

We appreciate the opportunity to respond to FHFA's proposal to further limit Fannie Mae and Freddie Mac's multifamily businesses in 2014. There is currently a liquid and very competitive multifamily private debt market as evidenced by 2013 year to date loan volumes. Therefore we question the perception that private capital does not currently have ready access to the multifamily debt market. The banks have been the largest provider of commercial real estate debt capital for all product types. The banks' footprint is primarily for shorter term floating rate loans although many banks are also now offering 7-10 year fixed rate loans. The life insurance companies have been very active in multifamily lending in 2013 and have been consistently winning business on the best quality lower leveraged assets. In fact several insurance companies have already hit their annual allocation for multifamily loans. CMBS has recovered from the debacle of 2008 but unfortunately the same conflicts of interest and underwriting processes that led to a 15% CMBS multifamily default rate remain. It is clear that private capital will play a significant role in multifamily debt in 2013 and beyond. Questions remain however as to the depth, quality and sustainability of what private capital does in this space particularly in times of financial market distress such as we experienced in 1998, 2001 and 2008. Given the strong credit performance of Fannie Mae and Freddie Mac in the multifamily debt space over the past 20 years we don't share FHFA's concerns with respect to the Enterprises multifamily risk exposure and by inference the tax payers exposure. The Enterprises have been tested at least three times over the past 15 years and the multifamily credit performance has been very strong. The multifamily market is a continuum of different product and of debt alternatives to fit differing needs. A reduction of liquidity in one sector of the market can over time have adverse unintended consequences. Furthermore there are over \$20 billion in Fannie Mae and Freddie Mac multifamily loans maturing in 2014. This alone would represent 40% of 2014 GSE multifamily production if there were to be an additional 10% reduction imposed for next year. Over the next four years the combined maturities of Fannie Mae and Freddie Mac loans is over \$100 billion. The best way to protect the tax payer is to be sure that there is sufficient liquidity to fund these maturities as well to continue to provide liquidity to the broader market.

Loan Terms

We would agree that historically the majority of the Enterprises loan origination is for 7 and 10 year fixed rate loans. However if rates continue to rise and the yield curve likely steepens there could be an increased demand for 5 year fixed rate loans to ease the market into a higher interest rate environment. Given the recent upward trend in rates and the resultant move to more short term financings as a mitigant we do not believe it is prudent to eliminate 5 year loans from the Enterprises debt offerings.

Variety of Loan Products

Given the broad range of ownership financing needs and ever changing and sometimes unpredictable financial and real estate market conditions the ability to the Enterprises to continue to offer a wide array of financing options is essential to the ongoing stability of the apartment market. This broad array of financing options is reflective of the Enterprises deep commitment and thorough understanding of the apartment market. It is because of the origination volume and resulting infrastructure of the GSEs that they are able to provide product diversity. Private market lenders generally provide capital for all types of commercial real estate. This may preclude them from offering more diverse multifamily financing options as they may perceive the resultant loan volume for specialized multifamily financing to be too low relative to their overall origination goals.

Should FHFA consider simplifying and standardizing the Enterprises multifamily loan products?

This is an interesting question given that the Enterprises loan programs and loan documents are viewed as the standard setters for the industry. Most owners would say that there are more similarities than dissimilarities between the Fannie and Freddie Mac products and documents. What differences there are seem relatively minor and are often reflective of how the Enterprises securitize their loans differently. Therefore it is difficult to understand what benefits may be realized by “standardizing” products and documents which are already more similar than dissimilar.

If the Enterprises' loan products were simplified and standardized , would this create an opportunity for private capital sources to expand their market presence by providing more specialized financing options to borrowers?

It is unclear to us which specialized financing products FHFA is referring to in this question. Private market specialization of multifamily finance products requires that either the capital provider be very large and deeply committed to multifamily or if it is smaller that it be singularly focused on providing specialized financing. The insurance companies and banks provide financing for all commercial real estate as part of their allocation/diversification strategies. They allocate their exposure by product type, borrower and geography. In order for them to provide specialized multifamily product they would need to be convinced that there was a sufficiently large origination opportunity for it to be economic for them. Specialized financing real estate lenders often have a higher cost of funds and are seeking higher returns which requires that they be more aggressive in their underwriting. The Enterprises don't compete in this higher yield area as they are uncomfortable with the higher leverage and more aggressive approach to underwriting. In summary we see no indication that private capital doesn't have the ability to offer specialized financing. In fact private capital does offer bridge loans, mezzanine loans, credit facilities, etc. for multifamily. Unduly limiting the product offerings of the Enterprises would arbitrarily limit market liquidity.

Should FHFA consider adoption of common loan terms, product features and underwriting requirements for similar types of loans that are available from each of the Enterprises?

Upon review of the Enterprises product offerings there are more similarities than dissimilarities. Any differences are nuances. Borrowers usually decide between Fannie Mae and Freddie Mac by slight differences in pricing and underwriting. Given this and the fact that each loan underwriting is unique it is not clear what the benefits of this would be or how it might be implemented and monitored without having a disruptive and costly impact on the loan origination process. What problem is FHFA solving or what benefit is derived by forcing this approach? If it is a question of credit extension to a common borrowing entity by the Enterprises to see how they compare then a periodic sampling of loans post-closing would more effectively and efficiently serve this purpose. Having said this given that the credit performance of the Enterprises multifamily portfolios during the worst economic recession since the depression has been stellar, we have seen no evidence that there is a discernible difference in how Fannie Mae and Freddie Mac underwrite risk.

Should FHFA consider imposing limits on the maximum amount of financing that is available to a property under the Enterprises loan products with adjustments for high cost markets?

The Enterprises have always financed a broad spectrum of the multi housing market to ensure liquidity for all market segments. This has helped to maintain a vibrant sales and development market which in turn helps to attract equity capital. Given the projected demand for multifamily over the next decade and beyond it is essential that liquidity be available to all segments of the multifamily market. To not do so risks reduction in development activity which over time will constrict supply which will lead to higher rents. In fact in cities such as Boston, New York and DC the inclusion of affordable housing is often required as a condition of approval by the municipalities of new development. If there is a concern about the depth and stability of the multifamily permanent debt market banks would be less likely to extend credit for construction loans for 2 to 3 years. Alternative debt providers such as life insurance companies and the banks can be highly selective in terms of which deals they will want to finance and self-limiting as to their debt allocations for multifamily properties.

Should FHFA consider imposing limits on the maximum rents that can be recognized in loan underwriting?

Given the number of markets and submarkets that the Enterprises fund multifamily loans applying a limit on maximum rents can have some unintended consequences and be cumbersome and costly to implement. The Enterprises have successfully financed a wide spectrum of multifamily properties which has brought an unprecedented stability to the market. Narrowing the scope of what the Enterprises finance threatens to limit liquidity in an arbitrary way that over time affects the quantity and quality of the multifamily housing stock. We have seen that over the past 10 years financial markets are highly volatile and unpredictable. Limiting the Enterprises product reach only serves to increase the risk in the financial markets by artificially limiting liquidity. Furthermore any policy with respect to limiting financing in this way should be the purview of Congress not FHFA.

If FHFA took some or all of the actions contemplated would other sources of financing be available to address the liquidity needs of this market?

What has been clear over the past 20 years is that no other multifamily debt providers have the resources, expertise or commitment to the multifamily housing that the Enterprises have. They are industry leaders in product development, underwriting standards, loan documents, and credit performance. There is significant value in the human capital of the Enterprises multifamily businesses which will be essential in the reconstitution of the U.S. multifamily finance industry. Therefore any plan that suggests a significant reduction of the Enterprises market position risks losing some of the market discipline of the Enterprises. There is clearly no one source that can be consistently relied on to fill the void left by scaling back the Enterprises originations. All of the other sources of multifamily debt have significant limitations either as to funding capacity, financing products offered, markets they will finance or underwriting discipline. We are already seeing some insurance companies pull back in their origination activity due to hitting their multifamily loan allocations. The banks are active for now. The conduits are becoming more price competitive but are also displaying some of the aggressive loan underwriting of years past and have significant conflicts of interest that have yet to be addressed. The multifamily debt market is a highly interrelated market. The actions of one primary source of debt capital has an impact on the others. Historically, before the emergence of the Enterprises in multifamily finance the market was very fragmented and inefficient. One only has to reflect on the S&L crisis of the 1980s to understand how destructive a group of lightly regulated undisciplined lenders can be. The FHFA contemplated limitations could ultimately have more negative affects than positive outcomes.

Should FHFA consider reducing the scope of the business activities engaged in by the Enterprises such as limiting their business to loans that provide new liquidity and prohibiting the purchase of seasoned loans or loan pools?

It seems a bit curious that if FHFA wants to increase private market participation in the multifamily finance space that it would consider prohibiting the purchase of seasoned loans or loan pools. It is these seasoned loan and loan pool purchases which allow private lenders (primarily banks) to make new loans thereby increasing their market share.

Should FHFA require that the Enterprises only provide loans that can be securitized and sold to investors?
Should the Enterprises portfolio purchases only be used for aggregating loans prior to securitization and to support special products for underserved market segments for which securitization may not be an option?

The Enterprises already securitize over 90% of what they originate so this seems to be a moot point. Portfolio aggregation and providing products for underserved market segments as well as limited new product incubation are all sound and appropriate uses of the Enterprises balance sheets.

If FHFA took some or all of the actions contemplated would this create the opportunity for private capital sources to expand their market presence by providing more financing options to borrowers?

We have already seen over the past 18 months a growing presence of private capital into the multifamily debt space. In fact the Enterprises multifamily originations market share has gone from over 60% in 2009 to 41% in 2012 and continuing to trend downward in 2013. Total multifamily debt is up \$31 billion from March 2012 in March 2013 but is essentially flat for the Enterprises. Insurance companies are regularly winning business for lower leveraged high quality properties at spreads that can be 25 to 50 bps lower than the Enterprises. Banks are extremely active lenders and consider multifamily to be a preferred product. CMBS has become more price competitive and is often more aggressive on loan proceeds. There is every indication that 2013 will be a strong origination year for private capital in multifamily with expectations that it will be a vibrant market into 2014 and beyond under our current multifamily debt market conditions. The Enterprises are an integral part of this robust market and a primary cause as to the stability, growth and success of the multifamily debt market. The standards and consistent market presence of the Enterprises are a benefit to all private market participants on both the equity and debt sides of the business that is unprecedented. The less prescriptive FHFA is in overseeing the Enterprises the less disruptive it will be to their businesses and ultimately to the market. Similarly the more FHFA can formulate a longer term vision and effectively communicate this to the market will help bring clarity to this situation.

Respectively yours,

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