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8200 Jones Branch Drive
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Via Electronic Submission: RegComments@FHFA.gov

July 26, 2012

Mr. Alfred M. Pollard, Esq.
General Counsel
Federal Housing Finance Agency
400 Seventh Street, S.W., Eighth Floor
Washington, D.C. 20024

Attention: Comments – RIN 2590-AA49 (Enterprise Affordable Housing Goals)

Dear Mr. Pollard:

Freddie Mac is pleased to submit our enclosed comments on the Federal Housing Finance Agency's proposed rule regarding the 2012-2014 Enterprise Affordable Housing Goals.

Freddie Mac is committed to our statutory mission to provide liquidity, stability and affordability to the U.S. housing market. We commend FHFA for its thoughtful development of the proposed rule and look forward to working toward our shared objective of supporting affordable and sustainable homeownership and rental opportunities across the country.

Please do not hesitate to contact us if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Wendell J. Chambliss".

Wendell J. Chambliss
Vice President and Deputy General Counsel
Mission, Legislative and Regulatory Affairs Department

cc: Robert Tsien
Kimball Griffith
Sheldon Pine

Enclosure



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COMMENTS OF THE FEDERAL HOME LOAN MORTGAGE CORPORATION

ON

**THE FEDERAL HOUSING FINANCE AGENCY'S PROPOSED RULE ON
THE 2012-2014 ENTERPRISE HOUSING GOALS, PROPOSED RULE**

RIN 2590-AA49

JULY 26, 2012

Freddie Mac appreciates the opportunity to provide comments on FHFA's proposed rule for the 2012-2014 Enterprise Housing Goals. Freddie Mac's comments are narrowly focused on the question posed in Section VI B of the proposed rules – "whether 1282.15(d) should be revised to require the Enterprises to use projected rents to determine affordability [and therefore qualification toward housing goals requirements] if such projected rents are available." 77 Fed. Reg. 34263, 34280 (June 11, 2012).

Freddie Mac agrees with FHFA that under the current housing goals regime, it is unlikely that an "[e]nterprise would receive housing goals credit for a mortgage that finances the conversion of a multifamily property from affordable rents to market rate rents." 77 Fed. Reg. 34263, 34280 (June 11, 2012). Accordingly, Freddie Mac supports FHFA's initial determination not to change the existing rules for determining the affordability of multifamily mortgages.

First, as FHFA's discussion makes clear, Freddie Mac's multifamily mortgage underwriting process relies on actual, existing rents, not on projected rents. Again, we agree with FHFA that this underwriting process "limits the likelihood that Freddie Mac will purchase a multifamily mortgage where the financing depends on increases in current rents." 77 Fed. Reg. 34263, 34280 (June 11, 2012). This reliance on actual rents is a matter of fundamental credit risk discipline. It is this discipline that has contributed to Freddie Mac's low delinquency and default rates. Freddie Mac fully expects to adhere to this underwriting discipline in the future. As a practical matter, loans underwritten on actual rents are unlikely to provide the incremental funds that are typically required to reposition a property from affordable to market rents.

In contrast, underwriting based on projected future rents was somewhat common in CMBS underwriting during the peak of the market, in the period 2004 to 2008. This approach contributed to the sharply higher rates of delinquencies and defaults characteristic of the mortgages underlying CMBS issued during this period.¹ However, under the current regulations, private label securities, including CMBS, are ineligible for housing goals credit.

¹ For a discussion of the differences in multifamily mortgage delinquency and foreclosure rates between the Enterprises and CMBS issuers and the underwriting differences that likely accounted for those differentials, see David Brickman et al., "Mysteries Revealed – Why CMBS Multifamily Performance is So Much Worse than Agency and Life Company Experience." CRE Finance World, Summer 2011 at 22-26.

Second, to the extent that a transition from affordable to market rents is driven primarily by market forces and not incremental capital investment, a regulatory requirement to use future projected rents to determine affordability for housing goals purposes might, if goals compliance were the primary objective, constrain the flow of GSE capital to geographic areas or specific projects for which rents might increase.

More broadly, in establishing the multifamily mortgage special affordable housing goal and subgoal, Congress directed FHFA, in setting the goal, to consider, among other things, “national multifamily mortgage credit needs and the ability of [Freddie Mac] to provide additional liquidity and stability to the multifamily mortgage market.” Federal Housing Enterprises Safety and Soundness Act, §1333(a)(4)(A), 12 U.S.C. 4563(a)(4)(A). This mandate is consistent with our overarching Charter obligation to provide liquidity and stability to the broad multifamily market without focusing on specific market segments. Requiring mortgage underwriting based on actual rents – rather than on projections about future rents – is consistent with these Charter obligations.

In addition, we would submit that a regulatory requirement that would use future projected rents to determine affordability could constrain the flow of GSE capital to geographic areas or specific projects for which rents might increase. This could decrease the flow or increase the cost of capital for projects that, for example, require rehabilitation or renovation to remain affordable to low- and moderate-income families. Projects requiring moderate-to-substantial rehabilitation may require increased rents in order to finance the required capital expenditures.

We further believe that such a regulatory requirement could impair market liquidity. In order to meet a multifamily goal based upon projected future rents, Freddie Mac would be compelled to allocate scarce capital conservatively in order to ensure purchases meeting goal eligibility. Liquidity provision would be constrained by a requirement that projected future rents – rather than actual market rents – govern goals eligibility.

Finally, a requirement to use projected future rents to measure affordability would introduce uncertainties and operational difficulties in both the underwriting and compliance processes. Basing goals credit on projected rents would bring undesirable subjectivity into the goals counting processes. Actual rents are objective; projected rents are not. In addition, the affordability of projected rents should be judged against projected future median incomes. Managing this subjectivity through the many

participants in the process – borrowers, seller-servicers, appraisers, and Freddie Mac underwriters – would create new operational risks and compliance challenges. Also, it would require systems changes to capture projected data and possibly post-funding monitoring obligations.

In sum, we believe the current affordable housing goals regulations prevent the awarding of goals credit for the financing of multifamily property conversions.

Freddie Mac appreciates the opportunity to comment on this important rulemaking. We look forward to engaging in an ongoing dialogue with FHFA, as well as continuing our role to ensure the liquidity, stability and affordability of the U.S. mortgage markets.