

United States Senate

WASHINGTON, DC 20510

October 8, 2013

Federal Housing Finance Agency
Director Edward DeMarco
c/o Multifamily Housing Policy
400 7th Street, S.W., Room 9-261
Washington, DC 20024

Dear Director DeMarco,

I am writing to express my serious concerns that the Federal Housing Finance Agency's (FHFA's) proposed strategies to further contract Fannie Mae and Freddie Mac's multifamily mortgage activities will cause irreparable harm to the multifamily housing markets in New York and across the country.

Arbitrarily reducing the credit provided by the GSEs' multifamily programs will harm owners and investors in multifamily real estate by reducing liquidity in the market, and reducing product offerings that provide important stability in markets with unique characteristics, like New York. Ultimately, the result will be a reduction in the availability of rental housing, just as demand for rental housing is increasing and the market is experiencing a shortage of supply due to underinvestment during the early stages of the financial crisis. Moreover, Congress is beginning to seriously consider housing finance reform, and the outcome of those efforts should not be unduly restricted by premature actions on the part of FHFA.

Since the financial crisis, more and more families are seeking rental housing – by choice and by necessity – and rental housing continues to be the main source of housing in many urban areas. New York renters, as well as those in several other high cost regions, continue to face an affordability challenge with high rent burdens. It is estimated that over 55% of households in New York City and 62% of households in Los Angeles pay more than 30% of their income for housing. Demand for rental housing remains high and New York City's vacancy rate is one of the lowest in the country. The best way to ease the affordability burden for renters is to create a steady supply of rental housing, at all price points. This includes new construction as well as preserving units by allowing refinancing that strengthens the economic viability of properties.

Support for a full range of mortgage options is critical to the development of this much needed rental housing. For areas outside of the large metropolitan regions, private commercial real estate debt can be limited, or in some cases, unavailable.

In high cost urban areas like New York City, where the development of affordable and mixed income housing is a priority, the long term and flexible mortgage options provided by the GSEs are critical to housing production. For example, many states and municipalities are able to subsidize the construction and retention of affordable housing because of the long term debt structures offered by the GSEs that aren't otherwise available in the market. In addition, GSE



long term debt and credit enhancement allows for the financing of both the preservation and new construction of affordable and mixed income housing that uses the federal low income housing tax credits as well as other government subsidies to maintain affordability. For example, GSE financing enabled the preservation of over 5,800 affordable units at Starrett City in Brooklyn, New York, for 30 more years. Placing limits on total loan amounts or loan amounts per unit , as well as restricting the number of market rate units that can be financed, would seriously curtail the ability to provide this much needed housing in high cost areas.

Fannie Mae's and Freddie Mac's multifamily lending programs are a model for prudent apartment real estate lending. Their programs have a long history of strong credit performance. Cumulative credit losses from 2008 to present have been less than 1% for both of Fannie Mae and Freddie Mac's multifamily mortgage portfolios while other capital sources have shown significant losses. Furthermore, both have recently adapted to both backstop the markets effectively and shift their programs from balance sheet investment lending to securitized lending.

The GSE market share continues to decline naturally and has actually fallen more than the 10 percent FHFA mandated at the start of the year. Industry estimates suggest that Fannie Mae's and Freddie Mac's market share likely will decline to the 30 percent level or below on its own. This drop reflects the fact that private capital sources have been, and will continue to be, the primary source of mortgage debt for the multifamily industry.

This reduction is likely healthy both for markets and, in the long run, for taxpayers. However, it is imperative that Fannie Mae and Freddie Mac have the capacity to respond to instability in the market, and to fill gaps where private capital withdraws or is otherwise unable to provide a solution. All other sources of multifamily mortgage debt have their own beneficial access to capital, but are also subject to constraints on their mortgage products. Accordingly, if implemented, FHFA's proposed actions would negatively impact access to capital and increase borrowing costs market-wide.

I respectfully urge FHFA to avoid implementing further arbitrary reductions or placing caps on Fannie Mae and Freddie Mac's origination levels and securitization activities with regard to multifamily finance, and look forward to working with you to ensure the continued availability and stability of credit in the multifamily housing sector.

Sincerely,



Charles E. Schumer
U.S. Senator