

The DUS™ Peer Group
1919 M Street, 5th Floor
Washington, D.C. 20036

October 4, 2013

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

Re: Federal Housing Finance Agency (“FHFA”) Request for Public Input on Reducing Government-Sponsored Enterprises (“GSEs”), Fannie Mae and Freddie Mac, Multifamily Business

On behalf of the Peer Group of all Delegated Underwriting and Servicing (DUS™) Lenders, we are grateful for the opportunity to provide input on the potential market impact of various alternatives proposed by FHFA in an effort to reduce the GSEs’ multifamily business in 2014. Our response provides perspective on three areas: (1) the current multifamily rental housing finance market conditions; (2) FHFA’s role as conservator of the GSEs; and (3) response to the alternatives proposed by FHFA for further contraction of the GSEs’ multifamily business. We applaud FHFA’s effort to seek input regarding the 2014 conservatorship scorecard.

I. Current Multifamily Rental Housing Finance Market Conditions

The recent credit crisis had a significant negative impact on the multifamily mortgage market. The Mortgage Bankers Association (“MBA”) reported a sixty-seven percent reduction in multifamily mortgage originations from the crest of the market in the fourth quarter of 2006 to the fourth quarter of 2009. By 2008, conduits for commercial mortgage-backed securities (“CMBS”) had practically vanished from the market. Most of the established market participants also moved away from the market. The GSEs performed their traditional countercyclical role and provided needed liquidity and stability to the multifamily rental housing finance market. Fannie Mae and Freddie Mac funded just over a quarter of multifamily mortgage loans from 2004 through 2006; their market share increased to eighty-five percent of the multifamily rental housing mortgage loans funded in 2008 and 2009. The multifamily rental housing market, a very critical part of the United States housing market and vital to communities everywhere, would have collapsed without the substantial role played by the GSEs; Fannie Mae and Freddie Mac largely kept the multifamily market open. In essence, the guarantee provided by the federal government has enabled the GSEs to serve a counter-cyclical role.

Although the role of the GSEs in the multifamily housing market remains substantial, other private capital sources also have a strong presence in the market. Today, a variety of lenders, including banks, CMBS conduits, FHA and life insurance companies, have become active participants in the multifamily rental housing market. By 2013, because of free market forces, the GSEs' market share of the multifamily rental housing finance market had shrunk below fifty percent. Such a decline in market share was achieved without the introduction of irregular market controls; it has been a simple and expected free market evolution. Once again, although there exists a range of capital sources supporting multifamily rental housing, there remains a clear need for liquidity and stability in all market cycles.

Another important consideration is that private capital tends to gravitate to the stronger markets, stronger assets and sponsors, so blunt volume reductions and micro product changes could create unintended liquidity issues in secondary and tertiary markets that are largely dominated by workforce housing. Going forward, the role of private capital as the primary source of financing for multifamily housing should continued to be enhanced. However, we must ensure that consistent, stable liquidity is available across all markets, in all cycles.

II. FHFA's Role as Conservator

The primary role of the conservator is to preserve and protect the assets of the GSEs on behalf of the United States taxpayers. Ultimately, the goal should be to transition from conservatorship, leveraging even more private capital that is already present in the multifamily GSE businesses.

Under its limited statutory and regulatory authority over the GSEs, FHFA oversees the congressionally mandated measured reduction of the GSEs' retained mortgage loans and mortgage-backed securities ("MBS") portfolios. Such a predetermined percentage reduction applies to retained portfolios, but does not necessarily pertain to annual mortgage loan acquisitions that are immediately securitized and subsequently sold to private investors.

FHFA's responsibility to preserve and protect the value of the GSEs includes retention of valuable human capital. The GSEs' management teams, which have extraordinary skills and experience, must be encouraged to remain with Fannie Mae and Freddie Mac, therefore continuing to make important improvements to the GSEs.

III. Response to Alternatives Proposed by FHFA to Contract the GSEs' Multifamily Business

We were pleased with FHFA's acknowledgment in its February 2012 strategic plan of several positive and distinctive characteristics of the GSEs' multifamily business

activities. However, FHFA's recent efforts to shrink the GSEs' multifamily operations will have the undesirable effect of reducing the value of the enterprises and, therefore, erode the potential return of taxpayers' investments in the GSEs.

During the past few years, the overall market share of the GSEs in the multifamily finance market has been declining as a result of economic market forces and such trend is anticipated to continue as other private capital sources increase their presence in the market. It has been a market-driven reduction, without necessity of regulatory intervention. Targeting by FHFA of specific activities, products or business terms to influence or accelerate contraction of the GSEs' multifamily businesses may result in unintended consequences and cause erosion of taxpayers' enterprise value. From a value preservation perspective, it is difficult to ascertain which of the alternatives offered by FHFA would be the least undesirable option, unless the policy is sufficiently flexible to accommodate a variety of market conditions.

Approximately 93 percent of multifamily rental apartments have rents affordable to households earning area median income or less. The overwhelming majority of the multifamily rental housing loans acquired by the GSEs are secured by properties that serve workforce housing, with renters earning the area median income or less. The availability of uninterrupted liquidity to support the workforce rental housing market is essential.

We believe FHFA must safeguard an orderly and stable transition to a housing finance market reformed by the United States Congress. Moreover, a significant percentage of the GSEs' multifamily portfolios will mature over the next five years. Because liquidity and stability are important to the multifamily rental housing market, FHFA should avoid detrimental consequences resulting from sudden or dramatic regulatory changes. Until Congress establishes a policy for the future of housing finance, we must "do no harm" to operations that have enjoyed stability and success for many years.

The DUS Peer Group does not believe any mandated changes, quantitative in terms of volume reduction or qualitative in terms of the loan products offered, is warranted or necessary. Free market forces will continue to stimulate a natural, gradual contraction of the GSEs' multifamily business activities. We believe regulated reductions in GSEs' multifamily loan volume acquisitions will result in detrimental consequences. We must maintain a stable multifamily rental housing market.

We urge FHFA to exercise its responsibility with regard to preservation and protection of resources and assets of the GSEs' multifamily businesses in order to maximize potential returns to taxpayers. The talent and experience of the teams employed by the GSEs are extremely valuable to the federal government and should be protected to ensure a successful transition to a future model of housing finance.

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We look forward to working with FHFA and engaging in discussions on these important issues. Please do not hesitate to contact any member of the DUS™ Peer Group if you have any questions. For contact information for any lender, please email Cheryl Malloy at cpm@malloyassoc.com.

Respectfully,

ACRE Capital, L.L.C.

AmeriSphere

Arbor Commercial Funding, L.L.C.

Beech Street Capital, L.L.C.

Berkadia Commercial Mortgage, L.L.C.

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