NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

Marc Jahr
President

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Federal Housing Finance Agency (FHFA)
Office of Housing and Regulatory Policy (OHRP)
Multifamily Housing Policy
400 7th Street, S.W.
Room 9-261
Washington, D.C. 20024

RE: Options for Reducing Fannie Mae and Freddie Mac's Multifamily Businesses

To Whom It May Concern:

The New York City Housing Development Corporation ("HDC") respectfully submits its comments regarding the above-referenced proposals, and thanks you for the opportunity to respond to your request.

HDC is one of the largest issuers of mortgage revenue bonds in the nation for affordable multifamily housing development. In fact, HDC has been the number one issuer in the nation in seven of the last nine years. Our success in the bond market is dependent upon the availability of a variety of competitive credit enhancement and liquidity options that meet a complex range of financing needs. Historically, Fannie Mae and Freddie Mac have played a critical and consistent role in this regard, during both strong and weak markets. And, they have played this role in a prudent and profitable manner. For HDC in particular, including the credit support of the GSEs for mortgages and bonds in our Open Resolution bond indenture provides the diversity of credit quality that is essential to our AA rating and strong pricing.

Since 1995, the GSEs have been involved in financing 82 HDC developments representing total bond issuance of $3.25 billion of investment in low-income communities throughout New York City. This has resulted in the creation or preservation of nearly 24,500 affordable housing units, and played an invaluable role in stabilizing neighborhoods throughout the city. Most recently, HDC worked with Freddie Mac to successfully implement the New Issue Bond Program resulting in the creation or preservation of 7,548 units of affordable housing. It is important to note that during this 18 year relationship with the GSEs, no defaults or foreclosures have occurred.

Multifamily affordable issuers like HDC require a stable, economically competitive source of long term fixed and variable rate financing for multi-family properties. HDC opposes limiting the GSE's financing options, particularly for housing finance agencies ("HFAs") and especially at a time when rental housing is in such high demand. This rental housing demand characterizes the market landscape not only at the present time but for the foreseeable future, and not only in New York City but also across the country. Prematurely constraining the GSEs' multifamily

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activities, while the housing markets remain fragile and alternatives to their financing remain limited or unproven, could result in a damaging contraction in the multifamily market.

For clarity, we have further delineated our comments to correspond to the four specific target reduction areas identified in FHFA's request for input:

1. *Loan Terms*

   HDC supports the focus on longer loan term products and specifically seeks a return to the 30 year credit enhancement/liquidity product for floating rate debt. The use of floating rate debt has been a critical financing tool, both as a way to reduce negative arbitrage during construction and as an important countercyclical influence of relatively lower debt service during a rising long-term rate environment. Five (5), seven (7), and ten (10) year products do not offer the financing certainty needed in heavily subsidized affordable housing transactions undertaken by HDC insofar as they expose all the parties to a transaction to needless interest rate risk. This is most acutely felt in the case of transactions partially financed through the sale of Low Income Housing Tax Credits with their attendant long-term compliance requirements.

   Should FHFA consider restricting the GSEs' ability to offer their shorter term product (such as the underutilized 5 year product), it should only be undertaken with a concurrent menu of credit enhancement/liquidity products with *longer* than a 10 year term, including a return to the 30 year term.

2. *Variety of Loan Products*

   As mentioned above, flexibility and optionality of loan products are most important to HFAs such as HDC as we structure a variety of affordable and mixed-income transactions. Streamlining loan products across the GSEs may be more efficient and accessible for some to use but HDC strongly opposes limiting financing options for affordable housing transactions. Again, as a critical permanent loan financing partner, HDC is most interested in the GSEs offering longer term credit enhancement and liquidity (15, 20 and 30 year products), which provide public and private lenders and developers greater certainty, and serve to protect the low- and moderate-income tenants from potentially sudden and significant increases in rent.

3. *Limits on Property Financing*

   HDC finances a wide variety of affordable housing, including 100% low income developments, mixed income developments that blend low- and middle-income housing with market rate housing, as well as some "80/20" developments that must meet a 20% affordable requirement. As such, a focus on defining "affordability" and encouraging GSE production in underserved communities is valuable. The definition of "affordable" should include developments that have a minimum of 20% of units restricted to 80% of median income or less, and that are formally regulated by a governmental entity via a recorded regulatory agreement.

4. *Limits on Business Activity*

In keeping with our other recommendations above, an exception from limits on GSE business products for HFAs and/or governmentally assisted financings is recommended.

In closing, HDC appreciates its longstanding and successful work with the GSEs and we look forward to continuing these partnerships in our ongoing efforts to create affordable housing, revitalize communities, and spur economic development.

We thank you for the opportunity to provide these comments, and we appreciate your time and consideration. If you have any questions concerning these comments, we would be pleased to engage in further discussion about them. Please feel free to contact me at 212-227-8440.

Sincerely,

Marc Jahr

cc: RuthAnne Visnauskas, Chairperson, HDC Board of Directors; Commissioner, NYC Department of Housing Preservation and Development.
Richard Froehlich, Chief Operating Office, HDC
Joan Tally, Executive Vice President, Real Estate, HDC