

April 18, 2014

The Honorable Tim Johnson  
Chair  
Senate Committee on Banking  
534 Senate Dirksen Office Building  
Washington, DC 20510

The Honorable Mike Crapo  
Ranking Member  
Senate Committee on Banking  
534 Senate Dirksen Office Building  
Washington, DC 20510

*Re: Multifamily comments on S. 1217*

To the Honorable Chair and Ranking Member:

Thank you for the hard work you and your staff have done to craft a bipartisan bill to reform our nation's housing finance system. The multifamily housing sector in particular uses capital in ways distinct from the single-family sector, and multifamily uses that capital to provide essential affordable housing across the country. The undersigned members of the Multifamily Mortgage Finance Working Group therefore appreciate the inclusion of many of our earlier suggestions for addressing the particular capital needs of multifamily, and we welcome the opportunity to offer additional feedback on the draft bill, S. 1217.

Following up on our conversation with your staff, we highlight two remaining concerns with S. 1217 and offer suggestions to address them:

**1. Jump-start the affordable housing funds and eliminate a market distortion**

The affordable housing fee that support the NHTF, CMF, and MAF will take approximately 5 years from the FMIC certification to reach full strength. That could leave several years with little or no resources going to affordable housing, despite great need and a dearth of other sources. We are also concerned that applying the affordable housing fee to only a portion of the guaranteed MBS gives a pricing advantage to Ginnie Mae securities over FMIC securities. When passed through to borrowers, the price difference will push borrowers toward FHA loans just when new FMIC securities are trying to earn market acceptance. We therefore recommend two changes to reduce the gap and level the playing field between Ginnie Mae securities and FMIC securities.

- a. **Extend the affordable housing fee to Ginnie Mae multifamily securities.** Because the fee is only 10 basis points (as small as an intra-day interest rate shift) it should not overly burden FHA-financed properties. It will, however, broaden the base upon which the fee rests and generate more revenue quickly from an established market. A concomitant of this recommendation would be to allow FHA multifamily originators to apply to the Market Access Fund for help in improving their work in underserved market sectors.
- b. **Apply the fee immediately.** The transition period from the status quo until FMIC certification is likely to be many years, but the affordable housing need is immediate. Applying the fee immediately to Fannie Mae, Freddie Mac, and Ginnie Mae will help markets adjust to the minor new cost and reduce the gap in assistance to affordable housing during the transition.

## **2. Avoid market domination in multifamily mortgage-backed securities**

We are concerned that the structure proposed in S. 1217 needs limits to prevent too much of the multifamily secondary mortgage market concentrating in guarantors controlled by a single entity, possibly one that is vertically integrated with originators. We therefore propose limiting multifamily guarantors to monoline entities involved only in the issuance and guarantee of multifamily securities, so that the FMIC can better assess and manage risk. This is in addition to the limitation on control imposed by Section 317, which we understand to limit any one entity's direct or indirect control of any multifamily guarantor (as a "covered entity") to no more than ten percent, including by any one regulated financial institution.

Again, we appreciate the opportunity to offer comment as this essential effort moves forward. Please direct any questions about our suggestions to Ethan Handelman at the National Housing Conference, [ehandelman@nhc.org](mailto:ehandelman@nhc.org), 202-466-2121 x238.

Sincerely,

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