

Response to request for public input FHFA –Reducing the Freddie Mac and Fannie Mae Multifamily businesses

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To: Federal Housing Finance Agency

Multifamily Housing Policy

400 7th Street, SW Room 9-261

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The FHFA has requested input related to its plan to continue to reduce the multifamily business of Freddie Mac and Fannie Mae. The presumption is apparently that such a reduction is beneficial to taxpayers and has been mandated as public policy. As a mortgage banking business that has historically been very active in this sector originating sound apartment loans for Freddie and Fannie while employing hundreds of people in 32 cities around the US, we question the premise of the request.

Who concluded the public policy that these businesses need to be reduced? We believe this question must first be answered by Congress and the President's Administration.

Does this conclusion consider the longstanding profitability of this business? Needless to say there never has been a sub-prime issue in this business line. In fact the Multifamily Businesses of the GSEs have consistently been profitable even during the so called Great Recession.

Does this premise consider the likely broad and negative impact on rental property value? Do we understand the impact of declining value on existing loan portfolios, supply and rental rates? Reducing property values by restricting capital or raising the cost will have a negative impact on loan portfolios. The FHFA should consider the impact on safety and soundness of the GSE's.

Does this premise consider the potentially disastrous impact on non-bank commercial mortgage banking businesses like ours? NorthMarq Capital and many other companies like ours have been originating loans for the GSEs for nearly 20 years with an exceptional track-record of performance.

Have we identified a suitable alternative fixed rate, non-recourse, broadly available capital source? Is this just another financial opportunity for the "too big to fail" Wall Street banks to selectively dominate a lucrative sector while ignoring the need in mid-size and smaller markets? Does this policy result in an increase in capital costs to all apartment owners or is it the burden of the secondary markets and smaller properties?

The GSEs hold over \$300 billion of multifamily loans through their various financial models and buy over \$50 billion per year. Dominated by 7 and 10 year balloon loans, the maturities within their portfolios approach \$30 billion each year alone. While some properties and some borrowers will be able to access capital with competitive terms, there is no recognized replacement at this volume or these terms for this capital source.

The life company industry is a common source of long term fixed rate capital for multifamily rental property. However, life companies collectively hold less apartment loans than the GSE's produce every year. In addition, life companies have limited interest in smaller properties and smaller markets as well as older more affordable properties.

The CMBS (Commercial Mortgage Backed Securities-private) market has been erratic to say the least and has absolutely proven that they are not able to consistently provide capital through all economic cycles.

Are we expecting the banking industry to fill this need with 10 year fixed rate non-recourse financing? Not a reasonable conclusion. Their need to sell this type of fixed rate paper in order to match assets and liabilities is the issue that created Fannie and Freddie in the first place.

Do we recognize that the GSE multifamily businesses have employed private first loss models that transfer the First Loss risk while providing a low cost of capital to an industry that houses approximately one third of American households? Freddie Mac employs a pooled CME concept while Fannie employs a first loss retained by the originator concept known as DUS.

In an open competitive apartment ownership marketplace this low cost of capital ultimately benefits a large portion of the middle and lower income households in America.

There is nothing fundamentally wrong with renting; most taxpayers have at some point in their lives rented a home. Have we concluded that there is no public interest in assuring a liquid low cost of long term non-recourse fixed rate capital to this industry?

Why did a melt down on the single family side of the business caused by a misguided policy of home ownership for everyone, cause us to conclude that we need to “fix” a successful and profitable business line that benefits taxpayers in every respect and never needed or asked for a taxpayer bailout?

As we race to list and comment on the various ways to reduce and ultimately shut down a very successful business line that is profitable to the taxpayer, effectively controls and distributes risk, contributes significantly to maintaining apartment values and provides jobs for thousands of employees in America, can you answer the question WHY?