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Federal Housing Finance Agency
OHRP Multifamily Housing Policy
Constitution Center
400 Seventh Street, SW
Room 9-261
Washington, DC 20024

Ladies and Gentlemen:

This letter is a response to the request for comments, dated August 9, 2013, issued by the FHFA regarding possible strategies for reducing the presence of Fannie Mae and Freddie Mac (together the "GSEs") in the multifamily housing finance market in 2014. Berkadia, formed in late 2009 and headquartered in Horsham, Pennsylvania is one of the most active participants in the financing, sale and servicing of multifamily assets in the nation. Since inception Berkadia and affiliated entities have originated more than $20 billion in multifamily loans for all capital sources including the GSEs, FHA, CMBS conduits, insurance companies and commercial banks and sold more than 150,000 apartment units on behalf of middle market owners. Berkadia currently services nearly $65 billion in multifamily loans in 4,573 different zip codes around the country. More than 30% of the loans we originate by count are below $5 million and our average price per unit sold is just over $70,000. Berkadia is licensed nationally as a Fannie Mae Delegated Underwriting and Servicing (DUS), Freddie Mac Program Plus and FHA lender, originating loans secured by conventional multifamily, designated affordable, seniors and student housing. Given the broad perspective Berkadia has on the multifamily markets we feel we are well positioned to provide input on this important topic and applaud the FHFA for allowing us the opportunity to do so.

First, this letter is supplemental to the comment letter from The DUS Peer Group of which Berkadia is a part. As outlined in that letter, we agree completely that:

1. We must ensure that the multifamily market has access to liquidity in all financial cycles.
2. The GSEs' management teams must be encouraged to remain with their organizations in order to preserve and protect the value of the companies.
3. Mandated efforts to shrink the GSEs' nominal multifamily loan volume are risky and will have unintended consequences whereas market forces will, as they always have, naturally control GSE market share.

In addition, we make the following points for your consideration:

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4. While an effort to shrink the aggregate footprint of the GSEs in the housing markets is consistent with the current will of the Congress and the Administration, we feel that a further reduction of that footprint in the multifamily market specifically is wholly inconsistent with decades of housing policy as previously established by Congress.
5. A significant portion of the 16 to 17 million apartment renters nationwide are low and moderate income people who cannot afford homeownership. As you know, the median income of renters is *one half* that of homeowners in an environment of generally *declining* median household incomes (down more than 6% since the year 2000). Furthermore, approximately 90% of the apartments currently financed by the GSEs are considered affordable at 100% of Area Median Income (AMI) or *lower*. We humbly submit that the apartments financed by the GSEs and the FHA are by definition <u>the</u> affordable housing option in America. Mandated reductions could ultimately lead to increased debt costs, constricted supply and increased renter costs.
6. In addition to increased costs to renters who can ill afford them, the increased cost of debt and uncertainty will have negative impact on multifamily investment and development in America at a crucial time – a time when demographically we need to develop *more* housing for low and moderate income renters, not less.
7. The GSEs' previously strong market share occurred as a result of a liquidity crisis which no longer exists. GSE multifamily market share has contracted significantly and naturally as other players have reentered a market they had abandoned only a few years ago. It should be noted that this recent reduction in multifamily market share is in sharp contrast to the increasing residential share of the GSEs over the same timeframe. In our opinion this is simply another way of restating the obvious fact that the GSE multifamily businesses are not a problem that needs addressing.
8. Within the multifamily market, the clean, safe, workforce housing that Fannie Mae and Freddie Mac are known for financing will be disproportionately affected by mandated reduction relative to the luxury housing that other market financing sources are currently seeking aggressively.
9. As you know, the GSEs are more active than many other industry competitors in secondary and tertiary geographic markets. Mandated reductions will disproportionately affect the markets that are the most in need of debt.
10. Fannie Mae and Freddie Mac multifamily divisions have proven to be extremely well-run businesses. They are profitable and have performed well in down markets. In addition, given their prominent market positions Fannie and Freddie set the bar for the credit standards that were a critical factor in the overall performance of this market during the downturn. Had Fannie and Freddie not had the ability to impact credit standards in the positive way they did, the multifamily market problems would have been significantly worse as evidenced in the far greater delinquencies of apartments financed by CMBS.

11. The continuing theme of private capital in the multifamily market must not overlook the business models of both organizations. Both organizations already bring billions and billions of dollars of first loss private risk capital to the market annually -- Fannie in the form of their risk- sharing DUS lenders and Freddie with the investors they attract to buy the lower level tranches of their securities. Their commitments to the business, the innovation they bring with their structures and products and the discipline they have demonstrated in their performance has attracted a tremendous amount of private capital to the multifamily market.
12. Not only do mandated reductions create risk related to losing the senior management of the agencies, they also create risk to the GSE industry infrastructure. The lender partners of Fannie and Freddie may redeploy risk capital and resources if mandated production reductions continue. Timely reengagement of these resources in the event of a liquidity crisis could be quite problematic.
13. There is a wave of maturing apartment loans coming over the next few years. In 2015 through 2017, approximately $170 billion of non-bank multifamily loans will mature, requiring an average of almost $60 billion per annum in refinancing. Given that the CMBS market steady state capacity is substantially and structurally reduced from the peak years of 2006-2007 (50% less capacity from peak with no CDO or SIV market), this is undoubtedly the wrong time to mandate a concomitant reduction in GSE capacity.
14. In the final analysis, there are really only two natural sources of long maturity financing for stabilized multifamily assets – the insurance industry and the global bond market. Both are necessary for financing our multifamily market, but in particular the bond market given its greater size and liquidity. The CMBS market and the GSEs, through their securitization programs, are the principal means for providing bond market investors around the world the opportunity to finance our national apartment industry. With the evaporation of CMBS issuance during the last financial crisis firmly in mind (down *97%* 2007-2010), we would suggest that the role of the GSEs should not be reduced further if our national policy goal is to ensure the supply of workforce housing.

In conclusion, the GSEs have developed an effective business model which is critical to providing affordable housing in America and which employs substantial private risk capital. For the reasons articulated above, we respectfully suggest it is risky to continue to manage down their participation in the markets. While it is true that other capital sources seem to have absorbed the mandated reduced capacity in 2013, we would respectfully submit that this experiment was conducted during a robust and stable market environment with abundant liquidity (as supplied by the Federal Reserve) and as a consequence may not actually be informative as to long term market dynamics. At this point, we urge the FHFA to consider a policy of containment of the GSEs at current origination levels with a view to preserving the assets and important market role of the GSEs while Congress works towards devising and implementing the comprehensive reform which is ultimately its responsibility. In our opinion, the policy of mandated nominal reduction poses unnecessary risks.

Notwithstanding our conclusion and overall policy recommendation, we do feel it is appropriate in the generous public spirit of the FHFA's request for comment to offer several additional thoughts for ways that the GSE participation in the market might be reformed in ways that are consistent with what we believe to be the policy objectives of key constituents. We would suggest the following:

- Develop and propose a limit on the amount of luxury units that can be financed by the GSEs or alternately develop a guarantee fee premium that raises the cost of capital for the financing of luxury units that controls market share in that sub-segment by market forces;
- Explore increasing the amount of the GSE security structures that are financed by private risk capital and increase the capital standards for private risk counterparties; and,
- Explore the separation of the multifamily entities into separate reporting and legal entities (e.g., wholly-owned subsidiaries) to facilitate eventual investment of additional private capital at the entity level so that the needs and issues of the residential and multifamily businesses may ultimately be separately addressed.

These few suggestions by themselves would promote the policy goal of more private capital without jeopardizing the important role the GSEs play.

Respectfully Yours,

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Chief Executive Officer