mercy HOUSING

October 7, 2013

Acting Director Edward J. DeMarco
c/o OHRP Multifamily Housing Policy
Federal Housing Finance Agency
400 7th Street, S.W., Washington, DC 20024

Re: Proposed reduction in Fannie Mae and Freddie Mac multifamily

Dear Mr. DeMarco,

Mercy Housing appreciates the dedication and hard work of the Federal Housing Finance Agency (FHFA) during this period of unprecedented challenge in housing. We welcome the opportunity to comment on the proposed reduction in multifamily business. We strongly oppose a reduction in multifamily at this time, and we urge FHFA to reconsider the proposed reduction.

The Fannie Mae and Freddie Mac multifamily businesses are critical capital sources for the creation and preservation of affordable rental housing with a proven track record. Reducing their production now would disproportionately impact affordable housing, rural housing, small properties, and other market segments not well-served by existing capital channels. It would also reduce the value of the GSEs, in opposition to the mission of FHFA and shrink the range of options available to Congress, which is even now pursuing mortgage finance reform in earnest.

About Mercy Housing

Mercy Housing is one of the nation's largest nonprofit affordable housing organizations. We build new developments, acquire and rehabilitate existing housing, in addition to managing our own and others' affordable housing communities. We provide community finance for other affordable housing projects and are a leader in place based neighborhood stabilization. We are redefining affordable housing by creating a stable foundation where our residents can explore their potential, supported by practical Resident Services such as health classes, financial education, employment initiatives, parenting and after-school programs for children. On any given day, more than 144,000 people live in a Mercy Housing home.

Need for affordable rental housing and multifamily production

The need for affordable rental housing is growing, as wages for working renters fail to keep pace with housing costs and foreclosures add to rental demand. More than one quarter of working renters face a severe housing cost burden, and more than half pay more than 30% of their income for rent[1]. Of the 17.1 million very low-income renters in the United States, roughly 7.1 million spend more than half of their income on housing, live in substandard conditions, or both, according to HUD's *Worst Case Housing Needs* report.

GSE multifamily is critical to affordable housing

[1] Housing Landscape 2013, Center for Housing Policy

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The majority of Fannie Mae and Freddie Mac's multifamily business finance rental homes for families of modest means. In 2012, over 68% of units financed by Freddie Mac were affordable to households earning less than 80% of area median income (AMI), and 14% were affordable to those earning less than 50% of AMI. Fannie Mae's performance is comparable: 67% of the units financed in 2012 were affordable to households at 80% of AMI and 19% were affordable to those earning less than 50% of AMI.[2]

Production of so much affordable housing is in part due to the specialized products that Fannie Mae and Freddie Mac provide. They are able to provide longer-term debt than life companies, pension funds, banks, or conduit lenders typically offer. Having stable debt service costs is often essential to regulated affordable housing properties that must pledge long-term use restrictions and is also critical to allowing properties to maintain lower rents even without a formal use restriction. Fannie Mae and Freddie Mac have also forged relationships with state housing finance agencies, community development financial institutions, and others financing affordable housing in ways that private capital sources simply will not fill in. A specific example is the advance commitments for permanent take-outs of bond-financed properties without which many bond-financed affordable housing properties could not come about.

Although private debt capital is entering multifamily from life insurance companies, some banks, and CMBS conduits, this capital is serving mostly existing A-class real estate in strong markets. Other segments of the market, such as financing for new construction and substantial rehabilitation, are now almost exclusively through channels with a full government guarantee. Meanwhile, multifamily properties in second-and third-tier markets, smaller properties, HUD- assisted housing, bond-financed properties with credit-enhancement and tax credits are not being served adequately (or in some cases at all) by either the public or private markets.

Mercy Housing has developed or helped finance over $2.5 billion in real estate assets. All of the debt that makes up a past or present part of the financing that made our housing possible comes from the GSEs or FHA. In our more than 30 years experience pursuing this mission, the private markets are not interested in financing affordable housing for low and very low income people where the greatest need is and we strongly believe they will not step in to fill the gap if Fannie and Freddie are not there. In particular, it is critical to have access to long term fixed rate mortgages, which are made possible by a government guarantee, since affordable housing properties do not have the kind of cash flow that would allow shorter repayments.

Risks of shrinking multifamily prematurely

The Fannie Mae and Freddie Mac multifamily businesses are proven and profitable, and they remained so even during the crisis. Both businesses have delinquency rates consistently less than 1 percent, compared to 12.15 percent delinquency for commercial mortgage backed securities (CMBS) in 2010 and 9.65 percent for CMBS in 2012.[3] Reducing the profitable multifamily business now, therefore, does not maximize the value of the GSEs.

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[2] Data compiled by the National Housing Trust from public sources including Fannie Mae and Freddie Mac quarterly statements and the 2012 FHFA Report to Congress.

[3] Freddie Mac, "Report to the Federal Housing Finance Agency: Housing Finance Reform in the Multifamily Mortgage Market," December 2012, p. 13.

Nor would shrinking multifamily necessarily be offset by private capital sources. Without alternative capital channels available, shrinking GSE multifamily could reduce availability of capital, and likely will in the short term. Additional capital that does flow in will likely seek the top of the market—existing A-class real estate in strong markets. Rural areas, second- and third-tier markets, HUD-assisted properties, smaller properties, and similar underserved market segments would see even less capital available.

Shrinking the multifamily platforms further also shrinks the range of options available to Congress as it pursues mortgage finance reform. Uncertainty about the future of mortgage finance reform is slowly undermining the existing Fannie Mae and Freddie Mac platforms, particularly as experienced line staff migrate elsewhere. The GSE multifamily operations are losing expertise and institutional memory that have built up over decades and will be very difficult to replace. FHFA's strategic plan for conservatorship underscores both the proven value of the GSE multifamily businesses and the challenges they face.[4] Reductions in the business send a confusing signal, while also weakening two essential elements of the next iteration of multifamily mortgage finance.

Keep options open while legislative action progresses

Now more than five years since the financial crisis, Congress is working in earnest to reform America's housing finance system. The Senate Banking Committee is developing a bipartisan proposal building on the work of Senators Warner, Corker, and others. The House Financial Services Committee has also taken up the issue and passed a bill out of committee, albeit from a different perspective. Although legislation will not move quickly, there is clearly progress toward needed action.

FHFA has called repeatedly for Congress to act on mortgage finance reform, and we hope FHFA will encourage the positive developments in Congress by preserving the value of the GSE operations and the options available to Congress while legislative deliberations proceed. FHFA should maintain the existing multifamily businesses until Congress lays out a clear path forward for multifamily mortgage finance and alternate capital channels emerge.

Mercy Housing remains engaged on the critical issue of mortgage finance reform, and in particular the requirements of the multifamily sector, as a major tool for creating affordable housing opportunities for all in America. We would be glad to discuss any of the points presented here further with FHFA.

Respectfully,

S. Lillian Murphy, RSM

Sr. Lillian Murphy, RSM
CEO, Mercy Housing

[4] "A Strategic Plan for Enterprise Conservatorships: The Next Chapter in a Story that Needs an Ending," Federal Housing Finance Agency, February 21, 2012.