



October 8, 2013

Mr. Edward DeMarco  
Acting Director  
Federal Housing Finance Agency  
400 7th Street, S.W  
Washington, DC 20024

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

Dear Mr. DeMarco:

On behalf of the state Housing Finance Agencies (HFAs) it represents, the National Council of State Housing Agencies (NCSHA) appreciates the opportunity to respond to the Federal Housing Finance Agency's (FHFA) August 9 request seeking input on what policies FHFA should implement to reduce the role of the Government-Sponsored Enterprises (GSEs)—Fannie Mae and Freddie Mac—in the multifamily lending market. As the GSEs are currently a critical source of capital for affordable multifamily developments, this issue is of paramount importance to HFAs as they seek to fulfill their affordable housing mission.

NCSHA appreciates FHFA's commitment to protecting taxpayers by seeking ways to limit the GSEs' losses. However, we are concerned that further diminishing the GSEs' multifamily lending capacity could substantially weaken the multifamily market, particularly for affordable housing. This would jeopardize one of the key elements of FHFA's core mission: ensuring that the GSEs, "serve as a reliable source of liquidity and funding for housing finance and community investment." We urge FHFA to reconsider its plans to shrink the GSEs' multifamily lending market presence and instead consider ways the GSEs could be better utilized to support the development and rehabilitation of affordable housing.

If FHFA decides to pursue policies designed to reduce the GSEs' role in the multifamily lending market, NCSHA asks that FHFA strive to preserve and grow a liquid market for affordable multifamily lending. To accomplish this, FHFA should give special consideration to the unique needs and obligations of HFAs and other mission-driven affordable multifamily lenders. Specifically, any such policies should be tailored to provide HFAs and other affordable multifamily lenders with the options and flexibility they require to effectively meet the needs of their markets.

## **HFAs Have A Strong Record of Safe and Sound Affordable Multifamily Lending**

HFAs are state-chartered housing agencies that operate in every state, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. Though they vary widely in their characteristics, including their relationship to state government, HFAs share a common mission of providing affordable housing to those in their states who need it. HFAs administer a wide range of affordable housing and community development programs, including HOME, tax-exempt Housing Bonds, the Low Income Housing Tax Credit (Housing Credit), Section 8, the FHA-HFA Multifamily Risk-Sharing Program, down payment assistance, and state trust funds.

Over the years, HFAs have demonstrated a strong commitment to affordable multifamily lending through specialized products and flexible, yet prudent underwriting standards designed to meet the unique housing needs of their jurisdictions. At the end of 2011, HFAs' multifamily lending portfolios consisted of 15,203 properties that contained nearly 1.4 million apartments. HFAs extended 463 additional affordable multifamily loans in 2012 that are expected to support the development of an additional 27,142 units. In 2013, HFAs anticipate financing over 30,000 additional multifamily units. Many of these apartments assist residents with special needs, including the elderly, those in assisted living, persons with disabilities, rural poor, and those that were formerly homeless.

## **The GSEs' Vital Role in the Multifamily Market Should Not Be Jeopardized**

FHFA's plans to further withdraw Fannie Mae and Freddie Mac from the multifamily lending market are unnecessary and could severely disrupt the market. In recent years, the GSEs have played a critical role in supporting a healthy and liquid market for both affordable and market rate developments. As a September 2012 report from Government Accountability Office (GAO) demonstrates, from 1994-2011 the GSEs' multifamily lending activities steadily increased and spiked during the recent housing downturn when private sources of capital vanished.

If the GSEs are forced to phase out their presence in the multifamily lending market, the market will lose a source of competition and innovation that has benefited all participants, including lenders, owners, and renters. We do not believe that private lenders would be willing or able to fill the void left by the GSEs. This is especially true with regard to financing for affordable housing. Private lenders and other sources of capital do not have the same public purpose mission as the GSEs, and thus are less likely to support affordable housing development.

A reduction in GSE multifamily capacity would be especially harmful to HFAs that use GSE products to support their multifamily lending. In 2012 alone, six HFAs used GSE products to originate 14 multifamily loans that will finance the completion of 3,722 affordable

apartments. This year, HFAs anticipate working with Fannie Mae and Freddie Mac to support an additional 14 HFA multifamily loans that will help build another 2,500 units. While HFA multifamily business with the GSEs is somewhat limited under current market conditions, HFAs would like the GSEs to have the authority—and the direction—to grow this business.

The GSEs and HFAs have a strong history of working together to support affordable multifamily housing. For example, since 1985, the GSEs have helped the New York City Housing Development Corporation, which serves a jurisdiction with a substantial shortage of affordable apartments, finance 82 developments in low-income neighborhoods. This has resulted in the development and rehabilitation of nearly 24,500 affordable rental units. The Washington State Housing Finance Commission estimates that, of \$2.632 billion in bonds for multifamily housing they have issued over the past 30 years, nearly half were enhanced, permanently financed, and/or purchased by Fannie Mae and Freddie Mac. All told, the GSEs have helped develop 16,985 affordable housing units throughout Washington state.

These are just two examples of the types of critical affordable housing activities that would be hampered should FHFA continue to reduce the GSEs' multifamily activities. At the same time, the affordable housing need in this country is great and growing. Today, there are only 57 affordable rental homes available for every 100 very low-income renter households, those earning 50 percent of AMI or less. For the 10.1 million households with extremely low incomes, those earning 30 percent of AMI or less, there are only 30 affordable homes available for every 100 households. Yet, only one in four households eligible for federal rental housing assistance receives it.

A diminished role for the GSEs could also limit the availability of affordable housing in indirect ways. If the GSEs reduce their support for market-rate developments, the supply of market-rate rental housing will shrink. Constrained supply will lead to rent increases, putting more potentially affordable rental homes out of reach for low- and moderate-income families.

Finally, while a smaller GSE role would decrease market stability and hinder HFAs' efforts to provide affordable housing, it would produce little, if any, benefit to the taxpayers. Both Fannie Mae and Freddie Mac's multifamily loan portfolios have performed well and generated steady revenue for their firms. As the GAO study found, GSE multifamily delinquency rates have remained below one-percent for nearly 20 years, far below the delinquency rates for private multifamily loans. Given this track record, it is hard to see how forcing the GSEs to curtail their multifamily activity would protect taxpayers from potential losses.

### **Craft Policy Reforms Carefully to Protect Affordable Housing Options**

NCSHA strongly recommends that FHFA enact no further restrictions on the GSEs' multifamily lending. However, if FHFA decides to adopt new policies designed to decrease the

GSEs' presence in the multifamily market, we urge FHFA to develop these policies in a careful and flexible manner that will not impede the market for affordable multifamily development and will allow HFAs to continue effectively employing GSE funding tools. To help FHFA implement these principles if it goes forward with multifamily lending-limiting options, we offer the following comments on the specific strategies FHFA described in its August 9 notice.

### Loan Terms

NCSHA believes it would be a mistake to limit the use of shorter-term GSE multifamily loans (those of five years or less) to loss mitigation or maturity management. Such short-term financings are often necessary to fund construction loans and loans for substantial rehabilitation of multifamily projects. These loans are especially necessary in smaller communities and rural areas, where many lenders lack the resources necessary to offer continuous long-term financing. In these instances, GSE short-term multifamily products offer a critical source of wrap financing that help to preserve a viable multifamily lending market.

At the same time, NCSHA urges FHFA to encourage the GSEs to develop and offer more long-term affordable multifamily options that exceed ten years. Such products will provide HFAs another valuable tool to help them responsibly underwrite multifamily loans. One specific step FHFA could take is to encourage the GSEs to restore 30-year credit enhancement and liquidity products for variable rate debt, which is a critical financing tool for some HFAs.

### Variety of Loan Products

NCSHA agrees that standardizing GSE loan products could prove to make the GSE loan process more efficient and accessible. Certainly, anything FHFA could do to reduce the cost of GSE multifamily lending would be welcome, as many HFAs have indicated that fees and other expenses can often make it cost-prohibitive to do business with Fannie Mae and Freddie Mac.

As HFAs structure complicated affordable and mixed-income developments, they often need to use a variety of financing tools to complete such transactions successfully. We are strongly concerned that, if FHFA were to substantially pare back the GSEs' product offerings, HFAs might not be able to find the products they need to best finance their unique loans. We urge FHFA not to remove from the market any products that have a proven track record of successfully supporting affordable multifamily lending. Further, we ask that you consider continuing to allow HFAs to access any such products even if you choose to discontinue their use in the broader market.

### Limits on Property Financing

While NCSHA appreciates FHFA's desire to focus the GSEs' multifamily lending on more affordable developments, we urge you to keep in mind that some restrictions could lead

to unintended negative consequences. For example, when considering limits on the maximum amount of financing available for a specific property, FHFA should take into account that in certain parts of the country, construction and other costs are substantially higher than average. In these areas, even affordable housing developments could exceed loan limits if those limits are not carefully calibrated to reflect individual markets.

Further, we ask that any rent limits also be flexible enough so responsible and needed affordable multifamily and mixed-income developments are not disadvantaged by such limits.

### Limits on Business Activity

Mandating that the GSEs only purchase loans that can be securitized and sold to investors will provide an additional burden on an already struggling multifamily lending market; we strongly recommend that FHFA reject such proposals. If FHFA imposes such a restriction, we encourage you to exempt HFA loans from this requirement because of HFAs' unique status as mission-driven agencies and the importance of GSE portfolio lending to fulfilling this mission.

In conclusion, NCSHA does not share FHFA's contention that Fannie Mae and Freddie Mac should taper their multifamily lending activities. On the contrary, given the current condition of the multifamily market and severe shortage of available affordable housing throughout the country, now is the absolute wrong time to restrict such activity. Reducing the GSEs' role in the market will weaken the overall credit market for multifamily lending, particularly for affordable housing. In addition, downsizing the GSEs' multifamily lending business—given its strong performance—will do little to help either firm improve its bottom line and could in fact deny them critical revenues. Lastly, there is little indication that private capital or other lenders without GSE support will enter the market and replace the key role the GSEs play in providing stability, liquidity, and affordability in the multifamily market.

If FHFA advances the policies outlined in the August 9 notice despite our concerns, we strongly urge you to tailor them narrowly to avoid adversely impacting the ability of HFAs and other affordable multifamily lenders to meet their critical housing mission.

Thank you for your consideration. We would be happy to discuss these issues with you at your convenience.

Sincerely,



Barbara Thompson  
Executive Director