



AN INVESTMENT MANAGEMENT COMPANY

September 19, 2013

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

**RE: August 9, 2013 Notice For Public Input on 2014 Multifamily Scorecard**

[VIA EMAIL TO MULTIFAMILYPOLICYISSUES@FHFA.GOV](mailto:MULTIFAMILYPOLICYISSUES@FHFA.GOV)

To Whom It May Concern:

On behalf of the investors, employees and most importantly, the residents in our apartment communities, CWS Capital Partners & CWS Apartment Homes LLC welcome the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA's) proposed strategies to further contract Fannie Mae and Freddie Mac's multifamily mortgage activities.

CWS owns and operates over 20,000 apartment units and 75 communities throughout Texas, North Carolina, Colorado, Georgia, and California. We have been in business since 1969. We were once one of the nation's largest owners of manufactured housing communities and began to focus on apartments in the late 1980s. Over our long history we have gained a tremendous amount of experience in terms of providing housing for individuals and families and navigating the numerous economic and credit cycles that have occurred over the last 44 years. I am President of the firm and have been with CWS since 1987. We currently have nearly \$800 million in borrowings with Fannie Mae (41 loans) and \$425 million with Freddie Mac (21 loans) and one loan with FHA/HUD. With over \$1.2 billion in borrowings and more than 80% of our loans with the GSEs, we have had a lot of experience working with Fannie and Freddie over the years. We have fixed and variable rate loans and most of our mortgages have had maturities of seven and ten years, although we have borrowed for five years as well.

I thought I would take an unconventional approach to communicating my thoughts about the proposed strategies to contract the GSEs multifamily mortgage activities. I am a student of history, financial panics, and investor psychology and thought I would share with you some

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pertinent thoughts and then tap into the genius of William Shakespeare to help further elucidate how short-sighted and unnecessary I think the strategies are.

***"You should have feared false times when you did feast."  
-William Shakespeare***

*"It wasn't easy to get people interested in this deal because of its size and complexity," said David Rodgers, a principal at Park Bridge Financial who worked on the deal as head of Merrill Lynch & Co.'s CMBS group. But "we would've gotten this deal done, and probably made money on it, were it not for the credit crisis," he said of the planned 2008 deal.*

<http://online.wsj.com/article/SB10001424127887323864604579067222275964660.html>

*WARREN BUFFETT: In the 19th century you had at least six huge financial panics. They were--and they caused in many cases by people losing confidence in banks. So if somebody lost confidence in a bank in Omaha they got in a line and as soon as somebody got in the line at the First National there was a line at the Second National and so on. We learn time after time--and they called them panics. The reason they called them panics was because if you went to the bank and couldn't get your money out you panicked. And that same situation will continue to exist forever. People, if they've got their money someplace and they get worried about it they want to get it out fast and if they see other people wanting to get it out, they want to do the same thing. So along came the 20th century. We put in the Fed and we thought that would calm down people. But when the '30s came along, we recognized that without faith in the banking system this economy was never going to get well. So we formed the FDIC. Now, this is an interesting group of pages here. This has 3600 banks that the FDIC has assisted. Three thousand six hundred. There's only about 7,000 banks in the United States, another 1400 savings institutions. No depositor of an insured deposit has ever lost a penny since 1934. It was a huge factor in making this economy work to be one of the greatest--well, the greatest economy that's ever existed. Thirty-six hundred times the FDIC has come in. In the last year, they have moved, I think, something close to 8 percent of the deposits in the United States. It hasn't cost the taxpayer one dime, no depositor has lost one dime.*

<http://www.cnbc.com/id/29595537/page/2>

Leverage magnifies returns, which is fine until it's not. History has proven that there needs to be a lender of last resort or insurer to stop a self-feeding cycle of collateral dropping in value and equity being eviscerated. Collateral depreciation can often times necessitate equity infusions when loans come due as new, tighter lending standards result in a shortfall in proceeds. This leads to pressured sale of assets or loan defaults which can put more pressure on collateral values. It is George Soros' classic Theory of Reflexivity in which leverage is pro-cyclical. Greater availability of credit combined with looser lending standards leads to more buying power among market participants which raises the value of collateral, which leads to more lending as loans perform well and more competition among lenders materializes until the perception of

risk/reward changes and lending tightens up, collateral drops in value, and the cycle feeds on itself as described above.

The private sector is driven by extremes of fear and greed and is revenue constrained as it obviously cannot create currency out of thin air to cover any shortfalls in refinance proceeds or negative cash flow. The federal government, on the hand, is not. It has an unlimited ability to create currency because it has monopoly control of the U.S. dollar, has no obligation to exchange those dollars for any other commodity or at a fixed exchange rate, and does not borrow in foreign currency. This fiat currency gives it enormous ability to be a counter-cyclical player in times of great financial stress. There is a reason the Federal Reserve, FDIC, Fannie Mae, Freddie Mac, GNMA, and FHA were created: Confidence. All of these entities have had actual, implied, or perceived unlimited access to this fiat currency, which is vitally important for investors/lenders, particularly leveraged ones who care dearly not only about a return on investment, but the return of investment. History has shown that in times of stress when confidence dries up, private sector, revenue constrained, leveraged investors pull back and the system's circulation of capital can come to a halt and cause a financial heart attack. The resuscitation of the patient typically occurs from a lender of last resort that can take assets onto its balance sheet without any short term fear of mark to market losses. This was made abundantly clear in the panic of 2008 and 2009 culminating in bailouts of AIG, Bear Stearns, the creation of TARP, Fannie Mae, Freddie Mac, etc. as the government will most likely be able to recoup all of its capital infusion as time unfolds, if it hasn't already.

The lender of last resort or government insurance has allowed market participants to know that loans they originated could be converted to cash or repaid without any risk and depositors to have assurance that their funds were safe. This allowed banks to have a stable source of capital and freed up that capital to circulate to many underserved parts of the country while providing a profitable risk-reward relationship for all parties involved. The trade off was that in exchange for federal deposit insurance, member banks had to agree to adhere to government regulation. It also created economic agents that could provide liquidity when private sector players were too fearful or capital constrained to do so. The system seemingly worked wonderfully until deregulation proceeded in earnest and Wall Street stepped in to take a much more prominent role in allocating unregulated capital to the private sector. This was by no means all bad. It led to capital going to very innovative firms and individuals to pursue opportunities that have benefitted society. It also led to terrible capital allocation that has created tremendous costs to society. This has underscored the need even more to have a lender/insurer/buyer of last resort in times of chaos because a more leveraged, less regulated group of players is much more at risk of starting a forest fire from a spark. Interconnected, global financial markets are more exposed to contagion which can have devastating consequences if the fire is allowed to take hold and spread.

The blow up of Long-Term Capital, the Russian ruble crisis, Orange County bankruptcy, sub-prime lending via the shadow banking system, the garbage securitization products produced

by Wall Street, just to name a few, all represent consistent and repeatable evidence that, left to its own devices, the private sector, driven by extraordinarily lucrative incentives of Wall Street firms to manufacture borrowers based on the demand of naive, career fearing, herd following capital providers, will ultimately take lending to excess until it comes to a screeching halt due to fear subsuming greed. Fannie and Freddie have been incredible cops on the beat for the multi-family industry. They are exceptionally knowledgeable, hard working, and disciplined lenders that have prudently kept liquidity flowing during the downturn (and captured the best loans in the market due to no competition at the bottom of the cycle) and adjusted their underwriting standards when they have sensed that markets were becoming too frothy during the upturn. Their default and loss ratios are negligible and offer incontrovertible evidence that they are extraordinary risk managers and business savvy as they have generated tremendous profits while offering borrowers fairly priced loans for the risks being borne.

Congress and FHFA are creating a problem in search of a solution. Fannie and Freddie are not broken from a multi-family perspective. They have terrific business models that serve an important function for society. Housing is vital to the health and well being of our citizens and renting has proven to be a great solution for those seeking flexibility to have mobility to take advantage of opportunities or go where they're needed. It also allows people to build and rebuild their credit to generate the necessary financial margin of safety to potentially purchase a home and/or take risk with their careers to pursue their dreams. Mortgages tie people down and make them less risk-averse. Renting opens up unlimited possibilities due to the tremendous flexibility it offers. Don't fix what's broken. Let Fannie and Freddie continue to serve the markets in the prudent and professional ways they have. The suggestions by FHFA to adjust their loan programs are sub-optimal. As long as they keep focusing on underwriting in place cash flow and require a meaningful down payment, the rest is all optics. Prudent real estate lending requires doing a few simple things well: Assess the character and capabilities of borrowers, determine the current and potential earning power of the real estate, require a meaningful down payment to create an incentive for borrowers to protect their investment, create disincentives for bad behavior, and hold enough capital to provide a margin of safety when defaults and losses do materialize. And most importantly, keep your head by avoiding envy of what other lenders are doing and how much money they may be making NOW. The true test is how loans perform throughout their life for, as Shakespeare said:

*Oft expectation fails, and most oft there  
Where most it promises.*

What follows is an excerpt from some famous speeches by Brutus (Congress) and Mark Antony (the American public) during the funeral of Julius Caesar (GSEs). I found striking parallels about the mob mentality that initially supported Brutus' rationale for murdering Caesar (Congress killing off the GSEs). Upon closer reflection, however, via the clear headed thoughts communicated by Antony, the Roman citizenry came to realize that Brutus acted impulsively to

the detriment of Rome. Yes, the GSEs were undercapitalized for the mission creep they embarked upon, and the incentives available to the public company management team with an implicit U.S. government guarantee were egregious. Yet, Congress loved the GSEs, until their ambition became too great (like Caesar). Their basic business, however, of providing liquidity and guaranteeing the timely repayment of principal and interest, has been tremendously profitable and beneficial to society from a multi-family perspective. I hope what follows will allow those who take the time to read the adaptation of Julius Caesar to think a second time about emasculating the GSEs even further. The last thing we need is a multi-family industry solely reliant upon fear/greed driven, leveraged players who will remove capital from the industry at the first sign of distress, only to ensure that their greatest fears will materialize. There is no need to get too creative and cute with regard to the strategies to lessen the market share of the GSES by micro managing the types of loans they can provide in terms of maturity and/or structure. Let them continue to do their job. Their market shares are already dropping but still meaningful enough to keep liquidity flowing when talk of taper leads to Wall Street firms pulling back on their CMBS originations since their inventory of loans is underwater or life companies have already reached their allocations for the year. The system is not broken. Please avoid the unintended consequences of a short-term "fixes" that cause far more harm than good.

Kindest regards,



Gary Carmell, CFA  
Partner - President

Note: The part of Brutus will be played by Congress and Mark Antony should be thought of as representing the American people.

### **CONGRESS**

Be patient till the last.

Americans, countrymen, and lovers! hear me for my cause, and be silent, that you may hear: believe me for mine honour, and have respect to mine honour, that you may believe: censure me in your wisdom, and awake your senses, that you may the better judge.

If there be any in this assembly, any dear friend of GSEs's, to him I say, that Congress' love to GSEs was no less than his. If then that friend demand why Congress rose against GSEs, this is my answer:

--Not that I loved GSEs less, but that I loved America more. Had you rather GSEs were living and die all slaves, than that GSEs were dead, to live all free men? As GSEs loved me, I weep for them; as they were fortunate, I rejoice at it; as they were valiant, I honour them: but, as they were ambitious, I slew them. There is tears for their love; joy for their fortune; honour for their valour; and death for their ambition. Who is here so base that would be a bondman? If any, speak; for him have I offended.

Who is here so rude that would not be an American? If any, speak; for him have I offended. Who is here so vile that will not love his country? If any, speak; for him have I offended. I pause for a reply.

### **All**

None, Congress, none.

### **CONGRESS**

Then none have I offended. I have done no more to GSEs than you shall do to Congress. The question of their death is enrolled in the Capitol; their glory not extenuated, wherein they were worthy, nor their offences enforced, for which they suffered death.

*Enter ANTONY and others, with GSES's body*

Here comes his body, mourned by Mark Antony: who, though he had no hand in their death, shall receive

the benefit of their dying, a place in the  
commonwealth; as which of you shall not? With this  
I depart,--that, as I slew my best lover for the  
good of America, I have the same dagger for myself,  
when it shall please my country to need my death.

**All**

Live, Congress! live, live!

### **CONGRESS**

Good countrymen, let me depart alone,  
And, for my sake, stay here with Antony:  
Do grace to GSEs's corpse, and grace his speech  
Tending to GSEs's glories; which Mark Antony,  
By our permission, is allow'd to make.  
I do entreat you, not a man depart,  
Save I alone, till Antony have spoke.

*Exit*

### **ANTONY**

Friends, Americans, countrymen, lend me your ears;  
I come to bury GSEs, not to praise them.  
The evil that men do lives after them;  
The good is oft interred with their bones;  
So let it be with GSEs. The noble Congress  
Hath told you GSEs were ambitious:  
If it were so, it was a grievous fault,  
And grievously hath GSEs answer'd it.  
Here, under leave of Congress and the rest--  
For Congress are honourable man;  
So are they all, all honourable men--  
Come I to speak in GSEs's funeral.  
He were my friends, faithful and just to me:  
But Congress says they were ambitious;  
And Congress are honourable man.  
They hath brought many captives home to America  
Whose ransoms did the general coffers fill:  
Did this in GSEs seem ambitious?  
When that the poor have cried, GSEs hath wept:  
Ambition should be made of sterner stuff:  
Yet Congress says they were ambitious;  
And Congress are honourable man.

You all did see that on the Lupercal  
I thrice presented him a kingly crown,  
Which he did thrice refuse: was this ambition?  
Yet Congress says they were ambitious;  
And, sure, they are honourable men.  
I speak not to disprove what Congress spoke,  
But here I am to speak what I do know.  
You all did love them once, not without cause:  
What cause withholds you then, to mourn for them?  
O judgment! thou art fled to brutish beasts,  
And men have lost their reason. Bear with me;  
My heart is in the coffin there with GSEs,  
And I must pause till it come back to me.

**First Citizen**

Methinks there is much reason in his sayings.

**Second Citizen**

If thou consider rightly of the matter,  
GSEs has had great wrong.

**Third Citizen**

Has he, masters?  
I fear there will a worse come in their place.

**Fourth Citizen**

Mark'd ye his words? He would not take the crown;  
Therefore 'tis certain they were not ambitious.

**First Citizen**

If it be found so, some will dear abide it.

**Second Citizen**

Poor soul! his eyes are red as fire with weeping.

**Third Citizen**

There's not a nobler man in America than Antony.

**Fourth Citizen**

Now mark him, he begins again to speak.

**ANTONY**

But yesterday the word of GSEs might  
Have stood against the world; now lies them there.  
And none so poor to do them reverence.  
O masters, if I were disposed to stir  
Your hearts and minds to mutiny and rage,  
I should do Congress wrong, and Cassius wrong,  
Who, you all know, are honourable men:  
I will not do them wrong; I rather choose  
To wrong the dead, to wrong myself and you,



Than I will wrong such honourable men.  
But here's a parchment with the seal of GSEs;  
I found it in their closet, 'tis his will:  
Let but the commons hear this testament--  
Which, pardon me, I do not mean to read--  
And they would go and kiss dead GSEs's wounds  
And dip their napkins in their sacred blood,  
Yea, beg a hair of him for memory,  
And, dying, mention it within their wills,  
Bequeathing it as a rich legacy  
Unto their issue.

**Fourth Citizen**

We'll hear the will: read it, Mark Antony.

**All**

The will, the will! we will hear GSEs's will.

**ANTONY**

Have patience, gentle friends, I must not read it;  
It is not meet you know how GSEs loved you.  
You are not wood, you are not stones, but men;  
And, being men, bearing the will of GSEs,  
It will inflame you, it will make you mad:  
'Tis good you know not that you are his heirs;  
For, if you should, O, what would come of it!

**Fourth Citizen**

Read the will; we'll hear it, Antony;  
You shall read us the will, GSEs's will.

**ANTONY**

Will you be patient? will you stay awhile?  
I have o'ershot myself to tell you of it:  
I fear I wrong the honourable men  
Whose daggers have stabb'd GSEs; I do fear it.

**Fourth Citizen**

They were traitors: honourable men!

**All**

The will! the testament!

**Second Citizen**

They were villains, murderers: the will! read the will.

**ANTONY**

You will compel me, then, to read the will?  
Then make a ring about the corpse of GSEs,  
And let me show you him that made the will.  
Shall I descend? and will you give me leave?

**Several Citizens**

Come down.

**Second Citizen**

Descend.

**Third Citizen**

You shall have leave.

**ANTONY**

If you have tears, prepare to shed them now.  
You all do know this mantle: I remember  
The first time ever GSEs put it on;  
'Twas on a summer's evening, in his tent,  
That day he overcame the Nervii:  
Look, in this place ran Cassius' dagger through:  
See what a rent the envious Casca made:  
Through this the well-beloved Congress stabb'd;  
And as he pluck'd his cursed steel away,  
Mark how the blood of GSEs follow'd it,  
As rushing out of doors, to be resolved  
If Congress so unkindly knock'd, or no;  
For Congress, as you know, was GSEs's angel:  
Judge, O you gods, how dearly GSEs loved them!  
This was the most unkindest cut of all;  
For when the noble GSEs saw them stab,  
Ingratitude, more strong than traitors' arms,  
Quite vanquish'd him: then burst his mighty heart;  
And, in his mantle muffling up his face,  
Even at the base of Pompey's statua,  
Which all the while ran blood, great GSEs fell.  
O, what a fall was there, my countrymen!  
Then I, and you, and all of us fell down,  
Whilst bloody treason flourish'd over us.  
O, now you weep; and, I perceive, you feel  
The dint of pity: these are gracious drops.  
Kind souls, what, weep you when you but behold  
Our GSEs's vesture wounded? Look you here,  
Here is himself, marr'd, as you see, with traitors.

**First Citizen**

O piteous spectacle!

**Second Citizen**

O noble GSEs!

**Third Citizen**

O woful day!

**Fourth Citizen**

O traitors, villains!

**First Citizen**

O most bloody sight!

**Second Citizen**

We will be revenged.

**All**

Revenge! About! Seek! Burn! Fire! Kill! Slay!

Let not a traitor live!

**ANTONY**

Stay, countrymen.

**First Citizen**

Peace there! hear the noble Antony.

**Second Citizen**

We'll hear him, we'll follow him, we'll die with him.

**ANTONY**

Good friends, sweet friends, let me not stir you up

To such a sudden flood of mutiny.

They that have done this deed are honourable:

What private griefs they have, alas, I know not,

That made them do it: they are wise and honourable,

And will, no doubt, with reasons answer you.

I come not, friends, to steal away your hearts:

I am no orator, as Congress is;

But, as you know me all, a plain blunt man,

That love my friend; and that they know full well

That gave me public leave to speak of him:

For I have neither wit, nor words, nor worth,

Action, nor utterance, nor the power of speech,

To stir men's blood: I only speak right on;

I tell you that which you yourselves do know;

Show you sweet GSEs's wounds, poor poor dumb mouths,

And bid them speak for me: but were I Congress,

And Congress Antony, there were an Antony

Would ruffle up your spirits and put a tongue

In every wound of GSEs that should move

The stones of America to rise and mutiny.

**All**

We'll mutiny.

**First Citizen**

We'll burn the house of Congress.

**Third Citizen**

Away, then! come, seek the conspirators.

**ANTONY**

Yet hear me, countrymen; yet hear me speak.

**All**

Peace, ho! Hear Antony. Most noble Antony!

**ANTONY**

Why, friends, you go to do you know not what:

Wherein hath GSEs thus deserved your loves?

Alas, you know not: I must tell you then:

You have forgot the will I told you of.

**All**

Most true. The will! Let's stay and hear the will.

**ANTONY**

Here is the will, and under GSEs's seal.

To every American citizen he gives,

To every several man, seventy-five drachmas.

**Second Citizen**

Most noble GSEs! We'll revenge his death.

**Third Citizen**

O royal GSEs!

**ANTONY**

Hear me with patience.

**All**

Peace, ho!

**ANTONY**

Moreover, they hath left you all their walks,

Their private arbours and new-planted orchards,

On this side Tiber; they hath left them you,

And to your heirs for ever, common pleasures,

To walk abroad, and recreate yourselves.

Here was a GSEs! when comes such another?

*Exeunt Citizens with the body*