October 8, 2013

Acting Director Edward J. DeMarco
c/o OHRP Multifamily Housing Policy
Federal Housing Finance Agency
400 7th Street, S.W. Washington, DC 20024
Submitted via email: multifamilypolicyissues@fhfa.gov

RE: Response to FHFA request for public input on reducing Fannie Mae and Freddie Mac multifamily businesses

Dear Acting Director DeMarco:

The undersigned groups respectfully urge the Federal Housing Finance Agency to reconsider its arbitrary and untimely plan to reduce Fannie Mae and Freddie Mac's multifamily businesses. As the number of renting families continues to grow and multifamily construction fails to keep pace, it is risky for Fannie Mae and Freddie Mac to begin withdrawing from the multifamily sector. Not only is the need for affordable rental more pressing than ever, but since Congress finally appears to be moving ahead on housing finance reform, now is not the time for FHFA to make the unilateral decision to reshape the GSE role in the multifamily market.

A. Rental housing is an increasingly important component of the housing market.

The undersigned groups believe that access to affordable rental housing is a fundamental pillar of the U.S. housing finance system. As a result of the foreclosure crisis, a tight mortgage market and demographic shifts, far more households in the United States are renting than five years ago – the nation added 1.1 million renting households last year alone.[1] There are now more than 41 million renting households in the United States.[2]

However, the production of rental housing has not kept pace with this increase and as a result, rents have risen by approximately 7.6 percent over the past five years, and by over 10 percent in some parts of the country.[3] Renters, who typically earn about 55 percent of what homeowners earn, are having trouble making ends meet.[4] One in four renters spends over half of their monthly income on housing and about half of renters spend over 30 percent of monthly income on rent.[5]

With low and moderate-income households effectively excluded from the conventional mortgage market by tight credit standards, affordable rental options are a must. Without the availability of affordable rental units, more and more American families will find it difficult to meet basic human needs. Given lingering high unemployment numbers and a continued anemic recovery, now is not the time for FHFA to ask Fannie Mae and Freddie Mac to scale back support for rental housing.

B. Fannie Mae and Freddie Mac's multifamily businesses serve those renters who have the least access to affordable rental housing through purely private channels.

Loans backed by Fannie Mae and Freddie Mac serve many of the low and moderate income households and households living in geographies that the private sector often overlooks. In 2012, close to 70 percent of the rental units financed by Fannie Mae and Freddie Mac were affordable to low-income renters,[6] and about 90 percent of units financed by Fannie Mae are affordable to middle-income families earning a median income.[7]

Moreover, Fannie Mae and Freddie Mac finance multifamily units that serve households living in all geographies. From 2008-2010, the Enterprises financed multifamily properties in every state, plus the District of Columbia. Regardless of how FHFA targets the reductions in GSE multifamily business, that reduction will have the greatest impact on low and moderate income households and renters living outside of major metropolitan areas.

In our view, the risk is very high that the private sector will not fill this financing. Freddie Mac analysts confirmed our view in its 2012 report, saying that private investors "would be unlikely to venture outside their niche of the highest quality loans and Cadillac style properties known as Class A, which are newer and larger, charge higher rents, and are typically located in large urban centers along the east and west coasts."[8] A similar report by Fannie Mae also concluded that low and moderate income families along with households living outside of prime geographic areas would likely end up underserved and could see higher rents.[9] Although these analyses contemplate how the private sector would respond to fully privatized GSEs without a government guarantee, they make it clear that private capital flows most easily to the top of the market, not to properties with lower rent levels or to markets that are harder to reach. No matter how the footprint is reduced, it will reduce affordable rental housing available to working families and those in more rural areas.

C. Fannie Mae and Freddie Mac's multifamily businesses are strong, profitable and essential to the multifamily rental market.

Fannie Mae and Freddie Mac's multifamily businesses supported nearly 60 percent of the multifamily debt originated in the United States last year[10] and meets financing needs across the nation, including in tertiary markets and for less expensive buildings often ignored by the private sector. Additionally, they offer the long-term financing needed to fund affordable housing development that is rarely available through private market channels.[11]

During the recent financial crisis, Fannie and Freddie served as virtually the only source of liquidity, yet did not see a reduction in standards – default rates remained below 1 percent throughout and since the financial crisis. In fact, the GSEs' multifamily businesses have far outperformed commercial mortgage-backed securities, which had a 12 percent delinquency rate during the crisis and banks, which had delinquency rates of 4.4 percent.[12] The GSE multifamily business is reliably profitable, with the Enterprises reporting a $24 billion comprehensive multifamily income between 2008 and the first quarter of 2013.[13]

D. Just as privatizing the multifamily businesses entirely would not serve the public's best interest, neither does arbitrarily reducing the size of the businesses.

After FHFA's own analysis showed that privatizing Fannie Mae and Freddie Mac would not be viable for taxpayers, renters or the multifamily housing market, the agency chose not to privatize the companies. Yet nothing in these commissioned analyses recommended reducing these businesses or provided any support or explanation for the 10 percent reduction benchmark. It is unclear why FHFA has arbitrarily chosen this goal. Since the businesses are profitable, continuing them at current levels will provide the best return to the taxpayer, and affordable rental housing is critical to FHFA's mission to support the overall housing market.

E. If the portfolios are reduced, FHFA should prioritize support for affordable and workforce rental housing.

Finally, while we strongly disagree with the agency's plans to reduce the GSEs' amount of multifamily business, if FHFA does proceed with these plans we believe it's critical to prioritize support for the financing of affordable and workforce rental housing. The evidence is clear that non-GSE sources will not fill this need, or will only do so at unattractive prices that would raise costs for renters.

Please contact Sarah Edelman, Policy Analyst for the Center for American Progress, at 202-481-8158 if you would like more information or would like to meet to discuss our views.

Sincerely,

Center for American Progress

California Housing Partnership

California Reinvestment Coalition

Center for Responsible Lending

Consumer Federation of America

Conrad Egan, Affordable Housing Institute*

Enterprise Community Partners

Housing Partnership Network

Local Initiatives Support Corporation

Mortgage Finance Working Group

NAACP

National Council of La Raza

National Housing Trust

The Opportunity Agenda

Right to the City Alliance

Shekar Narasimhan, Beekman Advisors, Inc.*

Stewards of Affordable Housing for the Future

Mark Willis, NYU Furman Center for Real Estate and Urban Policy*

**Affiliations for identification purposes only*

ENDNOTES

---

[1] Joint Center for Housing Studies, "The State of the Nation's Housing 2013," (2013) available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2013.pdf.

[2] 2012 American Community Survey data, accessed September 2013.

[3] Dawn Wotapka, "Apartment Market Tightens as Housing Costs Jump," *Wall Street Journal,* September 30, 2013, available at http://online.wsj.com/article/SB10001424052702303643304579107691208150088.html

[4] 2012 American Community Survey data, accessed September 2013.

[5] Joint Center for Housing Studies, "The State of the Nation's Housing 2013: Appendix Tables," (2013), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2013_chap7_appendix_tables.pdf

[6] National Housing Trust analysis of FHFA annual report to Congress and GSE financial reports to the SEC.

[7] Fannie Mae, "Fannie Mae and Workforce Rental Housing," (2011), available at https://www.fanniemae.com/content/fact_sheet/wpworkhouse.pdf.

[8] Freddie Mac, "Report to the Federal Housing Agency: Housing Finance Agency: Housing Finance Reform in the Multifamily Mortgage Market," (2012), available at http://www.fhfa.gov/webfiles/25161/FREReport_MF_MarketAnalysis.pdf.

[9] Fannie Mae, "Analysis of the Viability of Fannie Mae's Multifamily Business Operating without a Government Guarantee," (2012).

[10] Invesco presentation to Bipartisan Policy Center Housing Commission Forum; Fannie Mae, Freddie Mac and FHA public filings

[11] RECAP Real Estate Advisors, "Government-Sponsored Enterprises and Multifamily Housing Finance: Refocusing on Core Functions," (National Housing Conference: October 2010) available at http://www.nhc.org/media/files/Recap_NHC_GSE_Core_Functions.pdf.

[12] Freddie Mac investor presentation, September 2013, available at http://www.freddiemac.com/investors/pdffiles/investor-presentation.pdf.

[13] Federal Housing Finance Agency, "Conservator's Report on the Enterprises' Financial Performance: First Quarter 2013," (2013), available at http://www.fhfa.gov/webfiles/25406/ConservatorReport1Q2013F.pdf