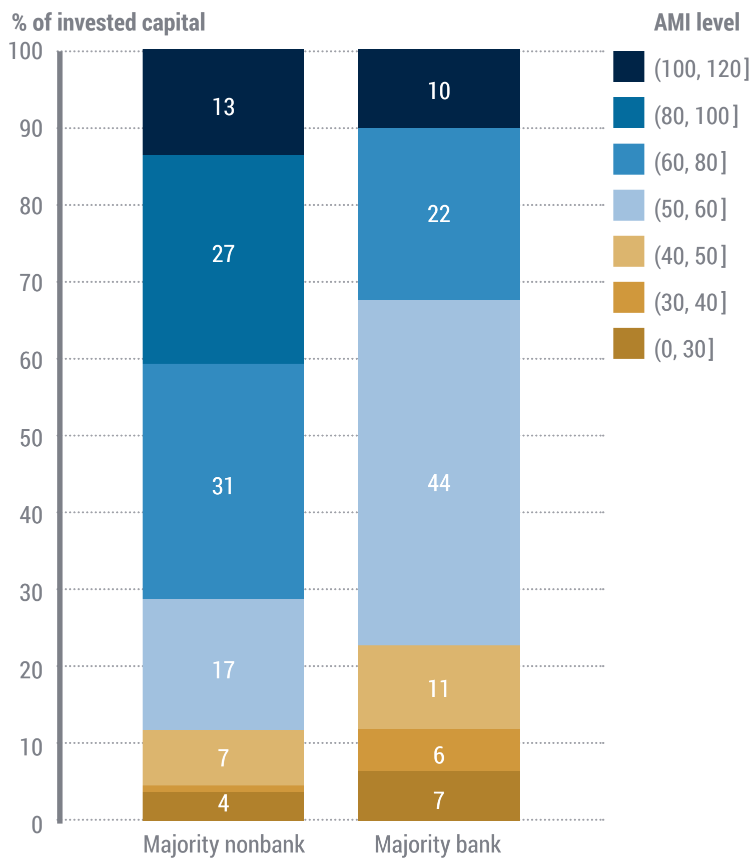
31 Global Impact Investing Network, "What You Need to Know about Impact Investing."

32 US SIF: The Forum for Sustainable and Responsible Investment, "Sustainable and Impact Investing – Overview."

The survey also asked additional questions of investment managers that receive capital from bank investors. Of the ten respondents that received capital from banks, there is a wide dispersion in the number of bank investors. The minimum count[33] of bank investors is 3 and the maximum is 28. When banks have invested in respondents' investment vehicles, those respondents have received a median of $158MM from bank investors over time.

Respondents that received more than half of their committed capital from bank investors finance affordable housing units that predominantly serve households earning 60% or less of area median income in their respective markets. Conversely, investment vehicles with predominantly nonbank investors serve households with incomes above 60% of area median income. As shown in **Figure 6**, 68% of the affordable housing units financed by investment vehicles with majority bank investors serve households at 60% of AMI or below, while 71% of units financed by investment vehicles with majority nonbank investors serve households above 60% of AMI.

Figure 6: Respondents with banks as majority investors have predominantly lower income tenants.
Average share of units allocated to AMI levels by majority bank/nonbank categorization



Source: Federal Reserve Bank of New York; N=8 (left); N=6 (right)
Note: The stacked column that shows investment vehicles with majority bank investors does not reflect a category for 80-100% AMI, since respondents do not have housing units in their portfolios serving households within that income range.

33 The count of bank investors does not account for mergers or banks making investments in multiple vehicles.

TARGETED STRATEGIES HIGHLIGHTED BY RESPONDENTS

Some respondents provided additional feedback on strategies they use to better optimize both the social and the economic returns on their investments. Some of these strategies include forging public-private partnerships, applying net-zero strategies, layering tenant wrap-around services at their properties, and investing in single-family properties.

Public-private partnerships

Public-private partnerships have served as a key motivator for private capital toward affordable housing development, according to some respondents. One example is the use of public facility corporations in Texas. A public facility corporation is "a nonprofit corporation created by a sponsoring governmental entity"[34] such as a local housing authority that has "broad powers over a public facility, including financing, acquisition, construction, rehabilitation, renovation and repair."[35] In Texas, PFCs can lease land to developers for 75 to 99 years, which, among other things, effectively exempts the property from property taxes, in exchange for a commitment to keep half of the development's total units affordable to families earning 80% or less of area median income.[36] Property tax exemptions in Texas arguably carry more weight in terms of cost savings, since the state imposes one of the highest property tax rates in the nation.[37] Proponents say these exemptions aim to direct private capital into disinvested areas by making affordable housing development economically viable. Meanwhile, others have raised questions about the implementation of these tax exemptions[38] and have called for reforms to their use.[39]

Net-zero strategies

Some survey respondents have pointed to applying net-zero strategies to manage the cost of building, operating, and maintaining properties. Net-zero, as defined by the United Nations, "means cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, by oceans and forests for instance."[40] Among the strategies mentioned are developing solar-powered buildings and using energy-efficient

34 Mary Scott Nabers, "Public Facility Corporations Provide Alternative Source of Project Funding," Strategic Partnerships, Inc., September 18, 2020.

35 Ibid.

36 Entrepreneurship and Community Development Clinic, University of Texas School of Law, "Public Facility Corporations and the Section 303.042(f) Tax Break for Apartment Developments: A Boon for Affordable Housing or Windfall for Apartment Developers?"August 2020 (updated November 2020).

37 Texas ranks sixth highest based on property taxes paid as a percentage of owner-occupied housing value. See Janelle Fritts, "How High Are Property Taxes in Your State?" Tax Foundation, July 7, 2021.

38 Richard Webner and Ben Olivo, "Tax Breaks for Developers under Scrutiny in San Antonio, Texas Capitol," San Antonio Heron, April 1, 2021.

39 See Entrepreneurship and Community Development Clinic, University of Texas School of Law, "Public Facility Corporations and the Section 303.042(f) Tax Break for Apartment Developments: A Boon for Affordable Housing or Windfall for Apartment Developers?" August 2020 (updated November 2020).

40 United Nations Climate Action, "For a Livable Climate: Net-Zero Commitments Must Be Backed by Credible Action."

materials such as LED lights. Additional strategies in the market include building developments that follow passive house guidelines.[41] Applying sustainable technologies allows owners of multifamily properties to lower their expenses, partly through public subsidies[42] and through lower costs of renewable technologies relative to fossil fuel options.[43]

Tenant support services

To further advance their stated social goals, some respondents have formed partnerships with local community organizations and nonprofits that offer programs addressing their impact priorities such as education, health, and economic advancement. Others have explored newer programs that aim to support upward mobility for residents such as the reporting of on-time rental payments to credit bureaus,[44] cashback rewards program[45] for tenants whose accounts are current or who sign lease renewals, and shared equity models. These support services are part of the pitch to investors during the capital raising process, particularly since such programs likely align with investors' social impact priorities.

Other investment strategies

While investments in multifamily affordable rental housing increase, other strategies exist within the affordable rental housing market. Most notably, some investment vehicles have also invested in single-family rentals. Also known more recently as "multisite multifamily rentals,"[46] these properties have also attracted investors because of the opportunity to deliver on cost efficiencies from volume, location, neighborhood impact, and affordability.[47]

41 Passive house guidelines set high standards for energy efficiency. See Lizzie Kane, "Low-Income Apartments That Set a High Standard for Energy Efficiency," Bloomberg, November 13, 2022.

42 US Department of Energy Better Buildings Initiative, "Clean Energy for Low Income Communities: Multifamily Housing Retrofits."

43 International Renewable Energy Agency, "Majority of New Renewables Undercut Cheapest Fossil Fuel on Cost," press release, June 22, 2021.

44 Fannie Mae, "Fannie Mae Launches Rent Payment Reporting Program to Help Renters Build Credit," press release, September 27, 2022.

45 Amy Rose Dobson, "When FinTech Converges with PropTech: A $52M Valuation Emerges for Stake Upon Its Close of a $12M Series A," Forbes, July 12, 2022.

46 Dan Magder and Laurie Goodman, "Single-Family Rentals: A New Approach to Affordable Housing," Urban Institute Housing Finance Policy Center, September 2015.

47 Ibid.

CONCLUSION AND NEXT STEPS

Dedicated affordable housing private investment management firms continue to grow in size and in the sophistication of their capital raising and deployment, and interest in affordable housing as an asset class is expected to continue in the near future. This will coincide with a wave of affordable housing properties that may come on the market as a result of expiring regulatory mandates and properties' major capital needs. Understanding the role of private capital in this market given the confluence of these trends is the first step in identifying the impact on low-income tenants. In this light, other potential questions that came up during this study and that could benefit from further examination include:

- **What are the drivers behind the alignment of CRA-motivated banks and ESG-driven impact investors?**
- **What are the implications of investors' affordability mandates for managers' investment decisions?**
- **How might very-low-income tenants be affected by the anticipated change in rents and affordability targets for properties with expired subsidies and other land restriction agreements?**
- **How can the affordability of units be maintained when private capital investment vehicles look to exit their investments and a new owner purchases the property?**
- **What are the implications for the LIHTC industry as private capital emerges as an alternative financing strategy for preservation?**

As this market grows, discussions around these questions will also increase in relevance and importance especially as these concerns relate to their impact on the communities experiencing housing affordability challenges. While the scope of future related work continues to evolve, the New York Fed Community Development team aims to continue engaging stakeholders on these topics through various channels.

APPENDIX A:

SURVEY QUESTIONNAIRE

1 How much total equity capital (excluding tax credit equity and Opportunity Zone funds) for affordable housing have you **raised since 2017?** $_______ *Affordable housing defined as income-restricted and naturally occurring affordable units

How much total equity capital (excluding tax credit equity and Opportunity Zone funds) for affordable housing have you **invested since 2017**? $_______

2 What % of the total equity capital your firm has raised for affordable housing since 2017 has been for:

Closed-end funds _______%
Open-end funds _______%

3 How many separate funds or investment vehicles are included in the total capital raised amount?_______

4 Is your firm investing in:

- ○ New development;
- ○ Preservation;
- ○ Both?

If your firm invests in both, please share size of investments to-date for each:

New Development	Preservation
$	$

5 How many banks have invested in your affordable housing funds (or other vehicles)? _______

a. What is the total amount of bank investments? $_______

b. What is the breakdown of your investor mix by commitment amount? Please make sure that the shares you enter add up to 100.

_______% Banks
_______% Insurance
_______% Wealth Managers
_______% Pension / Endowment Funds
_______% Institutional Impact Investors
_______% High-Net-Worth Individuals and Family Offices
_______% Other

6 Does your investor base include investors that have affordability (or other) mandates at either the property or fund level?

◯ Yes

◯ No

If so, to what extent do those mandates restrict your transactions?

◯	◯	◯	◯	◯
Very Much	Moderately	Somewhat	Slightly	Not at all

7 How much equity capital for affordable housing are you looking to raise in the next 12-24 months? $_______

Is your firm planning to raise funds for:

- ○ New development;
- ○ Preservation;
- ○ Both?

If your firm plans to invest in both, how much aggregate target equity capital will be raised for each?

New Development	Preservation
$	$

8 What % of the total equity capital your firm plans to raise in the next 12-24 months will be for:

Closed-end funds _______%
Open-end funds _______%

9 How many affordable housing units (including income-restricted and naturally-occurring affordable housing units) are in your portfolio?

Please share % estimates of affordable housing units financed by your firm's investments:

_______% for naturally-occurring affordable housing (NOAH) units
_______% for income-restricted units

10 What, if any, specific target populations are served by your funds or other investment vehicles?

11 What were the target percent levels of AMI of the populations served by the funds' affordable housing units at origination of those investments? Please make sure that the shares you enter add up to 100.

_______% for <= 30% AMI
_______% for <= 40% AMI
_______% for <= 50% AMI
_______% for <= 60% AMI
_______% for <= 80% AMI
_______% for 80 - 100% AMI
_______% for 100 - 120% AMI

12 Are impact metrics included in your investor reports?

- ◯ No
- ◯ Yes

If yes:

Is reporting focused on:

- ◯ Social metrics only
- ◯ Social and environmental metrics

Who oversees impact reporting?

- ◯ Internal team
- ◯ Third-party consultant

13 Please rank the states or metropolitan statistical areas (MSAs) you have invested in the most from highest to up to 5th highest:

1.

2.

3.

4.

5.

14 Where do you see the greatest investment opportunity in the market?

15 Is there anything you would like to share that was not covered in previous questions (e.g. emerging market trends, relevant national or local policy developments, other innovative partnership models, etc.)? Any insights you can provide may be helpful as we complete our write-up of the state of the market.

APPENDIX B:

As our team connected with investment managers and some bank investors, we understood there may be a need for clarification on regulators' treatment of public welfare investments (PWI). The public welfare investment provision in the Federal Reserve Act authorizes state member banks to "make investments directly or indirectly, each of which is designed primarily to promote the public welfare, including the welfare of low- and moderate-income communities or families (such as by providing housing, services, or jobs), to the extent permissible under State law."[48] We worked with colleagues at the OCC, the Federal Reserve Board, and the FDIC to prepare the Q&A section as a reference.

Q Over what types of depository institutions does the regulator have authority?

FR A: The Federal Reserve is the primary federal regulator of state member banks (state-chartered banks that have chosen to become members of the Federal Reserve System). Pursuant to Section 9(23) of the Federal Reserve Act (12 U.S.C. § 338a), state member banks are authorized to make investments designed primarily to promote the public welfare, including the welfare of low- and moderate-income communities or families (such as by providing housing, services, or jobs), to the extent permissible under state law ("PWIs"). These investments are statutorily limited in the aggregate to 15 percent of a state member bank's capital and surplus. Section 208.22 of the Board's Regulation H establishes procedures for processing approval requests by state member banks and also includes criteria for PWIs that may be made without prior approval.

The Federal Reserve is also the primary federal regulator of bank holding companies (BHCs). BHCs can make community development investments under the Board's Regulation Y (12 CFR 225.28(b)(12), although such filings are generally rare; BHCs are required to follow the notice procedures relating to activities under section 4 of the Bank Holding Company Act and are subject to the procedural requirements as banks in relation to consolidated capital and surplus defined in 12 CFR 225.127(f).

OCC A: The Office of the Comptroller of the Currency (OCC) is the primary regulator of banks chartered under the National Bank Act and federal savings associations chartered under the Home Owners' Loan Act.

National banks may make investments that are primarily designed to promote the public welfare under the investment authority in 12 USC 24 (Eleventh) and the implementing regulation, 12 CFR 24. This authority allows banks to make investments if those investments primarily benefit low- and moderate-income individuals, low- and moderate-income areas, or other areas targeted

48 Cornell Law School Legal Information Institute, "12 U.S. Code § 338a - Investments to Promote Public Welfare and Community Development; Limitation on Investments."

by a government entity for redevelopment, or if the investments would receive consideration under 12 CFR 25.23 (the Community Reinvestment Act regulation) as a "qualified investment."

Federal savings associations' (FSA) public welfare investments are made pursuant to different statutory and regulatory authorities than available for national banks. In addition to their general lending and investment authorities, FSAs may use the following authorities to make public welfare investments:

> **De Minimis Investments:** Under the de minimis authority set forth in 12 CFR 160.36, an FSA may invest, in the aggregate, up to the greater of 1 percent of capital or $250,000 in community development investments of the type permitted for a national bank under 12 CFR 24.
>
> **Community Development-Related Equity Investments in Real Estate:** Under section 5(c)(3)(A) of the Home Owners' Loan Act (HOLA), an FSA may make investments in real property and obligations secured by liens on real property located in areas "receiving concentrated development assistance by a local government under title I of the Housing and Community Development Act of 1974." To be permissible for investment, the real estate must be located within a geographic area or neighborhood that receives assistance under or is covered by, for example, the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) program. The standards for FSAs making community development investments under this authority are explained in an opinion letter of the Chief Counsel of the OTS, dated May 10, 1995.
>
> **Investments in Service Corporations and Service Corporation Subsidiaries for Community Development Investments:** Under the authority of 12 CFR 5.59, an FSA may make investments in service corporations and service corporation subsidiaries that engage in community development activities. Specifically, pursuant to 12 CFR 5.59(f)(8), the FSA may, through one or more service corporations, make investments in community and economic development or public welfare investments that are permissible under 12 CFR 24, provided that any applicable filing requirements are satisfied.

FDIC A: The FDIC is the insurer for all IDIs in the United States, and the primary federal regulator for state-chartered banks that are not members of the Federal Reserve System (state nonmember banks) and state savings associations (collectively, FDIC-supervised institutions).

In general, FDIC-supervised institutions may not engage as principal in an activity that is not permissible for, respectively, national banks or FSAs unless approved by the FDIC. *See* 12 U.S.C. §§ 24 and 28. Thus, an FDIC-supervised institution may engage in PWI that are permissible for, respectively, national banks or FSAs. FDIC-supervised institutions must, generally, comply with restrictions and conditions applicable to their federal counterparts for such activities. In addition, they should maintain records demonstrating permissibility and their compliance with conditions and restrictions. Their activities must also comply with applicable state law. Under 12 CFR Part 362 of the FDIC Rules and Regulations (Part 362), FDIC-supervised institutions may apply to the FDIC to engage in PWI not determined to be permissible for national banks or FSAs. Pursuant to 12 CFR 362.3(a)(2)(ii), FDIC-supervised institutions may invest as a limited partner or as a non-controlling interest holder of a limited liability company the sole purpose of which is to make investments in qualified housing projects as permitted by that subsection. Such investments are in addition to the ability to engage in public welfare activities permissible for national banks or FSAs.

Q Does the regulator make its list of approved PWIs made by the banks it regulates available online?

FR A: The Federal Reserve does not keep a list of approved PWIs online or in public form.

OCC A: The OCC posts the National Bank Community Development Investment "At a Glance" Chart on OCC.gov. The Chart contains the public welfare investments submitted by national banks and reviewed by the OCC, posted quarterly. At the end of the year, all four quarters are posted in an annual version of the chart.

FDIC A: The FDIC does not keep a list of approved PWIs online.

Q How are PWI approvals handled? Are they centrally approved by the agency in DC or in local office of the regulatory agency in the regions where the bank has a branch/office?

FR A: State member banks are directed to submit all PWI prior approval requests to the Federal Reserve Bank with supervisory responsibility for the bank. Pursuant to section 265.11(e)(12) of the Board's delegation rules, the Federal Reserve Banks have delegated authority to approve most PWIs which require prior approval. However, the Board retains sole authority to approve investments which are of a nature and type not previously approved by the Board, or that raise a significant legal, supervisory, or policy issue. PWI prior approval requests are generally processed on a 60-day clock unless the Federal Reserve informs the filer that a longer time period is required. The Federal Reserve's procedures for reviewing PWIs are included in section 208.22 of the Board's Regulation H. *See response to following Question regarding prior approval and post notice investments.*

OCC A: National banks and covered savings associations should use the Community Development (CD-1) Form to submit either their after-the-fact notices or prior approval requests to the Deputy Comptroller Community Affairs at the OCC. The CD-1 form outlines the primary beneficiary and investment limit requirements of Part 24 and provides fields for a bank to complete that would provide specific information about how an investment would meet those requirements.

The OCC strongly encourages national banks to use the Central Application Tracking System (CATS) application on BankNet to submit their public welfare investment filings to the Community Affairs Division. PWI after-the-fact notices and prior approval requests are reviewed by the OCC's Community Affairs Division in Washington, DC.

FDIC A: For PWI not permissible for national banks or FSAs, or permissible PWI for which an FDIC-supervised institution does not comply with the conditions and restrictions applicable to national banks or FSAs engaging in such activities, the institution must file an application under Part 362 of the FDIC Rules and Regulations.

Q Is prior approval required for a bank to make PWI investments? Are there limits/thresholds under which prior approval is not required?

FR A: PWIs do not require prior approval in all cases. Certain investments may instead qualify for a post-notice procedure in cases where the state member bank and the investment meet ALL of the criteria listed in section 208.22(b) of Regulation H. Under the post-notice procedures set forth in section 208.22(c), the state member bank must provide notice to the Reserve Bank within 30 days of making the investment. If the proposed investment does not meet all of the criteria of Section 208.22(b), the state member bank must request prior approval pursuant to Section 208.22(d) of Regulation H before making the investment.

OCC A: The after-the-fact notice process described in 12 CFR 24.5(a) is available to most national banks. It allows an eligible bank to conduct its own due diligence, make a public welfare investment, and then notify the OCC Community Affairs Division within 10 days of the bank making the investment or the commitment.

Prior approval is a required process for a national bank that does not meet the definition of an "eligible bank" under 12 CFR 24.2(e). It is also required for a national bank whose aggregate investments exceed 5% of capital and surplus (unless approved by the OCC to exceed 5%, up to 15% of capital and surplus). Further, it is required for a national bank that undertakes an investment activity that the OCC has deemed inappropriate for after-the-fact notices, such as investments involving a bank's other real estate owned. The prior approval process is described in 12 CFR 24.5(b).

Requirements for FSAs vary depending on the investment authority used:

De Minimis Investments: An FSA using the de minimis investment authority to make an investment of the type that is permitted for a national bank generally does not need to provide notice to the OCC. However, the FSA should maintain records that document the investment's compliance with these standards.

Community Development-Related Equity Investments in Real Estate: Under 12 CFR 160.30, generally, if an FSA's investment meets the necessary standards, the FSA would not need to provide notice to the OCC. However, the FSA should maintain records that document the investment's compliance with these standards. If an FSA wishes to make a community development investment that is consistent with the spirit and intent of section 5(c)(3)(A) of the HOLA, but the investment does not meet all of the standards listed above, the FSA may seek a case-by-case review by the OCC (Community Affairs Division) before making the investment.

Investments in Service Corporations and Service Corporation Subsidiaries for Community Development Investments: Under 12 USC 1828(m) and 12 CFR 5.59(h), an FSA is required to file a notice or application, as appropriate, with the OCC's Licensing Department before establishing or acquiring a new service corporation or before commencing a new activity in a service corporation or subsidiary, as defined at 12 CFR 5.59(d)(5). All filings must be made in accordance with the filing requirements outlined under 12 CFR 5.59(h).

FDIC A: For PWI not permissible for national banks or FSAs, or permissible PWI for which an FDIC-supervised institution does not comply with the conditions and restrictions applicable to national banks and FSAs engaging in such activities, the institution must file an application under Part 362 of the FDIC Rules and Regulations.

Q What is the maximum allowable investment amount per investment and per institution for PWIs?

FR A: Under Section 9(23) of the Federal Reserve Act, PWIs are statutorily limited in the aggregate to a maximum of 15 percent of a state member bank's capital and surplus. A state member bank's aggregate PWIs cannot exceed 5 percent of the bank's capital stock and surplus (as provided in Regulation H and the Federal Reserve Act) for post-notice investments. A higher percentage may be considered under prior approval procedures if the Federal Reserve determines that a higher amount will pose no significant risk to the bank's deposit insurance fund and the member bank is adequately capitalized. This determination may be made by the Federal Reserve Banks under delegated authority and is done in the course of reviewing a prior approval request. There is no limit on the maximum size of a single investment provided the bank remains within the statutorily prescribed aggregate limits discussed above.

OCC A: Under 12 CFR 24.4(a), a national bank's aggregate investments may not exceed 5 percent of the bank's capital and surplus. A bank may exceed that 5 percent limit, up to 15 percent, by submitting a written request to the OCC, which the OCC approves if certain conditions are met. In order to exceed the 5 percent limit, a bank must be at least adequately capitalized and the OCC must determine that a higher investment amount will not pose a significant risk to the deposit insurance fund. There is a statutory limit of 15 percent of capital and surplus for a bank's aggregate outstanding public welfare investments and commitments.

There is no limit on the maximum size of a single investment provided the national bank remains within the statutorily prescribed aggregate limits discussed above.

FSAs' public welfare investments are subject to different investment limits.

De Minimis Investments: Under the de minimis authority set forth in 12 CFR 160.36, an FSA may invest, in the aggregate, up to the greater of 1 percent of capital or $250,000 in community development investments of the type permitted for a national bank under 12 CFR 24.

Community Development-Related Equity Investments in Real Estate: Under 12 CFR 160.30, which covers the general lending and investment powers of FSAs, an FSA's aggregate community development loans and equity investments may not exceed 5 percent of its total assets. Further, within that limitation, an FSA's aggregate equity investments may not exceed 2 percent of its total assets.

Investments in Service Corporations and Service Corporation Subsidiaries for Community Development Investments: Under 12 CFR 5.59(g), an FSA may invest up to 3 percent of its assets in service corporations, but any amount exceeding 2 percent must serve "primarily community, inner-city, or community development purposes."

There is no limit on the maximum size of a single investment provided the FSA remains within the prescribed aggregate limits discussed above.

FDIC A: Whether and to what extent the amount limitations for PWI applicable to national banks and FSAs are applicable to FDIC-supervised institutions may depend on one or more factors, including the source of the limitation, the type of institution, and the type of investment. To the extent PWI amount limitations apply, the limitations are in the aggregate per institution instead of per individual investment. The amount limitation for qualified housing project investments under 12 CFR 362.3(a)(2)(ii) is an aggregate limitation.