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Federal Housing Finance Agency
Multifamily Housing Policy
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RE: Options for Reducing Fannie Mae and Freddie Mac's Multifamily Business, Released by the Federal Housing Finance Agency for Public Input

To Whom It May Concern:

On behalf of the multifamily industry, the National Multi Housing Council and National Apartment Association (NMHC/NAA) appreciate the opportunity to respond to the Federal Housing Finance Agency's (FHFA) August 9, 2013, request for input on strategies for further reducing Fannie Mae and Freddie Mac's presence in the multifamily housing finance market in 2014.

For more than 20 years, the National Multi Housing Council (NMHC) and the National Apartment Association (NAA) have partnered in a joint legislative program to provide a single voice for America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. NAA is a federation of more than 170 state and local affiliates comprised of 63,000 multifamily housing companies representing 6.8 million apartment homes throughout the United States and Canada.

While the apartment industry supports the return of a more robust private capital market, we believe that setting caps on the GSEs' multifamily lending volume and reducing the diversity and availability of multifamily mortgage products could interfere with stabilizing market forces currently at work. Fannie Mae and Freddie Mac served as an essential backstop during the economic downturn, maintaining liquidity in the market when private capital retreated.

As the economy has continued to recover, private capital has once again returned to the market, helping reduce the GSEs' share. In fact, the Mortgage Bankers Association estimates that Fannie Mae and Freddie Mac provided just 43 percent of the new multifamily mortgages originated in 2012, down from 85 percent in 2009. Their shares are estimated to fall as low as 30 percent or less in 2013. This drop reflects the fact that private capital sources have been, and will continue to be, the primary source of mortgage debt for the apartment industry. Notably, the marketplace has not needed artificial regulatory constraints to make room for that private capital. Market dynamics have accomplished it.

FHFA's latest announcement identifies a number of strategies with respect to the GSEs that the agency has under consideration, including restrictions on available loan terms, a reduction in loan products and limits on property financing and business activities. NMHC/NAA are concerned that the effects of implementing any of these strategies, individually or in combination,

could disrupt the apartment industry in both the near and long terms. Mandated reductions in the GSEs' footprint create unnecessary uncertainty and could negatively affect a stable source of financing for a wide range of apartment properties in markets nationwide, threatening the industry's recovery at a time when rental demand continues to grow. Furthermore, these proposed strategies could reduce the GSEs' ability to respond to changing market conditions, leaving the apartment industry vulnerable in times when private capital sources are less active in the market. Finally, the strategies FHFA is evaluating could circumvent legislative proposals that Congress is currently considering as part of housing finance reform efforts.

Building, operating and maintaining our nation's rental housing is a capital-intensive activity. The apartment industry relies on private and public capital, as well as short- and long-term debt, to fund the development, operation and necessary maintenance of, and reinvestment in, real estate. This liquidity is critical to our industry's ability to provide safe, decent and affordable housing to 17 million households.

On a macro level, market experience leads us to conclude that artificially limiting the debt provided by Fannie Mae and Freddie Mac's multifamily programs will harm apartment availability by limiting options and creating voids in select markets. Although private capital is returning to the multifamily sector, it is not universally or equally available in all local markets. As a result, it is critical for there to be a national debt source that features a full range of mortgage options.

Furthermore, it is vital to note that Fannie Mae and Freddie Mac are not just capital sources. Because of the wide range of multifamily mortgage products they provide, they support and influence other debt providers by setting standards. Artificially constraining the Enterprises will result in a meaningful loss in competition and innovation that have benefitted borrowers and renters alike.

The apartment sector's investor base has expanded as well. Over the last 30 years, the industry has evolved from a mostly local individual owner/operator business to a sector with a growing number of regional and national firms. It now attracts high-net-worth private, corporate, pension and institutional investment fund capital, both within the United States and outside its borders. Thousands of properties and millions of units are operated under a wide variety of ownership structures, serving the ever-expanding needs of renter populations in our nation's towns, cities, suburban and rural areas.

It is also critical to understand that dislocations in the multifamily debt capital market ultimately impact America's renters by potentially restricting new supply at a time when demand for apartments is growing rapidly. With 77 million Baby Boomers who may consider downsizing and nearly 80 million Echo Boomers who are beginning to enter the housing market, NMHC projects that up to seven million new renter households will form this decade. Unfortunately, supply is already falling short of meeting this demand. An estimated 300,000 to 400,000 units a year must be built to meet expected demand; yet just 158,000 apartments were delivered in 2012 – less than half of what is needed.

In serving America's workforce, the apartment industry relies on a variety of capital sources and loan products to meet the nation's housing needs. Unlike the single-family housing finance system, each apartment loan must be customized and tailored. This is just one of the many reasons why the Enterprises serve a critical role in the multifamily sector. Regulators should also

note that the availability of debt capital is not just essential for financing properties, but also for supporting the long-term operation of apartment communities.

Given that housing for America's families is at stake, NMHC/NAA request that FHFA, prior to advancing any proposals to limit the GSEs' multifamily activities, first assess the impact of such actions relative to the availability of sufficient multifamily capital in all markets nationwide. Until such analysis demonstrates that FHFA's proposed actions will not impact the availability of multifamily housing now and in the future, these actions should be tabled. Put simply, the risk is too great, especially at the present time when government policy has a significant influence on the financial and debt markets. Finally, it must be noted that Congress is currently examining housing finance reform legislation, and these efforts should be allowed to play out.

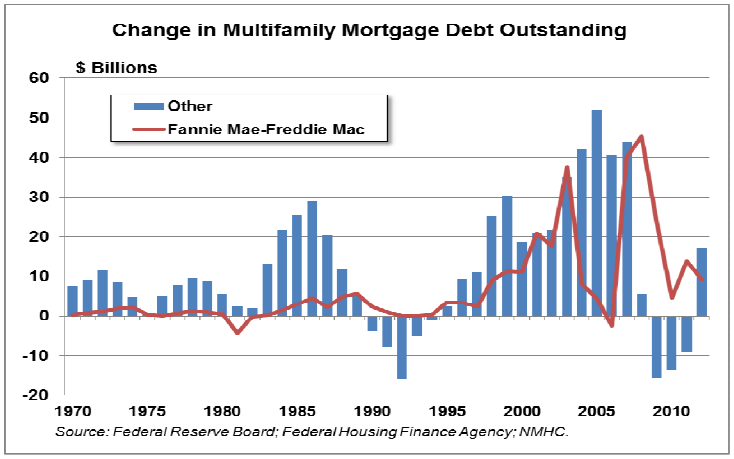
General Observations

First and foremost, we strongly urge FHFA to adopt the position of "do no harm." Placing additional restrictions on the Enterprises' multifamily lending activities will harm the debt markets serving the multifamily industry. We also believe the actions are simply unwarranted.

Before addressing the specific options FHFA outlined in its notice to reduce the Enterprises' multifamily mortgage footprint, we would first like to offer the following observations challenging the need for such action.

1. **Enterprise Debt Complements Other Capital**

   The evidence does not support the claim that the Enterprises' multifamily mortgage activities are crowding out the private market. Instead, their activities have historically ebbed and flowed based on market conditions. As the chart below indicates, except for the first part of the last decade, the multifamily mortgage capital backed by the Enterprises totaled less than the private capital serving the marketplace. When the markets expanded significantly in the early to middle part of the last decade, the Enterprises' share decreased significantly. The data also highlight that the Enterprises quickly responded to market conditions. When private capital became constrained, the Enterprises' share increased. This response is most evident during the recent recession. The Enterprises stepped in to serve a market for which private capital was significantly constrained. Once capital markets began to thaw, however, the Enterprises' share of multifamily mortgage capital began to decline.



Estimating the multifamily mortgage origination market is difficult, as complete data reflecting each source of capital does not exist. Furthermore, the available data is often an estimate that is the result of multiple assumptions. In 2012, the Mortgage Bankers Association (MBA) estimated the multifamily mortgage origination market, as measured by total debt closed, to be $143 billion.[1] MBA forecasts that the 2013 multifamily mortgage origination market will grow by 30 percent to $187 billion.[2] In 2012, the Enterprises' share of this market was 45 percent and should fall to 31 percent in 2013 given the cap on multifamily business put in place by FHFA earlier this year. Had the Enterprises' debt increased year-over-year by 10 percent, to $70 billion, in 2013, without an artificial cap, we estimate their market share would have declined by 8 percent to 37 percent of overall multifamily mortgage originations.

2. FHFA Caps on Multifamily Activities Are Unwarranted and Threaten to Harm Taxpayers Instead of Protecting Them

In a meeting with NMHC officers and staff on September 18, 2013, FHFA Acting Director Edward DeMarco said that plans to place limits on the Enterprises' multifamily mortgage activities are designed to protect Fannie Mae and Freddie Mac and insulate taxpayers against further losses. Although NMHC/NAA certainly support strong credit standards, FHFA's broad actions relative to the size of the Enterprises' multifamily businesses are unwarranted and unnecessary to further these objectives:

- The Enterprises' multifamily activities, not including lost benefits attributable to the Low-Income Housing Tax Credit, have been revenue positive and captured capital well in excess of needs to protect the taxpayer against losses. Fannie Mae reports that in 2012 its multifamily programs generated net income of $1.5 billion whereas Freddie Mac's segment earnings from multifamily programs registered $2.1 billion for that year.[3]

[1] Mortgage Bankers Association, 2012 C/MF Annual Origination Volume Summation, February 2013.
[2] Mortgage Bankers Association, Q1 2013 Commercial/Multifamily Mortgage Bankers Originations, April 30, 2013.
[3] Form 10-K, Annual Report Pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2012, Federal National Mortgage Association, pg. 94. Form 10-K, Annual Report Pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2012, Federal Home Loan Mortgage Corporation, pg. 108.

- During the housing crisis, the Enterprises' multifamily risk-based capital and earnings actually subsidized losses in the single-family mortgage sector. NMHC/NAA strongly advocate the Enterprises' multifamily risk-based capital be separately maintained and reflected on balance sheets.

- Imposing further restrictions on the Enterprises' multifamily mortgage activities effectively denies the government the ability to recoup borrowed capital that would otherwise be generated from the strong performance of the multifamily business. As noted above, the Enterprises' multifamily mortgage activities are currently generating a substantial positive return to taxpayers.

- The Enterprises' multifamily portfolios are already shrinking as activities have moved from a balance-sheet-dominated execution to a securitization-based execution. This shifts risk to private capital and away from the Enterprises.

3. The Enterprises' Multifamily Performance Does Not Justify Scaling Back Their Activities

There are no credit risk reasons to justify federal intervention in the Enterprises' multifamily programs at this time. Compared to other sources of multifamily capital, the Enterprises have the strongest performance record. As a result of their already solid underwriting standards, multifamily mortgage credit remains the best in the industry and continues to improve. Based on these facts, placing limitations on the Enterprises' multifamily mortgage activities is unwarranted from a risk-based capital or credit risk perspective.

According to MBA data released for the second quarter of 2013, Fannie Mae's multifamily serious delinquency rate (60+ days) is 0.28 percent, and Freddie Mac's multifamily serious delinquency rate (60+ days) is 0.09 percent.[4] By comparison, commercial banks, community banks and thrift institutions have a serious delinquency/default rate (90+ days) of 2.16 percent, a substantially higher rate. Furthermore, these entities all benefit from deposit insurance that allows them to assume risk on investments including commercial and multifamily real estate lending. Commercial mortgage-backed securities (CMBS) have the highest serious multifamily mortgage delinquency rate among all sources (30+ days) at 7.81 percent. Finally, it must be noted that although life insurance companies reported a 0.08 percent delinquency rate, they limit their exposure to the highest-quality properties located in core urban markets. Accordingly, their risk profile cannot be accurately compared to other sources of debt capital. (See Appendix III for historical delinquency data)

4. Enterprises' Multifamily Programs Ensure All Markets Are Served At All Times

The apartment sector has historically relied on a wide range of capital sources in addition to the GSEs. They include commercial banks, life insurance companies, CMBS and the Federal Housing Administration's (FHA) multifamily programs. That said, each of these has its own focus, strengths and limitations. Moreover, even during healthy economic times, the private-market sources on a collective basis simply have been unwilling

[4] Mortgage Bankers Association, Commercial/Multifamily Delinquency Rates Decline in Q2, September 4, 2013.

or unable to meet all of the rental housing industry's capital needs. Please see Appendix I for a complete overview of multifamily mortgage financing sources.

Banks are limited by capital requirements and have rarely been a source of long-term financing. Life insurance companies have typically comprised less than 10 percent of the market, lend primarily to newer, high-end properties and enter and exit the multifamily market based on their investment needs and economic conditions. FHA has insufficient capacity. The private-label CMBS market will be an important capital source, but because of the stricter regulatory environment post-financial crisis, it is unlikely to return to the volume it reached pre-crisis.

The apartment industry is encouraged by the thawing in the private capital markets but is unconvinced by the claims of some private capital providers that they can fully replace the liquidity offered by the GSEs. Already in this recovery, we are seeing the historical pattern of uneven access to capital repeat itself. The new private capital coming into the apartment sector is concentrating in a handful of cities and on trophy assets.

Apartment firms providing critical housing in secondary and tertiary markets and rural areas are not benefiting from the resurgence in private capital. Even in the larger markets, firms providing workforce housing find themselves equally shut out. The Enterprises are a truly national source of multifamily mortgage debt. In that regard they maintain a flow of liquidity at the local, regional and national markets to complement private multifamily mortgage capital availability not control it.

Finally, the Enterprises, unlike many other commercial real estate debt sources, help finance subsidized rental housing, including Low-Income Housing Tax Credit and Section 8 Project-Based rental properties, as well as senior and assisted living housing.

Response to Specific FHFA Questions

Overall, NMHC/NAA are extremely concerned by FHFA's efforts to further reduce Fannie Mae and Freddie Mac's multifamily businesses. As indicated in the FHFA's August 9 Notice, the agency has already instituted a 10 percent volume reduction in 2013 through a combination of increased pricing, more limited product offerings and stronger underwriting standards. Taking additional actions as proposed could disrupt the market and impact the apartment industry's ability to meet America's housing needs. Absent evidence of increased credit risk, there is much to lose and nothing to gain.

We offer the following comments relative to the strategies FHFA has identified to further contract the Enterprises' multifamily businesses.

I. Loan Terms

FHFA has asked whether shorter-term mortgages, under 10 years, should be eliminated. It is vital that the Enterprises maintain their ability to offer financing with loan terms from five to 30 years. While it is true that the Enterprises have made fewer of these in 2012, it is flawed logic to assume that they are no longer necessary. Historically, the Enterprises offered short-term debt products as a hedge against higher long-term rates.

In higher interest rate environments, short-term mortgages benefit borrowers who need lower rates to produce the cash flow necessary for operations and debt service. Fannie Mae began to offer a seven-year term in the mid-to-late 1980s because of the interest rate environment at the time. Demand for short-term mortgages in the mid-to-late 1980s and early 1990s was driven by the fact that interest rates for mortgage loans with terms of 10 or more years exceeded 10 percent. When Freddie Mac re-entered the market in 1992, it offered a five-year term to assist borrowers to re-balance high-interest rate debt in their portfolios and to incentivize the refinancing of poor-performing loans.

In other words, the Enterprises' share of short-term mortgage debt is a function of the yield curve; recent reductions are due to limited demand during this time of historically low interest rates. Moreover, the banks have become very active through aggressive pricing and terms, but this is a result of competition among financial institutions not competition between financial institutions and the Enterprises or life insurance companies. The Enterprises' influence on short-term lending in this market environment is minimal.

We offer the following additional observations regarding the pernicious effects and unintended consequences that could result from artificially constraining available multifamily mortgage loan terms:

- **Secondary and Smaller Markets Disadvantaged**
  If FHFA chooses to eliminate the Enterprises' ability to offer five- and seven-year loans, it will disadvantage apartment owners in smaller and secondary markets where commercial banks are not as active. Even if they were willing, many local community and commercial banks simply lack the lending capacity to fully serve this market. FHFA must not overlook the fact that the Enterprises provide added liquidity in these communities, which benefits the residents of affordable rental housing.

- **Loans to Smaller Rental Properties Threatened**
  Owners of smaller properties, for a variety of reasons, often seek shorter-term loans. If FHFA chooses to eliminate five- and seven-year loans, it weakens the apartment industry's ability to serve the needs of smaller rental properties. Expanding liquidity to small multifamily properties is a long-established policy goal of the Enterprises.

- **Greater Regulatory Role for FHFA Necessary to Implement Proposal**
  Eliminating short-term financing options will force greater regulatory oversight because FHFA will need to monitor short-term debt markets and local bank lending activities, as well as forecast interest rates, to manage credit risk. This may not seem like a high-risk position for FHFA, but this requires active management of the Enterprises' loan activities and close observation of a market that has limits on transparency.

NMHC/NAA recommend that prior to taking any action to restrict loan terms, FHFA first undertake a comprehensive assessment of the likely impact of the proposal. It should produce a study of short-term bank, insurance company and Enterprise multifamily mortgage lending and then consider how eliminating certain Enterprise loans would impact the availability and liquidity of multifamily mortgage capital.

II. Variety of Loan Products

NMHC/NAA are extremely concerned about the prospect of limiting the variety of loan products that Fannie Mae and Freddie Mac currently offer to multifamily borrowers. The notion that limits should be placed on loan products implies FHFA does not understand the commercial and multifamily mortgage market and the Enterprises' role in the financing of multifamily properties. We offer the following in response to this strategy:

- **Market Liquidity**
  FHFA implies that the variety of products and financing options that the Enterprises currently offer represent a liability to the debt markets. In contrast, NMHC/NAA strongly believe that this range of products and financing options is critical to maintaining liquidity in all markets at all times. The Enterprises do not engage in credit lending such as single-family, residential mortgage lending. Rather, they lend to businesses that are collateralized by real estate and receive cash flow from rents. While loans may be customized to meet borrower needs, the underwriting, due diligence and legal structure are the same for every borrower. As stated earlier, the Enterprises fill gaps and voids; they offer competition and backstop markets and debt sources. Without their range of products, liquidity in the apartment sector would not be as strong, financing costs would be higher, real estate values would be lower and rents would be higher.

- **Standardization**
  Although the Enterprises may offer a wide variety of loan products, they have also been market leaders when it comes to managing those products and establishing standards to make multifamily mortgage markets extraordinarily efficient. The Enterprises have created uniform mortgage instruments in all 50 states and established a network of originators and servicers that have a strong alignment of interest and understanding of the marketplace. The Enterprises' lender agreements and requirements (i.e., Freddie Mac Multifamily Seller/Servicer Guide and Fannie Mae Multifamily Delegated Underwriting and Servicing Guide) have led the market and set standards for a variety of lenders. In fact, FHA relied on the Enterprises when it updated its loan closing legal documents in 2011.

  The Enterprises have also been a market leader when it comes to addressing investments necessary to preserve and improve properties and prevent further declines in rental income. They have created the standards used by most lenders regarding managing property and environmental risks such as including asbestos, lead-based paint, earthquakes and floods.

- **One-Size-Fits-All Approach Dangerous**
  Underwriting market risk factors requires a range of mortgage products, especially in concentrated markets (e.g., factory, military and workforce) and properties serving market niches (e.g., college and university rental housing and seniors and assisted living communities). Limiting mortgage products may benefit some lenders to the multifamily industry, but FHFA must consider the impact of such action on the rental-housing provider and, most importantly, the rental household.

  Critically, FHFA is likely to find itself in an adverse selection position should it choose to limit products and product flexibility. FHA has a single-size product. As such, FHA has

limited ways to manage credit risk. It tends to cater to less-experienced and higher-leveraged owners. By limiting product offerings, FHFA could well be increasing risk in the Enterprises' guaranteed portfolios.

NMHC/NAA caution FHFA against limiting product offerings and instead encourage the agency to maintain its oversight of credit risk and capital requirements. The Enterprises have demonstrated exceptional credit discipline while meeting the needs of a nationwide multifamily market. They engage private capital through investors and guarantors, and they are effective and efficient in their loan application processing. Furthermore, they have been steady and steadfast in their support for apartment providers. Banks, thrifts, life companies, pension funds, Wall Street conduits and mortgage companies serve the interests of a $15 trillion commercial real estate market, of which the multifamily segment represents a small piece. To assume that these debt providers will replace products the Enterprises are prohibited from offering is imprudent and could have disastrous consequences to the marketplace and America's renters.

III. Limits on Property Financing

NMHC/NAA have concerns that FHFA's proposal to change what properties are eligible for Enterprise financing would have serious unintended consequences detailed below. Furthermore, given that Congress is currently debating housing finance reform and specifically examining this issue, future action should be left to elected policymakers. Accordingly, we urge a stay of any such action at this time.

Specifically, NMHC/NAA take exception with the following points outlined in FHFA's August 2013 Notice.

- ***"The properties with the highest market rents are affordable only to upper income households and these loans often have high balances on a per-unit basis."***

  This statement does not take into consideration many essential factors. Many properties that are considered "luxury" or "high-rent" built in the past 10 to 20 years are likely to include units for more moderate-income households and are part of the fabric of rental housing in a community. Additionally, FHFA fails to define "upper-income" household. Is that a household above the area median income? Is it a household in a rent-controlled and confined rental market?

- ***"In the past, statutory per unit limits constrained the Enterprises from providing high balance loans to multifamily properties."***

  This claim appears to be misleading. In the mid-1990s, Congress eliminated statutory per-unit limits. Lawmakers viewed per-unit limits as irrelevant due to the fact that there was limited new construction taking place and financing needs were much lower. As the economy grew and the demand for rental housing increased in the later part of the decade (1995-1999) and throughout the first part of the new century (2000-2010), land, entitlement, construction labor and material costs increased. High-end properties are not the only ones with significant per-unit loan costs. It is also very expensive to reinvest and reposition older rental properties, most of which serve the workforce housing market. The cost to construct affordable rental housing

in core markets can be $300,000 to $450,000 per unit – the same cost for "luxury" rental properties.

- ***"More recently, participation in this segment of the multifamily market has contributed to a substantial increase in the average size of Fannie Mae and Freddie Mac multifamily loans."***

  This statement falsely presumes a linkage between loan size and credit risk. While NMHC/NAA certainly agree that loan exposure should be assessed and that larger loans can create greater liabilities in the aggregate, there is not a direct relationship between credit risk and loan size. In fact, in many cases, the opposite is at play. Larger loans are most likely to be made in top locations where rental demand is the strongest. Furthermore, developers receiving such loans are likely to be experienced operators who often carry less leverage, thereby placing more equity at risk than other borrowers. As such, the large loan does not present a high credit risk profile. For these reasons, large loans, in some cases, are a hedge against more risky, but smaller loans.

FHFA has the responsibility of balancing credit risk and affordable housing goals. In establishing the Enterprises' multifamily affordable housing goals for 2015 and beyond, FHFA must consider the multifamily guaranteed portfolio's health and quality. Placing limits on property financing is likely to weaken the credit quality of the guaranteed multifamily mortgage portfolio. The resulting increase in credit risk will reduce the Enterprises' ability to be active debt providers to targeted, higher-leverage affordable properties, paradoxically limiting FHFA's capacity to set goals to achieve greater affordable housing lending.

NMHC/NAA consider per-unit mortgage limits to be arbitrary and believe they will create more problems than they solve. Such limits constrain the availability of debt to finance rehabilitation and future investments in key components through replacement reserves. Notably, in 2009, when FHA sought to accommodate the apartment industry's refinancing needs, it implemented artificial adjustments to the per-unit mortgage calculation by eliminating the land value from the formula specifically to allow higher mortgage amounts to be financed. This formula remains in use today, and performance has not suffered. Furthermore, FHA uses adjustments for costs not attributable to the loan to finalize the per-unit mortgage calculation (NMHC/NAA offer the HUD 92264-A form as Appendix II to illustrate the calculation). If FHFA were to implement a per-unit mortgage limit with regard to Fannie Mae and Freddie Mac loans, it would face similar calculation issues and would likely have to develop a convoluted formula similar to the one FHA employs. Moreover, FHFA would have to undertake careful auditing to ensure proper implementation.

NMHC/NAA, in response to Questions 3 (a), (b) and (c), emphatically oppose setting per-unit mortgage loan limits or limits on transactions. We support the current process of evaluating the Enterprises' lending activities on a portfolio basis. Finally, we once again advise FHFA to allow Congress to set policy on this issue as part of its efforts to reform housing finance.

IV. Limits on Business Activities

FHFA's options regarding placing limits on the Enterprises' business activities are best analyzed through the prism of reducing credit risk. Rather than asking whether certain business activities should be restricted on the grounds that alternative sources of capital could take their place, a premise we challenge, FHFA's role as a regulator is to instead ask whether these business activities generate undue risk to the taxpayer. The answer is no.

The Enterprises have great capacity to add liquidity to the marketplace and assist private capital sources through structured transactions. They also have a significant impact on the preservation of existing rental housing through pool-based transactions that allow cross collateralized and substitution transactions at the portfolio level. It takes the experience and sophistication that has been developed over the past 23 years to provide this level of expertise to support the apartment sector.

NMHC/NAA strongly support the migration of the Enterprises' multifamily activities from their balance sheets to a securitized portfolio. The insertion of private capital through subordinated bonds is vital to protect taxpayers. That said, NMHC/NAA also favor enabling the Enterprises to retain a small portion of mortgage investments to facilitate mortgage aggregation for securitization and support unique transactions that may represent prudent mortgage purchases but have added credit risk.

Finally, while securitization makes sense as a general principal, multifamily mortgage securities, be they single-loan or pooled securities, single-class or multiple-class with subordinated investors, can make it more difficult to manage mortgage risk. Securitized loans cannot be amended or modified without express permission from the bond investors. Therefore, working out issues prior to mortgage default becomes impossible when a property financed by a securitized loan faces difficulties. For this reason, the Enterprises should have the ability to hold in their mortgage investment portfolio a small number of loans that may ultimately need to be modified over the course of the mortgage term.

Conclusion

We appreciate that FHFA has provided stakeholders with an opportunity to comment on the strategies the agency is considering. We look forward to working with FHFA to reduce the Enterprises' already low risk exposure and encourage the increased participation of private capital in multifamily housing finance. However, given the fact that private debt capital providers are already significantly increasing their role in multifamily finance, and the Enterprises' market share is already decreasing, it hardly seems appropriate to impose arbitrary and artificial limitations that could disrupt the positive market forces currently at work. The multifamily Enterprises operated exactly as designed. The GSEs backstopped the market when private capital was unavailable during the great recession, and their market share today is significantly lower during this time of abundant multifamily mortgage debt.

On behalf of the providers of rental housing, NMHC/NAA respectfully request that FHFA not impose further constraints on the Enterprises' mortgage activities. Our members who own and operate multifamily rental properties, with and without loans financed by Enterprise debt, are appropriately concerned by the options currently under consideration. They will have serious consequences for all borrowers, not just GSE borrowers. Clearly, the apartment industry stands

behind any effort to ensure liquid debt markets, seeks additional private debt capital participation in the market and awaits the return of the CMBS market. However, placing additional caps on the GSEs' multifamily lending volume and reducing the diversity and availability of multifamily mortgage products, particularly while Congress is in the midst of deliberating on the future of the housing finance system, will only lead to market uncertainty and instability. For this reason, we cannot support any further actions to restrict liquidity to our industry and to the residents we serve.

Any questions on our comments can be directed to David Cardwell, NMHC Vice President of Capital Markets, at 202/974-2336 or dcardwell@nmhc.org.

Sincerely,

Douglas M. Bibby
President
National Multi Housing Council

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President
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CAPITAL FLOWS TO THE MULTIFAMILY INDUSTRY

Historically, the apartment industry has relied on a variety of capital sources, each with its own focus, strengths and limitations, to meet its liquidity needs. They include:

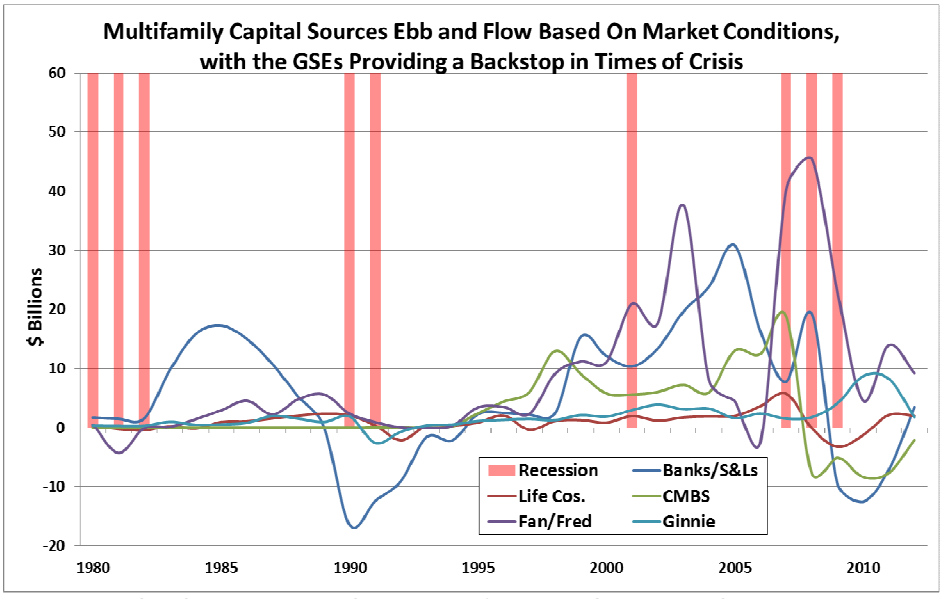
- Fannie Mae and Freddie Mac
- Commercial Banks
- Life Insurance Companies
- Federal Housing Administration
- Commercial Mortgage-Backed Securities (CMBS)/Conduits

Together, these capital sources have provided the apartment sector with $100 billion to $150 billion annually, reaching as high as $225 billion last decade, to develop, refinance, purchase, renovate and preserve apartment properties.

Fannie Mae/Freddie Mac: A Critical Liquidity Backstop in All Markets and All Economic Cycles

- The Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac have served as the cornerstone of the multifamily housing finance system in the modern era, successfully attracting private capital to the sector. Unlike any other single source of capital, they offer long-term debt for the entire range of apartment properties (market-rate workforce housing and subsidized properties, large properties, small properties, etc.), and they are active in all markets (primary, secondary and tertiary).

- As the chart below shows, the GSEs' multifamily programs has served as a backstop to the sector, increasing at times of market dislocation when other capital sources leave, and retreating as private capital returned to the market. This was seen most recently during the 2008 financial crisis, when all private capital left the market. As a result of that crisis-driven expansion, they currently hold 35 percent of the outstanding multifamily mortgage debt. Between 1990 and 2010, they accounted for 42 percent ($241.3 billion) of the net increase in mortgage debt.



Source: Federal Reserve, Natl. Bureau of Economic Research; NMHC

Commercial Banks: Short-term Financing for Smaller, Local Borrowers

- Commercial banks and thrifts generally serve as a source of credit for smaller, local borrowers. They typically provide floating rate, short-term debt, and often their willingness to extend this credit is based on the availability of permanent take-out financing offered by the GSEs.

- They currently hold 30 percent of outstanding multifamily mortgage debt. Between 1990 and 2010, they provided 23 percent ($131.0 billion) of the total net increase in mortgage debt. They have provided limited amounts of capital to the industry since the financial crisis and are unlikely to return to their pre-crisis levels because of higher risk-based capital requirements and new FASB accounting standards which impose meaningful limits on the ability of banks to provide capital to commercial real estate.

Life Insurance Companies: Target High-Quality Properties, Capital Allocations Change with the Market

- Life insurance companies tend to restrict their lending to a handful of primary markets and to high-quality, newer construction apartment properties. They do not generally finance affordable apartments, and their loan terms typically do not extend beyond 10 years. Importantly, they enter and exit the multifamily market based on their investment needs and economic conditions. On average, they have generally provided 10 percent or less of the annual capital needed by the multifamily industry, but that number has gone as low as 3 percent.

- They currently hold just 6 percent of outstanding multifamily mortgage debt. Between 1990 and 2010, they accounted for just 3 percent ($18.3 billion) of the net increase in multifamily mortgage debt.

FHA: Reliable Capital Source but Limited Mortgage Products and Capacity Issues

- FHA offers high-leverage, long-term mortgages with 35-year terms and 80 percent to 83 percent loan-to-value ratio. The capital they provide largely targets construction lending.

- After the 2008 financial collapse, they became a vital source of construction capital for apartments, and now FHA/Ginnie Mae currently hold 9 percent of outstanding multifamily mortgage debt. Between 1990 and 2010, they accounted for 7.0 percent ($40.1 billion) of the total net increase in mortgage debt.

- Capacity issues, long processing times and statutory loan limit requirements prevent FHA from serving a larger share of the multifamily market. They are also in the process of implementing more stringent underwriting and loan documents to reduce, not expand, the number of loans they will fund.

CMBS/Conduits: Volatile Capital Source

- The CMBS market did not become a material source of capital to the apartment industry until the mid-1990s, peaking at 16.5 percent of the market ($17.6 billion a year) in the housing bubble years of 2005-2007.

- The CMBS market completely shut down after the 2008 crisis. While it shows some signs of rebounding, regulatory changes imposed by financial regulatory reform legislation will mean that it will not return to its pre-bubble levels of lending.

- The CMBS market now holds 8 percent of the outstanding multifamily mortgage debt, although many of these loans have been referred to special servicers because of the aggressive underwriting and higher leverage employed during the housing boom. Their serious delinquency rate stood as high as 17.4 percent in 2011, but has since fallen to 7.81 percent. In contrast, the GSEs' delinquency rate is less than 1 percent.

Covered Bonds: Not Viable as a Significant Multifamily Capital Provider

- Covered bonds have been used in Europe to support the residential mortgage market; however, there is no viable covered bond market in the U.S. at this time. While they may be an additional source of capital for the apartment sector, they are not a viable replacement for existing capital sources. Not only have they not demonstrated extensive capacity to serve commercial/multifamily real estate markets, they present limitations to issuers since the issuer must hold risk-based capital against potential losses as the loans are held on the balance sheet.

Supplement to Project Analysis

U.S. Department of Housing and Urban Development
Office of Housing
Federal Housing Commissioner

OMB Approval No. 2502-0029
(exp. 10/31/2012)

Section or Title Number _____

☐ Valuation Trial ☐ Conditional ☐ Firm **See last page for Public Reporting burden statement before completing this form**

Privacy Act Notice: The United States Department of Housing and Urban Development, Federal Housing Administration, is authorized to solicit the information requested in the form by virtue of Title 12, United States Code, Section 1701 et seq., and regulations promulgated thereunder at Title 12, Code of Federal Regulations. While no assurance of confidentiality is pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information Act request.

Name of Mortgagor (Borrower) | Project Number

Name of Project

Location of Project (street, city & state)

Type of Borrower

☐ Private ☐ Profit ☐ Public ☐ Nonprofit ☐ State or Federal Instrumentality, etc.
☐ Management Coop. ☐ Sales Coop. ☐ Investor-Sponsor ☐ Builder-Seller ☐ Limited Distribution

Type of Project

☐ Rental Housing ☐ Mobile Home Court ☐ Board and Care ☐ New Construction ☐ Non-Elevator
☐ Cooperative ☐ Nursing Home ☐ Single Rm. Occupancy ☐ Rehabilitation ☐ Elevator
☐ Condominium ☐ Intermediate Care Facility ☐ Redevelopment ☐ Existing
☐ Capital Advance 202/811 ☐ Housing for the Elderly ☐ Supplement Loan ☐ _____

I. Determination of Maximum Insurable Mortgage

Criteria				column 1	column 2	column 3
1. **Mortgage or Loan Amount Requested in Application**						$
2. **Reserved**						$
3. **Amount Based on Value or Replacement Cost**						
a. Value (Replacement Cost) in Fee Simple	$	X	%		$ 0.00	
b. (1) Value of Leased Fee	$					
(2) Grant/Loan funds attributable to R. C. items	$					
(3) Excess Unusual Land Improvement	$					
(4) Cost Containment Mortgage Deduction	$					
(5) Total lines (1) to (4)	$ 0.00	X	%	$ 0.00		
c. Unpaid Balance of Special Assessment				$		
d. Total line b plus line c					$ 0.00	
e. Line a minus line d						$ 0.00
4. **Amount Based on Limitations Per Family Unit**						
a. Number of **no** Bedroom Units	X $			$ 0.00		
Number of **one** Bedroom Units	X $			$ 0.00		
Number of **two** Bedroom Units	X $			$ 0.00		
Number of **three** Bedroom Units	X $			$ 0.00		
Number of **four** or more Bedroom Units	X $			$ 0.00		
b. Cost Not Attributable to Dwelling Use	$	X	%	$ 0.00		
c. Warranted Price of Land	$	X	%	$ 0.00		
d. Total lines a through c					$ 0.00	
e. Total Number of Spaces	X $				$ 0.00	
f. Sum: Value of Leased Fee and Unpaid Balance of Special Assessment(s)						$
g. Line d or line e, whichever is applicable, minus line f						$
5. **Amount Based on Debt Service Ratio**						
a. Mortgage Interest Rate				%		
b. Mortgage Insurance Premium Rate				%		
c. Initial Curtail Rate				%		
d. Sum of Above Rates					0.00 %	
e. Net Income	$	X	%		$ 0.00	
f. Annual Ground Rent $ _____ + Annual Spec. Assmt. $					$ 0.00	
g. Line e minus line f					$ 0.00	
h. Line g divided by line d						$
i. Annual Tax Abatement Savings $ _____	divided by		%			$
j. Line h plus line i						$ 0.00

I. Determination of Maximum Insurable Mortgage (cont.)

Criteria	column 1	column 2	column 3
6. Amount Based on Estimated Cost of Rehabilitation Plus (i) "As Is" Value, **or** (ii) Acquisition Cost, **or** (iii) Existing Mortgage Indebtedness Against the Property Before Rehabilitation:			
a. Total Estimated Development Cost	$		
b. Estimated Cost of Off-Site C onstruction	$		
c. Sum of lines a & b		$ 0.00	
d. Grant/Loan funds attributable to R. C. items	$		
e. Line c minus line d		$	
f. "As Is" Value of Prop. Before Rehab. $ ____ X ____ %	$		
g. Existing Mortgage Indebtedness (Property Owned) **or** Purchase Price of Property (to be Acquired)	$		
h. Line e plus line f **or** line g, whichever is less		$	
i. Line h X ____ %			$
7. Amount Based on Borrower's Total Cost of Acquisition Section 223(f)			
a. Purchase Price of Project	$		
b. Repairs and Improvements, if any	$		
c. Other fees	$		
d. Loan Closing Charges *	$		
e. Sum of lines a through d		$ 0.00	
f. Enter the Sum of any Grant/Loan and Reserves for Replacement and Major Movable Equipment to be purchased as an asset of the project		$	
g. Line e minus line f		$	
h. Line g X ____ %			$
8. Amount Based on Sum of Unit Mortgage Amounts			$
9. Amount Based on Estimated Cost to Borrower			
a. Total Estimated Cost **(Exclusive of Site and Required Construction Off the Site)**	$		
b. Purchase Price of Site	$		
c. Total Cost of Clearing Site, if any	$		
d. Expense of Relocating Occupants, if any	$		
e. Cost of Off-Site Construction, if any	$		
f. Sum of line a through line e		$ 0.00	
g. Line f X ____ %			$
10. Amount Based on Existing Indebtedness, Repairs, and Loan Closing Charges Section 223(f)			
a. Total Existing Indebtedness	$		
b. Required Repairs	$		
c. Other Fees	$		
d. Loan Closing Charges *	$		
e. Sum of line a through line d		$ 0.00	
f. Enter the Sum of any Grant/Loan and Reserves for Replacement and Major Movable Equipment on Deposit		$	
g. Line e minus line f		$	
h. 80% of Value $ ____ X80%		$	
i. Greater of line g or line h			$

11. Amount Based on Deduction of Grant(s), Loan(s), Tax Credit(s) and Gift(s) for Mortgageable items:

a. 100% Project (Replacement) Cost *	$	
b. (1) Grants/loans/gifts	$	
(2) Tax Credits	$	
(3) Value of Leased Fee	$	
(4) Excess Unusual Land Improvement Cost	$	
(5) Cost Containment Mtge Deduction	$	
(6) Unpaid Balance of Special Assessment	$	
(7) Sum of Lines (1) through (6)		$ 0.00
c. Line a. minus line b. (7)		$

* Project Cost applies to Criteria 7 and 10 under Section 223 (f) and applications pursuant to 223(f). Project Replacement Cost applies to Section 221 (d) and other Sections of the Act mortgages limited by Replacement Cost.

* Attach format for computing loan closing charges.

Maximum Insurable Mortgage (Lowest of the Foregoing Criteria) $

Fannie Mae Asset Quality 1971-2012

End of Period	Mortgage Asset Quality				
	Single-Family Serious Delinquency Rate[a] (%)	Multifamily Serious Delinquency Rate[b] (%)	Credit Losses as a Proportion of the Guarantee Book of Business[c, d] (%)	Real Estate Owned as a Proportion of the Guarantee Book of Business[d] (%)	Credit-Enhanced Outstanding as a Proportion of the Guarantee Book of Business[e] (%)
4Q12	3.29	0.24	0.48	0.35	18.8
3Q12	3.41	0.28	0.46	0.34	18.5
2Q12	3.53	0.29	0.50	0.34	18.3
1Q12	3.67	0.37	0.67	0.35	18.3
Annual Data					
2012	3.29	0.24	0.48	0.35	18.8
2011	3.91	0.59	0.61	0.37	18.4
2010	4.48	0.71	0.77	0.53	19.1
2009	5.38	0.63	0.45	0.30	21.2
2008	2.42	0.30	0.23	0.23	23.9
2007	0.98	0.08	0.05	0.13	23.7
2006	0.65	0.08	0.02	0.09	22.3
2005	0.79	0.32	0.01	0.08	21.8
2004	0.63	0.11	0.01	0.07	20.5
2003	0.60	0.29	0.01	0.06	22.6
2002	0.57	0.08	0.01	0.05	26.8
2001	0.55	0.27	0.01	0.04	34.2
2000	0.45	0.07	0.01	0.05	40.4
1999	0.47	0.11	0.01	0.06	20.9
1998	0.56	0.23	0.03	0.08	17.5
1997	0.62	0.37	0.04	0.10	12.8
1996	0.58	0.68	0.05	0.11	10.5
1995	0.56	0.81	0.05	0.08	10.6
1994	0.47	1.21	0.06	0.10	10.2
1993	0.48	2.34	0.04	0.10	10.6
1992	0.53	2.65	0.04	0.09	15.6
1991	0.64	3.62	0.04	0.07	22.0
1990	0.58	1.70	0.06	0.09	25.9
1989	0.69	3.20	0.07	0.14	Not Available Before 1990
1988	0.88	6.60	0.11	0.15	
1987	1.12	Not Available Before 1988	0.11	0.18	
1986	1.38		0.12	0.22	
1985	1.48		0.13	0.32	
1984	1.65		0.09	0.33	
1983	1.49		0.05	0.35	
1982	1.41		0.01	0.20	
1981	0.96		0.01	0.13	
1980	0.90		0.01	0.09	
1979	0.56		0.02	0.11	
1978	0.55		0.02	0.18	
1977	0.46		0.02	0.26	
1976	1.58		0.03	0.27	
1975	0.56		0.03	0.51	
1974	0.51		0.02	0.52	
1973	Not Available Before 1974		0.00	0.61	
1972			0.02	0.98	
1971			0.01	0.59	

Source: Fannie Mae

[a] Single-family loans are seriously delinquent when the loans are 90 days or more past due or in the foreclosure process. Rate is calculated using the number of conventional single-family loans owned and backing Fannie Mae mortgage-backed securities (MBS). Includes loans referred to foreclosure proceedings but not yet foreclosed. Before 1998, data included all seriously delinquent loans for which Fannie Mae had primary risk of loss. Beginning with 1998, data include all seriously delinquent conventional loans owned and backing Fannie Mae MBS with and without primary mortgage insurance or credit enhancement. Data before 1992 include loans and securities in relief or bankruptcy, even if the loans were less than 90 days delinquent, calculated based on number of loans.

[b] Before 1998, data include multifamily loans for which Fannie Mae had primary risk of loss. Beginning in 1998, data include all multifamily loans and securities 60 days or more past due. Beginning in 2002, rate is calculated using the unpaid principal balance of multifamily loans owned by Fannie Mae or underlying Fannie Mae guaranteed securities as the denominator. For the period 1998 to 2001, the denominator also includes other credit enhancements Fannie Mae provides on multifamily mortgage assets and multifamily non-Fannie Mae mortgage-related securities held for investment.

[c] Credit losses are charge-offs, net of recoveries and foreclosed property expense (income). Average balances used to calculate ratios subsequent to 1998. Quarterly data are annualized. Beginning in 2005, credit losses exclude the impact of fair-value losses of credit impaired loans acquired from MBS trusts. Beginning in 2008, credit losses also exclude the effect of HomeSaver Advance program fair-value losses.

[d] Guarantee book of business refers to the sum of the unpaid principal balance of mortgage loans held as investments, Fannie Mae MBS held as investments, Fannie Mae MBS held by third parties, and other credit enhancements Fannie Mae provides on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held for investment that Fannie Mae does not guarantee. Before 2005, the ratio was based on the mortgage credit book of business, which consists of the guarantee book of business plus non-Fannie Mae mortgage-related securities held as investments not guaranteed by Fannie Mae.

[e] Beginning in 2000, the credit-enhanced category was expanded to include loans with primary mortgage insurance. Amounts for periods before 2000 reflect the proportion of assets held for investment with additional recourse from a third party to accept some or all of the expected losses on defaulted mortgages.

Freddie Mac Asset Quality 1974-2012

End of Period	Mortgage Asset Quality				
	Single-Family Delinquency Rate[a] (%)	Multifamily Delinquency Rate[b] (%)	Credit Losses/Average Total Mortgage Portfolio[c] (%)	REO/Total Mortgage Portfolio[d] (%)	Credit-Enhanced[e]/ Total Mortgage Portfolio[d] (%)
4Q12	3.25	0.19	0.54	0.24	13.0
3Q12	3.37	0.27	0.65	0.25	13.0
2Q12	3.45	0.27	0.63	0.26	13.0
1Q12	3.51	0.23	0.74	0.29	13.0
Annual Data					
2012	3.25	0.19	0.64	0.24	13.0
2011	3.58	0.22	0.68	0.30	14.0
2010	3.84	0.26	0.72	0.36	15.0
2009	3.98	0.20	0.41	0.23	16.0
2008	1.83	0.05	0.20	0.17	18.0
2007	0.65	0.02	0.03	0.08	17.0
2006	0.42	0.06	0.01	0.04	16.0
2005	0.53	0.00	0.01	0.04	17.0
2004	0.73	0.06	0.01	0.05	19.0
2003	0.86	0.05	0.01	0.06	21.0
2002	0.77	0.13	0.01	0.05	27.4
2001	0.62	0.15	0.01	0.04	34.7
2000	0.49	0.04	0.01	0.04	31.8
1999	0.39	0.14	0.02	0.05	29.9
1998	0.50	0.37	0.04	0.08	27.3
1997	0.55	0.96	0.08	0.11	15.9
1996	0.58	1.96	0.10	0.13	10.0
1995	0.60	2.88	0.11	0.14	9.7
1994	0.55	3.79	0.08	0.18	7.2
1993	0.61	5.92	0.11	0.16	5.3
1992	0.64	6.81	0.09	0.12	Not Available Before 1993
1991	0.61	5.42	0.08	0.14	
1990	0.45	2.63	0.08	0.12	
1989	0.38	2.53	0.08	0.09	
1988	0.36	2.24	0.07	0.09	
1987	0.36	1.49	0.07	0.08	
1986	0.42	1.07	Not Available Before 1987	0.07	
1985	0.42	0.63		0.10	
1984	0.46	0.42		0.15	
1983	0.47	0.58		0.15	
1982	0.54	1.04		0.12	
1981	0.61	Not Available Before 1982		0.07	
1980	0.44			0.04	
1979	0.31			0.02	
1978	0.21			0.02	
1977	Not Available Before 1978			0.03	
1976				0.04	
1975				0.03	
1974				0.02	

Source: Freddie Mac

[a] Based on the number of mortgages 90 days or more delinquent or in foreclosure. Excludes modified loans if the borrower is less than 90 days past due under the modified terms. Rates are based on loans in the single-family credit guarantee portfolio, which excludes that portion of Freddie Mac real estate mortgage investment conduits (REMICs) and other structured securities backed by Ginnie Mae mortgage-backed securities (MBS). Rates for years 2005 and 2007 also exclude other guarantee transactions. Single-family delinquency rates for 2008 through 2012 include other guarantee transactions.

[b] Before 2008, rates were based on the net carrying value of mortgages 60 days or more delinquent or in foreclosure and exclude other guarantee transactions. Beginning in 2008, rates were based on the unpaid principal balance of loans 60 days or more delinquent or in foreclosure and include

[c] Credit losses equal to real estate owned operations expense (income) plus net charge-offs and exclude other market-based valuation losses. Calculated as credit losses divided by the average balance of mortgage loans in the total mortgage portfolio, excluding non-Freddie Mac MBS and the portion of REMICs and other structured securities backed by Ginnie Mae MBS.

[d] Calculated based on the balance of mortgage loans in the total mortgage portfolio excluding non-Freddie Mac MBS and the portion of REMICS and other structured securities backed by Ginnie Mae certificates.

[e] Includes loans with a portion of the primary default risk retained by the lender or a third party who pledged collateral or agreed to accept losses on loans that default. In many cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes