



October 4, 2013

Federal Housing Finance Agency
Multifamily Housing Policy
400 7th Street, S.W., Room 9-261
Washington, DC 20024

Submitted via email to multifamilypolicyissues@fhfa.gov

RE: FHFA Request for Input on Options for Reducing Fannie Mae's and Freddie Mac's Multifamily Businesses

Dear Sir/Madam:

The American Seniors Housing Association (ASHA) represents more than 350 member companies across the United States that own, operate, and finance over 600,000 units of multifamily housing specifically tailored to meet the unique needs of seniors, including senior apartments, independent living, assisted living, and continuing care retirement communities. The ASHA membership is comprised of companies with small market and regional presence as well as most national providers.

Since Fannie Mae and Freddie Mac (the Enterprises) were first placed in conservatorship in 2008, the Federal Housing Finance Agency (FHFA) has provided strong stewardship in restoring confidence to the housing finance system. We commend and support FHFA's ongoing commitment to ensuring a stable and liquid mortgage market while preserving Enterprise assets. ASHA appreciates the opportunity to provide input on the FHFA's proposed options to further reduce the multifamily businesses of the Enterprises in 2014.

We share FHFA's goal of further stabilizing the soundness and solvency of the Enterprises. While more can be done to limit future risk exposure, it is imperative that any new measures not undo or needlessly set back the pace of development achieved in the multifamily housing market during the past 3 years. Similarly, any actions that might potentially disadvantage multifamily rental housing relative to single family housing must be avoided, as both are integral to a vibrant housing economy. The strengths of multifamily finance that have lasted through the financial crisis must be preserved in order to insure that affordable rental housing is readily available to the millions of moderate income Americans who rely on rental housing, including, especially, the Nation's seniors.

While we understand the FHFA's interest in contracting the activity of the Enterprises consistent with the Agency's Strategic Plan, we do not believe any significant restructuring of the multifamily program is warranted for next year, and urge that any steps that the FHFA takes to contract the Enterprises' multifamily businesses be undertaken only with the utmost caution, if at all. As the FHFA's own

Strategic Plan states: “Unlike the single-family credit guarantee business, each Enterprise’s multifamily business has weathered the housing crisis and generated positive cash flow.”

In fact, multifamily housing has consistently been the most successful sector of the U.S. housing finance system, with strong performance of the Enterprises’ multifamily divisions continuing throughout the financial crisis. Serious delinquency rates for the Enterprises’ multifamily loans were generally less than 1 percent from 1994-2011.¹ Disciplined underwriting, a strong network of originators, and active asset management kept both Enterprises’ multifamily finance divisions profitable—far different from what happened in the single family market. As described in the report to Congress by FHFA’s Inspector General, the Enterprises’ multifamily businesses, as entities in the conservatorship, made \$7 billion in profits from 2008 through the end of the third quarter in 2011.

In many ways, no segment of the population is more vulnerable to the side effects of real estate market disruption than vulnerable seniors. More than 20 percent of seniors’ households (i.e. households headed by people age 75+) currently reside in seniors housing and care properties.² Significantly, the size of the 75+ population is expected to increase during the next decade at a higher rate (2.1 percent annually) than occurred from 1990-2009³ (1.8 percent annually). As the number of senior households grows over the next decades, it is vital that the supply of seniors housing keeps up with demand. Maintaining a vibrant, reliable and liquid capital market is imperative to attracting the capital to meet that critical national need in large and small communities across the country.

With respect to access and affordability, multifamily rental housing, and in particular, seniors housing tends to be affordable with rents generally at or below area median income. Significantly, most of the Enterprise-supported housing units are affordable to seniors at or below 80% of area median income. A recent study by the Center for Retirement Research at Boston College found that over 50% of individuals living in a freestanding assisted living community have monthly income below \$3,500, with about 30% reporting monthly income between \$1,200 and \$2,500.⁴

In contemplating next steps, FHFA is considering whether to further reduce the Enterprises’ presence in the multifamily sector by shifting mortgage credit risk from the Enterprises to private capital sources. In effect, FHFA is considering a range of alternatives that would further reduce the volume of multifamily business. We appreciate that the alternatives under consideration are intended to further limit government’s hand in the housing finance market and allow private capital to return and play the dominant role. That is an important long-term goal that we share, but we strongly believe that setting arbitrary limits on the Enterprises’ multifamily borrowing activities now would create an unacceptable

¹ Government Accountability Office (GAO) Report to the Chairman, Committee on Financial Services, House of Representatives, Mortgage Financing; Fannie Mae and Freddie Mac’s Multifamily Housing Activities Have Increased, September 2012

² National Investment Center (NIC) for the Seniors Housing and Care Industry; NIC Investment Guide, 2012, pg. 10

³ Ibid.

⁴ See Norma B. Coe & April Yanyuan Wu, Financial Well-Being of Residents in Seniors Housing Care Communities: Evidence from the Residents Financial Survey 20 (Center for Retirement Research at Boston College 2012), Tables 1 and 2, pgs. 19-20.

risk of instability and uncertainty in financial markets with no apparent benefit to any of the key stakeholders (i.e. investors, borrowers, renters, or the government).

Indeed, imposing arbitrary borrowing limitations could very well prove to be counterproductive to the long term interests of the millions of Americans who rely on rental housing. The Enterprises already have a much less dominant role in the multifamily market as they do in the single-family market. Mandating a further reduction in the Enterprises' multifamily footprint at this time through caps or floors on loan terms, the exclusion of certain types of property, or limits on business activities of certain loan limits would impede the Enterprises' ability to respond to changing market decisions and could leave the multifamily sector exposed to liquidity shortfalls should access to private capital erode.

For seniors housing, in particular, it is imperative that Enterprise loans remain available to provide reliable liquidity because access to private capital sources is already more limited. By their nature, seniors housing developments of myriad types involve a greater level of complexity that makes standardized loan products impracticable and warrants continuation of tailored, more specialized, financing options. Seniors housing faces to varying degrees an array of added costs associated with housing and caring for an older frail population (including 24-hour security and a range of supportive health, dining, social and transportation services). The majority of these essential services are provided in the monthly rent, not segregated as "ancillary income," and therefore result in monthly "rent" that can appear quite high and not within the typical bounds of "affordable." This means per unit loan limits, maximum rents, and maximum financing limits, would be especially impractical, inappropriate and potentially devastating to seniors housing finance.

Debt financing for seniors housing also involves more specialized underwriting relative to traditional multifamily housing (i.e. apartment real estate). Many private lending sources simply do not have existing books of business in seniors housing because it is inherently a more complex business and they do not have in-house expertise to properly underwrite loans for this specialized sector. Consequently, private capital sources are generally unavailable to the seniors housing sector in many U.S. markets, particularly outside the top metropolitan areas. That is why it is critically important that loan terms and loan products remain as flexible as possible. A sudden or dramatic change in this regard could lead to a significant disruption in seniors housing mortgage availability and disproportionately upset the balance in multifamily finance. The Enterprises have exceedingly low default rates over the past 15+ years due to their established conservative underwriting policies. The staff is already in place with the underwriting expertise required to perform this vital function and it should continue without interruption.

With the number of renter households expected to increase by 340,000 to 470,000 annually over the next decade and vacancy rates at historic lows, implementing further reductions or placing arbitrary caps on the Enterprises' origination levels and securitization activities would be to the detriment of borrowers and renters alike. As noted earlier, the overall strong performance of multifamily mortgages during the credit crisis has never been in question, and thus the necessity of imposing further debt restrictions seems to be highly questionable and frankly ill advised.

Changes are needed that establish a sustainable long-term redirection of federal housing policy, including the future role of the Enterprises (or successor entities that will fulfill some of the critical functions currently served by the Enterprises). Those important policy decisions are on a path to being methodically resolved through legislation, and we urge the FHFA to avoid any regulatory steps that make major policy decisions best left to the legislative process. There is a growing awareness among key decision-makers that it is time to find a consensus resolution on the future of the conservatorships and a path forward for housing finance. In light of emerging legislative proposals to overhaul the housing finance system, prudent policy would dictate that that FHFA defer immediate action to contract Enterprises' operations pending Congressional resolution.

Once again, we urge you to move forward cautiously as you consider the long term impact of various alternatives to contracting the Enterprises. The multifamily sector did not cause the financial problems at the Enterprises. To the contrary, the Enterprises' role in providing capital for thousands of properties over the last 20 years has ensured that projects fully capable of covering their debt were not forced into foreclosure due to a temporarily illiquid credit market. For millions of renters, including many seniors who can least deal with disruption, the Enterprises' successful multifamily programs protected them from the threat of losing their housing.

We urge the FHFA to continue to ensure stable access to a full range of mortgage options for the future development and preservation of rental housing. That will ensure our housing finance system serves all Americans, and particularly millions of frail seniors on fixed incomes receiving essential housing and supportive services in seniors housing (e.g., assisted living). Arbitrary goals of reductions in the Enterprises' involvement in the multifamily housing market would carry unacceptable risks and likely unintended consequences.

We appreciate the opportunity to comment on the FHFA proposal and hope that you will give our concerns serious consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "David S. Schless". The signature is written in a cursive, flowing style.

David S. Schless
President