N A A H L

NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS

October 8, 2013

Federal Housing Finance Agency (FHFA)
Multifamily Housing Policy
400 7th Street, SW, Room 9-261
Washington, DC 20024
multifamilypolicyissues@fhfa.gov

Dear Madam/Sir,

Background

The National Association of Affordable Housing Lenders (NAAHL) represents the vanguard of bank and nonprofit lenders that have proven track records lending and investing, profitably and responsibly, in underserved areas throughout the United States. NAAHL members have provided tens of billions in private capital to finance affordable rental housing and community economic development.

NAAHL's 20 blue-chip, mission-based lenders that include multibank loan consortia, hold on their books more than $20 billion in multifamily mortgages financing half a million rental homes in places as diverse as Oregon, North Carolina, and Massachusetts, in buildings that families are proud to call home. Banks have profitably invested in these state and regional loan pools to diversify their risk, and leverage private capital where it is most needed.

Financing affordable rental homes requires readily-available, consistently-priced, long-term credit. There is a major blind spot in America's mortgage finance system that is preventing more and more families from finding "naturally affordable" rental homes – the lack of a functioning secondary market for small properties.

Defined as having five to 49 units or mortgages under $3 million, small rental properties contain 90% of the nation's rental units. The biggest unmet need in the secondary mortgage market is access to credit for these small properties. More than half are located in suburban and rural communities, and primarily owned by "Mom-and-Pop" entrepreneurs. The recession exacerbated the growing gap between demand for financing affordable rental properties and the supply of funds to lend. Severe liquidity constraints faced by our nation's leading nonprofit lenders threaten that supply.

Summary

We appreciate this opportunity to offer our practitioners' insight and recommendations on the best ways to reduce Fannie Mae and Freddie Mac's presence in the multifamily housing finance market in 2014, and increase the flow of private capital. Simply reducing the Enterprises' multifamily footprint, as FHFA did in 2013, without refocusing them on making a market in mortgages on small properties, did nothing to address the credit crunch hindering the preservation and expansion of affordable rental homes.

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Mission-based lenders are seeing three to four times the demand for small property mortgages without any ability to sell even seasoned mortgages into the secondary market to make more loans. FHFA should seize the opportunity to refocus the Enterprises on providing access to the capital markets for mortgages on small properties. Housing experts have documented that 70% of small rental properties are affordable to households earning half the area median income without any government assistance.

Fannie Mae and Freddie Mac have historically supported the most lucrative, "top 10%" of rental properties in 100-plus-unit buildings, mostly owned by corporations. As the Enterprises significantly increased their share of the higher-end multifamily market over the past four years, their benefits flowed to "country club properties" for deep-pocketed lenders. Access to the government-sponsored, national secondary market that the Enterprises pioneered for the top 10% of multifamily mortgages would dramatically increase funds available to underserved areas, including the rural and suburban areas where 54% of small rental properties are located. (In addition to this letter, we have included an op-ed recently published in the *American Banker*, which provides more examples of our concerns.)

Congress clearly intended for Fannie Mae and Freddie Mac to play significant roles in providing liquidity for multifamily rental housing, including small properties. The Housing and Economic Development Act (HERA) of 2008 stipulated that the FHFA Director:

> "In establishing the [multifamily special affordable housing goal]…shall take into consideration…national multifamily mortgage credit needs and the ability of the enterprise to provide additional liquidity and stability for the multifamily mortgage market… [and] the size of the multifamily mortgage market for housing to low-income and very low-income families, including the *size of the multifamily markets for housing of a small or limited size...*" and "[S]hall require each enterprise to report on the purchase by each enterprise of multifamily housing of a smaller or limited size that is affordable to low-income families, which may be based on multifamily projects of 5 to 50 units…or on mortgages up to $5,000,000…"

FHFA's report on 2011 activity documents that Freddie Mac financed only *691 units* in small properties. FHFA has continued to set the Enterprises' benchmarks for multifamily affordable properties below actual market share, allowing them to satisfy the letter, but certainly not the spirit, of HERA. As one of NAAHL's statewide, mission-based lenders recently reported:

> "Fannie [Mae] has been totally inaccessible…They generally look for larger transactions, so that doesn't help much for small and rural states…We don't meet the deal flow or loan size requirements…The things I've typically heard them doing here recently have been large, higher-end developments – hardly the thing worthy of government subsidy. It would be nice if they could help organizations like the [statewide, multibank] consortia to access capital for smaller transactions..."

The Administration recognizes that this problem persists. In its August housing reform proposal, it strongly recommended that:

> *"Fannie Mae and Freddie Mac should gradually shrink their multifamily footprint by reducing support of high-end properties, while exploring ways to serve the unmet mortgage needs of smaller multifamily properties and loan sizes. During this transition period, further work should determine how Fannie Mae and Freddie Mac can better support smaller multifamily loans of $1-5 million, especially because these properties often provide affordable rental housing."*

Specific Questions

<u>Variety of Loan Products</u>
Should FHFA consider simplifying and standardizing the Enterprises' multifamily loan products? If so, which loan product or mix of loan products are most important for the Enterprises to offer? Which of the Enterprises' loan products would private financing sources most readily provide?

The proposal to "simplify and standardize" loan products goes in the wrong direction. Mortgages on small multifamily properties are not uniform or "cookie-cutter," and often require flexibility in underwriting. An increasingly sophisticated primary market for mortgages on small properties lacks the ability to sell into a secondary market.

Rather than simplify and streamline "products," the Enterprises should simplify and streamline their processes to identify and qualify more of the successful, mission-based, non-depository lenders as "mini" Delegated Underwriting Servicers. These specialized lenders tailor their loan products to their communities, are ready and willing to share the risks of their loans, and many already meet the highest financial standards of insured depositories. Some are also Federal Home Loan Bank members.

Other alternatives: Are there other options that FHFA should consider to achieve the strategic goal of contracting the Enterprises' multifamily businesses to reduce their presence in the housing finance market and support the entry of private capital?

- Fannie Mae and Freddie Mac should reduce their multifamily book of business by giving priority to the greatest unmet need in the secondary market: the financing of small rental properties.

- As HERA directed, FHFA should establish and publicize standards for the Enterprises' <u>purchases</u> of multifamily mortgages of "housing of a small or limited size." HERA directed FHFA to require each Enterprise to report on <u>the purchase</u> (emphasis added) of loans "on multifamily projects of 5 to 50 units…or on mortgages up to $5 million."

- FHFA should encourage the Enterprises to permit waivers of their underwriting guidelines for multifamily mortgage loans under $5 million, since mortgages on small rental properties are not uniform and often require flexibility in underwriting.

- FHFA should encourage the Enterprises, and also the Federal Home Loan Banks, to participate as investor/members in the statewide, multibank lending consortia. These mission-based, nonprofit lenders have very successful track records of pooling private capital to finance the preservation and expansion of affordable rental housing. The learning experience of investing in consortia can play an important role in facilitating liquid, reliable, local markets that ensure stable, long-term access to private capital markets and diverse funding sources.

- FHFA should establish caps on the maximum multifamily mortgage amount the Enterprises can finance.

- FHFA should require that the Enterprises disclose publicly the amount, location (by state and census tract), and type of each multifamily financing.

- FHFA should limit or prevent the Enterprises' financing for student housing/college dormitories.

In conclusion, it is clear that multiple sources of private capital have returned to the high-end of the multifamily mortgage market. It is time for FHFA to refocus the Enterprises on bringing capital markets' funding to Main Street rental properties.

Sincerely,

Judy Kennedy
President and CEO