NMHC National Multi Housing Council®
Apartments: Smart Communities, Smarter Living

NAA National Apartment Association

TESTIMONY BY
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THE BOZZUTO GROUP,
ON BEHALF OF THE
NATIONAL MULTI HOUSING COUNCIL
AND THE
NATIONAL APARTMENT ASSOCIATION
BEFORE THE
INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE
OF THE
HOUSE COMMITTEE ON FINANCIAL SERVICES
FOR THE HEARING ON
"OVERSIGHT OF THE FEDERAL HOUSING ADMINISTRATION'S MULTIFAMILY INSURANCE PROGRAMS"

JUNE 7, 2012

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Chairwoman Biggert and Ranking Member Gutierrez, on behalf of this nation's 17 million households who call an apartment their home, the National Multi Housing Council (NMHC) and the National Apartment Association (NAA) would like to thank you for the opportunity to testify today on the Federal Housing Administration's (FHA's) role in multifamily mortgage markets.

NMHC and NAA represent the nation's leading firms participating in the multifamily rental housing industry. Our combined memberships engage in all aspects of the apartment industry, including ownership, development, management and finance. The National Multi Housing Council represents the principal officers of the apartment industry's largest and most prominent firms. The National Apartment Association is the largest national federation of state and local apartment associations. NAA is a federation of 170 state and local affiliates comprised of more than 56,000 multifamily housing companies representing more than 6.3 million apartment homes throughout the United States and Canada.

My name is Rick Mostyn, and I serve as the Vice Chairman and Chief Operating Officer of The Bozzuto Group. Headquartered in the Washington, D.C. area, The Bozzuto Group is a diversified residential real estate company consisting of six integrated companies – Acquisitions, Construction, Development, Homebuilding, Land Development and Property Management – that together provide a broad range of real estate services throughout the Mid-Atlantic and Northeast. The company is committed to providing quality housing for individuals of all income levels, and our firm is familiar with and a borrower of construction and mortgage capital through the FHA multifamily loan guarantee program. Throughout The Bozzuto Group's more than 24-year history, the company has developed and acquired more than 35,000 homes and apartments.

On behalf of NMHC and NAA, I would like to commend this Subcommittee for their continued focus on the critical issues surrounding the multifamily housing industry. As is fully outlined below, the demand for multifamily housing is forecast to increase markedly as we emerge from the financial crisis, which makes the work of this Committee all the more critical. I would also like to commend Department of Housing and Urban Development (HUD) Secretary Shaun Donovan, Acting FHA Commissioner Carol Galante and Deputy Assistant Secretary Marie Head for their willingness to work with industry stakeholders to ensure FHA's vital multifamily programs are financially sound and widely available for future consumers. NMHC and NAA stand ready to support both Congress and the Administration in the effort to promote stability, reliability and accountability for FHA's multifamily programs.

GROWING DEMAND FOR RENTAL HOUSING AND SUPPLY-SIDE CHALLENGES IN THE MARKET

Prior to addressing the role of FHA's multifamily finance programs now and in the future, it is worthwhile to take a moment and note the fundamental role multifamily housing plays in our nation's economy.

The U.S. is experiencing a fundamental shift in its housing dynamics. Changing demographics and new economic realities are driving more people away from the typical suburban house and causing a surge in rental demand. Tomorrow's households want something different. They want more choice. They are more interested in urban living and less interested in owning. They want smaller spaces and more amenities. And increasingly, they want to rent, not own. Unfortunately, our housing policy has yet to adjust to these new realities. The trade winds in our industry are indeed changing as the U.S. Census Bureau highlighted in May of this year, stating the share of U.S. renter households has reached a 15-year high, and home ownership has reached a 15-year low.

The changes occurring in the market represent more than just preferences in shelter. Married couples with children now comprise less than 22 percent of households, and that number is falling. By 2030, nearly three-quarters of our households will be childless. Almost 80 million Echo Boomers (born late 1970s to early 1990s) are beginning to enter the housing market, primarily as renters. More than 75 million Baby Boomers (born 1946-1964) are beginning the natural transition to the next phase of their lives, and many of them will choose from the variety of rental options available to seniors.

Beyond just changing demographics, there is also an adjustment in consumer psychology underway in America. The housing crisis and the $14 trillion in wealth lost during the financial crisis reminded Americans that housing is shelter, not an investment or an ATM machine. That awareness is increasingly driving Americans to choose the housing that best suits their lifestyle. For millions, that is an apartment.

Today, nearly 89 million Americans, almost one-third of all Americans, rent their home. There are 17.5 million apartments (properties with five or more units) in the U.S. that, taken together, provide a place to live for more than 14 percent of all households. In this decade, renters could

make up half of all new households—more than seven million new renter households. Because of these changes, University of Utah Professor Arthur C. Nelson predicts that half of all new homes built between 2005 and 2030 should be rental units.

Unfortunately, supply is already falling short of demand. With forecasts indicating that there could be upwards of seven million new renter households this decade, an estimated 300,000 units a year must be built to meet expected demand. Yet even though multifamily starts rose 60 percent in 2011, rebounding from record lows in 2009 and 2010, ground was broken on just 167,400 apartments last year. Furthermore, while the market continues to work through an oversupply of single-family housing, the nation could actually see a shortage of multifamily housing as early as this year. The shortage is particularly acute in the area of workforce and affordable housing. The Harvard Joint Center for Housing Studies estimates a nationwide affordable housing shortfall of three million units.

Finally, In addition to providing shelter, apartments have a tremendous impact on our nation's overall economy and job creation. In fact, the construction of 1,000 apartment units alone generates 1,160 full-time jobs in construction and related industries, $55 million in wages and $33 million in combined federal, state and local revenue and fees. Once constructed, 100 apartments in a community creates 32 local jobs, $2.3 million in local annual revenue and $400,000 in taxes and other revenues annually. On an overall basis, the aggregate value of America's apartment stock is $2.2 trillion, and our industry supports 662,000 individuals who manage and operate our properties.

THE MULTIFAMILY CREDIT MARKET AND FHA

Multifamily Capital Markets Overview

Historically, the apartment industry accessed debt and equity from a variety of capital sources, each with its own focus, strengths and limitations. Private-market sources include commercial banks, life insurance companies and the commercial mortgage-backed securities (CMBS) market. Commercial banks offer short-term, floating rate financing for smaller, local borrowers. Life insurance companies target higher-quality properties in select markets. Their capital allocations change with market conditions, and their loan terms do not typically extend beyond 10 years. The CMBS market was a viable source of capital for the industry in the mid-1990s through

2008, but has been materially diminished since that time, and it is unlikely to return to its pre-bubble levels of lending.

However, even in healthy economic times, these capital sources have been insufficient to meet the full needs of the apartment sector; most notably the affordable and workforce housing sectors and rental housing in smaller markets.

The Federal Government & Multifamily Finance

To ensure sufficient levels of liquidity are available to finance apartment housing, the federal government engages in the multifamily housing finance market through three primary entities: the GSEs (i.e., Fannie Mae and Freddie Mac); FHA; and Ginnie Mae (GNMA). Each of these plays an important but different role in ensuring the availability of mortgage finance to the rental industry.

The GSEs have served the multifamily housing finance system for decades, offering a broad range of mortgage products, including long-term debt, for the entire spectrum of apartment properties (market-rate workforce housing, subsidized, large properties, small properties, etc.) in all markets (primary, secondary and tertiary) at all times regardless of economic conditions.

The GSEs' multifamily programs have default rates of less than one-half of one percent— a tenth of those in the single-family sector. Furthermore, the independent Inspector General (IG) for the Federal Housing Finance Agency (FHFA) on May 24, 2012, announced that the only profits generated at the GSEs since 2008 were in their multifamily lines of business. Also according to the FHFA's IG, the GSEs earned a $7 billion profit from their multifamily divisions between 2008 and the first quarter of 2012. What minimal principal loan losses that were incurred by the GSEs were reserved against. However, those reserves were allocated to the government as part of the recovery of claims against single-family home mortgage activities.

Since its inception in 1934, FHA has insured over 53,000 multifamily mortgages and has been a cornerstone for the construction and permanent financing and refinancing of apartments. According to HUD, FHA holds approximately 13,000 multifamily mortgages in its portfolio (compared to 4.8 million single-family mortgages). While it accounts for 9.2 percent of the total outstanding multifamily mortgage debt, it is a material and important source of capital for underserved segments of the rental market.

FHA multifamily is best known for offering an alternative source of construction debt to developers that supplements bank and other private construction capital sources. It also serves borrowers with long-term investment goals as the only capital provider to offer 35-40-year loan terms. FHA lending is essential to borrowers in secondary markets, borrowers with smaller balance sheets, new development entities and non-profit firms, all of which are often overlooked by private capital providers.

FHA-insured debt has also been widely used by sponsors of targeted affordable housing and properties that receive federal, state and local subsidies, project-based Section 8 and proceeds from Low-Income Housing Tax Credits (LIHTCs).

FHA serves the multifamily market through three key programs:

- *Section 221(d)(3) and Section 221(d)(4) Mortgage Insurance Programs:* These programs are of the most importance to the conventional apartment industry. They insure mortgages for new construction or substantial rehabilitation of multifamily rental or cooperative housing for moderate-income families, the elderly and the handicapped. Section 221(d)(3) is used by nonprofit sponsors while Section 221(d)(4) is used by profit-motivated sponsors. Notably, the program enables GNMA to use mortgage-backed securities to provide liquidity support for long-term mortgages (up to 40 years), which leads to lower interest rates for borrowers.

- *Section 207/223(f) Program:* These mortgage insurance programs insure mortgage loans to facilitate the purchase or refinancing of existing multifamily rental housing that was originally financed with conventional or FHA-insured mortgages. Properties requiring substantial rehabilitation are ineligible for mortgage insurance under this program, though HUD permits the completion of non-critical repairs after endorsement for mortgage insurance. The Section 223(f) program enables GNMA to use mortgage-backed securities to provide liquidity support for long-term mortgages (up to 35 years), which leads to lower interest rates for borrowers.

With regard to performance, according to the FY2013 Budget's Federal Credit Supplement, the FY2012 budget noted a default rate of 19.11 percent for FHA new construction multifamily

loans, while the FY2013 budget saw that rate fall to 13.18 percent—a significant decrease. These percentages, while seemingly high, also reflect a small segment of the FHA multifamily mortgage program. For example, in 2011, one of the largest funding years on record, conventional construction mortgages only comprised 10 percent of the loans insured by FHA.

Turning to the FHA's multifamily refinance program, the default rate dropped from 12.64 percent in the FY2012 Budget to 4.22 percent in the FY2013 budget. These rates are higher than the market but are moving in the right direction and indicate the emphasis FHA is placing on credit is appropriate. Even with these higher-than-average default rates, the government insurance premium has covered losses, meaning the FHA multifamily programs are self-sufficient and not creating taxpayer risk.

GNMA was established in 1968 to help create a secondary market for both single-family and multifamily FHA-insured loans. GNMA guarantees investors the timely payment of principal and interest on mortgage-backed securities (MBS) comprised of federally insured or guaranteed loans, including FHA loans. The GNMA guaranty allows mortgage lenders to obtain a more favorable price for their mortgage loans in the secondary market. Lenders can then use the proceeds to make new mortgage loans available. Notably, GNMA securities are the only MBS explicitly backed by the full faith and credit guaranty of the United States government, which means that even in troubled economic times, such as those that continue to confront the nation, investments in GNMA MBS are safe for investors.

ISSUES AND OPPORTUNITITES FACING FHA'S MULTIFAMILY PROGRAMS

In normal capital markets, FHA/GNMA play a limited, but important, role in the rental housing sector. During the economic crisis, however, FHA became virtually the only source of apartment construction capital. Demand for FHA financing surged, increasing more than five-fold. Applications have increased from $2 billion annually to $10 billion, and HUD anticipates that demand for FHA multifamily mortgage insurance will remain high for the next several years.

This escalation in demand, coupled with HUD's new processing procedures for the programs, has placed considerable strain on FHA's multifamily programs. Additionally, FHA revised its mortgage closing documents in 2011 for the first time in 30 years. As a result, a backlog of

pending applications for new construction financing (through the 221(d)(3) and 221(d)(4) programs and refinancing for maturing mortgages through the 207/223(f) programs) has developed. Further exacerbating delays are efforts implemented in 2010 to create stricter credit requirements through more stringent loan terms and expanded underwriting review. In some cases, borrowers are subject to processing times that can exceed 18 months, and there are increasing questions over whether applications will move forward at all.

NMHC/NAA strongly support FHA's efforts to introduce sound credit and underwriting policies while maintaining efficient and timely processing of loans. We also believe these goals can be achieved without unnecessarily increasing government bureaucracy that may result in a bottleneck of applications and the rejection of qualified development transactions. It is vital to keep in mind that multifamily rental developments financed through FHA create thousands of jobs and generate revenue for the federal government and communities; hence, delays at FHA miss an opportunity to contribute to the economic recovery.

Peter Evans of Moran & Company testified on behalf of NMHC/NAA before this Subcommittee just over a year ago, on May 25, 2011, and identified issues of concern related to the current performance and future success of FHA's multifamily programs. As described below, HUD and FHA have been extremely responsive to our concerns. In fact, Secretary Donovan, Acting Commissioner Galante, Deputy Assistant Secretary Head and their team are working diligently to improve FHA's programs. Furthermore, NMHC/NAA, along with the National Association of Home Builders and the Mortgage Bankers Association, meet with senior HUD officials on a regular basis to build on the recent improvements to these programs. While progress has been made, more work remains for all parties.

FHA's Efforts to Improve Multifamily Programs and Challenges that Remain

It is important to the apartment industry that FHA continues to be a credible and reliable source of construction and mortgage debt. FHA not only insures mortgages, but it also builds capacity in the market, providing developers with an effective source of construction and long-term mortgage capital. Since early 2009, FHA has undertaken extensive actions to address credit risk, outdated legal documentation, lender and industry program guidance and the loan approval process. NMHC/NAA support much of what FHA has done, and we remain committed to working with FHA on outstanding issues associated with:

- maximizing the industry's access to FHA credit;
- improving the application process; and
- addressing credit risk, which is in the mutual interest of the industry and the taxpayer.

The following summarizes the areas in which we seek continued engagement with FHA:

Credit Risk Mitigation and Borrower Requirements:

The multifamily industry supports FHA's effort to improve credit-risk management associated with the multifamily insurance program. We agree that this is part of FHA's fiduciary responsibility and understand that current economic conditions have placed increased pressure on FHA to review credit policy for both single-family and multifamily mortgage insurance programs. Changes to the multifamily program's terms and requirements, approval process, documentation (MAP Guide) and closing documents represent HUD's best effort to set a positive future course for the program.

FHA has tightened lending terms and now requires greater levels of investment by developers to limit the government's exposure. This combined with FHA's inability to address other key factors that borrowers take into account when comparing FHA mortgage insurance to other private-sector debt makes it more costly and difficult for developers to construct multifamily housing. Unlike market lenders who can help borrowers shoulder the increased costs of additional loan requirements, FHA does not:

- compensate for or mitigate the government's requirement that developers pay higher cost for labor and wages;
- expedite application processing to reduce the cost and provide greater certainty to approvals;
- reduce fees and costs to make the program more competitive with the private market;
- increase per-unit loan limits to support soaring development costs and the price of land in in-fill markets; or
- promote or maintain reasonable borrower recourse requirements to make the program more competitive.

NMHC/NAA believe that each of the impediments noted above can be mitigated in a way that would both make FHA mortgage insurance more attractive and still protect taxpayer dollars. We hope to continue our dialogue with FHA in this regard.

Finally, establishing appropriate borrower credit terms is a key element to managing overall credit risk. Unfortunately, as part of its revised requirements for large multifamily loans, FHA promulgated guidance that NMHC/NAA believe will limit participation by strong, creditworthy and experienced developers – the very entities FHA should be seeking to attract. NMHC/NAA contend that the industry should continue to work with FHA to agree to a mutual set of borrower credit requirements that will both improve the credit profile of FHA's portfolio and lead to increased liquidity in the marketplace for quality rental housing.

Large Loan Risk Mitigation Policy:

For the first time in program history, FHA on December 29, 2011, announced that it would impose more stringent requirements on those seeking so-called "large loans" of over $40 million. FHA's action truly represents a solution in search of a problem. It is our understanding that in 2011 FHA received only a small number of these large loan applications.

NMHC/NAA has submitted detailed comments opposing FHA's large loans policy and met with FHA earlier this week in an effort to reverse these onerous changes. First and foremost, NMHC/NAA do not fully understand the credit problem that FHA attempts to address through this policy. FHA has not presented evidence that credit issues specific to larger loans exist that would justify the program changes proposed in the December guidance. Second, FHA's guidance could have the unintended consequence of preventing or delaying larger, job-creating projects to either construct or rehabilitate multifamily housing, particularly in our nation's cities where the cost of development is substantially higher than in the suburbs.

Small Loans and HUD Risk Sharing:

NMHC/NAA understand that HUD is seeking to modify Section 542 of the Housing and Community Development Act of 1992 (12 U.S.C. 1707) to expand mortgage credit for sponsors of small multifamily properties with 50 or fewer units. We support this effort. This segment of the market has traditionally not had access to debt at the same level as larger developments. Among other benefits, this will generate reinvestment into existing rental housing that is critical to low- and moderate-income families. Finally, we also favor statutory changes that would enable GNMA to issue securities in which HUD shares credit risk with qualified entities. GNMA's participation in this market would provide incentives to lenders to extend mortgage credit to owners of small multifamily properties. We welcome further discussion with both HUD and Congress as this proposal moves forward.

FHA IS NOT THE SOLUTION TO THE CRISIS CONFRONTING THE GSEs

As Congress examines ways to address the crisis confronting Fannie Mae and Freddie Mac, some suggested that Fannie Mae and Freddie Mac's secondary mortgage programs be replaced by or merged with FHA. NMHC/NAA strongly oppose such efforts. Such a move would exacerbate liquidity issues facing the multifamily industry, which could reduce the availability of workforce housing and jeopardize the economic recovery. Stated plainly, market fundamentals render this proposal, or any like it, unworkable.

Lawmakers should recognize that FHA serves a very different market than Fannie Mae and Freddie Mac. It provides capital to help develop and preserve rental housing where bank financing and other forms of capital are unavailable or in short supply. It should continue to perform this important mission, and an essential element of housing finance reform should be to identify appropriate areas where it is for private capital and FHA to partner. But these programs would not come close to meeting the apartment industry's broad capital needs.

Even if FHA served similar market segments to Fannie Mae and Freddie Mac, as our testimony suggests, FHA is woefully unprepared to assume greater responsibility. It is already struggling to meet current multifamily program demand, and there is no expectation that the resources exist within the current budgetary framework to bring it to the level that it could replace the liquidity provided by Fannie Mae and Freddie Mac.

Beyond its general capacity issues, FHA lacks the resources to effectively respond to the multiplicity of unique and often complex issues presented by income property underwriting. This means that many viable deals that could lead to the construction of workforce housing might not be able to go forward simply because FHA would be incapable of structuring a deal.

FHA's mortgage products also do not fit the variety of needs of the market and market conditions. Again, this means that profitable deals Fannie Mae and Freddie Mac might underwrite today would not go forward under a regime where FHA was the only government-backed market participant.

FHA also imposes arbitrary loan limits on its products that preclude credit in markets with significant land and development costs (i.e., high-cost markets). If FHA took over the activities of the

GSEs, credit support could well be inadequate in urban markets nationwide, leading to reduced construction and very possibly a smaller number of units available to lower- and middle-income families.

Finally, FHA has inadequate systems to oversee additional portfolios, manage credit risk and support prudent loan servicing. Whereas the GSE multifamily serious delinquency rates remain below one percent, moving operations to FHA could jeopardize this sterling record of success and unnecessarily leave American taxpayers open to billions of dollars in losses.

Instead of joining Fannie Mae and Freddie Mac with FHA, housing finance reform should seek to encourage partnership between private and FHA multifamily mortgage credit sources where appropriate. Although such areas may be limited, they should focus on the development and preservation of multifamily housing where bank and other forms of capital are unavailable or in short supply.

PRINCIPLES FOR GSE REFORM

While NMHC/NAA oppose merging GSE activities with FHA, we do strongly support housing finance reform and recognize the necessity of addressing the problems confronting Fannie Mae and Freddie Mac. That said, because of the multifamily sector's importance to the economy and prospects for recovery, proposals to address single-family housing problems must not be enacted at the expense of the very different, but vital, multifamily sector.

Though many have called for the elimination of Fannie Mae and Freddie Mac, this could create devastating consequences to multifamily housing if not done in a thoughtful and deliberative manner. Nearly all of the multifamily funding provided by the existing GSEs helped create work-force housing. In fact, fully 90 percent of the apartment units financed by Fannie Mae and Freddie Mac over the past 15 years—more than 10 million units—were affordable to families at or below the median income for their community.

Looking forward, it is hard to imagine a scenario in which necessary levels of workforce housing could be constructed without some level of government credit support, particularly during times of economic difficulty. Without government credit support of multifamily mortgages or mortgage-

backed securities to ensure a steady and sufficient source of capital going forward, the apartment industry will be unable to meet the nation's housing needs in all markets.

Furthermore, it is also critical for Congress to note that in stark contrast to the GSEs' single-family programs, the enterprises' multifamily programs did not contribute to the housing meltdown. The risk models and underwriting standards Fannie Mae and Freddie Mac use work. In fact, Fannie Mae and Freddie Mac have earned net revenues exceeding $7 billion during conservatorship.

As a first step in ensuring that the multifamily industry continues to have access to capital to meet increasing rental housing demand in markets nationwide, NMHC/NAA released a draft outline of a proposal to privatize the GSEs' multifamily activities at the NMHC Board of Directors Meeting on May 17, 2012. We are including that outline as an attachment.

The outline provides a framework for spinning out Freddie and Fannie's multifamily businesses as stand-alone entities. The plan also calls for the retention of a federal credit guarantee that would be tied to the security, not the entity – a necessary provision to attract global investors. In addition, the proposal would fully compensate and protect the government for its guarantee and empower a strong regulator to oversee the new entities.

NMHC/NAA continue to develop the proposal with input from key stakeholder groups and will release more details in the future. The end goal will be to provide lawmakers and regulators with a road map for addressing the multifamily sector's capital concerns by ensuring liquidity remains available in all markets at all times.

Conclusion

In closing, NMHC/NAA look forward to working with this Committee and the Congress to improve FHA's multifamily programs and reform the nation's housing finance system. All parties must work together to secure a sufficient supply of capital for workforce housing, both for a sustained economic recovery in the near term and to meet the housing needs of future generations.

Thank you again for the opportunity to testify this morning, and I stand ready to answer any questions you may have.

NMHC National Multi Housing Council®
Apartments: Smart Communities, Smarter Living

NATIONAL APARTMENT ASSOCIATION

May 17, 2012

Outline to Privatize the GSEs' Multifamily Activities

The $2 trillion multifamily industry today provides safe and decent housing to over 17 million American households that form the backbone of the nation's workforce. Looking ahead, renters could comprise fully half of all new households this decade for a total of 7 million added renter households. To meet this anticipated demand, a minimum of 300,000 net apartment units will have to be built annually. Yet new multifamily construction was constrained to just 167,400 starts in 2011. That's only slightly more than what's needed to replace the units lost every year to demolition, obsolescence and other losses.

Proposal: Privatize GSE Multifamily Activities to Meet Marketplace Needs

To ensure the multifamily sector can meet the demand for workforce housing in all markets at all times and repay taxpayers for the investment the Federal government has made in Fannie Mae and Freddie Mac, NMHC strongly believes that as GSE reform moves forward, multifamily must be addressed separately from the single-family market. Moreover, this should occur in the near term to maximize taxpayer benefit and provide the certainty the marketplace needs to meet the growing demand for rental housing.

The government has an ongoing role to play in multifamily housing finance until it can be proven that multifamily financing needs can be met without government assistance. Notably, the industry is not advocating for the preservation of the status quo. We propose:

- **Privatizing Fannie Mae's and Freddie Mac's Multifamily Functions:**
  - New stand-alone, separately capitalized entities.
  - Complete transfer of each company's entire multifamily platform to new entities.
  - Preserve the capabilities and capacity of existing multifamily platforms.
  - Competitive platforms in addition to successor entities to exist based on market need.
  - Privatization must include taxpayer compensation.

- **Providing Successor Entities Access to Federal Credit Guarantees:**
  - Security Guarantee necessary to maintain private capital investment to multifamily sector.
  - Entities will provide Federal credit guarantee to multifamily security investors.
  - No Federal guarantee to the successor entities or their investors.
  - Entities' lending activities may not crowd out private debt market providers.

- **Fully Compensating and Protecting the Government for its Guarantee:**
  - Successor entities will pay fee to government for entire cost of guarantee.
  - Risk-based capital requirements similar to commercial banks would apply.
  - Entities must retain risk in each mortgage to support prudent underwriting.

- **Enabling GSE-Successor Entities to Retain Limited Portfolios with No Guarantee:**
  - Limited multifamily mortgage portfolios permitted for a defined number of activities.
  - No mortgages held in portfolio would be subject to the government guarantee.
  - Current multifamily portfolios will continue to shrink through natural attrition.

- **Empowering Strong Regulator to Oversee GSE-Successor Entities:**
  - Establish and enforce effective capital standards and reserves.
  - Monitor and assess performance to ensure a competitive private debt market.

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May 17, 2012

Why Privatize the GSEs' Multifamily Activities and Why Now

Ongoing Multifamily Mortgage Liquidity Support Critical to Workforce Housing

While it is clear that Fannie Mae and Freddie Mac (the GSEs) will not survive in their present form, the National Multi Housing Council (NMHC) strongly supports continuing the multifamily mortgage liquidity the GSEs provide to the apartment market for the following reasons:

- **In multifamily housing, Fannie Mae and Freddie Mac are the only "sure thing". We must support the nation's workforce housing needs in all markets and at all times.**
  - Private-label commercial mortgage-backed securities (CMBS) market simply lacks the capacity to provide sufficient liquidity to multifamily industry.
  - From the beginning of 2008 through the third quarter of 2011, GSEs have provided net credit of $144 billion to the multifamily industry while private-label CMBS sector experienced net **credit outflows of $43.7 billion**.
  - Banks and life companies are limited in capacity to fund multifamily and withdraw from the market during dislocations.
  - Fully 90 percent of apartment units financed by GSEs over past 15 years—more than 10 million units—were affordable to families at or below the median income for their community.

- **Privatization of the housing markets needs to be proved feasible, and it makes more sense to tackle the highly successful $2 trillion multifamily sector before trying to reform the still-struggling $12 trillion single-family sector.**
  - Fannie Mae's and Freddie Mac's multifamily businesses are performing extraordinarily well, making money for the taxpayer, and are relatively small enough to make IPOs a feasible execution to begin privatization.
  - While reform of single-family housing will take years to effect, privatization of multifamily can begin to repay the taxpayer now.

- **There are material differences in the way Fannie Mae and Freddie Mac purchase and securitize multifamily and single-family residential home mortgages, and there are two distinct secondary markets for the two types of mortgage products.**
  - Because of these differences, a one-size-fits-all solution for both single family and multifamily does not exist.
  - Any attempt at creating single housing solution could disrupt the financing and production of multifamily housing.

- **The GSEs' multifamily programs have contributed heavily to the creation of a mortgage credit standard that has led to growing institutional, sovereign and private capital investment.**
  - The platforms established by the GSE programs further enabled a strong development industry for a range of affordable, workforce and conventional rental housing.
  - GSEs have responded to the industry with a wide array of mortgage products.
  - Availability of GSE mortgage debt has been critical to short-term construction lending.