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David L. Ledford  
Senior Vice President

October 4, 2013

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

Re: Request for Public Input  
Reducing Fannie Mae and Freddie Mac Multifamily Business  
Transmitted by email to: [multifamilypolicyissues@fhfa.gov](mailto:multifamilypolicyissues@fhfa.gov)

Dear Sir or Madam:

On behalf of the National Association of Home Builders (NAHB), I appreciate the opportunity to respond to the Federal Housing Finance Agency's (FHFA) request for public input on reducing Fannie Mae and Freddie Mac's multifamily businesses. NAHB is a Washington-based trade association representing more than 140,000 members involved in all aspects of single family and multifamily residential construction. Our multifamily members rely on the multifamily business conducted by Fannie Mae and Freddie Mac (the Enterprises) for a large part of their businesses, which encompass a wide range of multifamily rental housing from affordable to market-rate across the country. The Enterprises' ability to conduct their multifamily businesses is of utmost importance to our members.

### **Background**

In its August 9, 2013, press release, FHFA stated it is seeking input on strategies for reducing the Enterprises' presence in the multifamily housing finance market in 2014. FHFA's Strategic Plan for Enterprise Conservatorships, released in February 2012, included a goal to contract the Enterprises' presence in the market while simplifying and shrinking certain operations. The 2013 conservatorship Scorecard included reducing their volume of new multifamily business by 10 percent relative to 2012. FHFA expects this reduction to be achieved this year through a combination of increased pricing, more limited product offerings and stronger underwriting standards.

FHFA says it is now evaluating alternatives in this regard for 2014. FHFA seeks public input on the potential market impact of various strategies. These include:

- Restrictions on available loan terms;
- Simplification and standardization of loan products;
- Limits on property financing;

- Limits on business activities; and,
- Other options that FHFA should consider.

FHFA states that it is currently monitoring the Enterprises' implementation of this scorecard goal and is actively evaluating how this process is working. FHFA intends to continue a path of gradual contraction of the multifamily businesses while awaiting a legislative resolution to the conservatorships.

### **NAHB Comments**

NAHB believes that the FHFA's directive to the Enterprises to further reduce their multifamily businesses beyond the current 10 percent reduction is an arbitrary target and unnecessary. In fact, NAHB strongly believes that it is critical that the Enterprises retain their ability to provide broad liquidity to the market, which includes having a diversified line of products and the ability to address the financing needs for a large range of multifamily property types. It is precisely because the Enterprises have built successful multifamily executions that they have been able to meet the demand for multifamily financing throughout the economic crisis. This critical aspect of the Enterprises' mission – to provide liquidity during all economic cycles – should not be regulated by the conservator; that is the job of Congress.

FHFA's mission is to "promote (the Enterprises') safety and soundness, support housing finance and affordable housing, and support a stable and liquid mortgage market." It is unclear how a further reduction of the Enterprises' footprint supports this critical mission.

The Enterprises' current multifamily operations seem to embody the principles of safety and soundness with default rates that are exceptionally low and businesses models that are profitable. The taxpayer, rather than having to subsidize the operations, is in fact benefitting from the substantial amount of funds that are being transferred from the Enterprises to the federal government.

And the market is working as it should. During the economic downturn when private capital exited the market, the Enterprises were there to fill the void and provide liquidity. Now, as the economy has returned to a more normalized dynamic, private capital has once again stepped in so that the Enterprises' market share is significantly reduced from where it was during the Great Recession.

Before additional steps are taken to shrink the Enterprises' operations, NAHB believes it would be prudent to fully articulate the overarching vision driving these interim steps. In the end, what is needed is a healthy and vibrant secondary market that has the staff and resources in place to implement the mission with which FHFA has been charged.

Therefore, NAHB does not believe that it is appropriate at this time to limit the Enterprises' product lines, loan terms, or business activities. Targeted restrictions on loan terms, product lines and business activities will only constrain liquidity. Such disruptions in the market have the potential to slow down the job creation and monetary contributions to the economy that are currently fueled by multifamily construction. The appendix following this letter provides information from NAHB on current multifamily conditions and future demand. These positive trends may be reversed if FHFA moves to curtail the Enterprises' multifamily businesses.

As noted before, more private capital sources have returned to the market. Life insurance companies, banks and commercial mortgage-backed securities lenders (CMBS) have all increased their share of multifamily lending over the last year. They have done so as economic conditions have improved, demand for multifamily rental has continued to increase, and apartment financial fundamentals have improved.

However, all of these sources of private capital have preferred investments, as do the Enterprises, but for different reasons. Each has strength in specific niches and markets and thus move in and out of the market as economic conditions change and their investment goals change. Banks have significant exposure to regulatory pressure that influence their lending decisions, including obligations under the Community Reinvestment Act (CRA), thus, it is hard to predict whether or not banks will step in and pick up space vacated by the Enterprises. Life insurance companies typically target low-leverage, high-quality deals in the strongest markets. Pursuant to their statutory mission, the Enterprises stay in the market even as other private sources of capital retreat, picking up the slack and ensuring liquidity is available.

NAHB notes that both Enterprises have adjusted pricing over time. Appropriately priced agency products will reduce crowding out private capital, allowing other lenders to enter and recognize an acceptable return, without limiting developers' access to financing through arbitrary reductions in products or business lines. To be clear, NAHB does not advocate for regulatory or administrative controls on the spreads of the Enterprises' debt instruments. Adjustments in pricing should be market-based. Additionally, both Enterprises use significant amounts of private capital within their multifamily businesses. NAHB offers that an area for exploration is how to build on that success and thereby reduce the government's share of risk and capital investment in the Enterprises.

In response to FHFA's questions:

### **1. Loan Terms**

#### ***Should FHFA Consider Loan Terms as a Factor in How to Reduce the Enterprises' Multifamily Business?***

**No.** FHFA suggests that the low utilization of short-term loans might be a target for contraction. NAHB believes that short-term loans are a small, but important, portion of the Enterprises' portfolios, and making short-term loans is a viable risk management tool. The attractiveness of the short-term products depends on the available alternatives. Currently, the yield curve is very flat so that the relative benefit of a lower rate short-term debt instrument is small. The ability to lock in longer-term mortgages (10-year loans) at historically low rates is an important factor in why the shorter-term products have not been used. As the yield curve becomes more normalized, the short-term options will become relatively more attractive.

### **2. Loan Products**

#### ***Should FHFA Consider Simplifying and Standardizing the Enterprises' Multifamily Loan Products?***

**No.** Standardizing the loan products would eliminate choices for developers. Multifamily loans are not homogenous like single family loans. Additionally, a narrower product line means there

is less diversification in the portfolio, which could increase risk for the Enterprises. There is no clear benefit to standardizing loan products.

### **3. Limits on Property Financing**

#### ***Should FHFA Consider Imposing Maximum Loan Limits, Per Unit Loan Limits, or Maximum Rents?***

**No.** Imposing loan limits will push larger deals to other sources of capital, but if the caps are too low, borrower quality may also be affected. This would increase risk for the Enterprises. Even with adjustments for high cost areas, there is too much potential for ending up with uneven access to financing across different geographic areas. A more productive strategy that would benefit borrowers is to encourage the Enterprises to more fully develop their small loan program. Both Enterprises have not performed particularly well in this space, and NAHB has long supported increased activities by the Enterprises for small loans. Another area to consider for expansion is loans for underserved areas.

Area median incomes (AMI) and rent restrictions are already a constraint on where affordable housing can be built, and imposing such restrictions on market rate rental will only serve to push multifamily housing to the most affluent communities where the highest rents can be achieved. Further, the vast majority of rental housing already serves households with incomes at or below area median income. These options should not be considered.

### **4. Limits on Business Activity**

#### ***Should FHFA Consider Reducing the Scope of the Businesses Engaged in by the Enterprises?***

**No.** FHFA suggests that areas of contraction could include limiting the Enterprises' business to loans that provide new liquidity or prohibiting the purchase of seasoned loans or loan pools. Securitization is the primary function for which the Enterprises were created – taking loans off banks' balance sheets so they are free to keep lending. The main reason that other sources of capital exist at all is because of the ability to securitize with the Enterprises at some point in the future.

NAHB also believes that the Enterprises' affordable housing products are critically important, especially as a secondary market securitization platform. NAHB strongly encourages the Enterprises to improve its forward commitment and tax-exempt bond enhancement vehicles.

NAHB also notes that the Enterprises are important sources of financing for smaller developers, who typically cannot meet the cash equity requirements of conduits and insurance companies. These developers also build more often in tertiary markets, which are not primary targeted areas for investment by conduits and insurance companies.

### **Conclusion**

NAHB believes that the most important message to be conveyed is that the Enterprises' multifamily businesses should not be dismantled before Congress has made decisions on the future of the housing finance market. The multifamily industry feels very strongly that the

existing multifamily businesses should be retained and transferred to a new future entity or entities and have expressed this to members of Congress. To lose any of the successful products or business activities at this point in time – before decisions are made by Congress as to the future of the multifamily housing finance market - means they will have to be rebuilt at a future point. NAHB urges FHFA not to take unwarranted actions that will result in damage to the multifamily market now and in the future.

Thank you for the opportunity to provide comments. If you have any questions on NAHB's comments, please feel free to contact Claudia Kedda, Senior Director, Multifamily and Affordable Housing Finance (202-266-8352 or [ckedda@nahb.org](mailto:ckedda@nahb.org)).

Sincerely,

A handwritten signature in cursive script that reads "David L. Ledford".

David L. Ledford  
Senior Vice President  
Housing Finance & Regulatory Affairs

## Appendix – Current Multifamily Conditions and Future Demand

### *Builder Confidence*

Production of apartments and condominiums gained momentum in the second quarter of 2013, according to NAHB's latest Multifamily Production Index (MPI). The index increased nine points to 61, which is the highest reading since its inception in 2003. The MPI measures builder and developer sentiment about current conditions in the apartment and condominium market on a scale of 0 to 100. The index and all of its components are scaled so that any number over 50 indicates that more respondents report conditions are improving than report conditions are getting worse.

The MPI provides a composite measure of three key elements of the multifamily housing market: construction of low-rent units, market-rate rental units and "for-sale" units, or condominiums. In the second quarter of 2013, the MPI component tracking builder and developer perceptions of market-rate rental properties rose six points to 67, the 11th straight quarter above 50; for-sale units had a significant increase of 16 points to 58, which is the highest reading since the second quarter of 2005; and low-rent units increased five points to 60.

### *Absorption Rates*

According to data from the Survey of Market Absorption of Apartments (SOMA), completions of privately financed, unsubsidized, unfurnished rental apartments were up strongly in the first quarter of 2013 compared to the same quarter a year prior. The reported 24,400 completions in buildings with 5+ units were 53 percent higher than the 15,900 completions recorded in the first quarter of 2012.

Absorption rates for new rental and for-sale multifamily units continued to improve at the start of 2013, consistent with the positive trends since the end of the Great Recession. Non-seasonally adjusted three-month absorption rates (units rented after construction of the property is complete) for first quarter completions ticked up to 61 percent, from 58 percent for fourth quarter 2012 completions. Absorption rates for rental apartments have been rising since late 2008 as rental demand increased as a result of the housing downturn. The SOMA data also reported that approximately 8,200 Low-Income Housing Tax Credit or other federally subsidized units were completed in the first quarter of 2013. This is down slightly from the 8,800 affordable units estimated completed at the start of 2012.

### *Rents and Vacancy Rates*

Recently, real rental prices have begun to rise after a large drop in 2009. The real rent index has increased for seven consecutive months. In August, the real rent index rose by 0.2 percent. Over the past year, the real rental prices have risen by 1.2 percent. The increase in real rental prices corresponds with a decrease in the rental vacancy rate.

The Census Bureau's quarterly survey provides estimates of vacancy rates among the stock of owner and rental housing. The rental vacancy rate continued its downward trend during the first quarter of 2013, declining 20 basis points from a year ago to 8.6 percent. In addition, on a 4-quarter moving average basis, the rental vacancy rate dropped to its lowest reading since the end of 2001.

#### *Future Demand*

Household formations (e.g., adult children leaving parents' households, singles leaving shared housing arrangements, etc.) are the largest component of demand for additions to the housing stock. These households tend to be younger in age (20s and 30s) and a large component of multifamily rental demand. These new households are accommodated by additions to the housing stock when vacancy rates are low, and are absorbed into the existing vacant stock when vacancy rates are high. Since 1965, the number of households in the US has grown at an average annual rate of 1.5%, adding an average of roughly 1.3 million new households per year, according to the Census Bureau's Housing Vacancy Survey.

Although the size of any population age cohort is a function of birth rates in the past, household formations are influenced by economic conditions, rising during good times and declining when the economy is weak. The decline in both the economy and household formations during the Great Recession (December 2007 - June 2009) was particularly steep, and the economic recovery to date has been relatively weak. Household formations averaged 568,000 annually from 2007 through 2011, less than half the long term average, and rebounded to only 980,000 in 2012.

NAHB estimates that pent-up demand, or the household formations postponed for economic reasons since the beginning of the recession, has reached 3.2 million. The bulk of this demand will be for multifamily rental units.