FEDERAL HOUSING FINANCE AGENCY

NEWS RELEASE

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Contact: Corinne Russell (202) 649-3032
Stefanie Johnson (202) 649-3030

FHFA Seeks Public Input on Reducing Fannie Mae and Freddie Mac Multifamily Businesses

Washington, DC – The Federal Housing Finance Agency (FHFA) is seeking public input on strategies for reducing Fannie Mae and Freddie Mac's presence in the multifamily housing finance market in 2014.

In keeping with the goal of contracting the market presence of Fannie Mae and Freddie Mac while simplifying and shrinking their operations, FHFA's 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 is now evaluating alternatives for reducing Fannie Mae and Freddie Mac's multifamily businesses in 2014 and is seeking 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 to contract the Enterprises' multifamily businesses.

The attached document outlines these specific alternatives in greater detail and poses questions that interested parties are invited to answer. Input must be received within 60 days or no later than Oct. 8, 2013 and should be submitted to Federal Housing Finance Agency, OHRP Multifamily Housing Policy, 400 7th Street, S.W., Room 9-261, Washington, DC 20024 or via email to: multifamilypolicyissues@fhfa.gov.

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Federal Housing Finance Agency

Options for Reducing Fannie Mae and Freddie Mac's Multifamily Businesses

August 9, 2013

Released by FHFA for Public Input

The Federal Housing Finance Agency (FHFA) requests input on the questions contained in this notice regarding the multifamily lines of business at Fannie Mae and Freddie Mac (the Enterprises).

FHFA's Strategic Plan for Enterprise Conservatorships, released in February 2012, included a goal to contract Fannie Mae and Freddie Mac's presence in the marketplace while simplifying and shrinking certain operations. The goal has three components that focus on each segment of Enterprise operations – single family, multifamily and the retained portfolios. Overall, the goal to contract is designed to reduce the Enterprises' risk exposure and allow for more private capital in the mortgage market.

Along with ongoing supervisory activities to assure the safety and soundness of the Enterprises' multifamily finance activities, the Conservatorship Scorecard sets forth FHFA's plan to gradually reduce the Enterprises' presence in the multifamily finance market over time. The 2013 Scorecard established a 10 percent volume reduction for the Enterprises' new multifamily business, which could be achieved through a combination of increased pricing, more limited product offerings and stronger underwriting standards. FHFA is currently monitoring the Enterprises' implementation of this scorecard goal and is actively evaluating how this process is working. For 2014, FHFA intends to continue a path of gradual contraction of the multifamily businesses while awaiting a legislative resolution to the conservatorships.

FHFA is evaluating alternatives for further contracting the multifamily businesses and is seeking public input on the potential market impact of various strategies. For example, in 2014, FHFA could continue a broad volume reduction goal as in 2013, with broad direction on how to achieve that target. Alternatively, FHFA could be more specific and target the reductions to certain areas of the Enterprises' finance activities or loan products. Described below are specific areas that FHFA is considering as target reduction areas, or for inclusion as specific sub-goals within a broader volume reduction goal, on which FHFA is seeking input from stakeholders.

1. <u>Loan terms</u>: The Enterprises currently offer permanent financing for multifamily properties with loan terms from 5- to 30-years. In 2012, of Fannie Mae's total multifamily loan production, 71 percent was 10-year term loans, 17 percent was 7-year term loans and only 5 percent was 5-year loans. At Freddie Mac, 57 percent of total loan production was 10-year term loans, 27 percent was 7-year term loans and only 6 percent was 5-year loans. Given the low utilization rate of the short term financing options, it appears that the benefit of the Enterprises' secondary market activity is to offer borrowers access to longer term permanent financing.

   a. Should FHFA consider loan terms as a factor in how to reduce the Enterprises' multifamily businesses? If so, what loan terms or combination of loan terms should be targeted for contraction? Should shorter term loans only be used by the Enterprises for loss mitigation or maturity management purposes?

   b. If the Enterprises ceased providing shorter term loans, such as 5-year term loans, would banks, commercial lenders and other private capital sources provide these loan products?

2. <u>Variety of loan products</u>: The Enterprises currently provide a wide range of specially tailored multifamily loan products, execution types and financing structures, including full or partial term interest only loans, various types of adjustable or fixed rate loans, supplemental loans, credit facilities and other forms of financing for acquisition or refinancing of stabilized multifamily properties. Such a diverse range of financing options may discourage alternative sources of capital which otherwise might be able to provide specialized financing.

a. Should FHFA consider simplifying and standardizing the Enterprises' multifamily loan products? If so, which loan product or mix of loan products are most important for the Enterprises to offer? Which of the Enterprises' loan products would private financing sources most readily provide?

b. If the Enterprises' loan products were simplified and standardized, would this create an opportunity for private capital sources to expand their market presence by providing more specialized financing options to borrowers?

c. Should FHFA consider adopting common loan terms, product features and underwriting requirements for similar types of loans that are available from each of the Enterprises?

3. <u>Limits on property financing</u>: The Enterprises currently provide financing for a broad range of multifamily properties that serve households of varying income levels. The properties with the highest market rents are affordable only to upper income households and these loans often have high balances on a per unit basis. In the past, statutory per unit loan limits constrained the Enterprises from providing high balance loans to multifamily properties. More recently, participation in this segment of the multifamily market has contributed to a substantial increase in the average size of Fannie Mae and Freddie Mac multifamily loans.

a. Should FHFA consider imposing limits on the maximum amount of financing that is available to a property under the Enterprises' loan products, with adjustments for high cost markets?

b. Should FHFA consider re-imposing multifamily loan limits? If so, should the loan limits apply on a per unit basis or on the basis of the maximum mortgage amount that is available to a property?

c. Should FHFA consider imposing limits on the maximum rents that can be recognized in loan underwriting based on a schedule of rents that are affordable to tenants up to a certain percentage of Area Median Income, adjusted for household size, for number of bedrooms and for high cost markets? If so, what should be the percentage of Area Median Income used to limit the underwriting rents? In addition, should FHFA consider imposing limits on the percentage of total units financed by the Enterprises in any calendar year which have rents that exceed the maximum underwriting rents derived from applying this formula?

d. If FHFA took some or all of the actions contemplated in a, b or c above, would other sources of financing be available to address the liquidity needs of this market segment?

4. <u>Limits on business activities</u>: The Enterprises currently provide a wide range of multifamily financing activities that may discourage alternative sources of capital that might otherwise be able to provide financing.

a. Should FHFA consider reducing the scope of the business activities engaged in by the Enterprises, such as by limiting their business to loans that provide new liquidity and prohibiting the purchase of seasoned loans or loan pools?

b. Should FHFA require that the Enterprises only provide loans that can be securitized and sold to investors? Should the Enterprises' portfolio purchases only be used for aggregating loans prior to securitization and to support special products for underserved market segments for which securitization may not be an option?

c. If FHFA took some or all of the actions contemplated in a or b above, would this create the opportunity for private capital sources to expand their market presence by providing more financing options to borrowers?

5. <u>Other alternatives</u>: Are there other options that FHFA should consider to achieve the strategic goal of contracting the Enterprises' multifamily businesses to reduce their presence in the housing finance market and support the entry of private capital?

FHFA is requesting that all interested parties provide written input on the questions presented in this notice. While this effort is not a notice and comment rulemaking subject to the requirements of the Administrative Procedure Act, the purpose is to provide a mechanism for public input on the 2014 Multifamily Scorecard.

Input must be received within 60 days of the posting of this notice and should be addressed to:

Federal Housing Finance Agency
Multifamily Housing Policy
400 7th Street, S.W., Room 9-261
Washington, DC 20024.

Input may also be submitted via email to: multifamilypolicyissues@fhfa.gov.

FHFA may post for public availability the input received, without change, including any personal information such as name, address, e-mail address and telephone number or proprietary information, on FHFA's website at www.fhfa.gov