NATIONAL
HOUSING
CONFERENCE

June 13, 2012

Acting Director Edward J. DeMarco
c/o Toni Harris, Manager, Strategic Planning and Performance Management
Federal Housing Finance Agency
400 7th Street, S.W., Washington, DC 20024

Re: Comment on including multifamily housing in FHFA Draft Strategic Plan

Dear Mr. DeMarco,

The National Housing Conference appreciates the dedication and hard work of the Federal Housing Finance Agency (FHFA) during this period of unprecedented challenge in housing. We welcome the opportunity to comment on the draft strategic plan and we hope FHFA will accept our suggestions as constructive steps in pursuit of a shared mission: well-functioning housing markets, stable GSEs, and a clear course toward a housing finance system that can serve all in America.

FHFA's Draft Strategic Plan outlines steps it will take for Fannie Mae and Freddie Mac (the Government Sponsored Enterprises or GSEs) in preparation for mortgage finance reform to come. We regret, however, that the Draft Strategic Plan does not mention the multifamily mortgage finance businesses of the GSEs at all. FHFA's earlier Strategic Plan for Conservatorship instructed the GSEs to evaluate their multifamily operations for their potential "viability…without government guarantees." In addition to such evaluations, however, the Strategic Plan should reflect a commitment by FHFA and the GSEs to undertake interim stabilization measures to:

- ***Protect taxpayers*** by making sure guarantees are fully paid for, recognizing that the federal guarantee of Fannie Mae and Freddie Mac has become effectively explicit
- ***Prevent market disruption*** by maintaining mortgage capital delivery channels
- ***Strike the right balance*** of public and private capital risk by strengthening proven mechanisms for private entities to bear risk ahead of government
- ***Create and preserve affordable multifamily housing*** even as the market readjusts

In summary, we recommend several specific actions, each described in more detail below:

1. Encourage private capital to bear more of the risk in multifamily by:
    a. Specifying the portion of the MBS guarantee fee that pays for the government wrap.
    b. Structuring multifamily MBS to have at least 20% of risk borne by private capital with benchmarks for comparison of different models.
    c. Limiting GSE total portfolio size in multifamily to encourage securitization.
    d. Requiring that more than 50% of the apartments financed in any given year be affordable to residents at 80% of AMI or below
2. Improve transparency with quarterly division-level reporting for the multifamily business units.
3. Pilot new approaches in multifamily to reach underserved segments in a cost-controlled, carefully monitored way.

I. About the National Housing Conference and the Housing Mortgage Working Group

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, realtors, equity investors, and more, all of whom share a commitment to a balanced national housing policy. Since 1931, NHC has been dedicated to ensuring safe, decent and affordable housing for all in America—that commitment bringing together our broad-based membership has earned us a reputation as the **United Voice for Housing** engaging in nonpartisan advocacy on housing issues. For more on NHC's Housing Mortgage Working Group that produced this comment letter, please see Attachment 1.

II. Need for action to stabilize multifamily mortgage finance

Action is needed now to ensure that mortgage finance remains available for multifamily housing as we sort out the future of the GSEs.[1] The need for affordable rental housing is growing, as wages for working renters fail to keep pace with housing costs and foreclosures add to rental demand.[2] The existing GSE multifamily platforms are and have been effective and profitable, but their success has been overshadowed by recent losses on the single-family side. The public reaction to those losses has created significant risk aversion broadly within the mortgage finance sector and specifically within the GSEs, to the point that the broad range of the multifamily market is not being fully served leaving significant capital gaps.

Although private debt capital is entering multifamily from life insurance companies, some banks, and CMBS conduits, this capital is serving mostly existing A-class real estate in strong markets. Other segments of the market, such as financing for new construction and substantial rehabilitation, are now almost exclusively through channels with a full government guarantee. Meanwhile, multifamily properties in second-and third-tier markets, smaller properties, HUD- assisted housing, bond-financed properties with credit-enhancement and tax-credits are not being served adequately (or in some cases at all) by either the public or private markets.

At the same time, uncertainty about the future of mortgage finance reform is slowly undermining the existing Fannie Mae and Freddie Mac platforms, particularly as experienced line staff migrate elsewhere. The GSE multifamily operations are losing expertise and institutional memory that have built up over decades and will be very difficult to replace. Looming ahead is the need to refinance multifamily mortgages that balloon starting this year and 2013—a task that would be challenging even for GSEs at full strength. FHFA's recent strategic plan for conservatorship underscores both the proven value of the GSE multifamily businesses and the challenges they face.[3]

---

[1] GSEs as used here refers specifically to Fannie Mae and Freddie Mac, excluding the Federal Home Loan Banks.

[2] Forthcoming research from the Center for Housing Policy shows eroding affordability for working renters, of which 25.6% are now severely burdened by their housing costs. Of the 17.1 million very low-income renters in the United States, roughly 7.1 million spend more than half of their income on housing, live in substandard conditions, or both, according to HUD's *Worst Case Housing Needs* report.

[3] "A Strategic Plan for Enterprise Conservatorships: The Next Chapter in a Story that Needs an Ending," Federal Housing Finance Agency, February 21, 2012.

Concrete legislative action to replace or reform the GSEs is unlikely in the near term, certainly not in earnest until after the 2012 elections. Most of the early reform effort remains focused on the single-family side of the GSE business, and solutions there may not apply as well to multifamily. FHFA instruction to the GSEs to study the multifamily securitization business is valuable next step, one in which NHC is glad to assist to ensure an appropriate role for government. In addition to that study, however, we need interim stabilization measures to:

- ***Protect taxpayers*** by making sure guarantees are fully paid for, recognizing that the federal guarantee of Fannie Mae and Freddie Mac has become effectively explicit
- ***Prevent market disruption*** by maintaining mortgage capital delivery channels
- ***Strike the right balance*** of public and private capital risk by strengthening proven mechanisms for private entities to bear risk ahead of government in careful, calibrated steps to guide long-term reform
- ***Create and preserve affordable multifamily housing*** even as the market readjusts

Action is possible now to achieve these objectives during the interim, even as Congress and the Administration work out the broader package of mortgage finance reform measures. With FHFA's existing regulatory authority, we can take steps in three areas now to make sure there is a stable, effective source of mortgage capital for multifamily housing.

III. Encourage private capital to bear more of the risk in multifamily

Fannie Mae and Freddie Mac can be effective mechanisms to encourage greater risk-retention and risk-sharing by private capital in multifamily finance. Examples of this are already working (Freddie Mac K-series, Fannie Mae DUS approach) and can be expanded through several measures:

a. **Identify the portion of the multifamily MBS guarantee fee that pays for the government wrap.** Fannie Mae and Freddie Mac should transparently report the estimated cost they are assessing for what is now effectively an explicit government guarantee of their MBS. The amount reported on the Fannie Mae and Freddie Mac's books should be forward-looking (not a mechanism for repaying already-incurred obligations or funding unrelated policies) and sized to the cost to government of the guarantee of the MBS. The best available benchmark we can identify would be the 13 bps fee Ginnie Mae charges for its wrap. Making a careful judgment of the correct amount now and accounting for it during this interim period will inform mortgage finance reform efforts without impeding essential capital flows.

b. **Structure multifamily MBS so that at least 20% of risk of loss is taken by private capital**, defined to include for-profit, non-profit, and/or state or local government entities. The two primary existing models illustrate that private capital can stand in front of government in different ways. Fannie Mae's DUS series provides a government wrap of the entire security, but puts private originators' capital at risk to absorb losses. The DUS series for non-regulated originators requires a top loss of 5% and then 25% of any further loss capped at a total of 20% of original unpaid principal balance. DUS for regulated originators (for Basel purposes) is 33.33% *pari passu*. Freddie Mac's K-Series securitizations take a different approach, by separating typically the 20% top-loss portion of the MBS and selling that to private, usually institutional, investors. To the extent different models are used, FHFA should establish benchmarks to allow effective comparisons of each channel and evaluation of market response.

c. **Impose a limit on Fannie/Freddie total multifamily portfolio size** to encourage securitization of multifamily loans while leaving some capacity for warehousing, repurchase of REOs, and difficult-to-securitize loans such as those for complex affordable housing properties. Portfolio capacity should support the securitization business rather than being an independent profit center.

d. **Require the GSEs to finance multifamily properties creating homes affordable to residents at 80% of AMI or below**. FHFA should require that more than 50% of the apartments financed in any given year be affordable to residents at 80% of AMI or below. Recent history shows this to be quite achievable—since 2004, the GSEs have done 60% or more of their total units at this level, in some years exceeding 80%. Active enforcement of this requirement is essential to make sure that the benefits of government-supported efficient capital channels go to create affordable housing, particularly in this interim period as we debate options for privatization or other far-reaching changes. A similar obligation should apply to HUD's FHA multifamily insurance business; HUD should require the same reporting from FHA (which could be done without imposing any additional owner- or property-level data collection) to allow comparison of the outcomes created by the different capital channels.

IV. Improve transparency for GSE multifamily

To enable policy-makers to gauge how the business is doing and to encourage thinking about how to best fashion a longer-term role for the government in multifamily housing finance, FHFA should require quarterly division-level reporting for the multifamily business units within Fannie Mae and Freddie Mac. Ideally, HUD should require the same reporting from FHA multifamily, although we recognize there may be limitations in existing data systems. Factors we recommend including:

a. Balance sheet

b. Profit & loss statement

c. Capital requirements

d. Performance measures –

    i. Current, delinquent (30, 60+, foreclosure and REO)

    ii. Weighted Average DCR and LTV by term

    iii. Age of property financed by location

e. Guarantee fees (as implemented above)

f. Market-share

g. Market segments served by income-level, geography, originator, and other relevant variables determined by FHFA

V. Pilot new approaches in multifamily

The pervasive risk aversion in multifamily finance is leaving gaps in the delivery system. FHFA should create cost-controlled, carefully monitored pilot programs that will provide data to guide reform efforts. Possible areas of innovation include:

a. New products to address the lack of bond financing for multifamily substantial rehabilitation and new construction.

b. Solutions for small multifamily properties to overcome the scale efficiency challenges.

c. Additional ways to work with FHA on risk-sharing products that enable financing for assisted housing, green retrofits of aging multifamily properties, and the preservation of HUD- and tax credit-assisted properties reaching the end of affordability commitments.

d. Capital sources for preservation and development of affordable rental housing in rural areas underserved by private capital.

VI. Conclusion: Prepare for transition in multifamily

FHFA has recognized the need for preparation and transitional steps, even as Congress works through the legislative process for mortgage finance reform. On the single-family side of the GSE businesses, it is using its own actions and the capabilities of the GSEs to prepare for many possible alternatives while sustaining fragile housing markets in the short term. The same rationale applies to the multifamily side, with the added benefit that the existing multifamily business lines are stable and profitable.

The National Housing Conference encourages FHFA to take action now for multifamily, and we stand ready to assist as it evaluates and implements specific actions.

Respectfully,

Ethan Handelman

Ethan Handelman
Vice President for Policy and Advocacy

Attachment 1

NHC's Housing Mortgage Working Group (HMWG) brings together housing finance practitioners from our broad membership to develop policy for the finance of housing. A subset of the HMWG focuses on multifamily housing, which has distinct track record, financing, and policy needs.

The ideas presented in this comment letter build in part on the work of the Center for American Progress' Mortgage Finance Working Group (MFWG), several members of which participate in the NHC effort. Earlier and parallel efforts by the MFWG, particularly their paper "A Responsible Market for Rental Housing Finance" helped to inform this effort.

Below we list the primary participants in the multifamily effort of NHC's HMWG, recognizing that many others contributed throughout the process. Members participate based on their own expertise and with NHC's mission at the forefront rather than as representatives of particular organizations.

David Abromowitz, Senior Fellow, Center for American Progress
Doug Bibby, President, National Multi Housing Council
Michael Bodaken, President, National Housing Trust
Conrad Egan, Senior Advisor, Affordable Housing Institute
Ethan Handelman, Vice President for Policy and Advocacy, National Housing Conference
William C. Kelly, Jr., President, Stewards of Affordable Housing for the Future
Jeff Lubell, Executive Director, Center for Housing Policy
Shekar Narasimhan, Managing Partner, Beekman Advisors
Ellen Seidman, former Director, Office of Thrift Supervision
Sarah Rosen Wartell, President, Urban Institute
Paul Weech, Executive Vice President, Housing Partnership Network
Mark Willis, Resident Research Fellow, Furman Center at NYU