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October 8, 2013

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

Dear Acting Director DeMarco,

As the Ranking Member of the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises (GSEs), and the representative of 715,000 constituents residing in thriving urban neighborhoods in New York, *where multifamily housing is our single family housing*, I urge you to halt further cuts to the multifamily businesses at the GSEs.

Additional reductions to the GSEs' multifamily portfolios are not at all supported by the data. As we learned when the Federal Housing Finance Agency (FHFA) in 2012 ordered a 10 percent cut in the GSEs' multifamily business, such a reduction further depresses the housing market nationwide, reduces the availability of much needed rental housing, and actually harms the financial stability of Fannie Mae and Freddie Mac by limiting proven revenue-generating opportunities.

While I strongly support housing finance reform that reduces the taxpayers' exposure to the mortgage market, cutting the GSEs' multifamily business does not reduce the taxpayers' overall exposure, and is the exact opposite of what the FHFA should be doing as conservator of the GSEs.

A Duty to Ensure Liquidity in the Multifamily Marketplace

In the Housing and Economic Recovery Act of 2008 (HERA), Congress specifically mandated that one of the principal duties of the Director of FHFA is "to ensure that the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets."[1]

The Congressional mandate to ensure a liquid multifamily market could not be clearer. Yet a closer look at the multifamily business lines at Fannie Mae and Freddie Mac reveal a troubling truth: the GSEs are being forced to turn away from what has historically been a profitable business, at a time when rental demand is on the rise and rental demand clearly outpaces supply. These market conditions should cause the FHFA to not only drop the idea of a new 10 percent reduction to the GSEs' multifamily businesses but to reverse its 2012 cut to the multifamily portfolio. Under no objective reading of the market data is an additional 10 percent cut in 2014 either necessary or appropriate. Indeed, another blunt-force cut to

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[1] 12 U.S.C. § 4513(a)(1)(B)(ii).

the GSEs' multifamily businesses would be an unreasonable rejection of Congress's mandate to ensure continued liquidity in the multifamily market.

Rental Demand Is on the Rise, and Still Outpaces Supply

According to the Bipartisan Policy Center, roughly 35% of all U.S. households rent.[2] Among the fastest growing population segments in the next decade will be young adults in their 20s and empty-nesters in their 50s, population segments that are among the most likely to seek options other than single-family homes. The changing demographics of U.S. households, the drop in homeownership following the collapse of the single-family housing market, and the tightened lending conditions consumers face, create an environment where ensuring sufficient liquidity in the multifamily market is critical.[3]

The National Multi Housing Council has documented that demand for rental housing is outstripping supply, noting an estimated 300,000–400,000 additional rental units per year are needed to meet expected demand. Yet in 2011, just 130,000 new apartments were built. The National Multi Housing Council estimates that there is currently a 3 million unit undersupply of affordable multifamily housing.[4]

Another arbitrary cut to multifamily housing will only further diminish liquidity in the multifamily market when lending is already scarce. The U.S. still suffers from a rental supply/demand imbalance: new, seasonally adjusted multifamily permits rose slightly in the first half of 2013 to 267,000, as compared to the first half of 2012; however, this level is still below the norm.[5] With outsized demand and persistent undersupply, further reductions in multifamily business by the GSEs at this time would only magnify the supply problem rather than contribute to the solution.

The GSEs' Multifamily Businesses Play a Unique Role in our Economy

It is important to emphasize the unique and outsized role the GSE multifamily divisions have played in the recent economic recession. During the downturn the GSEs' multifamily business divisions performed extremely well: they posted consistent profits; did not suffer material losses on the multifamily loans they guaranteed (unlike the GSEs' single-family businesses); served a countercyclical role by expanding credit precisely when other multifamily lenders were fleeing the market; did not loosen their underwriting standards to capture market share prior to the crisis; and enjoyed significantly lower serious delinquency rates relative to other multifamily finance providers, especially commercial mortgage-backed securities (CMBS).[6]

All of this suggests that if the GSEs were forced to reduce their multifamily businesses again in 2014, the financing that they provide would either not be replaced, or would be replaced by private lenders, such as CMBS conduits, with much riskier loan terms and much higher delinquency rates.

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[2] Bipartisan Policy Center, "Housing America's Future: New Directions for National Policy" (February 2013).
[3] *Id.* at pp. 66–67.
[4] National Multi Housing Council, "Apartments: The New Housing Resource," available at: http://www.nmhc.org/FileRepository/FeatureFiles/ApartmentOverviewFactSheet.pdf.
[5] *See* U.S. Census Bureau, *Building Permits Survey*.
[6] *See* Government Accountability Office, "Fannie Mae and Freddie Mac's Multifamily Housing Activities Have Increased," GAO-12-849 (September 6, 2012).

Moreover, even the "targeted" options for reducing the GSEs' multifamily businesses that FHFA proposes would do more harm that good for the multifamily housing market. For example, FHFA's suggestion that it needs to forcibly "simplif[y] and standardize[]" the GSEs' multifamily loan products in order for private lenders to be able to offer "more specialized financing options to borrowers" fails to explain why private lenders are unable to provide such specialized financing options currently. FHFA also fails to explain why simplification and standardization of the GSEs' multifamily loan products is desirable in the first place, given the historical track record of the GSEs' multifamily businesses. Simple and standardized loan terms may be beneficial in certain circumstances and in certain markets, but absent any evidence whatsoever that it would be beneficial in the multifamily housing market, this "targeted" option should be rejected on its face.

Indeed, adopting *any* of FHFA's "targeted" options for reducing the GSEs' multifamily businesses would not only reduce the liquidity of the multifamily market, but would also, perversely, increase the GSEs' overall risk exposure. The GSEs' multifamily businesses provide them with a reliable source of revenue that can offset the more procyclical revenue from their single-family businesses. Reducing the GSEs' multifamily businesses would therefore deprive the GSEs of a critical source of stability, increasing their exposure to the next downturn — and making another taxpayer bailout more likely.

Now Is Not the Time to Reduce the GSE Multifamily Businesses

Now is not the time to dramatically reduce the availability of capital in the multifamily housing market. With a constriction in liquidity in the multifamily market, a dearth of rental supply, an outpouring of rental unit demand, and numerous projections for continued growth in demand, an additional 10 percent cut to the GSEs' multifamily businesses ignores the intent of Congress to create a liquid multifamily market at a time when constituents like mine need it most.

Sincerely,

Carolyn B. Maloney.

CAROLYN B. MALONEY
Member of Congress