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Submitted Via E-Mail
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Federal Housing Finance Agency
OHRP Multifamily Housing Policy
400 7th Street, S.W., Room 9-261
Washington, DC 20024

Re: Request for Input on Reducing Fannie Mae and Freddie Mac Multifamily Businesses

The PNC Financial Services Group, Inc. appreciates the opportunity to provide input regarding the questions posed by the Federal Housing Finance Agency ("FHFA") in its news release dated August 9, 2013. PNC Bank, National Association ("PNC"), a wholly-owned subsidiary of the PNC Financial Services Group, Inc., is a major participant in the multifamily debt market via programs with Fannie Mae and Freddie Mac (collectively, the "Enterprises"), the Federal Housing Administration, and PNC's own balance sheet. For reference, PNC originated approximately $6 billion of multifamily loans in 2012, comprising $2.2 billion of loans through Enterprise programs, $242 million of loans for Federal Housing Administration programs, and $3.6 billion of loans for PNC's balance sheet.

Our participation in such a broad spectrum of Enterprise and private capital lending programs affords us useful insight into two critical issues of concern to the FHFA: the risk posed to the taxpayers due to the Enterprises' participation in the multifamily market, and the potential that the large-scale participation by the Enterprises in multifamily mortgage purchases and securitization has the potential for "crowding out" private capital that might otherwise serve the market. The input provided herein is offered with these two issues in mind.

The Enterprises have played a vital role in the multifamily market since the onset of the financial crisis in 2007. Unlike the much larger single-family business, the multifamily businesses of the Enterprises have been profitable with a track record of exceptionally low credit losses throughout the credit cycle. Importantly, both Enterprises' multifamily programs already include meaningful amounts of private capital. For example, Fannie Mae's DUS program features loss sharing with the lenders which originated the loans; Freddie Mac's securitization program includes private B-piece buyers who assume a significant first-loss position. The participation of private capital has helped to ensure that only high quality loans are processed through the Enterprises' programs. The participation of private capital

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also has protected the taxpayer and both of the Enterprises' multifamily programs stand as examples of how private capital with "skin in the game" can help to mitigate risk.

Given the success of the multifamily programs at the Enterprises, including the positive performance of the loans they acquired and securitized both during and after the crisis, we think it is hard to argue that reducing their overall risk exposure in this area will materially lessen risk to taxpayers. This is especially the case when one considers that the void filled by arbitrary contraction of the Enterprises' market presence likely would be filled by private institutions, some of which experienced credit losses in their multifamily activities during the crisis that were worse than the losses experienced by the Enterprises and may already be subject to perceptions of being too big to fail.

Even though the involvement of private capital in the multifamily securitization activities of the Enterprises has been successful, we do not believe that this supports further restriction of the Enterprises' critical role in supporting multifamily credit at this time. The Enterprises continue to play a vital role in multifamily financing because the willingness and capacity of private capital to participate in the market varies over time according to market cycles and is not even across all markets and all classes of multifamily properties. History shows that the Enterprises' market share has tended to grow when private capital is scarce and shrink when private capital is plentiful. Even when private capital is active in the multifamily market, it is the Enterprises that are most active in underserved areas where affordable housing is most needed. The Enterprises, therefore, have served and continue to serve today as a market stabilizer. This is good for the market and a legitimate function of the Enterprises if the availability of clean, safe, and affordable housing continues to be a public policy goal. Thus, PNC does not believe it is necessary or beneficial to the market to place artificial regulatory restraints on the Enterprises' multifamily activities.

Despite the Enterprises' vital roles, it is important to ensure that their activities do not crowd out private capital that would otherwise be willing to participate in the market. Our responses below to the specific questions posed by the FHFA address this concern. Our view, however, is predicated generally on two themes: first, that the willingness and capacity of private capital to participate in the market varies over time according to market cycles; and second, that even today, the willingness of private capital to participate is not even across all markets and all classes of multifamily properties.

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PNC's Responses to the FHFA's Questions

Section 1 – Loan Terms

As described in the introductory paragraph to the questions in this section, short-term loans have been a very small part of the Enterprises' lending activity. As such we do not believe that restricting the Enterprises' activity to longer term loans will have a meaningful impact on the market. By the same token, PNC does not believe such restrictions would lead to a significant reduction in the Enterprises' presence in the market. However, on balance, we would not recommend imposing these restrictions because there are circumstances in which the Enterprises' ability to do shorter-term loans is helpful, particularly for underserved segments of the market. Contracting the Enterprises ability to purchase short-term loans could create liquidity issues for certain markets (small markets and the market for targeted affordable housing transactions) for which private capital is not abundant.

Limits on the Enterprises' ability to provide shorter term loans could push more loan volume to banks because there is generally an active bank market that provides shorter-term loans already in major markets and for larger, institutional-grade conventional multifamily properties. Thus, the result of this proposal could be expanded market share for banks when times are good, but an even scarcer amount of capital for small markets/targeted affordable properties in both good times and bad times.

Section 2 – Variety of Loan Products

The underlying premise of this proposal appears to be that the complexity of the Enterprises' current loan offerings has a discouraging effect on private capital by crowding them out of the market. We disagree with this premise and we do not view the variety of loan products offered by the Enterprises to be a major factor in the willingness of private capital sources to compete. Unlike the single-family market, borrowers in the multifamily space tend to range from moderately sophisticated to extremely sophisticated and have specialized needs based on often complex and idiosyncratic circumstances that apply to their financing situation. Similarly, alternative capital sources (banks, insurance companies, and CMBS conduit originators) are also sophisticated in their ability to offer customized loan products tailored to specific situations. Furthermore, from an intangible perspective, we believe the fact that Fannie Mae and Freddie Mac compete with each other keeps each one "sharp" and this competition is good for the market. If their products were standardized, there would be no basis for competition between them.

Section 3 - Limits on Property Financing

Unlike the single-family market, which is a high-volume, small-dollar, and relatively homogenized market, the multifamily market has so many variables that contribute to each property's value and financing need that we believe it would be extremely difficult to effectively prescribe loan limits on either a per-property or per-unit basis. The question raised in Section 3(c) regarding a potential underwriting limit on rents based on affordability up to a certain percentage of Area Median Income, and/or a limit on the total number of units financed that exceeds this threshold, is interesting and worthy of consideration by Congress when considering longer-term GSE reform. However, we believe that limits on property financing for 2014 would be disruptive to the market because these changes would require significant process and systems changes at the Enterprises and the lending partners, like PNC, that originate the loans purchased by the Enterprises. Changes such as these would likely require multiple years to implement and certainly could not be accomplished in a few months.

Section 4 – Limits on Business Activities

The Enterprises are already securitizing the overwhelming majority of new originations even though their portfolios of multifamily loans are decreasing. Further restrictions on their ability to use their balance sheets for portfolio lending will likely have little impact on their market share. We are concerned, however, that limits on business activities could have unintended consequences that cannot be seen with clarity now, particularly in small markets that are not well served by other sources of capital.

Section 5 – Other Alternatives

We recommend that the strategic goal of the FHFA should not be arbitrary contraction of the Enterprises' multifamily businesses, but rather the conservation of the Enterprises' ability to act as a stabilizing force in the market until Congress ultimately determines the fate of the Enterprises in the context of GSE reform. The Enterprises' market share expanded significantly when the private market receded in the wake of the financial crisis, but it has naturally shrunk almost as significantly in the past two years as the private market recovered. The private market is already serving to limit the Enterprises' market share and we see no reason why artificial restraints should be placed on their multifamily activities. This is especially the case when the Enterprises continue to provided needed liquidity and support to multifamily properties in areas that are underserved and in need of affordable housing.

Again, we appreciate the opportunity to provide this input to the FHFA and would be happy to address any questions. Thank you.

Sincerely,

D. Scott Bassin
Executive Vice President
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