NATIONAL
HOUSING
CONFERENCE

January 2, 2014

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street SW., Room 10276,
Washington, DC 20410–0500

Re: Small multifamily risk-sharing initiative, Docket No FR–5728–N–01

To Whom It May Concern:

The National Housing Conference appreciates the small multifamily risk-sharing initiative that the Department of Housing and Urban Development (HUD) has proposed. It is a welcome first step to preserve a source of affordable housing that is too often overlooked. We offer our encouragement and assistance as you move the initiative forward, as well as some constructive suggestions for improving it. We also identify two key statutory changes needed to allow widespread participation in the initiative by lenders and property owners.

In brief, with more detail below, our comments are:

1. Allow greater flexibility in loan term
2. Using existing standards to qualify participating entities is wise
3. Allow joint ventures of any composition to participate as long as a mission entity is in control
4. Allow HFAs to participate
5. Clarify that program officers need multifamily experience, not FHA-specific experience
6. Including cooperative housing is helpful

Furthermore, we encourage HUD to pursue statutory changes that would exempt participating properties from the existing income and rent restrictions in the risk sharing law and allow Ginnie Mae securitization.

About the National Housing Conference

The National Housing Conference (NHC) represents a diverse membership of housing stakeholders including tenant advocates, mortgage bankers, non-profit and for-profit home builders, property managers, policy practitioners, real estate agents, equity investors, and more, all of whom share a commitment to safe, decent and affordable housing for all in America. We are the nation's oldest housing advocacy organization, dedicated to the affordable housing mission since our founding in 1931. As a nonpartisan, 501(c)3 nonprofit, we are an evidence-based research and education resource working to advance housing policy at all levels of government in order to improve housing outcomes for all in this country.

Providing capital to small multifamily properties preserves affordable housing

Small multifamily properties provide much of the affordable housing in America's neighborhoods, but they tend to be older, have more individual rather than corporate ownership and management, and have less reliable access to capital. Lending to these properties is frequently relationship-based and disconnected from national capital markets. Providing a channel by which these properties could obtain capital for repairs and renovations will help to preserve an essential source of affordable housing.

The need for affordable housing is pressing nationwide. For both homeowners and renters, the cost of housing outpaces income, often creating a severe burden. The annual Housing Landscape publication from NHC's Center for Housing Policy documents the prevalence of severe housing cost burdens, meaning housing costs in excess of 50% of income, for working households. **More than one in four working renter households (26.4 percent) spent more than half of their income on housing costs in 2011**, an increase of more than three percentage points since 2008. Despite falling mortgage interest rates and home prices—a period when housing affordability for owners should have improved—rates of severe housing cost burden remained stable and high for working owners between 2008 and 2011. **Roughly one in five working owners experienced a severe housing cost burden** during this period.[1]

If we look beyond the subset of working households to all housing need, the picture is even worse. In 2011, **over 40 million households in this country were paying more than 30 percent of their income for housing, and 20.6 million were paying more than 50 percent**. Recent increases in cost burdens have been primarily among renters, with those of lowest income hit hardest. Yet, only one in four households eligible for housing assistance actually receives it.[2]

Comments on the proposed initiative

1. **Allow greater flexibility in loan term.** As proposed, the initiative requires fully amortizing loans (IX.A.3.e.). Typically, multifamily loans calculate payments using a 30-year amortization schedule but have a shorter loan term, often 5-10 years, reflecting most lenders' requirements for shorter term obligations. We understand HUD's desire to limit risk exposure, but we are concerned that lenders will not be able to make 30-year loans with their available capital sources. The result will be shorter term loans that are still required to be fully amortizing, making the payment simply not competitive in the market. The table below shows the dramatic difference the amortization period can make in monthly debt service costs. Changing from 10-year amortization to 30-year amortization cuts the monthly debt service cost roughly in half. That difference is particularly vital to properties serving low-income tenants, because property income is greatly constrained.

[1] Center for Housing Policy, *Housing Landscape 2013*, May 2013, available at http://www.nhc.org/media/files/Landscape2013.pdf.
[2] Harvard Joint Center for Housing Studies, *State of the Nation's Housing 2013*, p. 5, available at: http://www.jchs.harvard.edu/research/state_nations_housing.

<u>Comparison of fully amortizing loan payments</u>

Loan Amount	$2,000,000	$2,000,000	$2,000,000
Term in years	30	15	10
Term in months	360	180	120
Interest rate	5%	5%	5%
Monthly Payment	**$10,736**	**$15,816**	**$21,213**

2. **Using existing standards to qualify participating entities is wise**. We commend HUD for using existing standards to qualify participating entities rather than creating yet another set of requirements. Relying on the standards set by FHFA for CDFIs to join the Federal Home Loan Bank system is a logical starting point. The standards provide a rigorous threshold but also allow HUD discretion to apply them to mission-driven organizations who are financially sound but do not perfectly fit into traditional financial measures.

3. **Allow joint ventures of any composition to participate as long as a mission entity is in control**. Consortium lending is a well-tested mechanism for community development and affordable housing loans. The initiative, however, seems to require that consortiums or joint ventures include two or more for-profit lenders with a mission entity in control (IV.A.3.). Requiring a qualified mission entity in control is appropriate, but we do not see why consortiums of any size or composition cannot participate. In some rural areas, there may be only a single for-profit lender wishing to participate with a nonprofit partner. In others areas, there may be several nonprofits who find efficiency in cooperating on a joint venture. We recommend that HUD allow joint ventures of any composition provided a mission entity is in control.

4. **Allow HFAs to participate**. As drafted, the initiative seems to focus on CDFIs as the primary participants, although in earlier discussions state and local housing finance agencies (HFAs) were considered as well. Many HFAs have the combination of lending capacity, affordable housing expertise, and local market knowledge well-suited to this initiative. Many are also FHA lenders already. We recommend adjusting qualification requirements that may block HFA participation (it is our understanding that the National Council of State Housing Agencies is offering specific suggestions on this point).

5. **Clarify that program officers need multifamily experience, not FHA-specific experience.** The rule requires that the loan officer in charge of the lending operation that participates in the initiative have “at least 3 years of experience in FHA mortgage operations” (IV.B.1.) as part of overall approval as an FHA lender. However, this is overly restrictive, potentially excluding individuals with relevant multifamily lending experience outside of FHA. Particularly since this initiative aims to offer FHA financing in a subset of the market that has not had a significant FHA presence, we recommend that any relevant multifamily lending experience satisfy the requirement. This would be consistent with the Mortgagee Approval Handbook (4060.1 Section 2.9.B.), which lists experience originating multifamily mortgages, servicing multifamily mortgages, and investing funds in real estate mortgages as relevant qualifications.

6. **Including cooperative housing is helpful**. We appreciate that the initiative makes cooperative housing eligible, as it is a form of tenure that plays an important role in several housing markets.

Statutory changes are still needed

The initiative as proposed is a good step, but two statutory changes are still needed to allow lenders and property owners to take it up widely. Legislative action could allow this initiative to reach many more small multifamily properties.

- **Affordability restrictions**. The initiative must operate with the Section 542(b) risk sharing statute, which requires affordability requirements similar to the Low Income Housing Tax Credit program, which limits occupancy and rents to 50-60% Area Median Income levels. However, small multifamily properties are not likely candidates for tax credits, nor are their owners likely to participate. Rather, these properties are affordable by nature of the market they serve. Exempting this initiative from the affordability requirements in Section 542(b) would allow participants to avoid the potentially prohibitive requirement to certify tenant incomes while keeping the mission-driven lender in charge of targeting loans to affordable housing.

- **Ginnie Mae securitization**. The mission-driven lenders who would participate in this program are constrained by their available capital. Although FHA risk-sharing is helpful, access to the secondary mortgage market via Ginnie Mae securitization would make an even larger difference in lenders' capacity to preserve affordable housing. As structured, the initiative puts a full FHA guarantee on these loans (leaving it to FHA to pursue participating lenders for their half of the risk-share). That is consistent with the spirit of Ginnie Mae securitization, so a statutory change to allow securitization of these loans would be both appropriate and helpful to the initiative.

We thank HUD for the opportunity to comment on the proposed initiative, which has the potential to preserve essential affordable housing in neighborhoods across America. We welcome further discussion and ask that you direct any questions to Ethan Handelman, Vice President for Policy and Advocacy, ehandelman@nhc.org.

Sincerely,

Chris Estes

Chris Estes
President and CEO