

October 8, 2013

Federal Housing Finance Agency
OHRP Multifamily Housing Policy
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Request for Public Input on Reducing the GSE's Multifamily Business

Ladies and Gentlemen:

The Greystone family of companies is pleased to offer its views in response to your invitation to comment regarding the future of the vital multifamily housing finance programs maintained by the GSE's, and in particular Fannie Mae and its Delegated Underwriting and Servicing ("DUS") program.

- We are one of Fannie Mae's larger full-service DUS lenders, closing more loans each year than any other. We are particularly invested in smaller balance lending and affordable housing finance.
- We are the largest producer of FHA insured multifamily loans.
- More recently, we became an approved Freddie Mac Program Plus lender for its Affordable Housing and its Seniors Housing product lines.
- We offer bridge financing using our balance sheet, and have recently begun offering CMBS products.
- We both own multifamily housing properties in our own name and actively support nonprofit corporations which provide multifamily housing to lower income demographics, giving us not only a lender's but also a consumer's perspective on the multifamily housing industry.

FHFA's announced strategy is to contract the GSE's presence in the marketplace while simplifying and shrinking certain of their operations, with the overall goal of reducing their risk exposure and allowing more private capital in the mortgage market. While potentially apt for the GSE's single-family business lines, Greystone believes that this strategy is unnecessary and inappropriate for the GSE's multifamily businesses, especially as to Fannie Mae.

The strategy is inappropriate for Fannie Mae because Fannie Mae's DUS program already achieves the goal of bringing private capital into the multifamily housing finance world. Greystone and the other DUS lenders are that private capital. Under Fannie Mae's DUS program, we share with Fannie Mae the risk of loan losses, placing our capital at risk ahead of Fannie Mae's capital. In the aftermath of the recent financial crisis and recession, Greystone and the other DUS lenders absorbed loan losses alongside Fannie Mae that, although significant, were relatively light compared to those borne by CMBS portfolios and many banks. Indeed, the multifamily loan portfolio underwritten and serviced by Fannie Mae's private DUS lender partners outperformed virtually every other segment of the housing finance

industry. **The DUS business model works.** It already attracts private capital into the multifamily finance market in a fashion that has been proven to be highly effective on a risk-adjusted basis. The DUS business model attracts private capital specifically to the multifamily space in a manner no less efficient and indeed less burdensome to the federal government than the FDIC deposit insurance without which no bank could operate. Greystone urges the FHFA not to fix that which is not broken.

A strategy of forced constriction is also unnecessary, for market forces are already at work restoring the pre-crisis distribution of multifamily housing finance business among a variety of channels. The crisis completely eliminated the CMBS industry, previously one of the largest providers of multifamily loans. It also drove to the sidelines virtually all of the banks, as those institutions responded to regulatory pressure to shrink their balance sheets. Life insurance companies, traditionally active participants in the upper end of the multifamily housing finance spectrum, also severely restricted their lending. All of those players in recent months have come roaring back:

- Banks are dominating multifamily housing finance in the major urban markets, particularly along the coasts. In stark contrast to our experience of only a few months ago, Greystone is finding it virtually impossible to compete with banks in those markets using Fannie Mae's small balance loan products. With FDIC deposit insurance enabling banks to attract funds at virtually no cost, these depositories are able to offer our borrower clients interest rates unreachable using Fannie Mae's capital markets based funding techniques.
- Life insurance companies are back. Those with whom we have relationships tell us that their investment committees are allocating record amounts of capital for deployment into multifamily loans. As they had done traditionally, these players are again focused predominantly on larger, higher-end product.
- Wall Street is back. CMBS lenders are bidding aggressively for larger loans, particularly those for properties a step below the luxury product which typically attracts the life insurance companies. Even the GSE's traditional 'sweet spot', the B quality 'workforce housing' property, is increasingly finding its funding with conduit lenders.
- Even HUD, traditionally the 'lender of last resort', has dramatically increased its presence. Fueled by unprecedented demand for multifamily Ginnie Mae securities in the capital markets, the interest rate on a 35 year HUD loan has for several years now been below that achievable by the GSE's on even shorter maturity debt. This price advantage combined with HUD's effective efforts at streamlining and enhancing its processing infrastructure has made FHA financing the preferred choice of many borrowers who previously would never have considered HUD debt as an option.

Competition has returned to the multifamily markets with breadth and strength, and continues to grow. The magnitude of this come-back is such that we believe little if any of the resurgence can fairly be attributed to FHFA's 2013 limit on the GSE's multifamily loan volume.

On the other hand, we have seen somewhat less renewed competition in the more specialized world of affordable housing finance. Although pressure from their regulators under the Community Reinvestment Act has compelled banks to maintain some continuing presence in the space, at least in

major urban markets, they have been less than reliable in their service to affordable housing customers. In recent months, HUD has launched a pilot program seeking to better serve LIHTC and other affordable properties, but has not yet overcome the affordable developers' aversion to HUD's classic long term self-amortizing fixed rate loan delivered through HUD's traditionally slower, higher-touch delivery system. The GSEs remain the premier provider of debt to the affordable housing industry. As an example, Greystone recently utilized Fannie Mae's affordable finance products to close a portfolio transaction which paired Fannie Mae debt with low income housing tax credits, together with existing debt from the Department of Agriculture's Rural Development agency, to preserve almost 1,400 units of multifamily housing in 44 properties, all in rural markets across the State of Georgia. That transaction would not have been possible but for Fannie Mae. No other debt provider would even consider it.

We believe that efforts to constrain the product offerings of the GSEs, even to such socially beneficial sectors as affordable housing or smaller balance lending, would be a mistake. In our own businesses, we have found it impossible to predict the ebbs and flows of demand for specific sub-products within the multifamily sector. As the markets and our businesses evolved, so did we. By maintaining a meaningful market presence across a diverse array of products reaching a variety of customer types, we were able to achieve a measure of resiliency and staying power that enabled us to respond without desperation as previously successful products began to fade. The same is surely true for the GSEs.

Accordingly, we do not believe that any of the FHFA's suggested restrictions on the GSEs are advisable:

- Loan term strictures intent upon eliminating an already small segment of the GSE's business would be pointless and counterproductive. Fannie Mae makes relatively few five-year loans because it eschews the balloon risk inherent in them. Nevertheless, for several periods over the 25 year history of the DUS program, some of our borrowers -- especially those preferring lower leverage -- have found shorter-term Fannie Mae loans an essential element of their efforts to maintain their positions in B quality properties. This has been especially true in secondary and tertiary markets which tend to be underserved by larger banks that traditionally offer shorter-term loan products.
- Eliminating variety in the GSE's loan products would do nothing to enhance competition because competition is not discouraged by the diversity of the GSE's product offerings. Fannie Mae offered no less varied a suite of products before the crisis, yet it faced competition from all fronts. That competition evaporated during the crisis not because Fannie Mae broadened its product offerings. Fannie Mae's offerings remained relatively constant. Competition evaporated because liquidity in the capital markets evaporated.
- Limiting the GSE's to financing particular types of properties or imposing artificial constraints on the size of their loans would be misguided and dangerous. The history of artificial constraints proves that they serve not to increase competition in the multifamily mortgage markets, but rather to restrict it. The GSE's recently greater market share of larger loan transactions was occasioned only by the withdrawal from the market of other, less durable lending channels. Imposing an artificial constraint on the GSE's ability to return to that larger loan market on the inevitable day when those capital providers once again move to the sidelines would be a mistake.

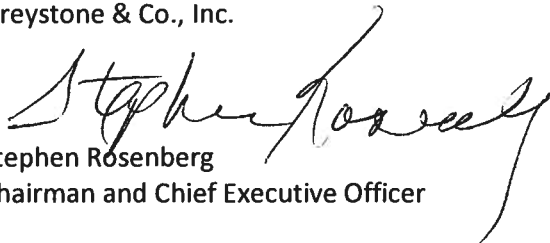
- Imposing an overall cap on the GSE's market share would be worse. Had such a limit been in place in 2007 and 2008, when banks and Wall Street lenders abandoned the market in droves, the GSE's would have been unable to step in as they did and add vital liquidity and stability at the start of the recession. Without question, the recession would have been deeper and more painful had the GSEs been operating under such constraints. There is no reason to handcuff the GSEs for the next recession.

We are all aware of the tsunami of CMBS multifamily loans which will be maturing over the next few years. A wave of defaults and foreclosures from those portfolios could retard the recovery of commercial real estate markets, to the benefit of no one. Greystone respectfully submits that now is the wrong time to be artificially constraining the GSE's important and successful multifamily lending businesses.

Thank you for your consideration of Greystone's thoughts on these matters. We sincerely appreciate this opportunity to express our views.

Sincerely,

Greystone & Co., Inc.

A handwritten signature in black ink, appearing to read "Stephen Rosenberg", written in a cursive style.

Stephen Rosenberg
Chairman and Chief Executive Officer