



October 7, 2013

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

To Whom It May Concern:

Centerline Capital Group is pleased to have the opportunity to respond to the FHFA's request for public input dated August 9th regarding strategies for reducing the roles of Fannie Mae and Freddie Mac (collectively the "GSEs") in the multifamily housing finance market in 2014. We would like to respond first with a general statement, and then we will provide a detailed discussion.

General Statement

Overall it is our view that FHFA should not attempt in a 2014 scorecard to set limits on the GSE use of different loan terms, loan products, or loans to specific property types, for the primary reason that the GSE footprint in the multifamily lending space is already declining to historical norms (pre-credit crunch). The GSEs did exactly what one would hope and expect over the past ten years – their market share was lower pre-credit crunch, and then increased significantly as all private market participants retreated from the marketplace in the 2007-2011 time period. Now their market share is declining to historical norms. Their market share can be calibrated by adjusting the cost of their credit guarantee to calibrate to the market need, and allow management of the GSE multifamily businesses the flexibility to deploy capital to those sectors of the multi-family market where they can be effective. Strict dollar limitations are not required. We are also of the view that further pullback from the market by the GSEs could disproportionately negatively affect the affordable and workforce housing segments of the market.

Discussion

There is an implied assumption in the request for public input that something is wrong with the multifamily housing finance market that needs to be fixed. It is our contention that the FHFA's intention to shrink the GSE market presence further through regulatory based changes is not necessary, is potentially disruptive to markets and not optimal for taxpayers.

Why do say that the effort is not necessary? Please consider the following four key factors:

- a. **The GSE market share is comparable to where it was pre-crisis and is declining naturally** (the forecast for 2013 is in the 30-40% range, down significantly from a peak of 60-70% in 2008-09; and consistent with the historical average market share in the 2000-2007 time period).
- b. **There is healthy competition from multiple capital sources** (the GSEs compete with life insurance companies, banks and CMBS platforms). Market share for banks and life companies has returned to historical average levels pre-credit crunch. The CMBS share is less than pre-credit crunch levels; however this is the result of contraction

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of GSE CMBS purchases. The majority of growth in CMBS multifamily origination pre-crisis (2004 to 2007) was driven by GSE CMBS purchases; adjusting for those purchases pre-crisis, current CMBS origination activity is comparable to those historical levels.

- c. **FHFA has stated a clear policy goal of attracting private capital to housing finance. Both GSE multifamily businesses utilize significant amounts of private capital** within their business models, and could use more if directed and permitted to do so. The Fannie Mae DUS model and the Freddie Mac K-Series model involve significant risk sharing with private capital sources. Therefore the FHFA should consider contraction not narrowly in terms of GSE mortgage purchase activity, but more broadly in terms of reducing the government's capital investment in the two enterprises. Along such lines, an alternative to "contraction" should be a program of encouraging the GSEs to raise additional private capital to finance their activities and bear risk.
- d. **Credit losses in the GSE multifamily programs have been minimal.** Both have been exceptionally prudent in their lending standards and practices and have had excellent credit performance in their respective books. Current 60 day delinquency rates for Fannie Mae (0.28%) and Freddie Mac (0.09%) compare favorably to Life companies (0.08%), banks/thrifts (2.16% - 90 day) and CMBS (7.81% - 30 day). Cumulative credit losses through the cycle (2008 to present) have been very low for both Fannie Mae and Freddie Mac – less than 1% of their total multifamily mortgage portfolios, or \$258 million for Freddie Mac and \$1.476 billion for Fannie Mae.

For these four reasons, it is difficult to perceive how the system could be perceived as in need of an overhaul or further shrinkage.

Why do we say the suggested efforts for the 2014 scorecard are potentially disruptive to the market? FHFA risks destabilizing the apartment market and significantly harming the flow of capital to apartments – thereby worsening rental affordability for US renter households. Please note the following observations:

- a. **The apartment market is currently healthy and strong.** The million-plus annual increases in the last two years put growth of renter households in the current decade on pace to easily surpass the record 5.1 million gain in the previous decade. While this rapid growth may not be sustainable, it attests to the unprecedented strength of rental demand. These statistics are courtesy of "The State of the Nation's Housing 2013", Joint Center for Housing Studies at Harvard University, 2013.
- b. **Significant capital is presently flowing,** and needs to flow into apartment markets to continue to meet this growing need.
- c. **The bigger problem is the diminishing supply of affordable rental housing** – the Joint Center estimates that since 2007, the "affordability gap" for extremely low-income renters has doubled and the shortage is growing for all low income renters. Centerline researched the affordability of the rental units it has financed under the Fannie Mae DUS Program since 1994 (369,461 rental units in aggregate). 44.7% of the units reported rents affordable at 60% of Area Median Income ("AMI") or less, and 46.8% of the units reported rents affordable at 60-100% AMI. From 2010 onward, these percentages are even higher. Overall, since 1994 only 8.5% of the units that we financed with Fannie Mae had rents that could be deemed luxury housing at rents above 100% AMI, and that figure declined to the 4-6% range since 2010. Our business with Fannie Mae has clearly been focused on areas of the market not traditionally served by life insurance companies and other lenders that focus on trophy assets, and that lending support could be negatively affected by further GSE contraction.

- d. **FHFA's message of contraction could significantly disrupt the flow of credit for several reasons.** First, FHFA's current limits have resulted in modest increases in multifamily mortgage spreads – a result that is consistent with research performed as part of Fannie Mae and Freddie Mac's 2012 FHFA Multifamily Scorecard deliverables; second, those analyses concluded that complete removal of government support for the market would ultimately increase spreads by approximately 100 bps and reduce property values by approximately 10%; third, the analyses also suggested that changes of this magnitude would significantly reduce the flow of new multifamily construction and financing availability for affordable rental housing; fourth, FHFA's announcement of further contraction in 2014 could be greeted by multifamily capital providers in much the way bond investors have greeted announcements by Ben Bernanke that he will be winding down the Fed's bond buying program – a steep pullback is quite possible – except in this case it is not clearly justified; and fifth, this makes contraction seem to run counter to FHFA's stated Performance Goal of promoting stability in the housing market (See FHFA Strategic Plan for Fiscal Years 2013-2017).

Why do we say the suggested efforts for 2014 are not optimal for taxpayers? Please consider the following:

- a. **With directed further contraction of the GSE lending activity, FHFA is not maximizing value as conservator of the US government's assets.** FHFA as conservator has been charged with a mission to "Preserve and Conserve Enterprise Assets". Further contraction of the GSE Multifamily business neither preserves nor conserves them nor their assets, but rather lowers the value of the respective platforms (platforms that could be worth several billion dollars according to the Freddie Mac 2013 Scorecard submission). Also, while current credit performance at both GSEs is very good – this could change if both the platforms are degraded and/or there is an FHFA induced market disruption. FHFA may create credit risk and increased taxpayer exposure where little to none exists today.
- b. **FHFA is foreclosing policy options before policy makers have the opportunity to legislate.** For years Congress and the Administration have been largely silent on housing finance but action is now commencing. In the last year, Congress has begun to take up to the issue of housing finance policy reform and is actively engaged in policy debate. There are numerous proposals being discussed, and most provide for a continued role for the government in multifamily housing. Further contraction by FHFA reduces the number of policy options available to Congress and policy makers. Now that Congress is doing its job – it is not clear why FHFA would seek to pursue policy objectives via the 2014 scorecard.

The case for contracting the GSE's multifamily businesses has not been made. It cannot be justified as conserving or preserving assets based on the current value of each franchise. It cannot be justified on safety and soundness grounds based on the credit performance of the two platforms and their business models. It cannot be justified as in the best financial interests of taxpayers given the strong profits generated by the two platforms since from 2008 to the present; the cumulative Fannie Mae Multifamily segment income is \$4.841 billion and the cumulative Freddie Mac Multifamily segment income is \$4.804 billion. Lastly, it cannot be justified in terms of public policy gone awry – the multifamily mortgage and real estate markets performed well through the crises and the GSEs did what they were supposed to do – they expanded during crises to meet the market need.

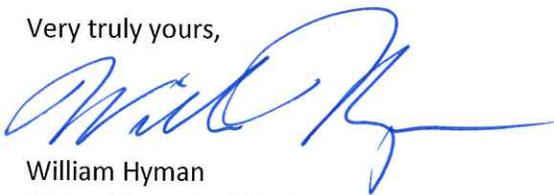
Recommendation

Centerline suggests that FHFA consider applying the following principles in establishing a scorecard for 2014 and beyond, if necessary:

- a. Instead of proscribed contraction, a more appropriate objective for FHFA should be containment – limit the size of the GSEs to ensure continued competition in the marketplace.
- b. Such containment should be based on the presumption that in times of stress the GSEs should expand to meet the market need.
- c. Any policy of containment should embody three core ideas:
 - i. It should be based on total multifamily market share (not just institutional, or stabilized, but all multifamily assets).
 - ii. It should be based on stock (total mortgage debt outstanding) and not annual flows that are subject to volatility and rapid change in market conditions.
 - iii. And it should be consistent with historical share – not more or less and transition should be done gradually over many years.

We appreciate FHFA for the opportunity to comment, and are available to answer questions your staff may have.

Very truly yours,



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About Centerline Capital Group

Centerline Capital Group, a real estate finance and asset management company, provides financing, investing and asset management services for affordable and conventional multifamily housing throughout the United States. Centerline is organized around three business units: Mortgage Banking, Affordable Housing Debt and Affordable Housing Investments. Under the Mortgage Banking and Affordable Housing Debt businesses, Centerline partners with developers, owners, and investors to provide them with capital to develop, acquire or redevelop their real estate assets. Centerline's core debt products consist of Fannie Mae, Freddie Mac, or HUD/FHA financing. In addition, through several strategic alliances, Centerline offers various CMBS executions for multifamily and other commercial properties, bridge loans and select joint venture equity products. Today the firm's lending platform manages and services more than \$12.2 billion in loans, of which affordable housing makes up \$3.1 billion. A leading sponsor of Low-Income Housing Tax Credit (LIHTC) funds, Centerline's third business focuses on identifying and investing in affordable housing properties and managing those assets as a fiduciary for the fund investors throughout the asset's and fund's lives. Since inception, the firm has raised more than \$10 billion in equity across 137 funds, and invested in over 1,600 assets spanning 47 states. Founded in 1972, Centerline is headquartered in New York City, with 221 employees in fourteen locations throughout the United States. To learn more about Centerline, visit www.centerline.com