Wells Fargo Multifamily Capital
150 East 42nd Street, 36th Floor
New York, NY 10017

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

RE: August 9, 2013 Notice For Public Input on 2014 Multifamily Scorecard

To Whom It May Concern:

Wells Fargo Bank welcomes the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA's) proposed strategies to further contract Fannie Mae and Freddie Mac's multifamily mortgage activities.

Wells Fargo has built the strongest commercial real estate finance platform in the industry. Our transactions include all sizes, property types, and locations throughout the U.S. and select markets abroad. We have a long-standing commitment to the commercial real estate sector through any and all economic cycles. What we have seen recently is that the demand for rental housing is increasing. The market needs liquidity and flexibility to meet the increasing demand for financing all types of multifamily housing that continues to grow as the need for rental housing grows throughout the country.

As the nation's largest real estate lender, Wells Fargo feels that the GSE multifamily programs are clearly complementary to our platform. The GSE's have always financed a broad spectrum of the multi housing market to ensure liquidity for all market segments. This has helped to maintain a vibrant sales and development market which in turn helps to attract equity capital and this liquidity is even more critical given today's regulatory environment. In an effort to meet Basel III capital requirements and liquidity standards, banks will likely increase the internal equity hurdles which will limit the long term options they can offer. The GSEs can still offer long term mortgages, which are critical for all types and particularly the broad spectrum of workforce and affordable housing. The GSE's provide competitive financing in all types of communities- urban, suburban and rural. Thus, the GSEs can reach communities not otherwise served and offer the long term products that multifamily owners are looking for, such as bond credit enhancement and 10 to 30 year term debt that helps keep rental housing affordable. As the number of renters continues to increase, it is essential that the options for creating and preserving rental housing remain as diversified as the housing stock itself.

Although the GSEs offer additional financing options and flexibility, the private market remains strong. Banks, life insurance companies, and CMBS are actively in the market. The GSE market share continues to decline and has actually fallen more than the 10 percent FHFA mandated at the start of the year. Industry estimates suggest that Fannie Mae's and Freddie Mac's market share likely will decline to the 30 percent level or below on its own. This drop reflects the fact that private capital sources have been, and will continue to be, the primary source of mortgage debt for the multifamily industry. Artificially limiting the debt provided by the GSE multifamily programs, including specialty programs such as student, seniors, and manufactured housing will harm owners and investors by limiting options and creating voids in select markets. It will limit liquidity options in the debt market and raise spreads, which will ultimately reduce the availability of affordable rental housing at the same time as the number of potential renters is increasing.

These potential outcomes would not be limited solely to the affordable segments of the multifamily market but would affect the entire multifamily market during times of stress and thereby could reduce the number of units being created.

Wells Fargo remains active and committed to all types of multifamily lending. In particular, we play a strong role in construction and short-term lending; including "mini-permanent" loans, loans on repositioning rental assets as well as providing 5 to 7 year loans on stabilized properties. These are successful businesses that we plan to expand.

Although FHFA's proposal is specific to lending by the GSEs, its actual impact will be, and in fact already is being felt throughout the entire lending system. As evidence of how widespread these changes will be, spreads on all lending went up immediately following the FHFA proposal, not just on GSE debt. The reason for this is simple. FHFA is creating uncertainty in the marketplace and introducing inefficiency into a market that has been performing efficiently for more than two decades. This is reverberating through the system, which could lead to increased lending costs and potential higher rents, which in turn will hurt renters looking for affordable housing. Any sudden market disruption caused by artificially limiting lending options will ultimately cause distress to renters and borrowers as the availability of affordable rental housing shrinks, and the number of renters increase. In addition, in times of distress, as we experienced in 1998, 2001, and 2008, it is important to have the GSEs providing much needed liquidity to offset the severe limitations and restrictions that may impact the private markets.

Wells Fargo prides itself on its credit standards, which have stayed consistently strong through different market cycles, as evidenced by our ability to expand during a market downturn. We feel that Fannie Mae's and Freddie Mac's multifamily lending programs are a model for sound and solvent real estate lending. They have broad influence on other debt providers and lead the industry in standard setting. Cumulative credit losses from 2008 to present have been less than 1% for both of Fannie Mae and Freddie Mac's multifamily mortgage portfolios, while other capital sources have shown significant losses. Their programs have a long history of strong credit performance and have recently adapted to both backstop the markets effectively and shift their programs from balance sheet investment lending to risk based securitized lending. We believe that FHFA needs to avoid implementing further reductions or placing caps on Fannie Mae and Freddie Mac's origination levels and securitization activities with regard to multifamily finance.

Given the strong credit performance of Fannie Mae and Freddie Mac in the multifamily debt space over the past 20 years, we don't share FHFA's concerns with respect to the GSE's multifamily risk exposure and by inference the taxpayers' exposure. Frankly, further contraction of the GSE's multifamily business neither preserves nor conserves them or their assets, as per the FHFA mandate, but rather lowers the value of their respective platforms.

Without the GSE's, the market will lose the competition and innovation that has added strength to the economy by making rental housing more affordable and accessible. The standards, stability and consistent market presence of the GSE's are a benefit to all private market participants on both the equity and debt sides of the business.

We appreciate the opportunity to share our views and welcome your questions, should you have them.

Respectfully Submitted,

Alan Wiener, Group Head of Wells Fargo Multifamily Capital