



October 8, 2013

VIA ELECTRONIC SUBMISSION

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

RE: Grandbridge Comments on FHFA's Request for Public Input on the GSEs' Multifamily Businesses

Ladies and Gentlemen:

On behalf of Grandbridge Real Estate Capital LLC, a wholly-owned subsidiary of BB&T ("Grandbridge"), we respond with this letter to the request for comments, dated August 9, 2013 (the "Request"), issued by the Federal Housing Finance Agency ("FHFA") regarding a proposed reduction in Fannie Mae and Freddie Mac (the "GSEs") multifamily lending authority in 2014. By way of background, Grandbridge is a full service commercial mortgage banking firm based in Charlotte, NC. Grandbridge has twenty-five production offices around the country that originate commercial and multifamily loans for a wide variety of capital sources including insurance companies, the GSEs, FHA, CMBS lenders, banks and numerous other private lenders. Our company services over \$28.4 billion in commercial and multifamily loans, with almost \$11 billion being multifamily loans with the GSEs.

We welcome FHFA's transparency in issuing the Request. Seeking public input in connection with FHFA's development of the 2014 conservatorship scorecard supports a more thoughtful, deliberative process, consistent with principles of conservatorship. We recognize the importance of ongoing discussions on the role and footprint of the GSEs in both the multifamily and single-family mortgage markets. Our discussion below addresses possible approaches and concepts that are responsive to FHFA's Request. Our comments are totally aligned with the comment letter you have received from the Mortgage Bankers Association ("MBA"). Rather than reiterating much of the material from the MBA letter, we will keep our comment letter relatively brief and focused on the most key issues from our standpoint.

First, we would like to reinforce the following key points:

- The GSEs' share of the multifamily origination market has declined substantially from the height of the financial crisis to now. In our company, the GSEs' share of our multifamily originations decreased from 57% in 2012 to 47% YTD 2013.
- The market is seeing vigorous competition among capital sources for multifamily debt, resulting in a natural reduction of GSE multifamily origination activities. There is no question that our company has seen increased lending activity on multifamily

properties in 2013 from insurance companies, CMBS lenders, banks and other private lenders.

- Both GSE platforms continue to attract and utilize significant private capital in their multifamily business models.

In its role as conservator, we believe that the following guiding principles should drive FHFA's development of the GSEs' multifamily scorecard for 2014:

- 1) Stewardship of existing GSE assets and resources on behalf of taxpayers should be a paramount consideration for any FHFA action. Both GSEs run very successful multifamily lending businesses today, with the talent, expertise and intellectual capital of their staffs being enormously valuable to the federal government. In our opinion, a regulatory driven material decrease in origination volumes in 2014 would signal a declining business and risk an exodus of significant talent.
- 2) Any steps taken by FHFA should be aligned with the GSEs' mission to provide liquidity, stability and affordability to the mortgage markets. The GSEs' role during the financial crisis demonstrated that they serve a countercyclical role as providers of liquidity in the multifamily markets when other sources pull back. Since the crisis, other capital sources have returned to the market and the GSEs' market share has declined. We strongly believe that FHFA should allow market forces to shape origination volumes in 2014, rather than through regulatory intervention.
- 3) The GSEs should continue to focus on the workforce rental market. The GSEs' multifamily businesses support a market that is, by its very nature, affordable. Multifamily rental housing provides affordable housing, with over 90% of multifamily rental units affordable to households earning area median incomes or less. The GSEs have supported the broad affordable rental market for many years and should be encouraged to continue to do so in 2014.
- 4) The value in the multifamily platforms should be preserved in order to ensure an orderly, stable transition that preserves – and does not foreclose – options for Congress. Given the role that the GSEs play in providing liquidity, stability and affordability in the multifamily housing market, FHFA should proceed with caution, avoiding risks and unintended consequences that come with experimentation.

Recommendations:

Given the robust competitive environment among various capital sources in the multifamily debt markets today, we do not believe that an origination volume reduction – 10 percent or otherwise – is warranted for 2014. We are very concerned about the unintended

consequences of such an action, both within the GSEs as well as within the lender network that generates new loans for the GSEs.

We recommend the following course of action by FHFA with respect to the 2014 multifamily businesses of the GSEs:

- 1) Adopt a containment approach with 2014 origination volumes limited to no more than 2013 levels. This puts a "cap" on origination volumes for the GSEs and allows for robust competition to continue. Any limitation on production volumes, however, needs to be flexible to adapt to any major market disruptions that may occur.
- 2) Limit the GSEs' role in the luxury segment of the market by requiring that no more than 10 percent of the units financed in 2014 exceed 100 percent of area median income. This will ensure that the GSEs continue to focus on workforce housing, but allow for some portfolio diversification to prudently manage risk.
- 3) Instruct the GSEs to look for new and innovative ways to attract and leverage private capital in their business models and executions in 2014 to reduce the government's overall exposure. Such a directive would leverage the intellectual capital and expertise of the GSEs, motivate their staff and hopefully enhance the existing multifamily businesses during transition while Congress formulates the future of mortgage finance.

In summary, the multifamily market in 2013 is behaving very much in line with the goals you articulated in your Strategic Plan last year – with more private capital entering the market and the GSEs' role shrinking. It is important that FHFA not take any action which will have detrimental and long term negative consequences to the multifamily market. We, therefore, respectfully request that FHFA take an approach for 2014 that focuses on containment of origination volumes, establishes limitations in the luxury segment of the market and encourages the GSEs to seek ways to bring additional private capital into their business models.

Sincerely,



David A. Roberts
President and Chief Operating Officer

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