

United States House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

June 17, 2009

The Honorable James B. Lockhart III  
Director  
Federal Housing Finance Agency  
1700 G Street NW, Fourth Floor  
Washington, DC 20552

Dear Director Lockhart:

I am writing to urge you to strengthen GSE goals with respect to the purchase of affordable multifamily loans.

Last year's comprehensive GSE reform legislation, the "Housing and Economic Recovery Act" (HERA) (P.L. 110-289) strengthened the mission of Fannie Mae and Freddie Mac with respect to their role in affordable multifamily mortgage credit. That legislation established for the first time a statutory multifamily affordable housing goal, and also created a new Duty to Serve requirement under which the GSEs are responsible for increasing liquidity for Affordable Housing Preservation multifamily loans.

In light of this legislation, I am disappointed with FHFA's proposed rule, published for comment on May 1<sup>st</sup>, which establishes 2009 transition Affordable Housing Goals. That proposed rule maintains the current Special Affordable Multifamily Subgoal at a combined volume of \$9.42 billion for the two GSEs. Yet, the proposed rule acknowledges that "*both Enterprises have exceeded their respective multifamily subgoals by wide margins in recent years, especially in 2007.*" In fact, combined qualifying subgoal purchases for the two GSEs totaled \$35.15 billion in 2007 (3.7 times the proposed 2009 goal level) and \$21.12 billion in 2008 (2.2 times the 2009 goal level).

FHFA argues in its proposed rule that multifamily loan purchase opportunities are declining. In fact, industry participants, such as the National Association of Affordable Housing Lenders, argue that there are significant opportunities for quality loan purchases from both for-profit financial institutions and from non-profit affordable housing participants of seasoned, performing affordable multifamily loans.

At the same time, competition for purchase of such loans from other private sector sources has all but evaporated. In the words of FHFHA, "*During 2008, all sources of multifamily financing, with the exception of the GSEs and FHA, virtually dried up.*" The decline of other lending sources means expanded opportunities for GSE purchase of multifamily loans. It also increases the importance of the GSEs role in such purchases.

Moreover, establishment of multifamily goals at levels well below recent performance levels do not appear to be justified by potential concerns over credit risk. While there have been significant problems in single family mortgage and housing markets recently, the same is not true for multifamily loans. Turmoil and heightened risk in single family markets is not a justification for a contraction in multifamily loan purchases.

Specifically, according to FHFA's annual reports on GSE performance, Fannie Mae's multifamily delinquency rate (measured as 60+ days) in 2008 was .30% - which was only 1/8 of its single family delinquency rate. Similarly, Freddie Mac's delinquency rate (measured as 90+ days) was .01% - 1/172 of its single family delinquency rate of 1.72%. More recently, the Mortgage Bankers Association released a report noting that Fannie's delinquency rate increased only slightly in the first quarter of this year, to .34%, and that Freddie Mac's delinquency rate has increased, but is still only .09%.

Unfortunately, instead of seeing GSE leadership in this important sector of the market, we have seen the opposite. My understanding is that over the last year, the two GSEs have tightened their multifamily underwriting standards, including lower loan to value (LTV) limitations, higher debt service coverage ratios, and heightened borrower scrutiny. These changes make it much harder for sound affordable rental housing development and preservation projects to qualify for GSE purchase. They are likely to result in a diminution of GSEs' role in purchasing multifamily loans.

Therefore, I would request that the FHFA take a series of actions to expand the role of the GSEs in purchasing affordable multifamily loans. These include:

- (1) Strengthening the 2009 Transition Special Affordable Multifamily Subgoal, commensurate with historical performance levels and purchase opportunities
- (2) Sending a clear message to the GSEs about their critical role in providing liquidity in light of current multifamily mortgage market dislocations, and
- (3) Beginning the drafting process for the establishment of strong 2010 Multifamily Housing Goal levels and substantive Duty to Serve Affordable Housing Preservation requirements, as provided under HERA.

Thank you for your consideration of this request.

  
BARNEY FRANK  
Chairman