Prudential

Prudential Mortgage Capital Company
David Durning, President and Chief Executive Officer
Two Prudential Plaza, 180 N. Stetson, Suite 5400
Chicago, IL 60601

A business of Prudential Financial, Inc.

October 8, 2013

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

Via email to: multifamilypolicyissues@fhfa.gov

Re: Federal Housing Finance Agency ("FHFA") Options for Reducing Fannie Mae and Freddie Mac's (collectively, the "GSEs") Multifamily Businesses

Prudential Mortgage Capital Company ("PMCC")[1] appreciates the opportunity to provide comments on the FHFA's request for public input on strategies for reducing the GSE's presence in the multifamily housing finance market.

Leveraging Prudential's more than 135-year history of real estate finance, PMCC offers one of the most comprehensive lines of real estate finance products originating loans for Fannie Mae DUS®, Freddie Mac Program Plus® and specialized affordable housing programs; Federal Housing Administration ("FHA"); Conduit; Prudential's general account and proprietary balance sheet program; and other institutional investors.

Our response letter is divided into two parts: (1) Fannie Mae's and Freddie Mac's critical role in the multifamily market; and (2) FHFA's 2014 strategic plan and our recommendations.

Fannie Mae's and Freddie Mac's Critical Role in the Multifamily Market

Despite a footprint of total financing volume that is smaller in comparison to single-family, the GSE multifamily businesses have been critical to addressing America's housing needs as well as delivering benefits, such as market stability, to the broader U.S. economy.

Today over 17 million American households are considered multifamily rental housing.[2] With the precipitous decline of homeownership rates (most recently dipping to 65% -- a 18-year

---

[1] Prudential Mortgage Capital Company is a national full-service, commercial and multifamily mortgage finance business with more than $76.3 billion in assets under management and administration as of March 31, 2013. The company maintains a loan servicing portfolio of approximately $71.7 billion, as of March 31, 2013.

[2] National Multi Housing Council, Tabulations of 2013 Current Population Survey, Annual Social and Economic Supplement, U.S. Census Bureau, http://www.nmhc.org/Content.cfm?ItemNumber=55508, accessed October 8, 2013

low), attention has grown to the importance of multifamily rental housing to meet the shift in housing demands.[3] In addition to support provided by the GSEs, financing of multifamily properties comes from other important sources, such as banks, thrifts, life insurance companies, commercial mortgage backed securities and the Federal Housing Administration.

As the FHFA contemplates alternatives to reducing the GSE's presence in the multifamily market, we encourage consideration of the strong performance of Fannie Mae and Freddie Mac multifamily businesses and the vital role they have played in the multifamily market. Included, but not limited within, this evaluation is an acknowledgement of three important aspects of the GSEs multifamily businesses.

First, GSEs multifamily businesses have posted a strong track record of profitability and loan performance. Delinquency rates of multifamily loans held or guaranteed by Fannie Mae and Freddie Mac have remained less than 1 percent. In fact, at the end of August 2013, Fannie Mae and Freddie Mac 60-day delinquency rates were .18% and .05% respectively, marking a continuation of results below 1 percent dating back to 1997.[4] The strong performance of the GSEs is further illustrated when viewed in context to that of private market financiers where FDIC-insured banks and thrifts held a 90-day delinquency rate of 2.16% and the 30-day performance of commercial mortgage backed securities is 7.81%.[5]

Second, GSE multifamily financing has historically and predominately served the rental housing needs for moderate and low-income families. From 2009 to 2011, over 85% of multifamily units financed by Fannie Mae were affordable to families at or below the area median income ("AMI").[6] Freddie Mac produced similar results over the last three years with approximately 85% of rental units financed at or below the AMI.[7]

Third, in periods of market distress, the GSEs have played a vital countercyclical role for multifamily financing. In recent events where private market financing contracted, such as during the 1998 currency crisis, post 9/11 and more recently during "the great recession," GSEs were a reliable source of liquidity, delivering increased portfolio purchases and security guarantees to support the availability and affordability of financing options for multifamily projects. As markets stabilized from these periods of unease, private market financiers reentered the market returning the GSE's presence to its historical range of financing.

FHFA's 2014 Strategic Plan & Our Recommendations

---

[3] Prashant Gobal & Clea Benson, "American Dream Slipping as Homeownership at 18-Year Low", Bloomberg, 30 July 2013.

[4] Fannie Mae, August 2013 Monthly Summary, p.2 Serious Delinquency Rates - Multifamily Total http://www.fanniemae.com/resources/file/ir/pdf/monthly-summary/083013.pdf, accessed October 8, 2013. Freddie Mac, August 2013 Monthly Volume Summary, p.2 Delinquencies Total (Table 6) - Multifamily Total http://www.freddiemac.com/investors/volsum/pdf/0813mvs.pdf accessed October 8, 2013. Mortgage Bankers Association ("MBA") Commercial Real Estate/Multifamily Finance, Mortgage Delinquency Rates for Major Investor Groups, 2nd Quarter 2013, p. 9, http://www.mbaa.org/files/Research/CommercialNDR/2Q13CommercialNDR.pdf, accessed October 8, 2013.

[5] MBA Commercial Real Estate/Multifamily Finance, Mortgage Delinquency Rates for Major Investor Groups, 2nd Quarter 2013, p. 6, http://www.mbaa.org/files/Research/CommercialNDR/2Q13CommercialNDR.pdf, accessed October 8, 2013.

[6] Fannie Mae, "An Overview of Fannie Mae's Multifamily Mortgage Business", p. 2 https://www.fanniemae.com/content/fact_sheet/multifamilyoverview.pdf, accessed October 8, 2013

[7] Freddie Mac, Affordable Rental Housing, http://www.freddiemac.com/multifamily/sellerservicers/affordable.html, accessed October 8, 2013.

With the demonstrated success of the GSEs multifamily businesses, both in relation to their operation, profitability, loan performance as well as their support of rental housing needs, we urge the FHFA to proceed with caution as it considers alternatives for reducing the GSEs multifamily business for 2014 and beyond.

As Congress debates the future of the housing finance, including final resolution of the GSEs, we believe an important near-term objective for FHFA should be the preservation of existing resources and staff to support continued viability of the multifamily businesses. We fear a further across the board volume reduction, such as extending the 10% reduction program for 2013 into 2014, would be detrimental not only to the availability and affordability of multifamily financing options but potentially to the performance of the GSE multifamily businesses themselves. As an alternative approach, we encourage the FHFA to explore a limitation on financing for properties affordable to people at or above 120% of AMI.

Lastly, if the FHFA were to adopt broad or narrow changes to the GSE programs, we recommend an effective date for any revisions of at least a year. We believe this lead time would benefit all participants in providing greater certainty and stability to the multifamily market as well as the ability to better preserve and conserve the assets and infrastructure of the GSEs.

Again, we appreciate the opportunity to comment on the FHFA's 2014 Strategic Plan. If you have any questions, please do not hesitate to contact us.

Sincerely,

David M. Durning
President and Chief Executive Officer
Prudential Mortgage Capital Company